Northfield Bancorp, Inc.
Form 10-K
March 31, 2008

Table of Contents

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2007

or

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to

Commission File No. 001-33732
Northfield Bancorp, Inc.
(Exact name of registrant as specified in its charter)

United States of America	**26-1384892**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*
1410 St. Georges Avenue, Avenel, New Jersey	**07001**
(Address of Principal Executive Offices)	*Zip Code*

(732) 499-7200
(Registrant s telephone number, including area code)

Securities Registered Pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, par value $0.01 per share	The NASDAQ Stock Market, LLC

Securities Registered Pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES o NO þ

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES o NO þ

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES þ NO o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of Registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o	Accelerated filer o
Non-accelerated filer þ (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES o NO þ

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the Registrant, computed by reference to price at which the common equity was last sold on June 30, 2007 was $0.

As of March 1, 2008, there were outstanding 44,803,061 shares of the Registrant s common stock.

DOCUMENTS INCORPORATED BY REFERENCE

Proxy Statement for the 2008 Annual Meeting of Stockholders of the Registrant (Part III).

NORTHFIELD BANCORP, INC.

2007 ANNUAL REPORT ON FORM 10-K

TABLE OF CONTENTS

Table of Contents

PART I

ITEM 1. *BUSINESS*

Forward Looking Statements

This Annual Report contains certain forward-looking statements, which can be identified by the use of such words as estimate, project, believe, intend, anticipate, plan, seek, and similar expressions. These forward looking statements include:

- statements of our goals, intentions, and expectations;
- statements regarding our business plans and prospects and growth and operating strategies;
- statements regarding the asset quality of our loan and investment portfolios; and
- estimates of our risks and future costs and benefits.

These forward-looking statements are subject to significant risks, assumptions, and uncertainties, including, among other things, the following important factors that could affect the actual outcome of future events:

- significantly increased competition among depository and other financial institutions;
- inflation and changes in the interest rate environment that reduce our interest margins or reduce the fair value of financial instruments;
- general economic conditions, either nationally or in our market areas, that are worse than expected;
- adverse changes in the securities markets;
- legislative or regulatory changes that adversely affect our business;
- our ability to enter new markets successfully and take advantage of growth opportunities, and the possible dilutive effect of potential acquisitions or *de novo* branches, if any;
- changes in consumer spending, borrowing and savings habits;
- changes in accounting policies and practices, as may be adopted by bank regulatory agencies, the Financial Accounting Standards Board, or other promulgating authorities;
- inability of third-party providers to perform their obligations to us; and
- changes in our organization, compensation, and benefit plans.

Because of these and other uncertainties, our actual future results may be materially different from the results indicated by these forward-looking statements.

Northfield Bancorp, MHC

Northfield Bancorp, MHC is a federally-chartered mutual holding company and currently owns 55.0% of the outstanding shares of common stock of Northfield Bancorp, Inc. Northfield Bancorp, MHC has not engaged in any significant business activity other than owning the common stock of Northfield Bancorp, Inc., and does not intend to expand its business activities. So long as Northfield Bancorp, MHC exists, it is required to own a majority of the voting stock of Northfield Bancorp, Inc. The executive office of Northfield Bancorp, MHC is located at 1731 Victory Boulevard, Staten Island, New York, and its telephone number is (718) 448-1000. Northfield Bancorp, MHC is subject to comprehensive regulation and examination by the Office of Thrift Supervision.

Northfield Bancorp, Inc.

Northfield Bancorp, Inc. is a federal corporation that completed its initial public stock offering on November 7, 2007. Northfield Bancorp, Inc. s significant business activities have been holding the common stock of Northfield Bank (the Bank) and investing the proceeds from its initial public offering in short-term investments. Northfield Bancorp, Inc., as the holding company of Northfield Bank, is authorized to pursue other business activities permitted by applicable laws and regulations for subsidiaries of federally-chartered mutual holding companies, which may include the acquisition of banking and financial services companies. We have no plans for any mergers or acquisitions, or other diversification of our business activities at the present time.

Our cash flow depends on the cash proceeds we retained from our initial public stock offering and from dividends received from Northfield Bank. Northfield Bancorp, Inc. neither owns nor leases any property from outside parties, but instead uses the premises, equipment, and furniture of Northfield Bank. At the present time, we employ as officers only certain persons who are also officers of Northfield Bank and we use the support staff of Northfield Bank from time to time. These persons are not separately compensated by Northfield Bancorp, Inc. Northfield Bancorp, Inc. may hire additional employees, as appropriate, to the extent it expands its business in the future.

Northfield Bank

Northfield Bank was organized in 1887 and is currently a federally chartered savings bank. Northfield Bank conducts business from its main office located at 1731 Victory Boulevard, Staten Island, New York and its 17 additional branch offices located in New York and New Jersey. The branch offices are located in the New York counties of Richmond (Staten Island) and Kings (Brooklyn) and the New Jersey counties of Union and Middlesex. The telephone number at Northfield Bank s main office is (718) 448-1000.

Northfield Bank s principal business consists of originating commercial real estate loans, purchasing investment securities including mortgage-backed securities and corporate bonds, as well as depositing funds in other financial institutions. Northfield Bank also offers construction and land loans, multifamily residential real estate loans, commercial and industrial loans, one- to four-family residential mortgage loans, and home equity loans and lines of credit. Northfield Bank offers a variety of deposit accounts, including certificates of deposit, passbook and money market savings accounts, transaction deposit accounts (NOW accounts and non-interest bearing demand accounts), and individual retirement accounts. Deposits are Northfield Bank s primary source of funds for its lending and investing activities. Northfield Bank also uses borrowed funds as a source of funds, principally from the Federal Home Loan Bank of New York. In addition to traditional banking services, Northfield Bank offers insurance products through NSB Insurance Agency, Inc. Northfield Bank owns 100% of NSB Services Corp., which, in turn, owns 100% of the voting common stock of a real estate investment trust, NSB Realty Trust, which holds mortgage loans and other investments.

Available Information

Northfield Bancorp, Inc. is a public company, and files interim, quarterly, and annual reports with the Securities and Exchange Commission. These respective reports are on file and a matter of public record with the Securities and Exchange Commission and may be read and copied at the Securities and Exchange Commission s Public Reference Room at 450 Fifth Street, NW, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the Securities and Exchange Commission at 1-800-SEC-0330. The Securities and Exchange Commission maintains an Internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC (http://www.sec.gov).

Our website address is www.eNorthfield.com. Information on our website should not be considered a part of this annual report.

Market Area and Competition

We have been in business for over 120 years, offering a variety of financial products and services to meet the needs of the communities we serve. Our retail banking network consists of multiple delivery channels including full-service banking offices, automated teller machines, and telephone and internet banking capabilities. We consider our retail banking network, our reputation for superior customer service, and financial

Table of Contents

strength, as well as our competitive products and pricing, as our major strengths in attracting and retaining customers in our market areas.

We face intense competition in our market area both in making loans and attracting deposits. Our market area has a high concentration of financial institutions, including large money center and regional banks, community banks, and credit unions. We face additional competition for deposits from money market funds, brokerage firms, mutual funds, and insurance companies. Some of our competitors offer products and services that we do not offer, such as trust services and private banking.

Our deposit sources are primarily concentrated in the communities surrounding our banking offices in Richmond County, New York, Union and Middlesex Counties in New Jersey, and our newest office in Kings County, New York. As of June 30, 2007 (the latest date for which information is publicly available), we ranked fifth in deposit market share, with an 8.67% market share, in the Staten Island market area. In Middlesex and Union Counties in New Jersey, as of June 30, 2007, we ranked 30th, on a combined basis, with a 0.43% market share.

Lending Activities

Our principal lending activity is the origination of commercial real estate loans. We also originate one- to four-family residential mortgage loans, construction and land loans, commercial and industrial loans, multifamily loans, and home equity loans and lines of credit.

Loan Portfolio Composition. The following table sets forth the composition of our loan portfolio, by type of loan at the dates indicated, excluding loans held for sale of $270,000, $125,000, $0, $99,000, and $1.5 million at December 31, 2007, 2006, 2005, 2004, and 2003, respectively.

	At December 31,									
	2007		2006		2005		2004		2003	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	
					(Dollars in thousands)					
oans:										
	$ 243,902	57.50%	$ 207,680	50.75%	$ 165,657	42.72%	$ 125,033	38.98%	$ 81,497	
-family nortgage	95,246	22.45	107,572	26.29	127,477	32.87	131,358	40.95	154,702	
n and	44,850	10.57	52,124	12.74	52,890	13.64	27,898	8.70	6,129	
	14,164	3.34	13,276	3.24	14,105	3.64	12,506	3.90	17,267	
y and t	12,797	3.02	13,922	3.40	16,105	4.15	17,027	5.31	18,485	
and ans	11,397	2.69	11,022	2.70	8,068	2.08	2,864	0.89	511	
	1,842	0.43	3,597	0.88	3,510	0.90	4,058	1.27	3,972	
	424,198	100.00%	409,193	100.00%	387,812	100.00%	320,744	100.00%	282,563	
n costs	131		(4)		(345)		(53)		22	

or loan	(5,636)	(5,030)	(4,795)	(3,166)	(2,755)
estment	$ 418,693	$ 404,159	$ 382,672	$ 317,525	$ 279,830

Table of Contents

Loan Portfolio Maturities. The following table summarizes the scheduled repayments of our loan portfolio at December 31, 2007. Demand loans (loans having no stated repayment schedule or maturity) and overdraft loans are reported as being due in the year ending December 31, 2008. Maturities are based on the final contractual payment date and do not reflect the effect of prepayments and scheduled principal amortization.

	Commercial Real Estate Loans		One- to Four-Family Residential Mortgage Loans		Construction and Land Loans		Multifamily Loans	
	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate
	(Dollars in thousands)							
Due during the years ending December 31,								
2008	$ 5,244	7.90%	$ 702	5.92%	$ 30,658	8.49%	$ 518	7.90%
2009	8,962	6.89	1,231	8.28	11,162	8.74		6.89
2010	1,810	7.44	372	5.33				7.44
2011 to 2012	8,128	7.04	2,409	5.78			1,327	7.04
2013 to 2017	10,092	7.06	14,581	5.80	565	6.23	881	7.06
2018 to 2022	21,673	6.75	25,224	5.22			4,898	6.75
2023 and beyond	187,993	6.75	50,727	5.87	2,465	5.96	6,540	6.75
Total	$ 243,902	6.81%	$ 95,246	5.71%	$ 44,850	8.38%	$ 14,164	6.81%

	Home Equity Loans and Lines of Credit		Commercial and Industrial Loans		Other Loans		Total	
	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate	Amount	Weighted Average Rate
	(Dollars in thousands)							
Due during the years ending December 31,								
2008	$ 289	7.25%	$ 3,784	8.50%	$ 1,719	4.01%	$ 42,914	8.19%
2009	54	8.42	967	7.32	2	10.25	22,378	7.91
2010	513	7.80	1,175	8.06	35	7.07	3,905	7.48
2011 to 2012	1,691	6.96	2,253	7.19	20	5.89	15,828	6.86
2013 to 2017	2,858	6.65			66	6.39	29,043	6.37
2018 to 2022	2,969	6.48	3,218	7.28			57,982	6.13
2023 and beyond	4,423	7.61					252,148	6.58
Total	$ 12,797	7.05%	$ 11,397	7.79%	$ 1,842	4.18%	$ 424,198	6.75%

Table of Contents

The following table sets forth the scheduled repayments of fixed- and adjustable-rate loans at December 31, 2007, that are contractually due after December 31, 2008.

	Due After December 31, 2008		
	Fixed Rate	Adjustable Rate	Total
		(In thousands)	
Real estate loans:			
Commercial	$ 28,863	$ 209,795	$ 238,658
One- to four-family residential mortgage	55,517	39,027	94,544
Construction and land	3,325	10,867	14,192
Multifamily	2,259	11,387	13,646
Home equity and line of credit	6,370	6,138	12,508
Commercial and industrial loans	2,448	5,165	7,613
Other loans	111	12	123
Total loans	$ 98,893	$ 282,391	$ 381,284

Commercial Real Estate Loans. Our principal lending activity is the origination of commercial real estate loans. These loans totaled $243.9 million, or 57.50% of our loan portfolio as of December 31, 2007. The commercial real estate properties include hotels, office buildings, and owner-occupied businesses. We occasionally enter into commercial real estate loan participations. We seek to originate commercial real estate loans with initial principal balances between $2.0 million and $3.0 million. At December 31, 2007, our commercial real estate loan portfolio consisted of 299 loans with an average loan balance of approximately $816,000, although there are a large number of loans with balances substantially greater than this average. Substantially all of our commercial real estate loans are secured by properties located in our primary market area.

Our commercial real estate loans typically amortize over 20- to 25-years with interest rates that adjust after an initial five- or 10-year period, and every five years thereafter. Margins generally range from 275 basis points to 350 basis points above the average yield on United States Treasury securities, adjusted to a constant maturity of one year, as published weekly by the Federal Reserve Board. We also originate, to a lesser extent, 10- to 15-year fixed-rate, fully amortizing loans.

In the underwriting of commercial real estate loans, we lend up to the lesser of 75% of the property s appraised value or purchase price. We base our decision to lend primarily on the economic viability of the property and the creditworthiness of the borrower. In evaluating a proposed commercial real estate loan, we emphasize the ratio of the property s projected net cash flow to the loan s debt service requirement (generally requiring a minimum ratio of 120%), computed after deduction for a vacancy factor, where applicable, and property expenses we deem appropriate. Personal guarantees are usually obtained from commercial real estate borrowers. We require title insurance, fire and extended coverage casualty insurance, and, if appropriate, flood insurance, in order to protect our security interest in the underlying property. Although a significant portion of our commercial real estate loans are referred by brokers, we underwrite all commercial real estate loans in accordance with our underwriting guidelines.

Our largest concentration of commercial real estate loans are secured by hotel and motel properties. At December 31, 2007, hotel and motel loans totaled $22.3 million, or 9.13% of our commercial real estate loans.

Commercial real estate loans generally carry higher interest rates and have shorter terms than one- to four-family residential mortgage loans. Commercial real estate loans, however, entail greater credit risks compared to one- to four-family residential mortgage loans, as they typically involve larger loan balances concentrated with single borrowers or groups of related borrowers. In addition, the payment of loans secured by income-producing properties typically depends on the successful operation of the property, as repayment of the loan generally is dependent, in large part, on sufficient income from the property to cover operating expenses and debt service. Changes in economic conditions that are not in the control of the borrower or lender could affect the value of the collateral for the loan or the future cash flow of the property. Additionally, any decline in real estate values may be more pronounced for commercial real estate than for residential properties.

At December 31, 2007, our largest commercial real estate loan had a principal balance of $7.3 million, and was secured by a hotel. At December 31, 2007, this loan was performing in accordance with its original contractual terms.

Construction and Land Loans. We also originate loans to experienced developers for the purchase of developed lots and raw land and for the development of land and the construction of single-family residences and commercial properties. Construction loans are also made to individuals for the construction of their personal residences. At December 31, 2007, construction loans totaled $44.9 million, or 10.57% of total loans receivable. At December 31, 2007, the additional unadvanced portion of these construction loans totaled $13.6 million.

We grant construction loans to developers, often in conjunction with land and development loans. Advances on construction loans are made in accordance with a schedule reflecting the cost of construction, but are generally limited to a 70% loan-to-completed-appraised-value ratio. Repayment of construction loans on residential properties is normally expected from the sale of units to individual purchasers. In the case of income-producing property, repayment is usually expected from permanent financing upon completion of construction. We typically offer the permanent mortgage financing on our construction loans on income-producing property.

Construction and land loans help finance the purchase of land intended for further development, including single-family homes, multifamily housing, and commercial property. In some cases, we may make an acquisition loan before the borrower has received approval to develop the land as planned. In general, the maximum loan-to-value ratio for a land acquisition loan is 50% of the appraised value of the property, and the maximum term of these loans is two years. If the maturity of the loan exceeds two years, the loan must be an amortizing loan.

Before making a commitment to fund a construction loan, we require an appraisal of the property by an independent licensed appraiser approved by the board of directors. We review and inspect properties before disbursement of funds during the term of a construction loan.

Construction financing generally involves greater credit risk than long-term financing on improved, owner-occupied real estate. Risk of loss on a construction loan depends largely upon the accuracy of the initial estimate of the value of the property at completion of construction compared to the estimated cost (including interest) of construction and other assumptions. If the estimate of construction costs is inaccurate, we may decide to advance additional funds beyond the amount originally committed in order to protect the value of the property. Moreover, if the estimated value of the completed project is inaccurate, the borrower may hold a property with a value that is insufficient to assure full repayment of the construction loan upon the sale of the property. In the event we make a land acquisition loan on property that is not yet approved for the planned development, there is the risk that approvals will not be granted or will be delayed. Construction loans also expose us to the risk that improvements will not be completed on time in accordance with specifications and projected costs. In addition, the ultimate sale or rental of the property may not occur as anticipated.

At December 31, 2007, our largest construction and land loan had a principal balance of $3.4 million. At December 31, 2007, this loan was on non-accrual status.

Commercial and Industrial Loans. We make various types of secured and unsecured commercial and industrial loans to customers in our market area for the purpose of working capital and other general business purposes. The terms of these loans generally range from less than one year to a maximum of 15 years. The loans are either negotiated on a fixed-rate basis or carry adjustable interest rates indexed to a market rate index. At December 31, 2007, we had 57 commercial and industrial loans outstanding with an aggregate balance of $11.4 million, or 2.69% of the total loan portfolio. As of December 31, 2007, the average commercial and industrial loan balance was approximately $200,000, although we originate commercial and industrial loans with balances substantially greater and smaller than this average.

Table of Contents

Commercial credit decisions are based on our credit assessment of the applicant. We evaluate the applicant s ability to repay in accordance with the proposed terms of the loan and assess the risks involved. Personal guarantees of the principals are typically obtained. In addition to evaluating the loan applicant s financial statements, we consider the adequacy of the primary and secondary sources of repayment for the loan. Credit agency reports of the applicant s personal credit history supplement our analysis of the applicant s creditworthiness. We also check with other banks and conduct trade investigations. Collateral supporting a secured transaction also is analyzed to determine its marketability. Commercial and industrial loans generally have higher interest rates than residential loans of like maturity because they have a higher risk of default since their repayment generally depends on the successful operation of the borrower s business and the sufficiency of any collateral.

At December 31, 2007, our largest commercial and industrial loan had a principal balance of $1.1 million and was performing in accordance with its terms.

Multifamily Real Estate Loans. Real estate loans secured by multifamily and mixed use properties totaled approximately $14.2 million, or 3.34% of our total loan portfolio, at December 31, 2007. At December 31, 2007, we had 38 multifamily real estate mortgage loans with an average loan balance of approximately $373,000. The majority of these loans have adjustable interest rates.

In underwriting multifamily real estate loans, we consider a number of factors, including the projected net cash flow to the loan s debt service requirement (generally requiring a minimum ratio of 115%), the age and condition of the collateral, the financial resources and income level of the borrower, and the borrower s experience in owning or managing similar properties. Multifamily real estate loans are originated in amounts up to 75% of the appraised value of the property securing the loan. Although it is not required by our policy, we seek to obtain personal guarantees from multifamily real estate mortgage borrowers.

Loans secured by multifamily real estate loans generally involve a greater degree of credit risk than one- to four-family residential mortgage real estate loans. This increased credit risk is a result of several factors, including the concentration of principal in a limited number of loans and borrowers, the effects of general economic conditions on income producing properties, and the increased difficulty of evaluating and monitoring these types of loans. Furthermore, the repayment of loans secured by multifamily real estate mortgages typically depends on the successful operation of the related real estate property. If the cash flow from the project is reduced, the borrower s ability to repay the loan may be impaired.

At December 31, 2007, our largest multifamily loan had a principal balance of $1.2 million and was performing in accordance with its original contractual terms.

One- to Four-Family Residential Mortgage Real Estate Loans. At December 31, 2007, $95.2 million, or 22.45% of our total loan portfolio, consisted of one- to four-family residential mortgage real estate loans. We have not aggressively pursued originations of this type of loan in recent years. We offer conforming and non-conforming, fixed-rate and adjustable-rate residential mortgage real estate loans with maturities of up to 40 years and maximum loan amounts generally up to $750,000. Generally, fixed rate loans with maturities greater than 10 years we sell in the secondary market.

One- to four-family residential mortgage real estate loans are generally underwritten according to Freddie Mac guidelines, and we refer to loans that conform to such guidelines as conforming loans. We generally originate both fixed- and adjustable-rate loans in amounts up to the maximum conforming loan limits as established by the Office of Federal Housing Enterprise Oversight, which was $417,000 as of December 31, 2007 for single-family homes. We also originate loans above the lending limit for conforming loans, which are referred to as jumbo loans. We originate fixed-rate jumbo loans with terms up to 15 years and adjustable-rate jumbo loans with an initial fixed-rate period of

10 years. We generally underwrite jumbo loans in a manner similar to conforming loans. These loans are generally eligible for sale to various firms that specialize in purchasing non-conforming loans. Jumbo loans are common in our market area.

We will originate loans with loan-to-value ratios in excess of 80%, up to and including a loan-to-value ratio of 95%. We require private mortgage insurance for all loans with loan-to-value ratios exceeding 80%. Generally, we will retain in our portfolio loans with loan-to-value ratios up to and including 90%, and sell loans with loan-to-value ratios that exceed 90%. As of December 31, 2007, we had $1.8 million of loans in our loan portfolio with current loan-to-value ratios in excess of 80% of the original appraised value. We currently retain the servicing rights on loans sold which generates fee income. For the year ended December 31, 2007, we received servicing fees of $187,000. As of December 31, 2007, the principal balance of loans serviced for others totaled $80.1 million.

We do not offer interest only mortgage loans on one- to four-family residential properties, where the borrower pays interest for an initial period, after which the loan converts to a fully amortizing loan. We also do not offer loans that provide for negative amortization of principal, such as Option ARM loans, where the borrower can pay less than the interest owed on their loan, resulting in an increased principal balance during the life of the loan. We do not offer subprime loans (loans that generally target borrowers with weakened credit histories typically characterized by payment delinquencies, previous charge-offs, judgments, bankruptcies, or borrowers with questionable repayment capacity as evidenced by low credit scores or high debt-burden ratios).

Home Equity Loans and Lines of Credit. In addition to traditional one- to four-family residential mortgage real estate loans, we offer home equity loans and home equity lines of credit that are secured by the borrower s primary residence. Historically, we have not focused on originating these types of loans; we have recently hired an experienced loan officer in an effort to increase our origination of these loans. Home equity lines of credit have a maximum term of 20 years, during which time the borrower is required to make principal payments based on a 20-year amortization, and are variable rate loans. The borrower is permitted to draw against the line during the entire term. Our home equity loans are originated with fixed or adjustable rates of interest. Home equity loans and lines of credit are generally underwritten with the same criteria that we use to underwrite fixed-rate, one- to four-family residential mortgage real estate loans. Home equity loans and lines of credit may be underwritten with a loan-to-value ratio of 80% when combined with the principal balance of the existing mortgage loan. We appraise the property securing the loan at the time of the loan application to determine the value of the property. At the time we close a home equity loan or line of credit, we record a mortgage to perfect our security interest in the underlying collateral. At December 31, 2007, the outstanding balances of home equity loans and lines of credits totaled $12.8 million, or 3.02% of our total loan portfolio, including the outstanding balance of home equity lines of credit of $7.9 million, or 1.87% of our total loan portfolio.

Loan Originations, Purchases, Sales, Participations and Servicing. Lending activities are conducted in our New Jersey, Brooklyn, and Staten Island branch office locations. All loans we originate are underwritten pursuant to our policies and procedures. Freddie Mac underwriting standards are utilized for loans we originate to sell in the secondary market. We may, based on proper approvals, make exceptions to our policy and procedures. We originate both adjustable-rate and fixed-rate loans. Our ability to originate fixed- or adjustable-rate loans is dependent on the relative customer demand for such loans, which is affected by various factors including current market interest rates as well as anticipated future market interest rates. Our loan origination and sales activity may be adversely affected by a rising interest rate environment that typically results in decreased loan demand. A significant portion of our commercial real estate loans and multifamily real estate loans are generated by referrals from loan brokers, accountants, and other professional contacts. Most of our one- to four-family residential mortgage real estate loans are generated through referrals from branch personnel. We also advertise throughout our market area.

We generally retain in our portfolio all adjustable-rate loans we originate, as well as shorter-term, fixed-rate residential loans (terms of 10 years or less). Loans we sell consist primarily of conforming, longer-term, fixed-rate residential loans. We sold $6.2 million of residential mortgage loans (all fixed-rate loans, with terms of 15 years or longer) during the year ended December 31, 2007, and had $270,000 of loans held-for-sale at December 31, 2007.

We sell our loans without recourse, except for standard representations and warranties provided in secondary market transactions. Currently, we retain the servicing rights on residential mortgage loans we sell, and we intend to continue this practice in the future. At December 31, 2007, we were servicing loans owned by others with a principal balance of $84.4 million, consisting of $80.1 million of one- to four-family residential mortgage loans and $4.3 million of construction and land loans. Historically, the origination of loans held for sale and related servicing activity has not been material to our operations. Loan servicing includes collecting and remitting loan payments, accounting for principal and interest, contacting delinquent borrowers, supervising foreclosures and property dispositions in the event of unremedied defaults, making certain insurance and tax payments on behalf of the borrowers and generally administering the loans. We retain a portion of the interest paid by the borrower on the loans we service as consideration for our servicing activities. We have entered into a limited number of loan participations in recent years.

Loan Approval Procedures and Authority. Northfield Bank s lending activities follow written, non-discriminatory underwriting standards established by Northfield Bank s board of directors. The loan approval process is intended to assess the borrower s ability to repay the loan and the value of the property that will secure the loan, if any. To assess the borrower s ability to repay, we review the borrower s employment and credit history, and information on the historical and projected income and expenses of the borrower.

Northfield Bank s lending officers have individual lending authority that is approved by the Board of Directors. First Vice Presidents may approve aggregate lending relationships for loans up to $1.0 million secured by properly margined real estate, which includes loans for construction, land, or multifamily purposes, and $250 thousand for loans that are not secured by properly margined real estate which includes loans that are unsecured. Loans in excess of those thresholds require the concurrence of the Chief Lending Officer when the aggregate relationship is up to $2.5 million or $500 thousand, respectively and the concurrence of the Chief Executive Officer for those instances when the aggregation thresholds exceed those established for the Chief Lending Officer. All loans are reported to the board of directors in the month following the closing.

Northfield Bank also uses automated underwriting systems to assist in the underwriting of one- to four-family residential mortgage real estate loans, home equity loans and home equity lines of credit. Applications for loan amounts in excess of the conforming loan limit may be approved, subject to an appraisal of the property securing the loan. We require appraisals by independent, licensed, third-party appraisers of all real property securing loans greater than $250,000. The board of directors approves all appraisers annually.

Non-Performing and Problem Assets

When a loan is 15 days delinquent, we generally send the borrower a late charge notice. When the loan is 30 days past due, we generally mail the borrower a letter reminding the borrower of the delinquency and, except for loans secured by one- to four-family residential real estate, we attempt personal, direct contact with the borrower to determine the reason for the delinquency, to ensure that the borrower correctly understands the terms of the loan, and to emphasize the importance of making payments on or before the due date. If necessary, additional late charge and delinquency notices are issued and the account will be monitored periodically. By the 90th day of delinquency, we will send the borrower a final demand for payment and refer the loan to legal counsel to commence foreclosure proceedings. Our loan officers can shorten these time frames in consultation with the Chief Lending Officer.

Generally, loans are placed on non-accrual status when payment of principal or interest is 90 days or greater delinquent unless the loan is considered well-secured and in the process of collection. Loans also are placed on non-accrual status at any time if collection of principal or interest in full is in doubt. When loans are placed on non-accrual status, unpaid accrued interest is reversed, and further income is recognized only to the extent received, if the principal balance is deemed fully collectible. The loan may be returned to accrual status if both principal and interest payments are brought current and factors indicating doubtful collection no longer exist, including performance by the borrower under the loan terms for a six-month period. Our Chief Lending Officer reports monitored loans, including all loans rated special mention, substandard, doubtful or loss, to the board of directors on a monthly basis.

Table of Contents

Non-Performing Assets. The table below sets forth the amounts and categories of our non-performing assets at the dates indicated. At December 31, 2007, 2006, 2005, 2004, and 2003, we had troubled debt restructurings (generally loans for which a portion of interest or principal has been forgiven or loans modified at interest rates less than current market rates for loans with similar terms, conditions, and risk factors) of $1.3 million, $1.7 million, $885,000, $0, and $0, respectively.

	At December 31,				
	2007	**2006**	**2005**	**2004**	**2003**
	(Dollars in thousands)				
Non-accrual loans:					
Real estate loans:					
Commercial	$ 4,792	$ 5,167	$ 124	$ 944	$ 1,699
One- to four-family residential mortgage	231	234	290	545	773
Construction and land	3,436				
Multifamily					
Home equity and line of credit	104	36	62	352	418
Commercial and industrial loans	43	905	885		5
Other loans				60	
Total non-accrual loans	8,606	6,342	1,361	1,901	2,895
Loans delinquent 90 days or greater and still accruing:					
Real estate loans:					
Commercial					148
One- to four-family residential mortgage			698		147
Construction and land	753	275			
Multifamily					
Home equity and line of credit				60	174
Commercial and industrial loans	475	498			
Other loans				357	600
Total loans delinquent 90 days or greater and still accruing	1,228	773	698	417	1,069
Total non-performing loans	9,834	7,115	2,059	2,318	3,964
Real estate owned					
Total non-performing assets	$ 9,834	$ 7,115	$ 2,059	$ 2,318	$ 3,964
Ratios:					
Non-performing loans to total loans	2.32%	1.74%	0.53%	0.72%	1.40%
Non-performing assets to total assets	0.71	0.55	0.15	0.15	0.27

For the year ended December 31, 2007, gross interest income that would have been recorded had our non-accruing loans been current in accordance with their original terms was $890,000. No interest income was recognized on such non-accruing loans on a cash basis. The 2007 increase in non-accrual construction and land loans reflects one loan in the amount of $3.4 million at December 31, 2007, which was placed on non-accrual status during the second quarter of 2007.

Table of Contents

Delinquent Loans. The following table sets forth our loan delinquencies by type and amount at the dates indicated.

	Loans Delinquent for					
	60-89 Days		90 Days and Over(1)		Total	
	Number	Amount	Number	Amount	Number	Amount
			(Dollars in thousands)			
At December 31, 2007						
Real estate loans:						
Commercial		$	2	$ 3,990	2	$ 3,990
One- to four-family residential mortgage			2	231	2	231
Construction and land			2	4,189	2	4,189
Multifamily						
Home equity and line of credit	2	121	2	104	4	225
Commercial and industrial loans			1	475	1	475
Other loans	1	12			1	12
Total	3	$ 133	9	$ 8,989	12	$ 9,122
At December 31, 2006						
Real estate loans:						
Commercial	3	$ 2,873	2	$ 2,294	5	$ 5,167
One- to four-family residential mortgage			2	234	2	234
Construction and land	2	562	2	275	4	837
Multifamily						
Home equity and line of credit			1	36	1	36
Commercial and industrial loans			1	498	1	498
Other loans	1	3			1	3
Total	6	$ 3,438	8	$ 3,337	14	$ 6,775
At December 31, 2005						
Real estate loans:						
Commercial		$	1	$ 124	1	$ 124
One- to four-family residential mortgage	2	71	3	988	5	1,059
Construction and land						
Multifamily						
Home equity and line of credit	1	6	2	56	3	62
Commercial and industrial loans						
Other loans	4	63			4	63
Total	7	$ 140	6	$ 1,168	13	$ 1,308
At December 31, 2004						
Real estate loans:						
Commercial	3	$ 1,347		$	3	$ 1,347
One- to four-family residential mortgage	3	228	5	545	8	773

Construction and land						
Multifamily						
Home equity and line of credit	1	225	6	187	7	412
Commercial and industrial loans						
Other loans	3	9	50	417	53	426
Total	10	$ 1,809	61	$ 1,149	71	$ 2,958
At December 31, 2003						
Real estate loans:						
Commercial	5	$ 1,349	7	$ 1,847	12	$ 3,196
One- to four-family residential mortgage	4	728	8	920	12	1,648
Home equity and line of credit	1	5	9	592	10	597
Construction and land						
Multifamily						
Commercial and industrial loans			1	5	1	5
Other loans	18	517	60	600	78	1,117
Total	28	$ 2,599	85	$ 3,964	113	$ 6,563

(1) Amounts included in nonperforming loans may not equal total loans delinquent 90 days or more as loans that are less than 90 days delinquent may be on a non-accrual status.

Real Estate Owned. Real estate acquired by us as a result of foreclosure or by deed in lieu of foreclosure is classified as real estate owned. At the date property is acquired it is recorded at the lower of cost or estimated fair market value, establishing a new cost basis. Estimated fair value generally represents the sale price a buyer would be willing to pay on the basis of current market conditions, including normal terms from other financial institutions, less the estimated costs to sell the property. Holding costs and declines in estimated fair market value result in charges to expense after acquisition. At December 31, 2007, 2006, 2005, 2004, and 2003, we had no real estate owned.

Classification of Assets. Our policies, consistent with regulatory guidelines, provide for the classification of loans and other assets that are considered to be of lesser quality as substandard, doubtful, or loss assets. An asset is considered substandard if it is inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Substandard assets include those assets characterized by the distinct possibility that we will sustain some loss if the deficiencies are not corrected. Assets classified as doubtful have all of the weaknesses inherent in those classified substandard with the added characteristic that the weaknesses present make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable. Assets (or portions of assets) classified as loss are those considered uncollectible and of such little value that their continuance as assets is not warranted. Assets that do not expose us to risk sufficient to warrant classification in one of the aforementioned categories, but which possess potential weaknesses that deserve our close attention, are designated as special mention. As of December 31, 2007, we had $3.5 million of assets designated as special mention.

The allowance for loan losses is the amount estimated by management as necessary to absorb credit losses incurred in the loan portfolio that are both probable and reasonably estimable at the balance sheet date. Our determination as to the classification of our assets and the amount of our loss allowances will be subject to review by our principal federal regulator, the Office of Thrift Supervision, which can require that we adjust loss allowances. We regularly review our asset portfolio to determine whether any assets require classification in accordance with applicable regulations. On the basis of our review of our assets at December 31, 2007, classified assets consisted of substandard assets of $8.1 million and no doubtful or loss assets.

Allowance for Loan Losses

We provide for loan losses based on the consistent application of our documented allowance for loan loss methodology. Loan losses are charged to the allowance for loans losses and recoveries are credited to it. Additions to the allowance for loan losses are provided by charges against income based on various factors which, in our judgment, deserve current recognition in estimating probable losses. We regularly review the loan portfolio and make adjustments for loan losses in order to maintain the allowance for loan losses in accordance with U.S. generally accepted accounting principles (GAAP). The allowance for loan losses consists primarily of two components:

(1) allowances are established for impaired loans (generally defined as non-accrual loans with an outstanding balance of $500,000 or greater). The amount of impairment provided for as an allowance is represented by the deficiency, if any, between the estimated fair value of the loan, or the underlying collateral less estimated costs to sell, if the loan is collateral dependent, and the carrying value of the loan. Impaired loans that have no impairment losses are not considered for general valuation allowances described below.

(2) General allowances are established for loan losses on a portfolio basis for loans that do not meet the definition of impaired. The portfolio is grouped into similar risk characteristics, primarily loan type, loan-to-value, if collateral dependent, and delinquency status. We apply an estimated loss rate to each loan group. The loss rates applied are based on our loss experience adjusted, as appropriate, for the environmental factors discussed below. This evaluation is inherently subjective, as it requires material estimates that may be susceptible to significant revisions based upon changes in economic and real estate market conditions. Actual loan losses may be significantly more than the

allowance for loan losses we have established, which could have a material negative effect on our financial results.

The adjustments to our loss experience are based on our evaluation of several environmental factors, including:

changes in local, regional, national, and international economic and business conditions and developments that affect the collectibility of our portfolio, including the condition of various market segments;

changes in the nature and volume of our portfolio and in the terms of our loans;

changes in the experience, ability, and depth of lending management and other relevant staff;

changes in the volume and severity of past due loans, the volume of nonaccrual loans, and the volume and severity of adversely classified or graded loans;

changes in the quality of our loan review system;

changes in the value of underlying collateral for collateral-dependent loans;

the existence and effect of any concentrations of credit, and changes in the level of such concentrations; and

the effect of other external factors such as competition and legal and regulatory requirements on the level of estimated credit losses in our existing portfolio.

We evaluate the allowance for loan losses based on the combined total of the impaired and general components. Generally when the loan portfolio increases, absent other factors, our allowance for loan loss methodology results in a higher dollar amount of estimated probable losses than would be the case without the increase. Generally when the loan portfolio decreases, absent other factors, our allowance for loan loss methodology results in a lower dollar amount of estimated probable losses than would be the case without the decrease.

Commercial real estate loans generally have greater credit risks than one- to four-family residential mortgage real estate loans, as they typically involve larger loan balances concentrated with single borrowers or groups of related borrowers. In addition, the payment experience on loans secured by income-producing properties typically depends on the successful operation of the related business and thus may be subject, to a greater extent, to adverse conditions in the real estate market and in the general economy.

Construction and land loans generally have greater credit risk than one- to four-family residential mortgage real estate loans. The repayment of these loans depends on the sale of the property to third parties or the availability of permanent financing upon completion of all improvements. In the event we make a loan on property that is not yet approved for the planned development, there is the risk that approvals will not be granted or will be delayed. These events may adversely affect the borrower and the collateral value of the property. Construction and land loans also expose us to the risk that improvements will not be completed on time in accordance with specifications and projected costs. In addition, the ultimate sale or rental of the property may not occur as anticipated.

Commercial loans involve a higher risk of default than one- to four-family residential mortgage real estate loans of like duration since their repayment generally depends on the successful operation of the borrower s business and the sufficiency of collateral, if any.

Loans secured by multifamily real estate loans generally involve a greater degree of credit risk than one- to four-family residential mortgage real estate loans and carry larger loan balances. This increased credit risk is a result of several factors, including the concentration of principal in a limited number of loans and borrowers, the effects of general economic conditions on income producing properties, and the increased difficulty in evaluating and monitoring these loans. Furthermore, the repayment of loans secured by multifamily mortgages typically depends upon the successful operation of the related real estate property. If the cash flow from the project is reduced, the borrower s ability to repay the loan may be impaired.

On a quarterly basis we evaluate the allowance for loan losses and adjust the allowance as appropriate through a provision or recovery for loan losses. While we use the best information available to make evaluations, future adjustments to the allowance may be necessary if conditions differ substantially from the

Table of Contents

information used in making the evaluations. In addition, as an integral part of their examination process, the Office of Thrift Supervision will periodically review the allowance for loan losses. The Office of Thrift Supervision may require us to adjust the allowance based on their analysis of information available to them at the time of their examination.

The following table sets forth activity in our allowance for loan losses for the years indicated.

	At or for the Years Ended December 31,				
	2007	2006	2005	2004	2003
	(Dollars in thousands)				
Balance at beginning of year	$ 5,030	$ 4,795	$ 3,166	$ 2,755	$ 2,758
Charge-offs:					
Commercial and industrial loans	(814)				
Other loans	(22)				(8)
Total charge-offs	(836)				(8)
Recoveries:					
Other loans				1	5
Total recoveries				1	5
Net (charge-offs) recoveries	(836)			1	(3)
Provision for loan losses	1,442	235	1,629	410	
Balance at end of year	$ 5,636	$ 5,030	$ 4,795	$ 3,166	$ 2,755
Ratios:					
Net charge-offs to average loans outstanding	0.20%	%	%	%	%
Allowance for loan losses to non-performing loans at end of year	57.31	70.70	232.88	136.58	69.50
Allowance for loan losses to total loans at end of year	1.33	1.23	1.24	0.99	0.98

Table of Contents

Allocation of Allowance for Loan Losses. The following tables set forth the allowance for loan losses allocated by loan category, the total loan balances by category, and the percent of loans in each category to total loans at the dates indicated. The allowance for loan losses allocated to each category is not necessarily indicative of future losses in any particular category and does not restrict the use of the allowance to absorb losses in other categories.

	At December 31,					
	2007		2006		2005	
	Allowance for Loan Losses	Percent of Loans in Each Category to Total Loans	Allowance for Loan Losses	Percent of Loans in Each Category to Total Loans	Allowance for Loan Losses	Percent of Loans in Each Category to Total Loans
	(Dollars in thousands)					
Real estate loans:						
Commercial	$ 3,456	57.50%	$ 2,421	50.75%	$ 1,624	42.72%
One- to four-family residential mortgage	60	22.45	189	26.29	319	32.87
Construction and land	1,461	10.57	1,303	12.74	1,848	13.64
Multifamily	99	3.34	113	3.24	71	3.64
Home equity and line of credit	38	3.02	46	3.40	81	4.15
Commercial and industrial loans	484	2.69	891	2.70	849	2.08
Other loans	38	0.43	25	0.88	3	0.90
Total allocated allowance	5,636	100.00%	4,988	100.00%	4,795	100.00%
Unallocated			42			
Total	$ 5,636		$ 5,030		$ 4,795	

	At December 31,			
	2004		2003	
	Allowance for Loan Losses	Percent of Loans in Each Category to Total Loans	Allowance for Loan Losses	Percent of Loans in Each Category to Total Loans
	(Dollars in thousands)			
Real estate loans:				

Commercial	$	1,681	38.98%	$ 976	28.84%
One- to four-family residential mortgage		326	40.95	425	54.75
Construction and land		494	8.70	63	2.17
Multifamily		143	3.90	159	6.11
Home equity and line of credit		428	5.31	536	6.54
Commercial and industrial loans		65	0.89	38	0.18
Other loans		4	1.27	21	1.41
Total allocated allowance		3,141	100.00%	2,218	100.00%
Unallocated		25		537	
Total	$	3,166		$ 2,755	

Investments

Our board of director s asset liability management committee, consisting of four non-employee board members, has primary responsibility, among other things, for establishing and overseeing our investment policy, subject to oversight by our entire board of directors. The investment policy is reviewed at least annually by the board of director s asset liability management committee, and any changes to the policy are subject to ratification by the full board of directors. This policy dictates that investment decisions give consideration to the safety of the investment, liquidity requirements, potential returns, the ability to provide collateral for pledging requirements, and consistency with our interest rate risk management strategy. Our Senior Vice President and Treasurer executes Northfield Bank s securities portfolio transactions, within policy requirements, with the approval of either the Chief Executive Officer or the Chief Financial Officer. NSB Services Corp. s and NSB Realty Trust s Investment Officers execute securities portfolio transactions in accordance with investment policies that substantially mirror Northfield Bank s investment policy. All purchase and sale transactions are formally reviewed by the board of directors at least quarterly.

Our current investment policy permits investments in mortgage-backed securities, including pass-through securities and real estate mortgage investment conduits (REMICs). The investment policy also permits, with certain limitations, investments in debt securities issued by the United States Government, agencies of the United States Government or United States Government-sponsored enterprises, asset-backed securities, money market funds, federal funds, investment grade corporate bonds, reverse repurchase agreements and certificates of deposit.

Our current investment policy does not permit investment in municipal bonds, preferred and common stock of U.S. Government sponsored enterprises or equity securities other than our required investment in the common stock of the Federal Home Loan Bank of New York, short-term money market mutual funds, or as permitted for community reinvestment purposes. As of December 31, 2007, we held no asset-backed securities other than mortgage-backed securities. As a federal savings bank, Northfield Bank is not permitted to invest in equity securities. This restriction does not apply to Northfield Bancorp, Inc. Our board of directors may make changes to these limitations in the future.

Our current investment policy does not permit hedging through the use of such instruments as financial futures, interest rate options, and swaps.

Statements of Financial Accounting Standards (SFAS) No. 115, Accounting for Certain Investments in Debt and Equity Securities, requires that, at the time of purchase, we designate a security as either held-to-maturity, available-for-sale, or trading, based upon our ability and intent to hold such securities. Trading securities and securities available-for-sale are reported at estimated fair value, and securities held-to-maturity are reported at amortized cost. A periodic review and evaluation of the available-for-sale and held-to-maturity securities portfolios is conducted to determine if the estimated fair value of any security has declined below its carrying value and whether such impairment is other-than-temporary. If such impairment is deemed to be other-than-temporary, the security is written down to a new cost basis and the resulting loss is charged against earnings. The estimated fair values of our securities are obtained from an independent nationally recognized pricing service (see Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies for further discussion). At December 31, 2007 our investment portfolio primarily consisted of mortgage-backed securities guaranteed by U.S. Government sponsored enterprises and to a lesser extent mutual funds, corporate securities and private label mortgaged-backed securities. The market for these securities primarily consists of other financial institutions, insurance companies, real estate investment trusts, and mutual funds.

Our available-for-sale securities portfolio at December 31, 2007, consisted of securities with the following amortized cost: $521.0 million of pass-through mortgage-backed securities, of which $491.8 million were issued by U.S. Government sponsored enterprises (GSE) and $29.2 million were issued by non-GSEs; $207.9 million of REMICs, of which $171.7 million were issued by GSEs and $36.1 million were issued by non-GSEs; and $79.6 million of other securities, consisting of corporate obligations and equity securities which primarily consisted of a money market fund. At December 31, 2007, approximately $87,000 of the underlying collateral of our non-GSE pass-through and REMIC securities were secured by sub-prime loans, the securities were rated triple A at December 31, 2007.

We purchase mortgage-backed securities insured or guaranteed primarily by Fannie Mae, Freddie Mac or Ginnie Mae and to a lesser extent securities issued by private companies (private label). We invest in

Table of Contents

mortgage-backed securities to achieve positive interest rate spreads with minimal administrative expense, and to lower our credit risk as a result of the guarantees provided by Fannie Mae, Freddie Mac, or Ginnie Mae.

Mortgage-backed securities are securities sold in the secondary market that are collateralized by pools of mortgages. Certain types of mortgage-backed securities are commonly referred to as pass-through certificates because the principal and interest of the underlying loans is passed through pro rata to investors, net of certain costs, including servicing and guarantee fees, in proportion to an investor s ownership in the entire pool. The issuers of such securities pool and resell the participation interests in the form of securities to investors such as us. The interest rate of the security is lower than the interest rates of the underlying loans to allow for payment of servicing and guaranty fees. Ginnie Mae, a United States Government agency, and government sponsored enterprises, such as Fannie Mae and Freddie Mac, may guarantee the payments or guarantee the timely payment of principal and interest to investors.

Mortgage-backed securities generally yield less than the loans that underlie such securities because of the cost of servicing fees, payment guarantees, and credit enhancements. However, mortgage-backed securities are generally more liquid than individual mortgage loans. In addition, mortgage-backed securities may be used to collateralize our specific liabilities and obligations. Investments in mortgage-backed securities involve a risk that actual payments will be greater or less than the prepayment rate estimated at the time of purchase, which may require adjustments to the amortization of any premium or accretion of any discount relating to such interests, thereby affecting the net yield on our securities. We periodically review current prepayment speeds to determine whether prepayment estimates require modification that could cause adjustment of amortization or accretion.

REMICs are a type of mortgage-backed security issued by special-purpose entities that aggregate pools of mortgages and mortgage-backed securities and creates different classes of securities with varying maturities and amortization schedules, as well as a residual interest, with each class possessing different risk characteristics. The cash flows from the underlying collateral are generally divided into tranches or classes that have descending priorities with respect to the distribution of principal and interest cash flows, while cash flows on pass-through mortgage-backed securities are distributed pro rata to all security holders.

The timely payment of principal and interest on these REMICs are generally supported (credit enhanced) in varying degrees by either insurance issued by a financial guarantee insurer, letters of credit, over collateralization, or subordination techniques. Substantially all of these securities are triple A rated by Standard & Poors or Moodys. Privately issued REMICs can be subject to certain credit-related risks normally not associated with United States Government agency and United States Government-sponsored enterprise REMICs. The loss protection generally provided by the various forms of credit enhancements is limited, and losses in excess of certain levels are not protected. Furthermore, the credit enhancement itself may be subject to the creditworthiness of the credit enhancer. Thus, in the event a credit enhancer does not fulfill its obligations, the REMIC holder could be subject to risk of loss similar to a purchaser of a whole loan pool. Management believes that the credit enhancements are adequate to protect us from material losses on our privately issued REMICs.

At December 31, 2007, our corporate bond portfolio consisted of $65.1 million of investment grade securities. Our investment policy provides that we may invest up to 15% of our tier-one risk-based capital in corporate bonds from individual issuers which, at the time of purchase, are within the three highest investment-grade ratings from Standard & Poors or Moodys. The maturity of these bonds may not exceed 10 years, and there is no aggregate limit for this security type. Corporate bonds from individual issuers with investment-grade ratings, at the time of purchase, below the top three ratings are limited to the lesser of 1% of our total assets or 15% of our tier-one risk-based capital and must have a maturity of less than one year. Aggregate holdings of this security type cannot exceed 5% of our total assets. Bonds that subsequently experience a decline in credit rating below investment grade are monitored at least monthly to determine whether we should continue to hold the bond. At December 31, 2007, we had no corporate bonds below investment grade.

17

Table of Contents

The following table sets forth the amortized cost and estimated fair value of our available-for-sale and held-to-maturity securities portfolios (excluding Federal Home Loan Bank of New York common stock) at the dates indicated. As of December 31, 2007, 2006, and 2005, we had a trading portfolio with a market value of $3.6 million, $2.7 million and $2.4 million, respectively, consisting of mutual funds.

	At December 31,					
	2007		2006		2005	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
	(In thousands)					
Securities available-for-sale:						
Mortgage-backed securities:						
Pass-through						
Government sponsored enterprise (GSE)	$ 491,758	$ 486,562	$ 552,683	$ 533,051	$ 678,085	$ 657,345
Non-GSE	29,200	28,867	33,853	33,215	41,092	40,291
Real estate mortgage investment conduits						
GSE	171,709	171,207	98,601	95,439	328	325
Non-GSE	36,141	36,522			132,959	129,161
Corporate bonds	65,146	65,247	44,390	44,345	34,393	33,696
Equity investments(1)	14,427	14,412	7,491	7,448	2,673	2,646
Total securities available-for-sale	$ 808,381	$ 802,817	$ 737,018	$ 713,498	$ 889,530	$ 863,464

(1) Consists of mutual funds.

	At December 31,					
	2007		2006		2005	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
	(In thousands)					
Securities held-to-maturity:						
Mortgage-backed securities:						
Pass-through						
GSE	$ 9,202	$ 9,315	$ 12,734	$ 12,688	$ 16,683	$ 16,753
Ginnie Mae	4	5	5	6	11	12
Real estate mortgage investment conduits						
GSE	10,480	10,120	13,430	12,825	18,147	17,320

Total securities held-to-maturity	$	19,686	$	19,440	$	26,169	$	25,519	$	34,841	$	34,085

Table of Contents

Portfolio Maturities and Yields. The composition and maturities of the investment securities portfolio at December 31, 2007, are summarized in the following table. Maturities are based on the final contractual payment dates, and do not reflect the effect of scheduled principal repayments, prepayments, or early redemptions that may occur. All of our securities at December 31, 2007, were taxable securities.

	One Year or Less		More than One Year through Five Years		More than Five Years through Ten Years		More than Ten Years		Total	
	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Fai Valu
					(Dollars in thousands)					
able-for-sale:										
d securities:										
	$	%	$ 15,762	4.94%	$ 317,737	4.36%	$ 158,259	4.31%	$ 491,758	$ 486.
		%		%		%	29,200	4.72%	29,200	28.
gage uits										
		%	10,090	4.62%	54,186	4.71%	107,433	4.35%	171,709	171.
		%		%		%	36,141	5.65%	36,141	36.
nts	14,427	4.35%		%		%		%	14,427	14.
	56,727	5.49%		%	8,419	3.60%		%	65,146	65.
e	$ 71,154	5.26%	$ 25,852	4.81%	$ 380,342	4.39%	$ 331,033	4.51%	$ 808,381	$ 802.
to-maturity:										
d securities:										
	$	%	$ 7,634	5.45%	$	%	$ 1,568	5.69%	$ 9,202	$ 9.
		%	4	6.75%		%		%	4	
gage uits		%		%		%		%		
		%		%		%	10,480	3.82%	10,480	10.
	$	%	$ 7,638	5.45%	$	%	$ 12,048	4.06%	$ 19,686	$ 19.

Sources of Funds

General. Deposits traditionally have been our primary source of funds for our investment and lending activities. We also borrow, primarily from the Federal Home Loan Bank of New York, to supplement cash flow needs, to lengthen the maturities of liabilities for interest rate risk management purposes and to manage our cost of funds. Our additional sources of funds are the proceeds of loan sales, scheduled loan payments, maturing investments, loan prepayments, and retained income on other earning assets.

Deposits. We accept deposits primarily from the areas in which our offices are located. We rely on our convenient locations, customer service, and competitive products and pricing to attract and retain deposits. We offer a variety of deposit accounts with a range of interest rates and terms. Our deposit accounts consist of passbook and statement savings accounts, certificates of deposit, money market accounts, NOW accounts, non-interest bearing checking accounts, and individual retirement accounts. We accept brokered deposits on a limited basis. At December 31, 2007, we had an immaterial amount of brokered deposits.

Interest rates offered are generally established weekly, maturity terms, service fees, and withdrawal penalties are reviewed on a periodic basis. Deposit rates and terms are based primarily on current operating strategies and market interest rates, liquidity requirements, and our deposit growth goals.

At December 31, 2007, we had a total of $402.6 million in certificates of deposit, of which $378.1 million had remaining maturities of one year or less. Based on our experience and current pricing strategy, we believe we will retain a significant portion of these accounts at maturity.

Table of Contents

The following tables set forth the distribution of our average total deposit accounts, by account type, for the years indicated.

	For the Year Ended December 31,					
	2007			2006		
	Average Balance	Percent	Weighted Average Rate	Average Balance	Percent	Weighted Average Rate
	(Dollars in thousands)					
Non-interest bearing demand	$ 96,796	9.57%	%	$ 89,989	8.99%	%
NOW	49,209	4.87	1.93	37,454	3.74	0.93
Savings	401,003	39.64	0.65	398,852	39.86	0.70
Certificates of deposit	464,552	45.92	4.35	474,313	47.41	3.96
Total deposits	$ 1,011,560	100.00%	2.35%	$ 1,000,608	100.00%	2.19%

	For the Year Ended December 31, 2005		
	Average Balance	Percent	Weighted Average Rate
	(Dollars in thousands)		
Non-interest bearing demand	$ 91,956	8.94%	%
NOW	38,782	3.77	0.53
Savings accounts	488,109		