Investors Bancorp Inc
Form 10-K
August 22, 2008

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SECURITIES AND EXCHANGE COMMISSION
450 Fifth Street, N.W.
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 June 30, 2008

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. 000-51557

Investors Bancorp, Inc.
(Exact name of registrant as specified in its charter)

Delaware *(State or other jurisdiction of incorporation or organization)*	**22-3493930** *(I.R.S. Employer Identification Number)*
101 JFK Parkway, Short Hills, New Jersey *(Address of Principal Executive Offices)*	**07078** *Zip Code*

(973) 924-5100
(Registrant s telephone number)

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

Securities Registered Pursuant to Section 12(g) of the Act:
Common Stock, par value $0.01 per share
(Title of Class)

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 twelve months (or for such shorter period that the Registrant was required to file such reports) and (2) has been subject to such 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 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 (as defined in Rule 12b-2 of the Exchange Act).

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

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

As of August 12, 2008, the registrant had 118,020,280 shares of common stock, par value $0.01 per share, issued and 109,010,756 shares outstanding, of which 64,844,373 shares, or 59.48%, were held by Investors Bancorp, MHC, the registrant s mutual holding company.

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the Registrant, computed by reference to the last sale price on December 31, 2007, as reported by the NASDAQ Global Select Market, was approximately $640.5 million.

DOCUMENTS INCORPORATED BY REFERENCE

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

INVESTORS BANCORP, INC.

2008 ANNUAL REPORT ON FORM 10-K

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PRIVATE SECURITIES LITIGATION REFORM ACT SAFE HARBOR STATEMENT

This Annual Report on Form 10-K contains a number of forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. These statements may be identified by the use of the words anticipate, believe, could, estimate, expect, intend, may, outlook, plan, potential, predict, pro and similar terms and phrases, including references to assumptions.

Forward-looking statements are based on various assumptions and analyses made by us in light of our management s experience and its perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. These statements are not guarantees of future performance and are subject to risks, uncertainties and other factors (many of which are beyond our control) that could cause actual results to differ materially from future results expressed or implied by such forward-looking statements. These factors include, without limitation, the following:

- the timing and occurrence or non-occurrence of events may be subject to circumstances beyond our control;
- there may be increases in competitive pressure among financial institutions or from non-financial institutions;
- changes in the interest rate environment may reduce interest margins or affect the value of our investments;
- changes in deposit flows, loan demand or real estate values may adversely affect our business;
- changes in accounting principles, policies or guidelines may cause our financial condition to be perceived differently;
- general economic conditions, either nationally or locally in some or all areas in which we do business, or conditions in the real estate or securities markets or the banking industry may be less favorable than we currently anticipate;
- legislative or regulatory changes may adversely affect our business;
- technological changes may be more difficult or expensive than we anticipate;
- success or consummation of new business initiatives may be more difficult or expensive than we anticipate;
- litigation or other matters before regulatory agencies, whether currently existing or commencing in the future, may be determined adverse to us or may delay the occurrence or non-occurrence of events longer than we anticipate;
- the risks associated with continued diversification of assets and adverse changes to credit quality;
- difficulties associated with achieving expected future financial results; and
- the risk of an economic slowdown that would adversely affect credit quality and loan originations.

We have no obligation to update any forward-looking statements to reflect events or circumstances after the date of this document.

As used in this Form 10-K, we, us and our refer to Investors Bancorp, Inc. and its consolidated subsidiary, Investors Savings Bank.

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PART I

ITEM 1. *BUSINESS*

Investors Bancorp, Inc.

Investors Bancorp, Inc. (the Company) is a Delaware corporation that was organized on January 21, 1997 for the purpose of being a holding company for Investors Savings Bank (the Bank), a New Jersey chartered savings bank. On October 11, 2005, the Company completed its initial public stock offering in which it sold 51,627,094 shares, or 44.40% of its outstanding common stock, to subscribers in the offering, including 4,254,072 shares purchased by the Investors Savings Bank Employee Stock Ownership Plan (the ESOP). Upon completion of the initial public offering, Investors Bancorp, MHC (the MHC), the Company s New Jersey chartered mutual holding company parent, held 63,099,781 shares, or 54.27% of the Company s outstanding common stock. Additionally, the Company contributed $5,163,000 in cash and issued 1,548,813 shares of common stock, or 1.33% of its outstanding shares, to the Investors Savings Bank Charitable Foundation.

On June 6, 2008, the Company completed its merger of Summit Federal Bankshares, Inc. (Summit Federal), the federally-chartered holding company for Summit Federal Savings Bank. At the date of merger, Summit Federal operated five branches in Union, Middlesex, Hunterdon and Warren counties, New Jersey, and had assets of $110.1 million, deposits of $95.0 million and equity of $14.0 million. Each Summit Federal branch office has become a branch office of Investors Savings Bank. This transaction involved the combination of mutual enterprises and, therefore, was accounted for as a pooling of interests. All financial information has been restated to include amounts for Summit Federal, based on historical costs, for all periods presented.

In connection with the Summit Federal merger, the Company issued 1,744,592 additional shares of its common stock to the MHC, based on the pro forma market value of $25.0 million for Summit Federal and the average closing price of a share of the Company s common stock, as reported on the NASDAQ Stock Market, for twenty (20) consecutive trading days ending on June 4, 2008. As of June 30, 2008, the MHC held 64,844,373 shares, or 59.48% of the Company s outstanding common stock.

Since the formation of the Company in 1997, our primary business has been that of holding the common stock of the Bank and since our stock offering, a loan to the ESOP. Investors Bancorp, Inc., as the holding company of Investors Savings Bank, is authorized to pursue other business activities permitted by applicable laws and regulations for bank holding companies.

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

Investors Savings Bank

General

Investors Savings Bank is a New Jersey-chartered savings bank headquartered in Short Hills, New Jersey. Originally founded in 1926 as a New Jersey-chartered mutual savings and loan association, we have grown through acquisitions and internal growth, including de novo branching. In 1992, we converted our charter to a mutual savings bank, and in 1997 we converted our charter to a New Jersey-chartered stock savings bank. We conduct business from our main office located at 101 JFK Parkway, Short Hills, New Jersey, and with the addition of Summit Federal, 52 branch offices located in Essex, Hunterdon, Middlesex, Monmouth, Morris, Ocean, Somerset, Union and Warren Counties, New Jersey. The telephone number at our main office is (973) 924-5100. At June 30, 2008, our assets totaled $6.42 billion and our deposits totaled $3.97 billion.

We are in the business of attracting deposits from the public through our branch network and borrowing funds in the wholesale markets to originate loans and to invest in securities. We originate mortgage loans secured by

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one-to four-family residential real estate and consumer loans, the majority of which are home equity loans and home equity lines of credit. In recent years, we expanded our lending activities to include commercial real estate, construction, multi-family loans and more recently commercial and industrial loans. Securities, primarily U.S. Government and Federal Agency obligations, mortgage-backed and other securities represent a large but declining percentage of our assets. We offer a variety of deposit accounts and emphasize exceptional customer service. Investors Savings Bank is subject to comprehensive regulation and examination by both the New Jersey Department of Banking and Insurance and the Federal Deposit Insurance Corporation and we are subject to regulations as a bank holding company by the Federal Reserve Board.

Market Area

We are headquartered in Short Hills, New Jersey, and our primary deposit gathering area is concentrated in the communities surrounding our headquarters and our 52 branch offices located in the communities of Essex, Hunterdon, Middlesex, Monmouth, Morris, Ocean, Somerset, Union and Warren Counties, New Jersey. Our primary lending area is broader than our deposit-gathering area and includes 14 counties in New Jersey. The economy in our primary market area has benefited from being varied and diverse. It is largely urban and suburban with a broad economic base as is typical for counties surrounding the New York metropolitan area. As one of the wealthiest states in the nation, New Jersey, with a population of nearly 8.9 million, is considered one of the most attractive banking markets in the United States. The June 2008 unemployment rate for New Jersey of 5.3% was slightly lower than the national rate of 5.5%.

Many of the counties we serve are projected to experience strong to moderate population and household income growth through 2012. Though slower population growth is projected for some of the counties we serve, it is important to note that these counties are some of the most densely populated in the state. All of the counties we serve have a strong mature market with median household incomes greater than $55,000. The household incomes in the counties we serve are all expected to increase in a range from 15% to 20% through 2012.

Competition

We face intense competition within 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. Some of our competitors offer products and services that we currently do not offer, such as trust services and private banking. As of June 30, 2007, the latest date for which statistics are available, our market share of deposits was 1.69% of total deposits in the State of New Jersey.

Our competition for loans and deposits comes principally from commercial banks, savings institutions, mortgage banking firms and credit unions. We face additional competition for deposits from short-term money market funds, brokerage firms, mutual funds and insurance companies. Our primary focus is to build and develop profitable customer relationships across all lines of business while maintaining our role as a community bank.

Lending Activities

Our principal lending activity continues to be the origination and purchase of mortgage loans collateralized by residential real estate. Residential mortgage loans represented $4.01 billion, or 85.97% of our total loans at June 30, 2008. In 2005, we began offering commercial real estate, multi-family and construction loans. At June 30, 2008, commercial real estate and multi-family loans totaled $225.2 million, or 4.83% of our total loan portfolio and construction loans totaled $260.2 million, or 5.58%. We also offer consumer loans, which consist primarily of home equity loans and home equity lines of credit. At June 30, 2008, consumer loans totaled $168.8 million or 3.62% of our total loan portfolio. We recently began to offer commercial and industrial (C&I) loans.

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Loan Portfolio Composition. The following table sets forth the composition of our loan portfolio by type of loan, at the dates indicated.

	At June 30,								
	2008		2007		2006		2005		2
	Amount	Percent	Amount	Percent	Amount (Dollars in thousands)	Percent	Amount	Percent	Amount
ly	$ 3,989,334	85.54%	$ 3,159,484	87.51%	$ 2,669,726	89.49%	$ 1,874,952	92.80%	$ 1,009,18
	20,229	0.43	22,624	0.63	24,928	0.84	34,008	1.68	45,68
	4,009,563	85.97	3,182,108	88.14	2,694,654	90.33	1,908,960	94.48	1,054,86
d									
	225,154	4.83	109,348	3.03	79,023	2.65	19,271	0.95	8,27
ans	260,177	5.58	153,420	4.25	66,209	2.22	7,065	0.35	84
ns	139,587	2.99	139,524	3.86	113,572	3.80	45,591	2.26	29,73
lit									
	27,270	0.59	23,927	0.66	28,063	0.94	38,349	1.90	41,16
	1,962	0.04	1,993	0.06	1,721	0.06	1,335	0.06	1,77
nd									
	168,819	3.62	165,444	4.58	143,356	4.80	85,275	4.22	72,66
	$ 4,663,713	100.00%	$ 3,610,320	100.00%	$ 2,983,242	100.00%	$ 2,020,571	100.00%	$ 1,136,64
net	22,622		23,587		20,327		14,113		5,27
s,									
	(2,620)		(1,958)		(1,765)		(916)		(92
an									
	(13,565)		(6,951)		(6,369)		(5,723)		(5,21
	$ 4,670,150		$ 3,624,998		$ 2,995,435		$ 2,028,045		$ 1,135,78

Loan Portfolio Maturities and Yields. The following table summarizes the scheduled repayments of our loan portfolio at June 30, 2008. Overdraft loans are reported as being due in one year or less.

	At June 30, 2008			
	Residential	Multi-Family and	Construction	Consumer and Other

	Mortgage	Commercial	Loans (In thousands)	Loans	Total
Amounts Due:					
One year or less	$ 619	296	147,076	346	148,337
After one year:					
One to three years	504	11,214	94,600	4,037	110,355
Three to five years	1,916	54,027		6,404	62,347
Five to ten years	78,133	132,647	18,501	34,302	263,583
Ten to twenty years	556,136	22,253		79,321	657,710
Over twenty years	3,372,255	4,717		44,409	3,421,381
Total due after one year	4,008,944	224,858	113,101	168,473	4,515,376
Total loans	$ 4,009,563	225,154	260,177	168,819	4,663,713
Premiums on purchased loans					22,622
Deferred loan fees, net					(2,620)
Allowance for loan losses					(13,565)
Net loans					$ 4,670,150

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The following table sets forth fixed- and adjustable-rate loans at June 30, 2008 that are contractually due after June 30, 2009.

	Due After June 30, 2009		
	Fixed	Adjustable (In thousands)	Total
Residential mortgage loans:			
One-to four-family	$ 2,349,727	1,639,101	3,988,828
FHA	20,116		20,116
Total residential mortgage loans	2,369,843	1,639,101	4,008,944
Multi-family and commercial	147,239	77,619	224,858
Construction loans	518	112,583	113,101
Consumer and other loans			
Home equity loans	139,385		139,385
Home equity credit lines		27,151	27,151
Other	1,526	411	1,937
Total consumer and other loans	140,911	27,562	168,473
Total loans	$ 2,658,511	1,856,865	4,515,376

Residential Mortgage Loans. Currently, our primary lending activity is originating and purchasing residential mortgage loans, most of which are secured by properties located in our primary market area and most of which we hold in portfolio. At June 30, 2008, $4.01 billion, or 85.97%, of our loan portfolio consisted of residential mortgage loans. Residential mortgage loans are originated by our mortgage subsidiary, ISB Mortgage Company LLC, for our loan portfolio and for sale to third parties. Generally, residential mortgage loans are originated in amounts up to 80% of the lesser of the appraised value or purchase price of the property to a maximum loan amount of $750,000. Loans over $750,000 require a lower loan to value ratio. Loans in excess of 80% of value require private mortgage insurance and cannot exceed $500,000. We will not make loans with a loan-to-value ratio in excess of 95%. Fixed-rate mortgage loans are originated for terms of up to 30 years. Generally, all fixed-rate residential mortgage loans are underwritten according to Fannie Mae guidelines, policies and procedures. At June 30, 2008, we held $2.37 billion in fixed-rate residential mortgage loans which represented 59.11% of our residential mortgage loan portfolio.

We also offer adjustable-rate residential mortgage loans, which adjust annually after three, five, seven or ten year initial fixed-rate periods. Our adjustable rate loans usually adjust to an index plus a margin, based on the weekly average yield on U.S. Treasuries adjusted to a constant maturity of one year. Annual caps of 2% per adjustment apply, with a lifetime maximum adjustment of 5% on most loans. Our adjustable-rate mortgage loans amortize over terms of up to 30 years. In addition, we originate interest-only one-to four-family mortgage loans in which the borrower makes only interest payments for the first five, seven or ten years of the mortgage loan term. This feature will result in future increases in the borrower s contractually required payments due to the required amortization of the principal amount after the interest-only period. The Company maintains stricter underwriting criteria for these interest-only loans than it does for its amortizing loans. Borrowers are qualified at a fully amortized payment amount.

Adjustable-rate mortgage loans decrease the Bank s risk associated with changes in market interest rates by periodically re-pricing, but involve other risks because, as interest rates increase, the underlying payments by the borrower increase, which increases the potential for default by the borrower. At the same time, the marketability of the underlying collateral may be adversely affected by higher interest rates or a decline in housing values. The maximum periodic and lifetime interest rate adjustments may limit the effectiveness of adjustable-rate mortgages during periods of rapidly rising interest rates. At June 30, 2008, we held $1.64 billion of adjustable-rate residential mortgage loans, of which $450.0 million were interest-only one-to four-family mortgages. Adjustable-rate residential mortgage loans represented 40.89% of our residential mortgage loan portfolio.

To provide financing for low-and moderate-income home buyers, we also offer a special Affordable Mortgage Program, with Down Payment Assistance for home purchases. Through this program, qualified individuals receive

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a reduced rate of interest on most of our loan programs and have their application fee refunded at closing, as well as other incentives if certain conditions are met. In addition, if private mortgage insurance is required, a lower percentage of coverage is obtained, which will help lower their monthly carrying cost.

All residential mortgage loans we originate include a due-on-sale clause, which gives us the right to declare a loan immediately due and payable if the borrower sells or otherwise disposes of the real property subject to the mortgage and the loan is not repaid. All borrowers are required to obtain title insurance, fire and casualty insurance and, if warranted, flood insurance on properties securing real estate loans.

Multi-family and Commercial Real Estate Loans. As part of our strategy to add to and diversify our loan portfolio, in recent years we began offering mortgages on multi-family and commercial real estate properties. At June 30, 2008, $225.1 million, or 4.83%, of our total loan portfolio consisted of these types of loans. Commercial real estate and multi-family loans are secured by office buildings, apartment buildings, mixed-use properties and other commercial properties. We generally originate adjustable-rate commercial real estate loans and multi-family loans with a maximum amortization term of 25 years. The maximum loan-to-value ratio is 75% for our commercial real estate loans and 80% for multi-family loans. At June 30, 2008, our largest commercial real estate loan was $24.0 million.

We consider a number of factors when we originate commercial real estate loans. During the underwriting process we evaluate the business qualifications and financial condition of the borrower, including credit history, profitability of the property being financed, as well as the value and condition of the mortgaged property securing the loan. When evaluating the business qualifications of the borrower, we consider the financial resources of the borrower, the borrower s experience in owning or managing similar property and the borrower s payment history with us and other financial institutions. In evaluating the property securing the loan, we consider the net operating income of the mortgaged property before debt service and depreciation, the ratio of the loan amount to the appraised value of the mortgaged property and the debt service coverage ratio (the ratio of net operating income to debt service) to ensure it is at least 120% of the monthly debt service for apartment buildings and 130% for commercial income-producing properties. All commercial real estate loans are appraised by outside independent appraisers who have been approved by our Board of Directors. Personal guarantees are obtained from commercial real estate borrowers although we will consider waiving this requirement based upon the loan-to-value ratio of the proposed loan and other factors. All borrowers are required to obtain title, fire and casualty insurance and, if warranted, flood insurance.

Loans secured by commercial real estate generally are larger than residential mortgage loans and involve greater credit risk. Commercial real estate loans often involve large loan balances to single borrowers or groups of related borrowers. Repayment of these loans depends to a large degree on the results of operations and management of the properties securing the loans or the businesses conducted on such property, and may be affected to a greater extent by adverse conditions in the real estate market or the economy in general. Accordingly, management annually evaluates the performance of all commercial loans in excess of $1.0 million.

Construction Loans. Before April 2005, we held a small number of construction loans in our portfolio which were originated by other financial institutions with whom we participated. In April 2005, we began to offer loans directly to builders and developers on income properties and residential for-sale housing units. At June 30, 2008, we held $260.2 million in construction loans representing 5.58% of our total loan portfolio. Construction loans are originated through our commercial lending department. If the loan applicant meets our criteria, we issue a letter of intent listing the terms and conditions of any potential loan. Primarily we offer adjustable-rate residential construction loans which can be structured with an option for permanent mortgage financing once the construction is completed. Generally, construction loans will be structured to be repaid over a three-year period and generally will be made in amounts of up to 75% of the appraised value of the completed property, or the actual cost of the improvements. Funds are disbursed based on inspections in accordance with a schedule reflecting the completion of portions of the project. Construction financing for sold units requires an executed sales contract.

Construction loans generally involve a greater degree of credit risk than residential mortgage loans. The risk of loss on a construction loan depends on the accuracy of the initial estimate of the property s value when the construction is completed compared to the estimated cost of construction. For all loans, we use outside independent appraisers approved by our Board of Directors. We require all borrowers to obtain title insurance, fire and casualty

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insurance and, if warranted, flood insurance. A detailed plan and cost review by an outside engineering firm is required on loans in excess of $2.5 million.

At June 30, 2008, the Bank s largest relationship with an individual borrower and its related entities was $30.5 million, consisting of multi-family and construction loans for residential projects in the State of New Jersey.

Commercial and Industrial Loans. In May 2008 we began offering commercial and industrial loans. These loans include term loans, lines of credit and owner occupied commercial real estate loans. These loans are generally secured by real estate or business assets and include personal guarantees. The loan to value limit is 75% and businesses will typically have at least a 2 year history.

Consumer Loans. We offer consumer loans, most of which consist of home equity loans and home equity lines of credit. Home equity loans and home equity lines of credit are secured by residences located in New Jersey. At June 30, 2008, consumer loans totaled $168.8 million or 3.62% of our total loan portfolio. The underwriting standards we use for home equity loans and home equity lines of credit include a determination of the applicant s credit history, an assessment of the applicant s ability to meet existing credit obligations, the payment on the proposed loan and the value of the collateral securing the loan. The combined (first and second mortgage liens) loan-to-value ratio for home equity loans and home equity lines of credit is generally limited to 80%. Home equity loans are offered with fixed rates of interest, terms up to 30 years and to a maximum of $500,000. Home equity lines of credit have adjustable rates of interest, indexed to the prime rate, as reported in *The Wall Street Journal*.

Loan Originations, Purchases, Sales and Servicing of Loans. Residential mortgage loans are originated through our mortgage subsidiary, ISB Mortgage Co., LLC. During the year ended June 30, 2008 we originated $284.9 million in residential mortgage loans. We also originate multi-family, commercial real estate and construction loans. During the year ended June 30, 2008, we originated $140.0 million in multi-family and commercial real estate loans and $174.1 million in construction loans. As part of our strategic plan to increase our loan portfolio, we retain most of the loans we and ISB Mortgage originate, although ISB Mortgage also sells loans without recourse in the secondary market when the loans it originates do not meet the criteria of our lending policies. During fiscal 2008 we began to retain a portion of the servicing rights pertaining to loans sold in the secondary market. If we are successful in continuing to increase the size of our loan portfolio, we may consider selling more of our residential loan originations in the future. We originate both adjustable-rate and fixed-rate loans and our ability to originate and purchase adjustable-rate or fixed-rate loans depends on customer demand for such loans, which is affected by, among other factors, the current and expected future levels of market interest rates.

We also purchase mortgage loans from correspondent entities including other banks and mortgage bankers. Our agreements call for these correspondent entities to originate loans that adhere to our underwriting standards. In most cases we acquire the loans with servicing rights, but we have some arrangements in which the correspondent entity will sell us the loan without servicing rights. During the year ended June 30, 2008, we purchased $559.8 million of loans from these correspondent entities. We also purchase pools of mortgage loans in the secondary market on a bulk purchase basis from several well-established financial institutions. While some of these financial institutions retain the servicing rights for loans they sell to us, when presented with the opportunity to purchase the servicing rights as part of the loan, we may decide to purchase the servicing rights. This decision is generally based on the price and other relevant factors. During the year ended June 30, 2008, we purchased $436.5 million of loans on a bulk purchase basis.

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The following table shows our loan originations, loan purchases and repayment activities with respect to our portfolio of loans receivable for the periods indicated. Origination, sale and repayment activities with respect to our loans-held-for-sale are excluded from the table.

	For the Years Ended June 30,		
	2008	2007	2006
	(In thousands)		
Loan originations and purchases:			
Loan originations:			
Residential mortgage loans:			
One- to four-family	$ 284,386	$ 159,100	$ 230,930
FHA	483		
Total residential mortgage loans	284,869	159,100	230,930
Multi-family and commercial	139,995	36,862	66,786
Construction loans	174,110	116,250	95,365
Consumer and other loans:			
Home equity loans	34,039	49,214	80,870
Home equity credit lines	21,759	18,442	16,396
Other	2,749	2,852	1,855
Total consumer and other loans	58,547	70,508	99,121
Total loan originations	657,521	382,720	492,202
Loan purchases:			
Residential mortgage loans:			
One- to four-family	995,753	665,166	834,815
FHA	567		
Total loan purchases	996,320	665,166	834,815
Loan principal repayments	(599,547)	(415,886)	(356,976)
Other items, net(1)	(9,142)	(2,436)	(2,655)
Net increase in loan portfolio	$ 1,045,152	$ 629,564	$ 967,390

(1) Other items include charge-offs, loan loss provisions, loans transferred to other real estate owned, and amortization and accretion of deferred fees and costs and discounts and premiums.

We have purchased a significant amount of loans in the prior three years as a means of accomplishing our strategic goal of shifting assets from securities to loans. In future periods, the extent to which we will purchase loans will depend primarily on the volume of originations from our mortgage subsidiary, ISB Mortgage, and the success of our commercial real estate lending operations.

Loan Approval Procedures and Authority. Our lending activities follow written, non-discriminatory underwriting standards and loan origination procedures established by our Board of Directors. In the approval process for residential loans we assess the borrower s ability to repay the loan and the value of the property securing the loan. To assess the borrower s ability to repay, we review the borrower s income and expenses and employment and credit history. In the case of commercial real estate loans we also review projected income, expenses and the viability of the project being financed. We generally require appraisals of all real property securing loans, except for home equity loans and home equity lines of credit, in which case we may use the tax-assessed value of the property securing such loan or a lesser form of valuation, by an approved appraisal company (such as drive-by value estimate). Appraisals are performed by independent licensed appraisers who are approved by our Board of Directors. We require borrowers, except for home equity loans and home equity lines of credit, to obtain title insurance, fire and casualty insurance and, if warranted, flood insurance in amounts at least equal to the principal amount of the loan or the maximum amount available.

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Our loan approval policies and limits are also established by our Board of Directors. All residential mortgage loans including home equity loans and home equity lines of credit up to $100,000 may be approved by loan underwriters, provided the loan meets all of our underwriting guidelines. If the loan does not meet all of our underwriting guidelines, but can be considered for approval because of other compensating factors, the loan must be approved by a senior vice president or an authorized vice president. Residential mortgage loans in excess of $100,000 and up to $750,000 must be approved by a senior vice president or an authorized vice president. Residential mortgage loans in excess of $750,000 and up to $1.25 million must be approved by any two authorized individuals, one of whom must be a senior vice president. Residential mortgage loans in excess of $1.25 million must be approved by three authorized individuals, one of whom must be the President or an executive vice president, and one of whom must be a senior vice president.

All commercial real estate, multi-family and construction loans in an amount up to $1,000,000 may be approved by the Executive Vice President Chief Lending Officer except for loans for which he is the originating loan officer. These loans will require approval of the President, Chief Operating Officer, Chief Financial Officer or the Senior Vice President Residential Lending. All commercial real estate loan requests in excess of $1,000,000 must be approved by the Commercial Real Estate Loan Committee, consisting of the President, Chief Operating Officer, Chief Financial Officer, Senior Vice President Residential Lending and Executive Vice President Chief Lending Officer.

Loans to One Borrower. The Bank s regulatory limit on total loans to any borrower or attributed to any one borrower is 15% of unimpaired capital and surplus. As of June 30, 2008, the regulatory lending limit was $108.4 million. The Bank s internal policy limit is $50.0 million on total loans to a borrower or related borrowers. The Bank reviews these group exposures on a monthly basis. The Bank also sets additional limits on size of loans by loan type. At June 30, 2008, the Bank s largest relationship with an individual borrower and its related entities was $30.5 million, consisting of multi-family and construction loans for residential projects in the State of New Jersey. The borrower is a well-established and experienced residential developer. This relationship was performing in accordance with its terms and conditions as of June 30, 2008.

Asset Quality

One of the Bank s key operating objectives has been, and continues to be, maintaining a high level of asset quality. The Bank maintains sound credit standards for new loan originations and purchases. We do not originate or purchase sub-prime loans, negative amortization loans or option ARM loans. In addition, the Bank uses proactive collection and workout processes in dealing with delinquent and problem loans. These conditions and the fact that the majority of our portfolio is concentrated in one- to four-family mortgages have historically resulted in low delinquency ratios.

Collection Procedures. We send system-generated reminder notices to start collection efforts when a loan becomes fifteen days past due. Subsequent late charge and delinquency notices are sent and the account is monitored on a regular basis thereafter. Direct contact with the borrower is attempted early in the collection process as a courtesy reminder and later to determine the reason for the delinquency and to safeguard our collateral. We provide the Board of Directors with a summary report of loans 30 days or more past due on a monthly basis. When a loan is more than 60 days past due, the credit file is reviewed and, if deemed necessary, information is updated or confirmed and collateral re-evaluated. We make every effort to contact the borrower and develop a plan of repayment to cure the delinquency. Loans are generally placed on non-accrual status when they are more than 90 days delinquent, but may be placed on non-accrual status earlier if the timely collection of principal and/or income is doubtful. When loans are placed on non-accrual status, unpaid accrued interest is fully reserved, and additional income is recognized in the period collected unless the ultimate collection of principal is considered doubtful. If our effort to cure the delinquency fails and a repayment plan is not in place, the file is referred to counsel for commencement of foreclosure or other collection efforts. We also own loans serviced by other entities and we monitor delinquencies on such loans using reports the servicers send to us. When we receive these past due reports, we review the data and contact the servicer to discuss the specific loans and the status of the collection process. We add the information from the servicer s delinquent loan reports to our own delinquent reports and provide a full summary report monthly to our Board of Directors.

Our collection procedure for non mortgage related consumer and other loans includes sending periodic late notices to a borrower once a loan is past due. We attempt to make direct contact with the borrower once a loan becomes 30 days past due. The Collection Manager reviews loans 60 days or more delinquent on a regular basis. If collection activity is unsuccessful after 90 days, we may refer the matter to our legal counsel for further collection efforts or we may charge-off the loan. Non real estate related consumer loans that are considered uncollectible are proposed for charge-off by the Collection Manager on a monthly basis.

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

	Loans Delinquent For					
	60-89 Days		90 Days and Over		Total	
	Number	Amount	Number	Amount	Number	Amount
	(Dollars in thousands)					
At June 30, 2008						
Residential mortgage loans:						
One- to four-family	8	$ 1,608	18	$ 5,060	26	$ 6,668
FHA	1	66	15	1,631	16	1,697
Total residential mortgage loans	9	1,674	33	6,691	42	8,365
Multi-family and commercial			4	1,600	4	1,600
Construction loans	1	10,960			1	10,960
Consumer and other loans						
Home equity loans			3	88	3	88
Home equity credit lines			1	30	1	30
Other	2	2	2	2	4	4
Total consumer and other loans	2	2	6	120	8	122
Total	12	$ 12,636	43	$ 8,411	55	$ 21,047
At June 30, 2007						
Residential mortgage loans:						
One- to four-family	7	$ 628	12	$ 2,220	19	$ 2,848
FHA	2	263	14	1,300	16	1,563
Total residential mortgage loans	9	891	26	3,520	35	4,411
Multi-family and commercial	1	579	3	452	4	1,031
Construction loans			1	1,146	1	1,146
Consumer and other loans						
Home equity loans	1	7	1	28	2	35
Home equity credit lines	3	88			3	88
Other	1	1	4	3	5	4
Total consumer and other loans	5	96	5	31	10	127
Total	15	$ 1,566	35	$ 5,149	50	$ 6,715
At June 30, 2006						

Residential mortgage loans:								
One- to four-family	5	$	626	11	$	1,346	16	$	1,972
FHA	7		682	15		1,440	22		2,122
Total residential mortgage loans	12		1,308	26		2,786	38		4,094
Multi-family and commercial				3		477	3		477
Construction loans									
Consumer and other loans									
Home equity loans				1		6	1		6
Home equity credit lines				1		30	1		30
Other	4		51				4		51
Total consumer and other loans	4		51	2		36	6		87
Total	16	$	1,359	31	$	3,299	47	$	4,658

Non-Performing Assets. The table below sets forth the amounts and categories of our non-performing assets at the dates indicated. At each date, we had no troubled debt restructurings (such as loans for which a portion of interest or principal has been forgiven and loans modified at interest rates materially less than current market rates).

	At June 30,				
	2008(1)	2007	2006	2005	2004
	(Dollars in thousands)				
Non-accrual loans:					
Residential mortgage loans:					
One- to four-family	$ 5,060	$ 2,220	$ 1,346	$ 3,237	$ 3,021
FHA	1,631	1,300	1,440	3,825	5,559
Total residential mortgage loans	6,691	3,520	2,786	7,062	8,580
Multi-family and commercial	1,600	452	477	608	437
Construction loans	10,960	1,146			
Consumer and other loans:					
Home equity loans	88	28	6	193	18
Home equity credit lines	30		30		30
Other	2	3		2	1
Total consumer and other loans	120	31	36	195	49
Total	19,371	5,149	3,299	7,865	9,066
Total non-performing loans	19,371	5,149	3,299	7,865	9,066
Real estate owned					154
Total non-performing assets	$ 19,371	$ 5,149	$ 3,299	$ 7,865	$ 9,220
Total non-performing loans to total loans	0.42%	0.14%	0.11%	0.39%	0.80%
Total non-performing loans to total assets	0.30%	0.09%	0.06%	0.15%	0.17%
Total non-performing assets to total assets	0.30%	0.09%	0.06%	0.15%	0.17%

(1) An $11.0 million construction loan that is 60-89 days delinquent at June 30, 2008 is classified as non-performing.

For the year ended June 30, 2008, interest income that would have been recorded had our non-accruing loans been current in accordance with their original terms amounted to $210,000.

Real Estate Owned. Real estate we acquire as a result of foreclosure or by deed in lieu of foreclosure is classified as real estate owned until sold. When property is acquired it is recorded at fair market value at the date of foreclosure, establishing a new cost basis. Holding costs and declines in fair value result in charges to expense after acquisition. At June 30, 2008 and 2007, we held no real estate owned.

Classified Assets. Federal regulations provide that loans and other assets of lesser quality should be classified as substandard, doubtful or loss assets. An asset is considered substandard if it is inadequately protected by the curren net worth and paying capacity of the obligor or of the collateral pledged, if any. Substandard assets include those characterized by the distinct possibility 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 the weaknesses present make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable. Assets classified as loss are those considered un-collectible and of such little value their continuance as assets without the establishment of a specific loss reserve is not warranted. We classify an asset as special mention if the asset has a potential weakness that warrants management s close attention. While such assets are not impaired, management has concluded that if the potential weakness in the asset is not addressed, the value of the asset may deteriorate, adversely affecting the repayment of the asset.

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We are required to establish an allowance for loan losses in an amount that management considers prudent for loans classified substandard or doubtful, as well as for other problem loans. General allowances represent loss allowances which have been established to recognize the inherent losses associated with lending activities, but which, unlike specific allowances, have not been allocated to particular problem assets. When we classify problem assets as loss, we are required either to establish a specific allowance for losses equal to 100% of the amount of the asset so classified or to charge off such amount. Our determination as to the classification of our assets and the amount of our valuation allowances is subject to review by the New Jersey Department of Banking and Insurance and the Federal Deposit Insurance Corporation, which can require that we establish additional general or specific loss allowances.

We review the loan portfolio on a regular basis to determine whether any loans require classification in accordance with applicable regulations. Not all classified assets constitute non-performing assets.

Impaired Loans. The Company defines an impaired loan as a loan for which it is probable, based on current information, that the lender will not collect all amounts due under the contractual terms of the loan agreement. During the year ended June 30, 2008, the Company changed the population of loans that it considers in its impairment analysis to commercial real estate, multi-family or construction loans with an outstanding balance greater than $3.0 million and on non-accrual status. Smaller balance homogeneous loans evaluated collectively, such as residential mortgage loans and installment loans, are specifically excluded from impaired loans.

Impaired loans are individually assessed to determine that the loan s carrying value is not in excess of the fair value of the collateral or the present value of the expected future cash flows. A valuation allowance is established when it is determined there is a shortfall. At June 30, 2008, loans meeting the Company s definition of an impaired loan totaled $11.0 million. The allowance for loan losses related to loans classified as impaired at June 30, 2008 amounted to $1.5 million. Interest income received during the year on loans classified as impaired was immaterial.

Allowance for Loan Losses

Our allowance for loan losses is maintained at a level necessary to absorb loan losses that are both probable and reasonably estimable. In determining the allowance for loan losses, management considers the losses inherent in our loan portfolio and changes in the nature and volume of loan activities, along with the general economic and real estate market conditions. A description of our methodology in establishing our allowance for loan losses is set forth in the section Management s Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies Allowance for Loan Losses. The allowance for loan losses as of June 30, 2008 was maintained at a level that represents management s best estimate of losses inherent in the loan portfolio. However, this analysis process is subjective, as it requires us to make estimates that are susceptible to revisions as more information becomes available. Although we believe we have established the allowance at levels to absorb probable and estimable losses, future additions may be necessary if economic or other conditions in the future differ from the current environment.

Furthermore, as an integral part of their examination processes, the New Jersey Department of Banking and Insurance and the Federal Deposit Insurance Corporation will periodically review our allowance for loan losses. Such agencies may require us to recognize additions to the allowance based on their judgments of information available to them at the time of their examination.

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Allowance for Loan Losses. The following table sets forth activity in our allowance for loan losses for the periods indicated.

	At or for the Years Ended June 30,				
	2008	2007	2006	2005	2004
	(Dollars in thousands)				
Allowance balance (beginning of period)	$ 6,951	$ 6,369	$ 5,723	$ 5,218	$ 4,781
Provision for loan losses	6,646	729	600	604	594
Charge-offs:					
Residential mortgage loans					
One- to four-family	18			3	18
FHA		141	143	108	276
Total residential mortgage loans	18	141	143	111	294
Multi-family and commercial loans					
Construction loans					
Consumer and other loans	15	10	10	14	12
Total charge-offs	33	151	153	125	306
Recoveries:					
Residential mortgage loans					
One- to four-family				25	28
FHA			196		
Total residential mortgage loans			196	25	28
Multi-family and commercial loans					109
Construction loans					
Consumer and other loans	1	4	3	1	12
Total recoveries	1	4	199	26	149
Net (charge-offs) recoveries	(32)	(147)	46	(99)	(157)
Allowance balance (end of period)	$ 13,565	$ 6,951	$ 6,369	$ 5,723	$ 5,218
Total loans outstanding	$ 4,663,713	$ 3,610,320	$ 2,983,242	$ 2,020,571	$ 1,136,649
Average loans outstanding	4,043,398	3,305,807	2,462,270	1,533,741	926,011
Allowance for loan losses as a percent of total loans outstanding	0.29%	0.19%	0.21%	0.28%	0.46%

Net loans charged off as a percent of average loans outstanding	%	%	%	(0.01)%	(0.02)%
Allowance for loan losses to non-performing loans	70.03%	135.00%	193.06%	72.77%	57.56%

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Allocation of Allowance for Loan Losses. The following table sets forth the allowance for loan losses allocated by loan 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 June 30,					
	2008		2007		2006	
	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)					
End of period allocated to:						
Residential mortgage loans:						
One- to four-family	$ 4,377	85.54%	$ 3,316	87.51%	$ 2,770	89.49%
FHA	208	0.43	128	0.63	140	0.84
Total residential mortgage loans	4,585	85.97%	3,444	88.14%	2,910	90.33%
Multi-family and commercial	1,677	4.83%	956	3.03%	1,591	2.65%
Construction loans	4,836	5.58%	1,896	4.25%	820	2.22%
Consumer and other loans:						
Home equity loans	209	2.99%	208	3.86%	282	3.80%
Home equity credit lines	41	0.59	36	0.66	68	0.94
Other	4	0.04	3	0.06	4	0.06
Total consumer and other loans	254	3.62%	247	4.58%	354	4.80%
Unallocated	2,213		408		694	
Total allowance	$ 13,565	100.00%	$ 6,951	100.00%	$ 6,369	100.00%

	At June 30,			
	2005		2004	
	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)			
End of period allocated to:				

Residential mortgage loans:					
One- to four-family	$	3,763	92.80%	$	2,991	88.79%
FHA		486	1.68		429	4.02
Total residential mortgage loans		4,249	94.48%		3,420	92.81%
Multi-family and commercial		712	0.95%		887	0.73%
Construction loans		28	0.35%		4	0.07%
Consumer and other loans:						
Home equity loans		136	2.26%		89	2.61%
Home equity credit lines		108	1.90		114	3.62
Other		4	0.06		4	0.16
Total consumer and other loans		248	4.22%		207	6.39%
Unallocated		486			700	
Total allowance	$	5,723	100.00%	$	5,218	100.00%

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Security Investments

The Board of Directors has adopted our Investment Policy. This policy determines the types of securities in which we may invest. The Investment Policy is reviewed annually by management and changes to the policy are recommended to and subject to approval by the Board of Directors. The Board of Directors delegates operational responsibility for the implementation of the Investment Policy to the Interest Rate Risk Committee, which is comprised of senior officers. While general investment strategies are developed by the Interest Rate Risk Committee, the execution of specific actions rests primarily with our Chief Financial Officer. He is responsible for ensuring the guidelines and requirements included in the Investment Policy are followed and all securities are considered prudent for investment. He or his designee is authorized to execute transactions that fall within the scope of the established Investment Policy. Investment transactions are reviewed and ratified by the Board of Directors at their regularly scheduled meetings.

Our Investment Policy requires that investment transactions conform to Federal and New Jersey State investment regulations. Our investments include U.S. Treasury obligations, securities issued by various Federal Agencies, mortgage-backed securities, certain certificates of deposit of insured financial institutions, overnight and short-term loans to other banks, investment grade corporate debt instruments, and Fannie Mae and Freddie Mac equity securities. In addition, Investors Bancorp may invest in equity securities subject to certain limitations.

The Investment Policy requires that securities transactions be conducted in a safe and sound manner. Purchase and sale decisions are based upon a thorough analysis of each security to determine it conforms to our overall asset/liability management objectives. The analysis must consider its effect on our risk-based capital measurement, prospects for yield and/or appreciation and other risk factors.

While we currently continue to de-emphasize securities and emphasize loans as assets, securities still represent a significant asset class on our balance sheet. At June 30, 2008, our securities portfolio totaled $1.46 billion representing 22.7% of our total assets. Securities are classified as held-to-maturity or available-for-sale when purchased. At June 30, 2008, $1.26 billion of our securities were classified as held-to-maturity and reported at amortized cost and $203.0 million were classified as available-for-sale and reported at fair value.

Mortgage-Backed Securities. We purchase mortgage-backed pass through and collateralized mortgage obligation (CMO) securities insured or guaranteed by Fannie Mae, Freddie Mac (government-sponsored enterprises) and Ginnie Mae (government agency), private mortgage originators and to a lesser extent, a variety of federal and state housing authorities (collectively referred to below as agency-issued mortgage-backed securities). At June 30, 2008, agency-issued mortgage-backed securities including CMOs, totaled $1.01 billion, or 69.6%, of our total securities portfolio.

Mortgage-backed pass through securities are created by pooling mortgages and issuing a security with an interest rate less than the interest rate on the underlying mortgages. Mortgage-backed pass through securities represent a participation interest in a pool of single-family or multi-family mortgages. As loan payments are made by the borrowers, the principal and interest portion of the payment is passed through to the investor as received. CMOs are also backed by mortgages; however, they differ from mortgage-backed pass through securities because the principal and interest payments of the underlying mortgages are financially engineered to be paid to the security holders of pre-determined classes or tranches of these securities at a faster or slower pace. The receipt of these principal and interest payments which depends on the proposed average life for each class is contingent on a prepayment speed assumption assigned to the underlying mortgages. Variances between the assumed payment speed and actual payments can significantly alter the average lives of such securities. To quantify and mitigate this risk, we undertake a payment analysis before purchasing these securities. We invest in CMO classes or tranches in which the payments on the underlying mortgages are passed along at a pace fast enough to provide an average life of two to four years with no change in market interest rates. The issuers of such securities, as noted above, pool and sell participation interests in security form to investors such as Investors Savings Bank and guarantee the payment of principal and interest. Mortgage-backed securities and CMOs generally yield less than the loans that underlie such securities because of the cost of payment guarantees and credit enhancements. However, mortgage-backed securities are usually more liquid than individual mortgage loans and may be used to collateralize borrowings and other liabilities.

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Mortgage-backed securities present a risk that actual prepayments may differ from estimated prepayments over the life of the security, which may require adjustments to the amortization of any premium or accretion of any discount relating to such instruments that can change the net yield on such securities. There is also reinvestment risk associated with the cash flows from such securities or if such securities are redeemed by the issuer. In addition, the market value of such securities may be adversely affected by changes in interest rates.

Our mortgage-backed securities portfolio had a weighted average yield of 4.18% at June 30, 2008. The estimated fair value of our mortgage-backed securities at June 30, 2008 was $1.20 billion, which is $20.1 million less than the amortized cost of $1.22 billion.

We also invest in securities issued by non-agency or private mortgage originators, provided those securities are rated AAA by nationally recognized rating agencies. At June 30, 2008, securities issued by private mortgage originators had an amortized cost of $206.6 million and a fair value of $196.4 million. These securities were originated in the period 2002-2004 and are performing in accordance with contractual terms. The decrease in the fair value of these securities is attributed to changes in market interest rates.

Corporate and Other Debt Securities. At June 30, 2008, our corporate and other debt securities portfolio totaled $178.7 million representing 12.3% of our total securities portfolio and had a fair value of $135.5 million. This portfolio consists of investment grade collateralize debt obligations (CDOs) backed by pooled trust preferred securities (TruPS), principally issued by banks (81%) and to a lesser extent insurance companies (18%) and real estate investment trusts (1%). At June 30, 2008, this portfolio contained securities with an amortized cost of $13.1 million which had an investment grade rating of AAA and $165.6 million with an investment grade rating of A. The interest rates on these securities reset quarterly in relation to the 3 month Libor rate. These securities have been classified in the held to maturity portfolio since their purchase and the Company has the ability and intent to hold these securities until maturity.

During the last six months of fiscal 2008, the market for CDOs became increasingly illiquid due to negative perceptions about the health of the financial sector in general, and more specifically the financial stability of the underlying issuers. The combination of the illiquidity and the increase in payment deferrals by issuers resulted in a continued decline in the fair value of these securities. We perform extensive analysis to determine our risk associated with these securities. For the CDOs we own, we perform a financial assessment of the approximate one thousand underlying issuing banks. We assess estimated cash flows using historical bank and insurance company default rates and include projected defaults for issuers currently in deferral. We also analyzed stress tested cash flow projections to determine the amount of additional defaults the securities can withstand before there is a break in the principal and interest contractually due to us. These instruments were overcollateralized upon origination to absorb a level of possible future defaults over their anticipated lives. Currently there are 20 issuers deferring payments and three issuers in default within the CDOs we own, which in the aggregate represent 3.8% of the collateral for these instruments. At June 30, 2008, all of our CDOs have projected cash flows in excess of future contractual principal and interest payments.

On May 21, 2008, Fitch Ratings agency placed certain classes of notes across 59 CDOs backed by TruPS, which were issued by banks or insurance companies, on Rating Watch Negative status. As a result of continued credit pressures facing banks that utilized TruPS, on August 14, 2008, Fitch placed certain classes of notes for an additional 43 CDOs backed by TruPS issued by banks on Rating Watch Negative status. In identifying transactions and individual classes of notes to be placed on Rating Watch Negative, Fitch observed that default and deferral activity was evaluated in the context of transaction-specific characteristics such as: available credit enhancement; prepayments and credit risk sales observed to date; obligor and geographic concentration; cash flow redirection mechanisms; and other structural enhancements. The Company owns 23 securities with an amortized cost of $133.9 million and a fair value of $101.2 million which are listed by Fitch Ratings as Rating Watch Negative.

A number of banks that utilized TruPS face a number of negative, yet evolving, credit pressures, however Fitch believes it is premature to resolve the ratings of TruPS currently on Rating Watch Negative status, until such time as greater clarity exists with respect to the likelihood of deferral for those entities currently performing, the likelihood of default for those entities currently in deferral and the recovery rate prospects for those entities currently in default.

Prior to resolving the Rating Watch Negative status, Fitch will undertake a transaction-specific cash flow model analysis, in order to reflect cash flow redirection mechanisms and other structural protections available to note holders. The resolution will also be influenced by continued default/deferral activity, negative credit migration with respect to performing collateral and formalization of Fitch s views with respect to the probability of default for those entities currently in deferral and recovery prospects for those entities currently in default. Depending on the magnitude of credit deterioration, interim downgrades may be made by Fitch prior to the resolution of the Rating Watch Negative status.

We continue to closely monitor the performance of the securities we own as well as the events surrounding this segment of the market. In the event these securities are downgraded below investment grade (BBB) or the projected cash flows are not adequate to meet contractual obligations, the Company will continue to evaluate them for other-than-temporary impairment, which could result in a future non-cash charge to earnings.

Government Sponsored Enterprises. At June 30, 2008, bonds issued by Government Sponsored Enterprises held in our security portfolio totaled $46.7 million representing 3.2% of our total securities portfolio. While these securities may generally provide lower yields than other securities in our securities portfolio, we hold these securities, to the extent appropriate, for liquidity purposes and as collateral for certain borrowings. We invest in these 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 these issuers.

Marketable Equity Securities. At June 30, 2008, we had $6.5 million in equity securities representing 0.4% of our total securities portfolio. Equity securities are not insured or guaranteed investments and are affected by market interest rates and stock market fluctuations. Such investments (when held) are carried at their fair value and fluctuations in the fair value of such investments, including temporary declines in value, directly affect our net capital position.

As part of the merger with Summit Federal, we acquired a $6.0 million mutual fund investment which was deemed other-than-temporarily impaired and written down to fair value through pre-tax charges totaling $651,000 for the year ended June 30, 2008. Management has begun liquidating this investment and future decreases in value will be recorded as incurred.

Securities Portfolios. The following table sets forth the composition of our investment securities portfolios at the dates indicated.

Securities Held-to-Maturity

	At June 30,					
	2008		2007		2006	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
	(In thousands)					
Debt securities:						
Government Sponsored Enterprises	$ 46,703	$ 47,052	$ 131,900	$ 127,370	$ 132,062	$ 125,160
Municipal bonds	10,574	10,773	14,048	14,236	14,177	14,378
Corporate and other debt securities	178,669	135,527	166,074	165,897	130,111	129,739
	235,946	193,352	312,022	307,503	276,350	269,277

Mortgage-backed securities:						
Federal Home Loan Mortgage Corporation	551,708	544,834	684,839	660,478	862,146	825,797
Government National Mortgage Association	5,052	5,322	6,061	6,235	8,263	8,457
Federal National Mortgage Association	354,493	351,003	444,689	430,723	534,679	514,513
Federal housing authorities	2,849	3,077	3,027	3,251	3,189	3,442
Non-agency securities	105,006	100,465	128,284	123,686	150,954	143,413
Total mortgage-backed securities held-to-maturity	1,019,108	1,004,701	1,266,900	1,224,373	1,559,231	1,495,622
Total securities held-to-maturity	$ 1,255,054	$ 1,198,053	$ 1,578,922	$ 1,531,876	$ 1,835,581	$ 1,764,899

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Securities Available-for-Sale

	At June 30,					
	2008		2007		2006	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
	(In thousands)					
Equity securities	$ 6,655	$ 6,514	$ 6,205	$ 5,969	$ 45,010	$ 44,685
Mortgage-backed securities:						
Federal Home Loan Mortgage Corporation	51,256	51,197	68,635	67,223	124,845	120,764
Federal National Mortgage Association	49,393	49,364	70,059	68,856	208,545	201,794
Non-agency securities	101,555	95,957	119,598	115,891	178,446	171,283
Total mortgage-backed securities available for sale	202,204	196,518	258,292	251,970	511,836	493,841
Total securities available-for-sale	$ 208,859	$ 203,032	$ 264,497	$ 257,939	$ 556,846	$ 538,526

At June 30, 2008, we had no investment that had an aggregate book value in excess of 10% of our equity.

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Portfolio Maturities and Yields. The composition and maturities of the securities portfolio at June 30, 2008 are summarized in the following table. Maturities are based on the final contractual payment dates, and do not reflect the impact of prepayments or early redemptions that may occur. State and municipal securities yields have not been adjusted to a tax-equivalent basis.

	One Year or Less		More than One Year through Five Years		More than Five Years through Ten Years		More than Ten Years		Total Securi	
	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Fair Va
					(Dollars in thousands)					
y:										
nsored										
	$	%	$ 43,120	4.26%	$ 3,583	4.72%	$	%	$ 46,703	$ 47
		%	2,765	6.20%	2,679	7.68%	5,130	9.08%	10,574	10
her debt										
		%		%		%	178,669	4.19%	178,669	135
		%	45,885	4.38%	6,262	5.98%	183,799	4.33%	235,946	193
l securities:										
oan										
ation	730	4.00%	16,693	5.82%	268,917	2.44%	265,368	4.57%	551,708	544
onal										
ation		%	1	12.50%	4	10.83%	5,047	7.19%	5,052	5
Mortgage										
		%	3,948	4.25%	161,839	4.68%	188,706	5.08%	354,493	351
housing										
		%	1,695	8.88%	1,154	8.89%		%	2,849	3
rities		%		%	50,394	5.04%	54,612	4.74%	105,006	100
acked										
	730	4.00%	22,337	5.78%	482,308	3.48%	513,733	4.80%	1,019,108	1,004
	$ 730	4.00%	$ 68,222	4.84%	$ 488,570	3.51%	$ 697,532	4.68%	$ 1,255,054	$ 1,198
le:										
	$	%	$	%	$	%	$ 6,655	%	$ 6,655	$ 6
l securities:										
oan										
ation		%		%	7,259	4.00%	43,997	4.68%	51,256	51

Mortgage		%	%	26,528	4.00%	22,865	4.91%	49,393	49
rities		%	%	10,872	5.00%	90,683	4.60%	101,555	95
acked		%	%	44,659	4.24%	157,545	4.67%	202,204	196
	$	% $	% $	44,659	4.24%	$ 164,200	4.52%	$ 208,859	$ 203

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Sources of Funds

General. Deposits, primarily certificates of deposit, have traditionally been the primary source of funds used for our lending and investment activities. In addition, we use a significant amount of borrowings, primarily reverse repurchase agreements from the FHLB and various brokers, to supplement cash flow needs, to lengthen the maturities of liabilities for interest rate risk management and to manage our cost of funds. Additional sources of funds include principal and interest payments from loans and securities, loan and security prepayments and maturities, brokered certificates of deposit, income on other earning assets and retained earnings. While cash flows from loans and securities payments can be relatively stable sources of funds, deposit inflows and outflows can vary widely and are influenced by prevailing interest rates, market conditions and levels of competition.

Deposits. At June 30, 2008, we held $3.97 billion in total deposits, representing 71.0% of our total liabilities. In prior years we emphasized a more wholesale strategy for generating funds, in particular, by offering high cost certificates of deposit. At June 30, 2008, $2.92 billion, or 73.6%, of our total deposit accounts were certificates of deposit. We had no brokered deposits at June 30, 2008. We are attempting to change the mix of our deposits from one focused on attracting certificates of deposit to one focused on core deposits. Although this change has been difficult due to, among other things, the current interest rate environment and customer preferences, we are committed to our plan of attracting more core deposits because core deposits represent a more stable source of low cost funds and are less sensitive to changes in market interest rates. At June 30, 2008, we held $1.05 billion in core deposits, representing 26.4% of total deposits. This is an increase of $99.9 million, or 10.5%, when compared to June 30, 2007, when our core deposits were $947.4 million. We intend to continue to invest in branch staff training and to aggressively market and advertise our core deposit products. We attempt to generate our deposits from a diverse client group within our primary market area. We are focusing on attracting the deposits from municipalities and C&I businesses which operate in our marketplace. We have recently introduced a suite of commercial deposit products, designed to appeal to small business owners and non-profit organizations. The interest rates we pay, our maturity terms, service fees and withdrawal penalties are all reviewed on a periodic basis. Deposit rates and terms are based primarily on our current operating strategies, market rates, liquidity requirements, rates paid by competitors and growth goals. We also rely on personalized customer service, long-standing relationships with customers and an active marketing program to attract and retain deposits.

The flow of deposits is influenced significantly by general economic conditions, changes in money market and other prevailing interest rates and competition. The variety of deposit accounts we offer allows us to respond to changes in consumer demands and to be competitive in obtaining deposit funds. Our ability to attract and maintain deposits and the rates we pay on deposits will continue to be significantly affected by market conditions.

The following table sets forth the distribution of total deposit accounts, by account type, at the dates indicated.

	At June 30,					
	2008			2007		
	Balance	Percent of Total Deposits	Weighted Average Rate	Balance	Percent of Total Deposits	Weighted Average Rate
	(Dollars in thousands)					
Savings	$ 417,196	10.51%	1.96%	$ 358,866	9.52%	2.13%
Checking accounts	401,100	10.10	1.28	406,231	10.78	2.30
Money market deposits	229,018	5.77	2.06	182,274	4.84	2.37

Total transaction accounts	1,047,314	26.38	1.72	947,371	25.14	2.25
Certificates of deposit	2,922,961	73.62	3.71	2,820,817	74.86	5.03
Total deposits	$ 3,970,275	100.00%	3.18%	$ 3,768,188	100.00%	4.33%

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	At June 30, 2006		
	Balance	Percent of Total Deposits	Weighted Average Rate
	(Dollars in thousands)		
Savings	$ 270,924	7.92%	0.80%
Checking	369,030	10.79	1.99
Money market deposits	212,200	6.21	1.56
Total transaction accounts	852,154	24.92	1.51
Certificates of deposit	2,567,207	75.08	4.04
Total deposits	$ 3,419,361	100.00%	3.41%

The following table sets forth, by rate category, the amount of certificates of deposit outstanding as of the dates indicated.

	At June 30,		
	2008	2007	2006
	(Dollars in thousands)		
Certificates of Deposits			
Less than 2%	$ 45,284	$ 18,813	$ 51,315
2.01% - 3.00%	566,007	19,910	118,538
3.01% - 4.00%	1,188,461	441,633	880,661
4.01% - 5.00%	769,010	1,070,531	1,346,248
5.01% - 6.00%	351,730	1,268,741	170,435
Over 6.00%	2,469	1,189	10
Total	$ 2,922,961	$ 2,820,817	$ 2,567,207

The following table sets forth, by rate category, the remaining period to maturity of certificates of deposit outstanding at June 30, 2008.

	Within Three Months	Over Three to Six Months	Over Six Months to One Year	Over One Year to Two Years	Over Two Years to Three Years	Over Three Years	Total
	(Dollars in thousands)						

Certificates of Deposits							
Less than 2%	$ 5,354	$ 2,739	$ 26,202	$ 10,989	$	$	$ 45,284
2.01% - 3.00%	138,171	192,920	207,509	23,010	3,964	433	566,007
3.01% - 4.00%	489,927	154,465	452,742	70,621	5,127	15,579	1,188,461
4.01% - 5.00%	526,612	35,247	91,421	45,670	4,300	65,760	769,010
5.01% - 6.00%	119,186	198,372	17,816	1,134	4,332	10,890	351,730
Over 6.00%	2,469						2,469
Total	$ 1,281,719	$ 583,743	$ 795,690	$ 151,424	$ 17,723	$ 92,662	$ 2,922,961

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As of June 30, 2008 the aggregate amount of outstanding certificates of deposit in amounts greater than or equal to $100,000 was approximately $877.5 million. The following table sets forth the maturity of those certificates as of June 30, 2008.

	At June 30, 2008 (In thousands)
Three months or less	$ 428,309
Over three months through six months	176,442
Over six months through one year	216,172
Over one year	56,620
Total	$ 877,543

Borrowings. We borrow funds under repurchase agreements with the FHLB and various brokers. These agreements are recorded as financing transactions as we maintain effective control over the transferred or pledged securities. The dollar amount of the securities underlying the agreements continues to be carried in our securities portfolio while the obligations to repurchase the securities are reported as liabilities. The securities underlying the agreements are delivered to the party with whom each transaction is executed. Those parties agree to resell to us the identical securities we delivered to them at the maturity or call period of the agreement.

We also borrow directly from the FHLB and various financial institutions. Our FHLB borrowings, frequently referred to as advances, are collateralized by a blanket lien against our residential mortgage portfolio.

The following table sets forth information concerning balances and interest rates on our advances from the FHLB and other financial institutions at the dates and for the periods indicated.

	At or for the Years Ended June 30,		
	2008	2007	2006
	(Dollars in thousands)		
Balance at end of period	$ 563,583	$ 333,710	$ 150,740
Average balance during period	208,866	196,417	107,317
Maximum outstanding at any month end	563,583	333,710	190,255
Weighted average interest rate at end of period	3.50%	5.42%	5.36%
Average interest rate during period	4.41%	5.46%	4.30%

The following table sets forth information concerning balances and interest rates on our securities sold under agreements to repurchase at the dates and for the periods indicated:

	At or for the Years Ended June 30,		
	2008	2007	2006
	(Dollars in thousands)		

Balance at end of period	$ 1,000,000	$ 705,000	$ 1,095,000
Average balance during period	999,663	925,280	1,008,406
Maximum outstanding at any month end	1,109,500	1,095,000	1,160,000
Weighted average interest rate at end of period	4.27%	4.78%	4.69%
Average interest rate during period	4.58%	4.80%	4.03%

Subsidiary Activities

Investors Bancorp, Inc. s only direct subsidiary is Investors Savings Bank. Investors Savings Bank has the following subsidiaries.

ISB Mortgage Company LLC. ISB Mortgage Company LLC is a New Jersey limited liability company that was formed in 2001 for the purpose of originating loans for sale to both Investors Savings Bank and third parties. In recent years, as Investors Savings Bank has increased its emphasis on the origination of loans, ISB Mortgage

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Company LLC has served as Investors Savings Bank s retail lending production arm throughout the branch network.

ISB Mortgage Company LLC sells all loans that it originates either to Investors Savings Bank or third parties.

ISB Asset Corporation. ISB Asset Corporation is a New Jersey corporation which was formed in 1997 for the sole purpose of acquiring mortgage loans and mortgage-backed securities from Investors Savings Bank, operated as a real estate investment trust (REIT) though December 2006. During fiscal 2008, the REIT was liquidated and its assets were transferred to the Bank.

ISB Holdings, Inc. ISB Holdings, Inc. is a New Jersey corporation, which is the 100% owner of ISB Asset Corporation.

Investors Savings Bank has two additional subsidiaries which are inactive.

Personnel

As of June 30, 2008, we had 519 full-time employees and 52 part-time employees. The employees are not represented by a collective bargaining unit and we consider our relationship with our employees to be good.

SUPERVISION AND REGULATION

General

Investors Savings Bank is a New Jersey-chartered savings bank, and its deposit accounts are insured up to applicable limits by the Federal Deposit Insurance Corporation (FDIC) under the Deposit Insurance Fund (DIF). Investors Savings Bank is subject to extensive regulation, examination and supervision by the Commissioner of the New Jersey Department of Banking and Insurance (the Commissioner) as the issuer of its charter, and by the FDIC as the deposit insurer and its primary federal regulator. Investors Savings Bank must file reports with the Commissioner and the FDIC concerning its activities and financial condition, and it must obtain regulatory approval prior to entering into certain transactions, such as mergers with, or acquisitions of, other depository institutions and opening or acquiring branch offices. The Commissioner and the FDIC conduct periodic examinations to assess Investors Savings Bank s compliance with various regulatory requirements. This regulation and supervision establishes a comprehensive framework of activities in which a savings bank may engage and is intended primarily for the protection of the deposit insurance fund and depositors. The regulatory structure also gives the regulatory authorities extensive discretion in connection with their supervisory and enforcement activities and examination policies, including policies with respect to the classification of assets and the establishment of adequate loan loss reserves for regulatory purposes.

Investors Bancorp, Inc., as a bank holding company controlling Investors Savings Bank, is subject to the Bank Holding Company Act of 1956, as amended (BHCA), and the rules and regulations of the Federal Reserve Board under the BHCA and to the provisions of the New Jersey Banking Act of 1948 (the New Jersey Banking Act) and the regulations of the Commissioner under the New Jersey Banking Act applicable to bank holding companies. Investors Savings Bank and Investors Bancorp, Inc. are required to file reports with, and otherwise comply with the rules and regulations of, the Federal Reserve Board, the Commissioner and the FDIC. The Federal Reserve Board and the Commissioner conduct periodic examinations to assess the Company s compliance with various regulatory requirements. Investors Bancorp, Inc. files certain reports with, and otherwise complies with, the rules and regulations of the Securities and Exchange Commission under the federal securities laws and the listing requirements of NASDAQ.

Any change in such laws and regulations, whether by the Commissioner, the FDIC, the Federal Reserve Board or through legislation, could have a material adverse impact on Investors Savings Bank and Investors Bancorp, Inc. and their operations and stockholders.

Some of the laws and regulations applicable to Investors Savings Bank and Investors Bancorp, Inc. are summarized below or elsewhere in this Form 10-K. These summaries do not purport to be complete and are qualified in their entirety by reference to such laws and regulations.

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New Jersey Banking Regulation

Activity Powers. Investors Savings Bank derives its lending, investment and other powers primarily from the applicable provisions of the New Jersey Banking Act and its related regulations. Under these laws and regulations, savings banks, including Investors Savings Bank, generally may invest in:

- real estate mortgages;
- consumer and commercial loans;
- specific types of debt securities, including certain corporate debt securities and obligations of federal, state and local governments and agencies;
- certain types of corporate equity securities; and
- certain other assets.

A savings bank may also invest pursuant to a leeway power that permits investments not otherwise permitted by the New Jersey Banking Act, subject to certain restrictions imposed by the FDIC. Leeway investments must comply with a number of limitations on the individual and aggregate amounts of leeway investments. A savings bank may also exercise trust powers upon approval of the Commissioner. New Jersey savings banks may exercise those powers, rights, benefits or privileges authorized for national banks or out-of-state banks or for federal or out-of-state savings banks or savings associations, provided that before exercising any such power, right, benefit or privilege, prior approval by the Commissioner by regulation or by specific authorization is required. The exercise of these lending, investment and activity powers are limited by federal law and the related regulations. See Federal Banking Regulation Activity Restrictions on State-Chartered Banks below.

Loans-to-One-Borrower Limitations. With certain specified exceptions, a New Jersey-chartered savings bank may not make loans or extend credit to a single borrower or to entities related to the borrower in an aggregate amount that would exceed 15% of the bank s capital funds. A savings bank may lend an additional 10% of the bank s capital funds if secured by collateral meeting the requirements of the New Jersey Banking Act. Investors Savings Bank currently complies with applicable loans-to-one-borrower limitations.

Dividends. Under the New Jersey Banking Act, a stock savings bank may declare and pay a dividend on its capital stock only to the extent that the payment of the dividend would not impair the capital stock of the savings bank. In addition, a stock savings bank may not pay a dividend unless the savings bank would, after the payment of the dividend, have a surplus of not less than 50% of its capital stock, or alternatively, the payment of the dividend would not reduce the surplus. Federal law may also limit the amount of dividends that may be paid by Investors Savings Bank. See Federal Banking Regulation Prompt Corrective Action below.

Minimum Capital Requirements. Regulations of the Commissioner impose on New Jersey-chartered depository institutions, including Investors Savings Bank, minimum capital requirements similar to those imposed by the FDIC on insured state banks. See Federal Banking Regulation Capital Requirements.

Examination and Enforcement. The New Jersey Department of Banking and Insurance may examine Investors Savings Bank whenever it deems an examination advisable. The Department examines Investors Savings Bank at least every two years. The Commissioner may order any savings bank to discontinue any violation of law or unsafe or unsound business practice, and may direct any director, officer, attorney or employee of a savings bank engaged in an objectionable activity, after the Commissioner has ordered the activity to be terminated, to show cause at a hearing before the Commissioner why such person should not be removed.

Federal Banking Regulation

Capital Requirements. FDIC regulations require banks to maintain minimum levels of capital. The FDIC regulations define two tiers, or classes, of capital.

Tier 1 capital is comprised of the sum of:

- common stockholders equity, excluding the unrealized appreciation or depreciation, net of tax, from available for sale securities;

non-cumulative perpetual preferred stock, including any related retained earnings; and

minority interests in consolidated subsidiaries minus all intangible assets, other than qualifying servicing rights and any net unrealized loss on marketable equity securities.

The components of Tier 2 capital currently include:

cumulative perpetual preferred stock;

certain perpetual preferred stock for which the dividend rate may be reset periodically;

hybrid capital instruments, including mandatory convertible securities;

term subordinated debt;

intermediate term preferred stock;

allowance for loan losses; and

up to 45% of pretax net unrealized holding gains on available for sale equity securities with readily determinable fair market values.

The allowance for loan losses includible in Tier 2 capital is limited to a maximum of 1.25% of risk-weighted assets (as discussed below). Overall, the amount of Tier 2 capital that may be included in total capital cannot exceed 100% of Tier 1 capital. The FDIC regulations establish a minimum leverage capital requirement for banks in the strongest financial and managerial condition, with a rating of 1 (the highest examination rating of the FDIC for banks) under the Uniform Financial Institutions Rating System, of not less than a ratio of 3.0% of Tier 1 capital to total assets. For all other banks, the minimum leverage capital requirement is 4.0%, unless a higher leverage capital ratio is warranted by the particular circumstances or risk profile of the depository institution.

The FDIC regulations also require that banks meet a risk-based capital standard. The risk-based capital standard requires the maintenance of a ratio of total capital, which is defined as the sum of Tier 1 capital and Tier 2 capital, to risk-weighted assets of at least 8% and a ratio of Tier 1 capital to risk-weighted assets of at least 4%. In determining the amount of risk-weighted assets, all assets, plus certain off balance sheet items, are multiplied by a risk-weight of 0% to 100%, based on the risks the FDIC believes are inherent in the type of asset or item.

The federal banking agencies, including the FDIC, have also adopted regulations to require an assessment of an institution s exposure to declines in the economic value of a bank s capital due to changes in interest rates when assessing the bank s capital adequacy. Under such a risk assessment, examiners evaluate a bank s capital for interest rate risk on a case-by-case basis, with consideration of both quantitative and qualitative factors. Institutions with significant interest rate risk may be required to hold additional capital. According to the agencies, applicable considerations include:

the quality of the bank s interest rate risk management process;

the overall financial condition of the bank; and

the level of other risks at the bank for which capital is needed.

The following table shows Investors Savings Bank s Total capital, Tier 1 risk-based capital, and Total risk-based capital ratios as of June 30, 2008:

	As of June 30, 2008	
	Capital	Percent of Assets(1)
	(Dollars in thousands)	
Total capital	$ 727,463	11.93%
Tier 1 risk-based capital	$ 727,463	21.37%
Total risk-based capital	$ 741,028	21.77%

(1) For purposes of calculating Total capital, assets are based on adjusted total average assets. In calculating Tier 1 risk-based capital and Total risk-based capital, assets are based on total risk-weighted assets.

As of June 30, 2008, Investors Savings Bank was considered well capitalized under FDIC guidelines.

Activity Restrictions on State-Chartered Banks. Federal law and FDIC regulations generally limit the activities and investments of state-chartered FDIC insured banks and their subsidiaries to those permissible for national banks and their subsidiaries, unless such activities and investments are specifically exempted by law or consented to by the FDIC.

Before making a new investment or engaging in a new activity that is not permissible for a national bank or otherwise permissible under federal law or FDIC regulations, an insured bank must seek approval from the FDIC to make such investment or engage in such activity. The FDIC will not approve the activity unless the bank meets its minimum capital requirements and the FDIC determines that the activity does not present a significant risk to the FDIC insurance funds. Certain activities of subsidiaries that are engaged in activities permitted for national banks only through a financial subsidiary are subject to additional restrictions.

Federal law permits a state-chartered savings bank to engage, through financial subsidiaries, in any activity in which a national bank may engage through a financial subsidiary and on substantially the same terms and conditions. In general, the law permits a national bank that is well-capitalized and well-managed to conduct, through a financial subsidiary, any activity permitted for a financial holding company other than insurance underwriting, insurance investments, real estate investment or development or merchant banking. The total assets of all such financial subsidiaries may not exceed the lesser of 45% of the bank s total assets or $50 billion. The bank has policies and procedures to assess the financial subsidiary s risk and protect the bank from such risk and potential liability, must not consolidate the financial subsidiary s assets with the bank s and must exclude from its own assets and equity all equity investments, including retained earnings, in the financial subsidiary. State-chartered savings banks may retain subsidiaries in existence as of March 11, 2000 and may engage in activities that are not authorized under federal law. Although Investors Savings Bank meets all conditions necessary to establish and engage in permitted activities through financial subsidiaries, it has not yet determined whether or the extent to which it will seek to engage in such activities.

Federal Home Loan Bank System. Investors Savings Bank is a member of the Federal Home Loan Bank (FHLB) system, which consists of twelve regional Federal Home Loan Banks, each subject to supervision and regulation by the Federal Housing Finance Board (FHFB). The Federal Home Loan Banks provide a central credit facility primarily for member thrift institutions as well as other entities involved in home mortgage lending. It is funded primarily from proceeds derived from the sale of consolidated obligations of the Federal Home Loan Banks. The Federal Home Loan Banks make loans to members (i.e., advances) in accordance with policies and procedures, including collateral requirements, established by the respective Boards of Directors of the Federal Home Loan Banks. These policies and procedures are subject to the regulation and oversight of the FHFB. All long-term advances are required to provide funds for residential home financing. The FHFB has also established standards of community or investment service that members must meet to maintain access to such long-term advances.

Investors Savings Bank, as a member of the FHLB is currently required to acquire and hold shares of FHLB Class B stock. The Class B stock has a par value of $100 per share and is redeemable upon five years notice, subject to certain conditions. The Class B stock has two subclasses, one for membership stock purchase requirements and the other for activity-based stock purchase requirements. The minimum stock investment requirement in the FHLB Class B stock is the sum of the membership stock purchase requirement, determined on an annual basis at the end of each calendar year, and the activity-based stock purchase requirement, determined on a daily basis. For Investors Savings Bank, the membership stock purchase requirement is 0.2% of the Mortgage-Related Assets, as defined by the FHLB, which consists principally of residential mortgage loans and mortgage-backed securities, including CMOs, held by Investors Savings Bank. The activity-based stock purchase requirement for Investors Savings Bank is equal to the sum of:

(1) 4.5% of outstanding borrowing from the FHLB; (2) 4.5% of the outstanding principal balance of Acquired Member Assets, as defined by the FHLB, and delivery commitments for Acquired Member Assets; (3) a specified dollar amount related to certain off-balance sheet items, for which Investors Savings Bank is zero; and (4) a specified percentage ranging from 0 to 5% of the carrying value on the FHLB balance sheet of derivative contracts between the FHLB and its members, which for Investors Savings Bank is also zero. The FHLB

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can adjust the specified percentages and dollar amount from time to time within the ranges established by the FHLB capital plan. At June 30, 2008, the amount of FHLB stock held by us satisfies these requirements.

Enforcement. The FDIC has extensive enforcement authority over insured savings banks, including Investors Savings Bank. This enforcement authority includes, among other things, the ability to assess civil money penalties, to issue cease and desist orders and to remove directors and officers. In general, these enforcement actions may be initiated in response to violations of laws and regulations and to unsafe or unsound practices.

Prompt Corrective Action. The Federal Deposit Insurance Corporation Improvement Act also established a system of prompt corrective action to resolve the problems of undercapitalized institutions. The FDIC, as well as the other federal banking regulators, adopted regulations governing the supervisory actions that may be taken against undercapitalized institutions. The regulations establish five categories, consisting of well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized. The FDIC s regulations define the five capital categories as follows:

An institution will be treated as well capitalized if:

its ratio of total capital to risk-weighted assets is at least 10%;

its ratio of Tier 1 capital to risk-weighted assets is at least 6%; and

its ratio of Tier 1 capital to total assets is at least 5%, and it is not subject to any order or directive by the FDIC to meet a specific capital level.

An institution will be treated as adequately capitalized if:

its ratio of total capital to risk-weighted assets is at least 8%; or

its ratio of Tier 1 capital to risk-weighted assets is at least 4%; and

its ratio of Tier 1 capital to total assets is at least 4% (3% if the bank receives the highest rating under the Uniform Financial Institutions Rating System) and it is not a well-capitalized institution.

An institution will be treated as undercapitalized if:

its total risk-based capital is less than 8%; or

its Tier 1 risk-based-capital is less than 4%; and

its leverage ratio is less than 4%.

An institution will be treated as significantly undercapitalized if:

its total risk-based capital is less than 6%;

its Tier 1 capital is less than 3%; or

its leverage ratio is less than 3%.

An institution that has a tangible capital to total assets ratio equal to or less than 2% would be deemed to be critically undercapitalized.

The FDIC is required, with some exceptions, to appoint a receiver or conservator for an insured state bank if that bank is critically undercapitalized. For this purpose, critically undercapitalized means having a ratio of tangible capital to total assets of less than 2%. The FDIC may also appoint a conservator or receiver for a state bank on the basis of the institution s financial condition or upon the occurrence of certain events, including:

insolvency, or when a assets of the bank are less than its liabilities to depositors and others;

substantial dissipation of assets or earnings through violations of law or unsafe or unsound practices;

existence of an unsafe or unsound condition to transact business;

likelihood that the bank will be unable to meet the demands of its depositors or to pay its obligations in the normal course of business; and insufficient capital, or the incurring or likely incurring of losses that will deplete substantially all of the institution s capital with no reasonable prospect of replenishment of capital without federal assistance.

Investors Savings Bank is in compliance with the Prompt Corrective Action rules.

Deposit Insurance. The FDIC merged the Savings Association Insurance Fund and the Bank Insurance Fund to create the DIF on March 31, 2006. Investors Savings Bank is a member of the DIF and pays its deposit insurance assessments to the DIF.

Effective January 1, 2007, the FDIC established a new risk-based assessment system for determining the deposit insurance assessments to be paid by insured depository institutions. Under this new assessment system, the FDIC assigns an institution to one of four risk categories, with the first category having two sub-categories, based on the institution s most recent supervisory ratings and capital ratios. Base assessment rates range from two to four basis points for Risk Category I institutions and are seven basis points for Risk Category II institutions, twenty-five basis points for Risk Category III institutions and forty basis points for Risk Category IV institutions. For institutions within Risk Category I, assessment rates generally depend upon a combination of CAMELS (capital adequacy, asset quality, management, earnings, liquidity, sensitivity to market risk) component ratings and financial ratios, or for large institutions with long-term debt issuer ratings, assessment rates depend on a combination of long-term debt issuer ratings and CAMELS component ratings. The FDIC has the flexibility to adjust rates, without further notice-and-comment rulemaking, provided that no such adjustment can be greater than three basis points from one quarter to the next, that adjustments cannot result in rates more than three basis points above or below the base rates and that rates cannot be negative. Effective January 1, 2007, the FDIC set the assessment rates at three basis points above the base rates. Therefore, assessment rates currently range from five to forty-three basis points of deposits. As of March 31, 2008, Investors Savings Bank had an assessment rate of 5.21 basis points. From 1997 through 2006, under the previous risk-based assessment system, Investors Savings Bank had an assessment rate of 0 basis points.

The deposit insurance assessment rates are in addition to the assessments for payments on the bonds issued in the late 1980s by the Financing Corporation, or FICO, to recapitalize the now defunct Federal Savings and Loan Insurance Corporation. The FICO payments will continue until the FICO bonds mature in 2017 through 2019. Our total expense for the assessment of deposit insurance and the FICO payments was $445,000 for the year ended June 30, 2008 and $451,000 for the year ended June 30, 2007. The FDIC also established 1.25% of estimated insured deposits as the designated reserve ratio of the DIF. The FDIC is authorized to change the assessment rates as necessary, subject to the previously discussed limitations, to maintain the required reserve ratio of 1.25%.

The FDIC also approved a One-Time Assessment Credit to institutions that were in existence on December 31, 1996 and paid deposit insurance assessments prior to that date, or are a successor to such an institution. The Bank received a $2.8 million One-Time Assessment Credit, most of which was used to offset substantially all of our deposit insurance assessment, excluding the FICO payments, for the period from January 1, 2007 through June 30, 2008. The remaining credit as of June 30, 2008 is $252,000 and can be used to offset up to 90% of the deposit insurance assessments after that date. We expect that our FDIC assessment could be substantially higher in future periods once our credit is exhausted.

Transactions with Affiliates of Investors Savings Bank. Transactions between an insured bank, such as Investors Savings Bank, and any of its affiliates are governed by Sections 23A and 23B of the Federal Reserve Act and implementing regulations. An affiliate of a bank is any company or entity that controls, is controlled by or is under common control with the bank. Generally, a subsidiary of a bank that is not also a depository institution or financial subsidiary is not treated as an affiliate of the bank for purposes of Sections 23A and 23B.

Section 23A:

- limits the extent to which a bank or its subsidiaries may engage in covered transactions with any one affiliate to an amount equal to 10% of such bank s capital stock and retained earnings, and limits all such transactions with all affiliates to an amount equal to 20% of such capital stock and retained earnings; and

- requires that all such transactions be on terms that are consistent with safe and sound banking practices.

The term covered transaction includes the making of loans, purchase of assets, issuance of guarantees and other similar types of transactions. Further, most loans by a bank to any of its affiliates must be secured by collateral

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in amounts ranging from 100% to 130% of the loan amounts. In addition, any covered transaction by a bank with an affiliate and any purchase of assets or services by a bank from an affiliate must be on terms that are substantially the same, or at least as favorable to the bank, as those that would be provided to a non-affiliate.

Prohibitions Against Tying Arrangements. Banks are subject to the prohibitions of 12 U.S.C. Section 1972 on certain tying arrangements. A depository institution is prohibited, subject to some exceptions, from extending credit to or offering any other service, or fixing or varying the consideration for such extension of credit or service, on the condition that the customer obtain some additional service from the institution or its affiliates or not obtain services of a competitor of the institution.

Privacy Standards. FDIC regulations require Investors Savings Bank to disclose their privacy policy, including identifying with whom they share non-public personal information, to customers at the time of establishing the customer relationship and annually thereafter.

In addition, Investors Savings Bank is required to provide its customers with the ability to opt-out of having Investors Savings Bank share their non-public personal information with unaffiliated third parties before they can disclose such information, subject to certain exceptions.

The FDIC and other federal banking agencies adopted guidelines establishing standards for safeguarding customer information. The guidelines describe the agencies expectations for the creation, implementation and maintenance of an information security program, which would include administrative, technical and physical safeguards appropriate to the size and complexity of the institution and the nature and scope of its activities. The standards set forth in the guidelines are intended to insure the security and confidentiality of customer records and information, protect against any anticipated threats or hazards to the security or integrity of such records and protect against unauthorized access to or use of such records or information that could result in substantial harm or inconvenience to any customer.

Community Reinvestment Act and Fair Lending Laws. All FDIC insured institutions have a responsibility under the Community Reinvestment Act and related regulations to help meet the credit needs of their communities, including low- and moderate-income neighborhoods. In connection with its examination of a state chartered savings bank, the FDIC is required to assess the institution s record of compliance with the Community Reinvestment Act. Among other things, the current Community Reinvestment Act regulations replace the prior process-based assessment factors with a new evaluation system that rates an institution based on its actual performance in meeting community needs. In particular, the current evaluation system focuses on three tests:

a lending test, to evaluate the institution s record of making loans in its service areas;

an investment test, to evaluate the institution s record of investing in community development projects, affordable housing, and programs benefiting low or moderate income individuals and businesses; and

a service test, to evaluate the institution s delivery of services through its branches, ATMs and other offices.

An institution s failure to comply with the provisions of the Community Reinvestment Act could, at a minimum, result in regulatory restrictions on its activities. Investors Savings Bank received an outstanding Community Reinvestment Act rating in our most recently completed federal examination, which was conducted by the FDIC in June 2008.

In addition, the Equal Credit Opportunity Act and the Fair Housing Act prohibit lenders from discriminating in their lending practices on the basis of characteristics specified in those statutes. The failure to comply with the Equal Credit Opportunity Act and the Fair Housing Act could result in enforcement actions by the FDIC, as well as other federal regulatory agencies and the Department of Justice.

Loans to a Bank s Insiders

Federal Regulation. A bank s loans to its executive officers, directors, any owner of 10% or more of its stock (each, an insider) and any of certain entities affiliated with any such persons (an insider s related interest) are subject to the conditions and limitations imposed by Section 22(h) of the Federal Reserve Act and its implementing regulations. Under these restrictions, the aggregate amount of the loans to any insider and the insider s related interests may not exceed the loans-to-one-borrower limit applicable to national banks, which is comparable to the loans-to-one-borrower limit applicable to Investors Savings Bank. See New Jersey Banking Regulation Loans-to-One Borrower Limitations. All loans by a bank to all insiders and insiders related interests in the aggregate may not exceed the bank s unimpaired capital and unimpaired surplus. With certain exceptions, loans to an executive officer, other than loans for the education of the officer s children and certain loans secured by the officer s residence, may not exceed the lesser of (1) $100,000 or (2) the greater of $25,000 or 2.5% of the bank s unimpaired capital and surplus. Federal regulation also requires that any proposed loan to an insider or a related interest of that insider be approved in advance by a majority of the board of directors of the bank, with any interested directors not participating in the voting, if such loan, when aggregated with any existing loans to that insider and the insider s related interests, would exceed either (1) $500,000 or (2) the greater of $25,000 or 5% of the bank s unimpaired capital and surplus.

Generally, loans to insiders must be made on substantially the same terms as, and follow credit underwriting procedures that are not less stringent than, those that are prevailing at the time for comparable transactions with other persons. An exception is made for extensions of credit made pursuant to a benefit or compensation plan of a bank that is widely available to employees of the bank and that does not give any preference to insiders of the bank over other employees of the bank.

In addition, federal law prohibits extensions of credit to a bank s insiders and their related interests by any other institution that has a correspondent banking relationship with the bank, unless such extension of credit is on substantially the same terms as those prevailing at the time for comparable transactions with other persons and does not involve more than the normal risk of repayment or present other unfavorable features.

New Jersey Regulation. Provisions of the New Jersey Banking Act impose conditions and limitations on the liabilities to a savings bank of its directors and executive officers and of corporations and partnerships controlled by such persons that are comparable in many respects to the conditions and limitations imposed on the loans and extensions of credit to insiders and their related interests under federal law, as discussed above. The New Jersey Banking Act also provides that a savings bank that is in compliance with federal law is deemed to be in compliance with such provisions of the New Jersey Banking Act.

Federal Reserve System

The Federal Reserve Board regulations require all depository institutions to maintain non interest-earning reserves at specified levels against their transaction accounts (primarily NOW and regular checking accounts). At June 30, 2008, Investors Savings Bank was in compliance with the Federal Reserve Board s reserve requirements. Savings banks, such as Investors Savings Bank, are authorized to borrow from the Federal Reserve Bank discount window. Investors Savings Bank is deemed by the Federal Reserve Board to be generally sound and thus is eligible to obtain primary credit from its Federal Reserve Bank. Generally, primary credit is extended on a very short-term basis to meet the liquidity needs of an institution. Loans must be secured by acceptable collateral and carry a rate of interest of 100 basis points above the Federal Open Market Committee s federal funds target rate.

Interagency Guidance on Nontraditional Mortgage Product Risks. On October 4, 2006, the FDIC and other federal bank regulatory authorities published the Interagency Guidance on Nontraditional Mortgage Product Risks, or the Guidance. The Guidance describes sound practices for managing risk, as well as marketing, originating and servicing nontraditional mortgage products, which include, among other things, interest only loans. The Guidance sets forth supervisory expectations with respect to loan terms and underwriting standards, portfolio and risk management practices and consumer protection. For example, the Guidance indicates that originating interest only loans with reduced documentation is considered a layering of risk and that institutions are expected to demonstrate mitigating factors to support their underwriting decision and the borrower s repayment capacity. Specifically, the Guidance indicates that a lender may accept a borrower s statement as to the borrower s income without obtaining verification only if there are mitigating factors that clearly minimize the need for direct verification of repayment capacity and that, for many borrowers, institutions should be able to readily document income.

On June 29, 2007, the FDIC and other federal bank regulatory agencies issued a final Statement on Subprime Mortgage Lending (the Statement) to address the growing concerns facing the sub-prime mortgage market, particularly with respect to rapidly rising sub-prime default rates that may indicate borrowers do not have the ability to repay adjustable-rate sub-prime loans originated by financial institutions. In particular, the agencies express concern in the Statement that current underwriting practices do not take into account that many subprime borrowers are not prepared for payment shock and that the current subprime lending practices compound risk for financial institutions. The Statement describes the prudent safety and soundness and consumer protection standards that financial institutions should follow to ensure borrowers obtain loans that they can afford to repay. These standards include a fully indexed, fully amortized qualification for borrowers and cautions on risk-layering features, including an expectation that stated income and reduced documentation should be accepted only if there are documented mitigating factors that clearly minimize the need for verification of a borrower s repayment capacity. Consumer protection standards include clear and balanced product disclosures to customers and limits on prepayment penalties that allow for a reasonable period of time, typically at least 60 days, for borrowers to refinance prior to the expiration of the initial fixed interest rate period without penalty. The Statement also reinforces the April 17, 2007 Interagency Statement on Working with Mortgage Borrowers, in which the federal bank regulatory agencies encouraged institutions to work constructively with residential borrowers who are financially unable or reasonably expected to be unable to meet their contractual payment obligations on their home loans.

We originate and purchase interest only loans. We do not originate or purchase sub-prime loans, negative amortization loans or option ARM loans. At June 30, 2008, our mortgage loan portfolio included approximately $450.0 million of interest only loans, all of which were one- to four-family loans.

The USA Patriot Act

The USA PATRIOT Act was signed into law on October 26, 2001. The USA PATRIOT Act gives the federal government powers to address terrorist threats through enhanced domestic security measures, expanded surveillance powers, increased information sharing, and broadened anti-money laundering requirements. By way of amendments to the Bank Secrecy Act, Title III of the USA PATRIOT Act included measures intended to encourage information sharing among bank regulatory agencies and law enforcement bodies. Further, certain provisions of Title III imposed affirmative obligations on a broad range of financial institutions, including banks, thrifts, brokers, dealers, credit unions, money transfer agents and parties registered under the Commodity Exchange Act.

The bank regulatory agencies have increased the regulatory scrutiny of the Bank Secrecy Act and anti-money laundering programs maintained by financial institutions. Significant penalties and fines, as well as other supervisory orders may be imposed on a financial institution for non-compliance with these requirements. In addition, the federal bank regulatory agencies must consider the effectiveness of financial institutions engaging in a merger transaction in combating money laundering activities. The Bank has adopted policies and procedures which are in compliance with these requirements.

Sarbanes-Oxley Act of 2002

The Sarbanes-Oxley Act of 2002 was enacted to address, among other issues, corporate governance, auditing and accounting, executive compensation, and enhanced and timely disclosure of corporate information. Under Section 302(a) of the Sarbanes-Oxley Act, our Chief Executive Officer and Chief Financial Officer are required to certify that our quarterly and annual reports filed with the Securities and Exchange Commission do not contain any untrue statement of a material fact. Rules promulgated under the Sarbanes-Oxley Act require that these officers certify that: they are responsible for establishing, maintaining and regularly evaluating the effectiveness of our internal controls; they have made certain disclosures to our auditors and the audit committee of the Board of Directors about our internal controls; and they have included information in our quarterly and annual reports about their evaluation and whether there have been significant changes in our internal controls or in other factors that could significantly affect internal controls. Investors Bancorp, Inc. is required to report under Section 404 of the Sarbanes-Oxley Act beginning with the fiscal year ending June 30, 2008. Investors Bancorp, Inc. has existing policies, procedures and systems designed to comply with these regulations, and is further enhancing and documenting such policies, procedures and systems to ensure continued compliance with these regulations.

Holding Company Regulation

Federal Regulation. Bank holding companies, like Investors Bancorp, Inc., are subject to examination, regulation and periodic reporting under the Bank Holding Company Act, as administered by the Federal Reserve Board. The Federal Reserve Board has adopted capital adequacy guidelines for bank holding companies on a consolidated basis substantially similar to those of the FDIC for Investors Savings Bank. As of June 30, 2008, Investors Bancorp, Inc. s total capital and Tier 1 capital ratios exceeded these minimum capital requirements. See Regulatory Capital Compliance.

Regulations of the Federal Reserve Board provide that a bank holding company must serve as a source of strength to any of its subsidiary banks and must not conduct its activities in an unsafe or unsound manner. Under the prompt corrective action provisions of the Federal Deposit Insurance Act, a bank holding company parent of an undercapitalized subsidiary bank would be directed to guarantee, within limitations, the capital restoration plan that is required of an undercapitalized bank. See Federal Banking Regulation Prompt Corrective Action. If an undercapitalized bank fails to file an acceptable capital restoration plan or fails to implement an accepted plan, the Federal Reserve Board may prohibit the bank holding company parent of the undercapitalized bank from paying any dividend or making any other form of capital distribution without the prior approval of the Federal Reserve Board.

As a bank holding company, Investors Bancorp, Inc. is required to obtain the prior approval of the Federal Reserve Board to acquire all, or substantially all, of the assets of any bank or bank holding company. Prior Federal Reserve Board approval will be required for Investors Bancorp, Inc. to acquire direct or indirect ownership or control of any voting securities of any bank or bank holding company if, after giving effect to such acquisition, it would, directly or indirectly, own or control more than 5% of any class of voting shares of such bank or bank holding company.

A bank holding company is required to give the Federal Reserve Board prior written notice of any purchase or redemption of its outstanding equity securities if the gross consideration for the purchase or redemption, when combined with the net consideration paid for all such purchases or redemptions during the preceding 12 months, will be equal to 10% or more of the company s consolidated net worth. The Federal Reserve Board may disapprove such a purchase or redemption if it determines that the proposal would constitute an unsafe and unsound practice, or would violate any law, regulation, Federal Reserve Board order or directive, or any condition imposed by, or written agreement with, the Federal Reserve Board. Such notice and approval is not required for a bank holding company that would be treated as well capitalized under applicable regulations of the Federal Reserve Board, that has received a composite 1 or 2 rating, as well as a satisfactory rating for management, at its most recent bank holding company examination by the Federal Reserve Board, and that is not the subject of any unresolved supervisory issues.

In addition, a bank holding company that does not elect to be a financial holding company under federal regulations, is generally prohibited from engaging in, or acquiring direct or indirect control of any company engaged in non-banking activities. One of the principal exceptions to this prohibition is for activities found by the Federal Reserve Board to be so closely related to banking or managing or controlling banks. Some of the principal activities that the Federal Reserve Board has determined by regulation to be closely related to banking are:

- making or servicing loans;
- performing certain data processing services;
- providing discount brokerage services; or acting as fiduciary, investment or financial advisor;
- leasing personal or real property;

making investments in corporations or projects designed primarily to promote community welfare; and

acquiring a savings and loan association.

A bank holding company that elects to be a financial holding company may engage in activities that are financial in nature or incident to activities which are financial in nature. Investors Bancorp, Inc. has not elected to be

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a financial holding company, although it may seek to do so in the future. A bank holding company may elect to become a financial holding company if:

each of its depository institution subsidiaries is well capitalized ;

each of its depository institution subsidiaries is well managed ;

each of its depository institution subsidiaries has at least a satisfactory Community Reinvestment Act rating at its most recent examination; and

the bank holding company has filed a certification with the Federal Reserve Board stating that it elects to become a financial holding company.

Under federal law, depository institutions are liable to the FDIC for losses suffered or anticipated by the FDIC in connection with the default of a commonly controlled depository institution, or for any assistance provided by the FDIC to such an institution in danger of default. This law would potentially be applicable to Investors Bancorp, Inc. if it ever acquired as a separate subsidiary a depository institution in addition to Investors Savings Bank.

It has been the policy of many mutual holding companies to waive the receipt of dividends declared by their savings bank subsidiaries. In connection with its approval of the 1997 reorganization, however, the Federal Reserve Board imposed certain conditions on the waiver by Investors Bancorp, MHC of dividends paid on the common stock of Investors Bancorp, Inc. In particular, Investors Bancorp, MHC will be required to obtain prior Federal Reserve Board approval before it may waive any dividends. Federal Reserve Board policy generally prohibits mutual holding companies from waiving the receipt of dividends. Accordingly, management does not expect that Investors Bancorp, MHC will be permitted to waive the receipt of dividends so long as Investors Bancorp, MHC is regulated by the Federal Reserve Board as a bank holding company.

In connection with the 2005 stock offering, the Federal Reserve Board required Investors Bancorp, Inc. to agree to comply with certain regulations issued by the Office of Thrift Supervision that would apply if Investors Bancorp, Inc., Investors Bancorp, MHC and Investors Savings Bank were Office of Thrift Supervision chartered entities, including regulations governing post-stock offering stock benefit plans and stock repurchases.

Conversion of Investors Bancorp, MHC to Stock Form. Investors Bancorp, MHC is permitted to convert from the mutual form of organization to the capital stock form of organization (a Conversion Transaction). There can be no assurance when, if ever, a Conversion Transaction will occur, and the Board of Directors has no current intention or plan to undertake a Conversion Transaction. In a Conversion Transaction a new stock holding company would be formed as the successor to Investors Bancorp, Inc. (the New Holding Company), Investors Bancorp, MHC s corporate existence would end, and certain depositors of Investors Savings Bank would receive the right to subscribe for additional shares of the New Holding Company. In a Conversion Transaction, each share of common stock held by stockholders other than Investors Bancorp, MHC (Minority Stockholders) would be automatically converted into a number of shares of common stock of the New Holding Company determined pursuant to an exchange ratio that ensures that Minority Stockholders own the same percentage of common stock in the New Holding Company as they owned in Investors Bancorp, Inc. immediately before the Conversion Transaction, subject to any adjustment required by regulation or regulatory policy. The FDIC s approval of Investors Savings Bank s initial mutual holding company reorganization in 1997 requires that any dividends waived by Investors Bancorp, MHC be taken into account in establishing the exchange ratio in any Conversion Transaction. The total number of shares held by Minority Stockholders after a Conversion Transaction also would be increased by any purchases by Minority Stockholders in the offering conducted as part of the Conversion Transaction.

In connection with our June 2008 merger of Summit Federal Savings Bank, we issued 1,744,592 shares of our common stock to Investors Bancorp, MHC, which represents the pro forma market value of Summit Federal Savings Bank, thereby increasing Investors Bancorp, MHC s ownership interest in Investors Bancorp, Inc. As a result, in the event of a Conversion Transaction of Investors Bancorp, MHC, there will be additional shares of New Holding Company available to depositors of Investors Savings Bank, including former depositors of Summit Federal Savings Bank who remain depositors of Investors Savings Bank a the time of the conversion.

Any Conversion Transaction would require the approval of a majority of the outstanding shares of Investors Bancorp, Inc. common stock held by Minority Stockholders and approval of a majority of the votes held by depositors of Investors Savings Bank.

New Jersey Regulation. Under the New Jersey Banking Act, a company owning or controlling a savings bank is regulated as a bank holding company. The New Jersey Banking Act defines the terms company and bank holding company as such terms are defined under the BHCA. Each bank holding company controlling a New Jersey-chartered bank or savings bank must file certain reports with the Commissioner and is subject to examination by the Commissioner.

Acquisition of Investors Bancorp, Inc. Under federal law and under the New Jersey Banking Act, no person may acquire control of Investors Bancorp, Inc. or Investors Savings Bank without first obtaining approval of such acquisition of control by the Federal Reserve Board and the Commissioner. See Restrictions on the Acquisition of Investors Bancorp, Inc. and Investors Savings Bank.

Federal Securities Laws. Investors Bancorp, Inc. s common stock is registered with the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended. Investors Bancorp, Inc. is subject to the information, proxy solicitation, insider trading restrictions and other requirements under the Securities Exchange Act of 1934.

Investors Bancorp, Inc. common stock held by persons who are affiliates (generally officers, directors and principal stockholders) of Investors Bancorp, Inc. may not be resold without registration or unless sold in accordance with certain resale restrictions. If Investors Bancorp, Inc. meets specified current public information requirements, each affiliate of Investors Bancorp, Inc. is able to sell in the public market, without registration, a limited number of shares in any three-month period.

TAXATION

Federal Taxation

General. Investors Bancorp, Inc. and Investors Savings Bank are subject to federal income taxation in the same general manner as other corporations, with some exceptions discussed below. Neither Investors Bancorp, Inc. s nor Investors Savings Bank s federal tax returns are currently under audit, and neither entity has been audited during the past five years. The following discussion of federal taxation is intended only to summarize certain pertinent federal income tax matters and is not a comprehensive description of the tax rules applicable to Investors Bancorp, Inc. or Investors Savings Bank.

Method of Accounting. For federal income tax purposes, Investors Bancorp, Inc. currently reports its income and expenses on the accrual method of accounting and uses a tax year ending December 31 for filing its federal and state income tax returns.

Bad Debt Reserves. Historically, Investors Savings Bank was subject to special provisions in the tax law regarding allowable tax bad debt deductions and related reserves. Tax law changes were enacted in 1996 pursuant to the Small Business Protection Act of 1996 (the 1996 Act), which eliminated the use of the percentage of taxable income method for tax years after 1995 and required recapture into taxable income over a six year period all bad debt reserves accumulated after 1987. Investors Savings Bank has fully recaptured its post-1987 reserve balance.

Currently, the Investors Savings Bank consolidated group uses the specific charge off method to account for bad debt deductions for income tax purposes.

Taxable Distributions and Recapture. Prior to the 1996 Act, bad debt reserves created prior to January 1, 1988 (pre-base year reserves) were subject to recapture into taxable income if Investors Savings Bank failed to meet certain thrift asset and definitional tests.

As a result of the 1996 Act, bad debt reserves accumulated after 1987 are required to be recaptured into income over a six-year period. However, all pre-base year reserves are subject to recapture if Investors Savings Bank makes certain non-dividend distributions, repurchases any of its stock, pays dividends in excess of tax earnings and profits, or ceases to maintain a bank charter. At June 30, 2008, our total federal pre-base year reserve was approximately $40.7 million.

Alternative Minimum Tax. The Internal Revenue Code imposes an alternative minimum tax (AMT) at a rate of 20% on a base of regular taxable income plus certain tax preferences (alternative minimum taxable income or AMTI). The AMT is payable to the extent such AMTI is in excess of an exemption amount and the AMT exceeds the regular income tax. Net operating losses can offset no more than 90% of AMTI. Certain payments of AMT may be used as credits against regular tax liabilities in future years. Investors Bancorp, Inc. and Investors Savings Bank have not been subject to the AMT and have no such amounts available as credits for carryover.

Net Operating Loss Carryforwards and Charitable Contribution Carryforward. A financial institution may carry back net operating losses to the preceding two taxable years and forward to the succeeding 20 taxable years. As of June 30, 2008, the Company had a receivable of $2.8 million for a carry back claim and is in the process of filing a carry back claim for $104,000. In addition we have a federal net operating loss carryforward of approximately $890,000.

At June 30, 2008, the Company had $16.3 million in charitable contribution carryforwards which are due to expire in 2010.

Corporate Dividends-Received Deduction. Investors Bancorp, Inc. may exclude from its federal taxable income 100% of dividends received from Investors Savings Bank as a wholly owned subsidiary. The corporate dividends-received deduction is 80% when the dividend is received from a corporation having at least 20% of its stock owned by the recipient corporation. A 70% dividends-received deduction is available for dividends received from a corporation having less than 20% of its stock owned by the recipient corporation.

State Taxation

New Jersey State Taxation. Investors Savings Bank files New Jersey Corporate Business income tax returns. Generally, the income of savings institutions in New Jersey, which is calculated based on federal taxable income, subject to certain adjustments, is subject to New Jersey tax. Investors Savings Bank is not currently under audit with respect to its New Jersey income tax returns and Investors Savings Bank s state tax returns have not been audited for the past five years.

For tax years beginning after June 30, 2006, New Jersey savings banks, including Investors Savings Bank, are subject to a 9% corporate business tax (CBT). For tax years beginning before June 30, 2006, New Jersey savings banks, including Investors Savings Bank, paid the greater of a 9% CBT or an Alternative Minimum Assessment (AMA) tax. As of July 1, 2007, there is no longer a New Jersey AMA tax. The AMA tax paid in prior years is creditable against the CBT in future years limited to an amount such that the tax is not reduced by more than 50% of the tax otherwise due and other statutory minimums.

Investors Bancorp, Inc is required to file a New Jersey income tax return and will generally be subject to a state income tax at a 9% rate. However, if Investors Bancorp, Inc. meets certain requirements, it may be eligible to elect to be taxed as a New Jersey Investment Company, which would allow it to be taxed at a rate of 3.60%.

New Jersey tax law does not and has not allowed for a taxpayer to file a tax return on a combined or consolidated basis with another member of the affiliated group where there is common ownership. However, under recent tax legislation, if the taxpayer cannot demonstrate by clear and convincing evidence that the tax filing discloses the true earnings of the taxpayer on its business carried on in the State of New Jersey, the New Jersey Director of the Division of Taxation may, at the director s discretion, require the taxpayer to file a consolidated return for the entire operations of the affiliated group or controlled group, including its own operations and income.

At both June 30, 2008 and 2007, the Company had state net operating loss carryforwards of approximately $169.0 million. Based upon projections of future taxable income for the periods in which the temporary differences are expected to be deductible, management believes it is more likely than not the Company will realize the deferred tax asset.

Delaware State Taxation. As a Delaware holding company not earning income in Delaware, Investors Bancorp, Inc. is exempted from Delaware corporate income tax but is required to file annual returns and pay annual fees and a franchise tax to the State of Delaware.

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ITEM 1A. *RISK FACTORS*

Our Liabilities Reprice Faster Than Our Assets and Future Increases in Interest Rates Will Reduce Our Profits.

Our ability to make a profit largely depends on our net interest income, which could be negatively affected by changes in interest rates. Net interest income is the difference between:

- the interest income we earn on our interest-earning assets, such as loans and securities; and
- the interest expense we pay on our interest-bearing liabilities, such as deposits and borrowings.

The interest income we earn on our assets and the interest expense we pay on our liabilities are generally fixed for a contractual period of time. Our liabilities generally have shorter contractual maturities than our assets. This imbalance can create significant earnings volatility, because market interest rates change over time. In a period of rising interest rates, the interest income earned on our assets may not increase as rapidly as the interest paid on our liabilities. See Management s Discussion and Analysis of Financial Condition and Results of Operations Management of Market Risk.

In addition, changes in interest rates can affect the average life of loans and mortgage-backed and related securities. A reduction in interest rates causes increased prepayments of loans and mortgage-backed and related securities as borrowers refinance their debt to reduce their borrowing costs. This creates reinvestment risk, which is the risk that we may not be able to reinvest the funds from faster prepayments at rates that are comparable to the rates we earned on the prepaid loans or securities. Conversely, an increase in interest rates generally reduces prepayments. Additionally, increases in interest rates may decrease loan demand and/or make it more difficult for borrowers to repay adjustable-rate loans.

Changes in interest rates also affect the current market value of our interest-earning securities portfolio. Generally, the value of securities moves inversely with changes in interest rates. At June 30, 2008, the fair value of our total securities portfolio was $1.40 billion. Unrealized net losses on securities-available-for-sale are reported as a separate component of equity. To the extent interest rates increase and the value of our available-for-sale portfolio decreases, our stockholders equity will be adversely affected.

We evaluate interest rate sensitivity using models that estimate the change in our net portfolio value over a range of interest rate scenarios. Net portfolio value is the discounted present value of expected cash flows from assets, liabilities and off-balance sheet contracts. At June 30, 2008, in the event of a 200 basis point increase in interest rates, whereby rates ramp up evenly over a twelve-month period, and assuming management took no action to mitigate the effect of such change, the model projects that we would experience an 8.0% or $12.3 million decrease in net interest income.

Because We Intend to Continue to Increase Our Commercial Originations, Our Lending Risk Will Increase.

At June 30, 2008, our portfolio of commercial real estate, multi-family and construction loans totaled $485.3 million, or 10.4% of our total loans. We intend to increase our originations of commercial real estate, multi-family and construction loans. In addition we recently began offering C&I loans. Commercial real estate, multi-family, construction and C&I loans generally have more risk than one- to four-family residential mortgage loans. As the repayment of commercial real estate loans depends on the successful management and operation of the borrower s properties or related businesses, repayment of such loans can be affected by adverse conditions in the real estate market or the local economy. We anticipate that several of our borrowers will have more than one commercial real estate loan outstanding with us. Consequently, an adverse development with respect to one loan or one credit relationship can expose us to significantly greater risk of loss compared to an adverse development with respect to a one- to four-family residential mortgage loan. Finally, if we foreclose on a commercial real estate loan, our holding period for the collateral, if any, typically is longer than for one- to four-family residential mortgage loans because there are fewer potential purchasers of the collateral. Because we plan to continue to increase our originations of these loans, it may be necessary to increase the level of our allowance for loan losses because of the increased risk characteristics associated with these types of loans. Any such increase to our allowance for loan losses would adversely affect our earnings.

The Financial Sector Is Experiencing An Economic Downturn. A Deterioration of Our Current Non-performing Loans or An Increase In The Number of Non-performing Loans Will Have An Adverse Effect On Our Operations.

Both nationally and in the State of New Jersey we are experiencing an economic downturn that is having a significant impact on the prices of real estate and related assets. The residential and commercial real estate sectors have been adversely affected by weakening economic conditions and may negatively impact our loan portfolio. Total non-performing assets increased from $5.2 million at June 30, 2007 to $19.4 million at June 30, 2008, and total non-performing loans as a percentage of total assets increased to 0.30% at June 30, 2008 as compared to 0.09% at June 30, 2007. If loans that are currently non-performing further deteriorate or loans that are currently performing become non-performing loans, we may need to increase our allowance for loan losses, which would have an adverse impact on our financial condition and results of operations.

Further Decline In Value In Certain Investment Securities Held By The Company Could Require Write-Downs, Which Would Reduce Our Earnings.

Our securities portfolio includes pooled trust preferred securities backed by banks, insurance companies, and real estate investment trusts. During the last six months of fiscal 2008, the market for these securities became increasingly illiquid due to negative perceptions about the health of the financial sector in general, and more specifically the financial stability of the underlying issuers. The combination of the illiquidity and the increase in payment deferrals by issuers resulted in a continued decline in the fair value of these securities. At June 30, 2008, our pooled trust preferred securities totaled $178.7 million, representing 12.3% of our total securities portfolio, and had a fair value of $135.5 million. The Fitch rating agency has recently placed a number of these securities on negative credit watch while they evaluate the current rating for possible downgrade. The Company owns 23 securities with an amortized cost of $133.9 million and a fair value of $101.2 million which are listed by Fitch Ratings as Rating Watch Negative. If there is a continued lack of liquidity for these securities; an increase in payment deferrals or defaults by issuers; a downgraded below investment grade (BBB); or the projected cash flows are not adequate to meet contractual obligations, the Company may be required to take an other-than-temporary impairment write-down which would reduce our earnings.

Our FDIC Premium Could Be Substantially Higher In The Future Which Would Have An Adverse Effect On Our Future Earnings.

Our FDIC insurance assessment was $445,000 for fiscal 2008 compared to $451,000 for fiscal 2007. Since January 1, 2007 our assessment has been substantially reduced by a $2.8 million special One Time Credit. The remaining credit as of June 30, 2008 is $252,000. Management believes that this credit will be substantially exhausted by September 30, 2008. Accordingly, our FDIC assessment could be substantially higher in future periods depending on the premium rates set by the FDIC for such periods. Any increases in our FDIC premium rates will reduce our future earnings.

If Our Allowance for Loan Losses is Not Sufficient to Cover Actual Loan Losses, Our Earnings Could Decrease.

We make various assumptions and judgments about the collectability of our loan portfolio, including the creditworthiness of our borrowers and the value of the real estate and other assets serving as collateral for the repayment of many of our loans. In determining the amount of the allowance for loan losses, we review our loans and our loss and delinquency experience, and we evaluate economic conditions. If our assumptions are incorrect, our allowance for loan losses may not be sufficient to cover losses inherent in our loan portfolio, resulting in additions to our allowance. Material additions to our allowance would materially decrease our net income. Our allowance for loan losses of $13.6 million was 0.29% of total loans and 70.0% of non-performing loans at June 30, 2008.

In addition, bank regulators periodically review our allowance for loan losses and may require us to increase our provision for loan losses or recognize further loan charge-offs. A material increase in our allowance for loan losses or loan charge-offs as required by these regulatory authorities would have a material adverse effect on our financial condition and results of operations.

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There Is No Assurance That Our Strategy to Change the Mix of Our Assets and Liabilities Will Succeed.

We previously emphasized investments in government agency and mortgage-backed securities, funded with wholesale borrowings. This policy was designed to achieve profitability by allowing asset growth with low overhead expense, although securities generally have lower yields than loans, resulting in a lower interest rate spread and lower interest income. In October 2003, we implemented a strategy to change the mix of our assets and liabilities to one more focused on loans and retail deposits. As a result of this strategy, at June 30, 2008, our mortgage-backed and other securities accounted for 22.7% of total assets, while our loan portfolio accounted for 72.8% of our total assets.

Our Inability to Achieve Profitability on New Branches May Negatively Affect Our Earnings.

We have expanded our presence throughout our market area, and we intend to pursue further expansion through *de novo* branching. The profitability of our expansion strategy will depend on whether the income that we generate from the new branches will offset the increased expenses resulting from operating these branches. We expect that it may take a period of time before these branches can become profitable, especially in areas in which we do not have an established presence. During this period, the expense of operating these branches may negatively affect our net income.

Our Return on Equity Has Been Low Compared to Other Financial Institutions. This Could Negatively Affect the Price of Our Common Stock.

Net income divided by average equity, known as return on equity, is a ratio many investors use to compare the performance of a financial institution to its peers. For the year ended June 30, 2008, our return on average equity was 1.92% compared to a return on average equity of 3.01% for all publicly traded savings institutions organized in the mutual holding company form. We expect our return on equity to remain below the industry average until we are able to further leverage the additional capital we received from our 2005 stock offering. Our return on equity has been low principally because of the amount of capital raised in the offering, higher expenses from the costs of being a public company, and added expenses associated with our employee stock ownership plan and the stock-based incentive plan. Until we can increase our net interest income and other income, we expect our return on equity to be below the industry average.

Strong Competition Within Our Market Area May Limit Our Growth and Profitability.

Competition in the banking and financial services industry is intense. In our market area, we compete with numerous commercial banks, savings institutions, mortgage brokerage firms, credit unions, finance companies, mutual funds, insurance companies, and brokerage and investment banking firms operating locally and elsewhere. Some of our competitors have substantially greater resources and lending limits than we have, have greater name recognition and market presence that benefit them in attracting business, and offer certain services that we do not or cannot provide. In addition, larger competitors may be able to price loans and deposits more aggressively than we do. Our profitability depends upon our continued ability to successfully compete in our market area. The greater resources and deposit and loan products offered by some of our competitors may limit our ability to increase our interest-earning assets. For additional information see Business of Investors Savings Bank Competition.

If We Declare Dividends on Our Common Stock, Investors Bancorp, MHC Will be Prohibited From Waiving the Receipt of Dividends by Current Federal Reserve Board Policy, Which May Result in Lower Dividends for All Other Stockholders.

The Board of Directors of Investors Bancorp, Inc. has the authority to declare dividends on its common stock, subject to statutory and regulatory requirements. So long as Investors Bancorp, MHC is regulated by the Federal Reserve

Board, if Investors Bancorp, Inc. pays dividends to its stockholders, it also will be required to pay dividends to Investors Bancorp, MHC, unless Investors Bancorp, MHC is permitted by the Federal Reserve Board to waive the receipt of dividends. The Federal Reserve Board s current policy does not permit a mutual holding company to waive dividends declared by its subsidiary. Accordingly, because dividends will be required to be paid to Investors Bancorp, MHC along with all other stockholders, the amount of dividends available for all other stockholders will be less than if Investors Bancorp, MHC were permitted to waive the receipt of dividends.

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Investors Bancorp, MHC Exercises Voting Control Over Investors Bancorp; Public Stockholders Own a Minority Interest

Investors Bancorp, MHC owns a majority of Investors Bancorp, Inc. s common stock and, through its Board of Directors, exercises voting control over the outcome of all matters put to a vote of stockholders (including the election of directors), except for matters that require a vote greater than a majority. Public stockholders own a minority of the outstanding shares of Investors Bancorp, Inc. s common stock. The same directors and officers who manage Investors Bancorp, Inc. and Investors Savings Bank also manage Investors Bancorp, MHC. In addition, regulatory restrictions applicable to Investors Bancorp, MHC prohibit the sale of Investors Bancorp, Inc. unless the mutual holding company first undertakes a second-step conversion.

We operate in a highly regulated industry, which limits the manner and scope of our business activities.

We are subject to extensive supervision, regulation and examination by the New Jersey Department of Banking and by the FDIC. As a result, we are limited in the manner in which we conduct our business, undertake new investments and activities and obtain financing. This regulatory structure is designed primarily for the protection of the DIF and our depositors, and not to benefit our stockholders. This regulatory structure also gives the regulatory authorities extensive discretion in connection with their supervisory and enforcement activities and examination policies, including policies with respect to capital levels, the timing and amount of dividend payments, the classification of assets and the establishment of adequate loan loss reserves for regulatory purposes. In addition, we must comply with significant anti-money laundering and anti-terrorism laws. Government agencies have substantial discretion to impose significant monetary penalties on institutions which fail to comply with these laws.

Future Acquisition Activity Could Dilute Book Value

Both nationally and in New Jersey, the banking industry is undergoing consolidation marked by numerous mergers and acquisitions. From time to time we may be presented with opportunities to acquire institutions and/or bank branches and we may engage in discussions and negotiations. Acquisitions typically involve the payment of a premium over book and trading values, and therefore, may result in the dilution of Investors Bancorp s book value and net income per share.

ITEM 1B. ***UNRESOLVED STAFF COMMENTS***

Not applicable.

ITEM 2. ***PROPERTIES***

At June 30, 2008, the Company and the Bank conducted business from its corporate headquarters in Short Hills, New Jersey, and 52 full-service branch offices located in Essex, Hunterdon, Middlesex, Monmouth, Morris, Ocean, Somerset, Union and Warren Counties, New Jersey.

ITEM 3. ***LEGAL PROCEEDINGS***

The Company and its subsidiaries are subject to various legal actions arising in the normal course of business. In the opinion of management, the resolution of these legal actions is not expected to have a material adverse effect on the Company s financial condition or results of operations.

ITEM 4. ***SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS***

During the fourth quarter of the fiscal year covered by this report, the Company did not submit any matters to the vote of security holders.

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PART II

ITEM 5. *MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES*

Our shares of common stock are traded on the NASDAQ Global Select Market under the symbol ISBC . The approximate number of holders of record of Investors Bancorp, Inc. s common stock as of August 12, 2008 was 6,000. Certain shares of Investors Bancorp, Inc. are held in nominee or street name and accordingly, the number of beneficial owners of such shares is not known or included in the foregoing number. The following table presents quarterly market information for Investors Bancorp, Inc. s common stock for the periods Indicated. The following information was provided by the NASDAQ Global Select Market.

	Fiscal 2008			Fiscal 2007		
	High	Low	Dividends	High	Low	Dividends
First Quarter	$ 14.60	$ 11.54	$	$ 15.48	$ 13.16	$
Second Quarter	15.00	13.77		15.90	14.66	
Third Quarter	15.59	13.17		15.81	14.24	
Fourth Quarter	15.75	13.06		14.50	13.33	

Investors Bancorp, Inc. did not pay a dividend during the fiscal years ended June 30, 2008 and 2007.

So long as Investors Bancorp, MHC is regulated by the Federal Reserve Board, if Investors Bancorp, Inc. pays dividends to its stockholders, it also will be required to pay dividends to Investors Bancorp, MHC, unless Investors Bancorp, MHC is permitted by the Federal Reserve Board to waive the receipt of dividends. The Federal Reserve Board s current position is to not permit a bank holding company to waive dividends declared by its subsidiary.

In the future, dividends from Investors Bancorp, Inc. may depend, in part, upon the receipt of dividends from Investors Savings Bank, because Investors Bancorp, Inc. has no source of income other than earnings from the investment of net proceeds retained from the sale of shares of common stock and interest earned on Investors Bancorp, Inc. s loan to the employee stock ownership plan. Under New Jersey law, Investors Savings Bank may not pay a cash dividend unless, after the payment of such dividend, its capital stock will not be impaired and either it will have a statutory surplus of not less than 50% of its capital stock, or the payment of such dividend will not reduce its statutory surplus.

In connection with the merger of Summit Federal, Investors Bancorp, Inc. issued 1,744,592 additional shares of its common stock to the MHC, based on the pro forma market value of $25.0 million for Summit Federal and the average closing price of a share of the Company s common stock, as reported on the NASDAQ Stock Market, for twenty (20) consecutive trading days ending on June 4, 2008.

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Stock Performance Graph

Set forth below is a stock performance graph comparing (a) the cumulative total return on the Company s Common Stock for the period beginning October 12, 2005, the date that Investors Bancorp began trading as a public company as reported by the NASDAQ Global Select Market through June 30, 2008, (b) the cumulative total return of publicly traded thrifts over such period, and, (c) the cumulative total return of all publicly traded banks and thrifts over such period. Cumulative return assumes the reinvestment of dividends, and is expressed in dollars based on an assumed investment of $100.

INVESTORS BANCORP, INC.

Total Return Performance

	Period Ending						
Index	**10/12/05**	**12/31/05**	**06/30/06**	**12/31/06**	**06/30/07**	**12/31/07**	**06/30/08**
Investors Bancorp, Inc.	100.00	110.08	135.23	156.99	134.03	141.12	130.34
SNL Bank and Thrift Index	100.00	110.59	116.36	129.22	123.80	98.54	68.68
SNL Thrift Index	100.00	112.84	121.62	131.54	120.31	78.91	62.25

* Source : SNL Financial LC, Charlottesville, VA

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The following table reports information regarding repurchases of our common stock during the fourth quarter of fiscal 2008 and the stock repurchase plans approved by our Board of Directors.

Period	Total Number of Shares Purchased(1)(2)	Average Price paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares That May Yet Be Purchased Under the Plans or Programs
April 1, 2008 through April 30, 2008	139,698	$ 14.31	139,698	4,327,247
May 1, 2008 through May 31, 2008	129,500	14.29	129,500	4,197,747
June 1, 2008 through June 30, 2008	600,303	13.91	600,303	3,597,444
Total	869,501	14.03	869,501	

(1) On April 26, 2007, the Company announced its second Share Repurchase Program, which authorized the purchase of an additonal 10% of its publicly-held outstanding shares of common stock, or 4,785,831 shares. This stock repurchase program commenced upon the completion of the first program on May 10, 2007. This program was completed on May 7, 2008.

(2) On January 22, 2008, the Company announced its third Share Repurchase Program, which authorized the purchase of an additonal 10% of its publicly-held outstanding shares of common stock, or 4,307,248 shares. This stock repurchase program commenced upon the completion of the second program on May 7, 2008. This program has no expiration date and has 3,597,444 shares yet to be purchased as of June 30, 2008.

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ITEM 6. *SELECTED FINANCIAL DATA*

The following information is derived in part from the consolidated financial statements of Investors Bancorp, Inc. All data has been restated, based on historical costs, to reflect the Summit Federal merger, which was accounted for as a pooling of interest. For additional information, reference is made to Management s Discussion and Analysis of Financial Condition and Results of Operations and the Consolidated Financial Statements of Investors Bancorp, Inc. and related notes included elsewhere in this Annual Report.

	At June 30,				
	2008	2007	2006	2005	2004
	(In thousands)				
Selected Financial Condition Data:					
Total assets	$ 6,419,142	$ 5,722,026	$ 5,631,809	$ 5,142,575	$ 5,478,750
Loans receivable, net	4,670,150	3,624,998	2,995,435	2,028,045	1,135,782
Loans held-for-sale	9,814	3,410	974	3,412	1,428
Securities held to maturity, net	1,255,054	1,578,922	1,835,581	2,128,944	2,610,374
Securities available for sale, at estimated fair value	203,032	257,939	538,526	683,701	1,430,903
Bank owned life insurance	96,170	92,198	82,603	79,779	75,975
Deposits	3,970,275	3,768,188	3,419,361	3,373,291	3,411,267
Borrowed funds	1,563,583	1,038,710	1,245,740	1,313,769	1,604,798
Stockholders equity	828,538	858,859	916,291	423,704	417,041

	Years Ended June 30,				
	2008	2007(1)	2006(2)	2005(3)	2004
	(In thousands)				
Selected Operating Data:					
Interest and dividend income	$ 312,807	$ 285,223	$ 252,050	$ 232,594	$ 215,784
Interest expense	207,695	195,263	143,594	128,286	129,159
Net interest income	105,112	89,960	108,456	104,308	86,625
Provision for loan losses	6,646	729	600	604	593
Net interest income after provision for loan losses	98,466	89,231	107,856	103,704	86,032
Non-interest income (loss)	7,373	3,175	5,972	(2,080)	4,200
Non-interest expenses	80,780	77,617	90,877	107,173	58,545
Income (loss) before income tax expense (benefit)	25,059	14,789	22,951	(5,549)	31,687
Income tax expense (benefit)	9,030	(7,477)	7,610	(2,986)	11,728
Net income (loss)	$ 16,029	$ 22,266	$ 15,341	$ (2,563)	$ 19,959

Earnings per share basic and diluted(4)	$	0.15	$	0.20	$	0.07	n/a	n/a

(1) June 30, 2007 year end results reflect a $9.9 million reversal of previously established valuation allowances for deferred tax assets.

(2) June 30, 2006 year end results reflect a pre-tax expense of $20.7 million for the charitable contribution made to Investors Savings Bank Charitable Foundation as part of our initial public offering.

(3) June 30, 2005 year end results reflect pre-tax expense of $54.0 million attributable to the March 2005 balance sheet restructuring.

(4) Basic and diluted earnings per share for the year ended June 30, 2006 include the results of operations from October 11, 2005, the date the Company completed its initial public offering.

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	At or for the Years Ended June 30,				
	2008	2007	2006	2005	2004
Selected Financial Ratios and Other Data:					
Performance Ratios:					
Return on assets (ratio of net income or loss to average total assets)	0.27%	0.39%	0.28%	(0.05)%	0.36%
Return on equity (ratio of net income or loss to average equity)	1.92%	2.47%	2.00%	(0.62)%	4.85%
Net interest rate spread(1)	1.28%	1.02%	1.65%	1.82%	1.45%
Net interest margin(2)	1.81%	1.65%	2.06%	2.00%	1.60%
Efficiency ratio(3)	71.81%	83.34%	79.42%	104.84%	64.46%
Non-interest expenses to average total assets	1.35%	1.38%	1.68%	2.00%	1.06%
Average interest-earning assets to average interest-bearing liabilities	1.15x	1.18x	1.15x	1.07x	1.07x
Asset Quality Ratios:					
Non-performing assets to total assets	0.30%	0.09%	0.06%	0.15%	0.17%
Non-performing loans to total loans	0.42%	0.14%	0.11%	0.39%	0.80%
Allowance for loan losses to non-performing loans	70.03%	135.00%	193.06%	72.77%	57.56%
Allowance for loan losses to total loans	0.29%	0.19%	0.21%	0.28%	0.46%
Capital Ratios:					
Risk-based capital (to risk-weighted assets)(4)	21.77%	25.18%	26.63%	21.72%	26.64%
Tier I risk-based capital (to risk-weighted assets)(4)	21.37%	24.93%	26.38%	21.44%	26.32%
Total capital (to average assets)(4)	11.93%	12.52%	12.25%	8.35%	7.74%
Equity to total assets	12.91%	15.01%	16.27%	8.24%	7.61%
Average equity to average assets	13.94%	15.97%	14.21%	7.75%	7.43%
Tangible capital (to tangible assets)	12.89%	15.01%	16.26%	8.24%	7.59%
Book value per common share	$ 7.87	$ 7.86	$ 8.04	n/a	n/a
Other Data:					
Number of full service offices	52	51	51	51	50
Full time equivalent employees	537	509	510	493	486

(1) The net interest rate spread represents the difference between the weighted-average yield on interest-earning assets and the weighted- average cost of interest-bearing liabilities for the period.

(2) The net interest margin represents net interest income as a percent of average interest-earning assets for the period.

(3) The efficiency ratio represents non-interest expenses divided by the sum of net interest income and non-interest income.

(4) Ratios are for Investors Savings Bank and do not include capital retained at the holding company level.

ITEM 7.

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

As one of the largest community banks headquartered in New Jersey, we strive to provide high quality products and services in an honest and straightforward manner while operating responsibly and ethically, so that our clients, employees, stockholders and communities may prosper.

On June 6, 2008, the Company completed its merger of Summit Federal Bankshares, Inc. (Summit Federal), which operated five branches in Union, Middlesex, Hunterdon and Warren counties, New Jersey. This transaction involved the combination of mutual enterprises and, therefore, was accounted for as a pooling of interests. All financial information has been restated to include amounts for Summit Federal, based on historical costs, for all periods presented.

Since 2003, when our assets were comprised of predominantly securities, we have been diligent in changing its composition to reflect a more retail banking model. As a result, at June 30, 2008, our loans now represent 73% of our total assets and our securities portfolio represents 23% of total assets. We believe that repositioning our balance sheet along with continued loan growth will help to improve earnings, particularly in the current interest rate environment.

Fiscal year 2008 was marked by highly volatile economic conditions which reeked havoc in the financial services industry. The significant contributors to the disruptions included subprime mortgage lending, illiquidity in the capital markets, the continued decline in real estate markets, and the recent bank failures. During this time, the Federal Reserve reduced the Fed Funds rate several times resulting in the current rate of 2.00%. The steeper yield curve allowed us to lower deposit rates while keeping mortgage rates relatively stable. As a result, our net interest income increased by $15.2 million to $105.1 million for the year ended June 30, 2008.

The adverse market conditions generally had a negative impact on a majority of mortgage industry participants; however, it also provided positive opportunities for prime portfolio lenders like us. The dislocations in the secondary residential mortgage market led to fewer participants and thus less competition in mortgage originations and wider pricing spreads. These conditions enabled us to continue to grow our loan portfolio with high quality loans at favorable pricing.

Net loans grew by $1.05 billion, or 29%, to $4.67 billion at June 30, 2008. The majority of this growth was in residential mortgage loans which grew by $827.5 million, or 26%, to $4.01 billion at June 30, 2008. We were able to take advantage of several opportunities to purchase high quality residential loans at favorable prices to grow our loan portfolio. We also continued to diversify our loan portfolio by originating different types of loans. During the year ended June 30, 2008 we originated $314.1 million of commercial real estate, construction and multi-family loans. Additionally, in May 2008 we began to offer commercial and industrial loans (C&I). We believe our expansion into commercial real estate lending as well as C&I lending will provide us with an opportunity to increase our net interest income, diversity our loan portfolio and improve our interest rate risk position. As we add more loans to our balance sheet we remain focused on maintaining our historically strict underwriting criteria. We do not originate or purchase sub-prime loans, negative amortization loans or option ARM loans.

We are keenly aware that commercial real estate and construction lending generally expose a lender to more credit risk than residential mortgage loans as the repayment of commercial real estate and construction loans depend upon the business and financial condition of the borrower and on the economic viability of projects financed. Consequently, like other financial institutions, we generally charge higher rates of interest for these types of loans compared to residential mortgage loans.

The overall growth in the loan portfolio, particularly residential and commercial real estate loans, along with the increased inherent risk in our overall portfolio, especially the credit risk associated with commercial real estate lending and the internal downgrade of the risk rating on two construction loans during the year have resulted in a $6.6 million increase in the allowance for loan losses to $13.6 million at June 30, 2008.

While our loan portfolio has benefited from the current turmoil, we are not immune to some of the negative consequences of the current illiquid capital markets. Our securities portfolio includes pooled trust preferred securities, principally issued by banks and to a lesser extent insurance companies. These securities have been negatively impacted by an increase in payment deferrals by issuers and the absence of an orderly and liquid market, resulting in a steady decline in the fair value of these securities. Although the securities continue to perform in accordance with the contractual terms and have projected cash flows in excess of future contractual principal and interest payments, the

Fitch rating agency has recently placed a number of these securities on negative credit watch while they evaluate the current rating for possible downgrade. We will continue to closely monitor these securities and continue to evaluate them for possible other-than-temporary impairment, which could result in a future non-cash charge to earnings.

We continue to focus on changing our mix of deposits as we try to de-emphasize high cost certificates of deposits in favor of lower cost core deposits. This has proven to be a difficult task due to the extreme competition for deposits from other banks and financial intermediaries. We have launched a number of new products designed to increase the amount of core deposits. We are focusing on attracting the deposits from municipalities and C&I businesses which operate in our marketplace. We have recently introduced a suite of commercial deposit products, designed to appeal to small business owners and non-profit organizations. These initiatives, along with a more effective marketing and community relations effort, are necessary steps for improving our retail deposit franchise. Deposit growth will remain a focus; however, we will evaluate the use of borrowings to fund loan growth given the current interest rate environment.

We also plan to grow our retail banking franchise by building or acquiring new branch locations. We are pleased with the recent merger of Summit Federal which added five branch locations that complement our existing footprint. During the year we consolidated one of our Irvington branches into the two existing Irvington branches and opened new branch locations in Perth Amboy and Red Bank increasing our branch network to 52 locations. We will continue to evaluate potential new branch offices both inside and outside our current market area.

Given our strong capital position, we believe that we are well positioned to deal with the current economic conditions while focusing on enhancing shareholder value, providing a high quality client experience with competitively priced products and services to individuals and businesses in the communities we serve. We will continue to explore opportunities to grow the franchise through the acquisition of banks and branch locations.

Critical Accounting Policies

We consider accounting policies that require management to exercise significant judgment or discretion or to make significant assumptions that have, or could have, a material impact on the carrying value of certain assets or on income, to be critical accounting policies. We consider the following to be our critical accounting policies.

Allowance for Loan Losses. The allowance for loan losses is the estimated amount considered necessary to cover credit losses inherent in the loan portfolio at the balance sheet date. The allowance is established through the provision for loan losses that is charged against income. In determining the allowance for loan losses, we make significant estimates and, therefore, have identified the allowance as a critical accounting policy. The methodology for determining the allowance for loan losses is considered a critical accounting policy by management because of the high degree of judgment involved, the subjectivity of the assumptions used, and the potential for changes in the economic environment that could result in changes to the amount of the recorded allowance for loan losses.

The allowance for loan losses has been determined in accordance with U.S. generally accepted accounting principles, under which we are required to maintain an allowance for probable losses at the balance sheet date. We are responsible for the timely and periodic determination of the amount of the allowance required. We believe that our allowance for loan losses is adequate to cover specifically identifiable losses, as well as estimated losses inherent in our portfolio for which certain losses are probable but not specifically identifiable.

Management performs a quarterly evaluation of the adequacy of the allowance for loan losses. The analysis of the allowance for loan losses has two components: specific and general allocations. Specific allocations are made for loans determined to be impaired. A loan is deemed to be impaired if it is a commercial real estate, multi-family or construction loan with an outstanding balance greater than $3.0 million and on non-accrual status. Impairment is measured by determining the present value of expected future cash flows or, for collateral-dependent loans, the fair value of the collateral adjusted for market conditions and selling expenses. The general allocation is determined by segregating the remaining loans, including those loans not meeting the Company s definition of an impaired loan, by type of loan, risk weighting (if applicable) and payment history. We also analyze historical loss experience, delinquency trends, general economic conditions, geographic concentrations, and industry and peer comparisons. This analysis establishes factors that are applied to the loan groups to determine the amount of the general allocations. 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.

On a quarterly basis, management s Allowance for Loan Loss Committee reviews the current status of various loan assets in order to evaluate the adequacy of the allowance for loan losses. In this evaluation process, specific loans are analyzed to determine their potential risk of loss. This process includes all loans, concentrating on non-accrual and classified loans. Each non-accrual or classified loan is evaluated for potential loss exposure. Any shortfall results in a recommendation of a specific allowance if the likelihood of loss is evaluated as probable. To determine the adequacy of collateral on a particular loan, an estimate of the fair market value of the collateral is based on the most current appraised value available. This appraised value is then reduced to reflect estimated liquidation expenses.

The results of this quarterly process are summarized along with recommendations and presented to Executive and Senior Management for their review. Based on these recommendations, loan loss allowances are approved by Executive and Senior Management. All supporting documentation with regard to the evaluation process, loan loss experience, allowance levels and the schedules of classified loans are maintained by the Lending Administration Department. A summary of loan loss allowances is presented to the Board of Directors on a quarterly basis.

Our primary lending emphasis has been the origination and purchase of residential mortgage loans and, to a lesser extent, commercial real estate mortgages. We also originate home equity loans and home equity lines of credit. These activities resulted in a loan concentration in residential mortgages. We also have a concentration of loans secured by real property located in New Jersey. As a substantial amount of our loan portfolio is collateralized by real estate, appraisals of the underlying value of property securing loans are critical in determining the amount of the allowance required for specific loans. Assumptions for appraisal valuations are instrumental in determining the value of properties. Overly optimistic assumptions or negative changes to assumptions could significantly impact the valuation of a property securing a loan and the related allowance determined. The assumptions supporting such appraisals are carefully reviewed by management to determine that the resulting values reasonably reflect amounts realizable on the related loans. Based on the composition of our loan portfolio, we believe the primary risks are increases in interest rates, a decline in the general economy, and a decline in real estate market values in New Jersey. Any one or combination of these events may adversely affect our loan portfolio resulting in increased delinquencies, loan losses and future levels of loan loss provisions. We consider it important to maintain the ratio of our allowance for loan losses to total loans at an adequate level given current economic conditions, interest rates, and the composition of the portfolio.

Our allowance for loan losses reflects probable losses considering, among other things, the actual growth and change in composition of our loan portfolio, the level of our non-performing loans and our charge-off experience. We believe the allowance for loan losses reflects the inherent credit risk in our portfolio.

Although we believe we have established and maintained the allowance for loan losses at adequate levels, additions may be necessary if the current operating environment continues or deteriorates. Management uses the best information available; however, the level of the allowance for loan losses remains an estimate that is subject to significant judgment and short-term change. In addition, the Federal Deposit Insurance Corporation and the New Jersey Department of Banking and Insurance, as an integral part of their examination process, will periodically review our allowance for loan losses. Such agencies may require us to recognize adjustments to the allowance based on their judgments about information available to them at the time of their examination.

Deferred Income Taxes. The Company records income taxes in accordance with Statement of Financial Accounting Standards (SFAS) No. 109, *Accounting for Income Taxes,* as amended, using the asset and liability method. Accordingly, deferred tax assets and liabilities: (i) are recognized for the expected future tax consequences of events that have been recognized in the financial statements or tax returns; (ii) are attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases; and (iii) are measured using enacted tax rates expected to apply in the years when those temporary differences are expected to be recovered or settled. Where applicable, deferred tax assets are reduced by a valuation allowance for any portions determined not likely to be realized. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income tax expense in the period of enactment. The valuation allowance is adjusted, by a charge or credit to income tax expense, as changes in facts and circumstances warrant.

Asset Impairment Judgments. Some of our assets are carried on our consolidated balance sheets at cost, at fair value or at the lower of cost or fair value. Valuation allowances or write-downs are established when necessary to recognize impairment of such assets. We periodically perform analyses to test for impairment of such assets. In addition to the impairment analyses related to our loans discussed above, another significant impairment analysis is the determination of whether there has been an other-than-temporary decline in the value of one or more of our securities.

Our available-for-sale securities portfolio is carried at estimated fair value, with any unrealized gains or losses, net of taxes, reported as accumulated other comprehensive income or loss in stockholders equity. Our held-to-maturity securities portfolio, consisting of debt securities for which we have a positive intent and ability to hold to maturity, is carried at amortized cost. We conduct a periodic review and evaluation of the securities portfolio to determine if the value of any security has declined below its cost or amortized cost, and whether such decline is other-than-temporary. If such decline is deemed other-than-temporary, we would adjust the cost basis of the security by writing down the security to fair market value through a charge to current period operations. The market values of our securities are affected principally by changes in market interest rates and credit spreads subsequent to purchase and the illiquidity in the capital markets. When significant changes in fair values occur, we evaluate our intent and ability to hold the security to maturity or for a sufficient time to recover our recorded investment balance.

Stock-Based Compensation. We recognize the cost of employee services received in exchange for awards of equity instruments based on the grant-date fair value of those awards in accordance with SFAS No. 123(R).

We estimate the per share fair value of option grants on the date of grant using the Black-Scholes option pricing model using assumptions for the expected dividend yield, expected stock price volatility, risk-free interest rate and expected option term. These assumptions are subjective in nature, involve uncertainties and, therefore, cannot be determined with precision. The Black-Scholes option pricing model also contains certain inherent limitations when applied to options that are not traded on public markets.

The per share fair value of options is highly sensitive to changes in assumptions. In general, the per share fair value of options will move in the same direction as changes in the expected stock price volatility, risk-free interest rate and expected option term, and in the opposite direction as changes in the expected dividend yield. For example, the per share fair value of options will generally increase as expected stock price volatility increases, risk-free interest rate increases, expected option term increases and expected dividend yield decreases. The use of different assumptions or different option pricing models could result in materially different per share fair values of options.

Comparison of Financial Condition at June 30, 2008 and June 30, 2007

Total Assets. Total assets increased by $697.1 million, or 12.2%, to $6.42 billion at June 30, 2008 from $5.72 billion at June 30, 2007. This increase was largely the result of the growth in our loan portfolio partially offset by the decrease in our securities portfolio. The cash flow from our securities portfolio is being used to help fund our loan growth, consistent with our strategic plan.

Net Loans. Net loans, including loans held for sale, increased by $1.05 billion, or 29.0%, to $4.68 billion at June 30, 2008 from $3.63 billion at June 30, 2007. This increase in loans reflects our continued focus on loan originations and purchases. The loans we originate and purchase are made primarily on properties in New Jersey. To a lesser degree, we originate and purchase loans in states in close proximity to New Jersey as a way to geographically diversify our residential loan portfolio. We do not originate or purchase and our loan portfolio does not include any sub-prime loans or option ARMs.

We originate residential mortgage loans directly and through our mortgage subsidiary, ISB Mortgage Co. During the year ended June 30, 2008 we originated $284.9 million in residential mortgage loans. In addition, we purchase mortgage loans from correspondent entities including other banks and mortgage bankers. Our agreements with these correspondent entities require them to originate loans that adhere to our underwriting standards. During the year ended June 30, 2008, we purchased loans totaling $559.8 million from these entities. We also purchase pools of mortgage loans in the secondary market on a bulk purchase basis from several well-established financial institutions. During the year ended June 30, 2008, we took advantage of several opportunities to purchase $436.5 million of residential mortgage loans that met our underwriting criteria on a bulk purchase basis.

Additionally, for the year ended June 30, 2008, we originated $139.9 million in multi-family and commercial real estate loans and $174.1 million in construction loans. This is consistent with our strategy of originating multi-family, commercial real estate and construction loans to diversify our loan portfolio.

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The Company also originates interest-only one-to four-family mortgage loans in which the borrower makes only interest payments for the first five, seven or ten years of the mortgage loan term. This feature will result in future increases in the borrower s contractually required payments due to the required amortization of the principal amount after the interest-only period. These payment increases could affect the borrower s ability to repay the loan. The amount of interest-only one-to four-family mortgage loans at June 30, 2008 and 2007 was $450.0 million and $287.9 million, respectively. The Company maintains stricter underwriting criteria for these interest-only loans than it does for its amortizing loans. The Company believes these criteria adequately control the potential exposure to such risks and that adequate provisions for loan losses are provided for all known and inherent risks.

The allowance for loan losses increased by $6.6 million to $13.6 million at June 30, 2008 from $7.0 million at June 30, 2007. The increase in the allowance is primarily attributable to the higher current year loan loss provision which reflects the overall growth in the loan portfolio, particularly residential and commercial real estate loans; the increased inherent credit risk in our overall portfolio, particularly the credit risk associated with commercial real estate lending; an internal downgrade of the risk ratings on two construction loans; the increase in non-performing loans; and the adverse economic environment.

Total non-performing loans, defined as non-accruing loans, increased by $14.2 million to $19.4 million at June 30, 2008 from $5.1 million at June 30, 2007. This increase is primarily the result of a previously downgraded $11.0 million construction loan which was placed on non-accrual status during the three months ended June 30, 2008. The loan was 60 days delinquent at June 30 and while the borrower continues to work with the Company to bring the loan current, we can not be assured at this time the borrower will be successful. A $1.5 million specific reserve has been established for this loan in the allowance for loan losses. The ratio of non-performing loans to total loans was 0.42% at June 30, 2008 compared to 0.14% at June 30, 2007. The allowance for loan losses as a percentage of non-performing loans was 70.03% at June 30, 2008 compared with 135.00% at June 30, 2007. At June 30, 2008 our allowance for loan losses as a percentage of total loans was 0.29% compared with 0.19% at June 30, 2007. Future increases in the allowance for loan losses may be necessary based on the growth of the loan portfolio, the change in composition of the loan portfolio, possible future increases in non-performing loans and charge-offs, and the possible continuation of the current adverse economic environment.

At June 30, 2008, the Company had a $19.4 million multi-family loan to a New Jersey based developer which was 30 days delinquent. A contract for the sale of the property is pending which results in a current loan to value ratio of 50%. While management believes that the probability of loss on this loan is low, we will continue to closely monitor the loan.

Although we believe we have established and maintained an adequate level of allowance for loan losses, additions may be necessary as multi-family, commercial real estate and construction lending increases and/or if future economic conditions differ substantially from the current operating environment. Although we use the best information available, the level of allowance for loan losses remains an estimate that is subject to significant judgment and short-term change. See Critical Accounting Policies.

Securities. Securities, in the aggregate, decreased by $378.8 million, or 20.6%, to $1.46 billion at June 30, 2008, from $1.84 billion at June 30, 2007. The cash flows from our securities portfolio are being used to help fund our loan growth. This is consistent with our strategic plan to change our mix of assets by reducing the size of our securities portfolio and increasing the size of our loan portfolio.

As part of the merger with Summit Federal, we acquired a $6.0 million mutual fund investment which was deemed other-than-temporarily impaired and written down to fair value through pre-tax charges totaling $651,000 for the year ended June 30, 2008. Management has begun liquidating this investment and future decreases in value will be recorded as incurred.

Securities include pooled trust preferred securities, principally issued by banks, with an amortized cost of $178.7 million and a fair value of $135.5 million at June 30, 2008. These securities have been classified in the held to maturity portfolio since their purchase and are performing in accordance with contractual terms. The Company has the ability and intent to hold these securities until maturity. The Company concluded that the declines in market values for these securities were temporary declines at June 30, 2008 and, accordingly, impairment losses were not recognized. Given the challenging environment for most banks in the U.S., there has been an increase in payment deferrals by issuers and a steady decline in the fair value of these securities. At June 30, 2008, this portfolio contained securities with an amortized cost of $13.1 million which had an investment grade rating of AAA and $165.6 million with an investment grade rating of A. In May 2008, the Fitch rating agency placed a number of these securities on negative credit watch while they evaluate the current rating for possible downgrade. We own 16 of these securities with an amortized cost of $89.8 million and a fair value of $67.9 million. On August 14, 2008, Fitch placed additional securities on negative credit watch. We own 7 of these securities with an amortized cost of $44.0 million and a fair value of $33.3 million. At June 30, 2008, all of these securities have projected cash flows in excess of future contractual principal and interest payments. In the event these securities are downgraded below investment grade (BBB) or the projected cash flows are not adequate to meet contractual obligations, the Company will continue to evaluate them for other-than-temporary impairment at that time.

The securities portfolio also includes AAA rated private label mortgage-backed securities with an amortized cost of $206.6 million and a fair value of $196.4 million. These securities were originated in the period 2002-2004 and are performing in accordance with contractual terms. The decrease in fair value for these securities is attributed to changes in market interest rates. The securities portfolio does not include any Fannie Mae or Freddie Mac common or preferred stock.

Stock in the Federal Home Loan Bank, Bank Owned Life Insurance, and Accrued Interest Receivable. The amount of stock we own in the Federal Home Loan Bank (FHLB) increased by $26.9 million from $34.1 million at June 30, 2007 to $60.9 million at June 30, 2008 as a result of an increase in our level of borrowings at June 30, 2008. Bank owned life insurance increased by $4.0 million from $92.2 million at June 30, 2007 to $96.2 million at June 30, 2008. There was also an increase in accrued interest receivable of $2.9 million resulting from an increase in the average balance and yield of our interest-earning assets.

Deposits. Deposits increased by $202.1 million, or 5.4%, to $3.97 billion at June 30, 2008 from $3.77 billion at June 30, 2007. Certificates of deposits, savings account deposits and money market account deposits increased by $102.1 million, $58.3 million and $46.7 million, respectively. These increases were partially offset by a $5.1 million decrease in checking account deposits. We attribute the increase in deposits to new products being offered, increased sales efforts from our branch staff, competitive rates on our CD s, consumer demands and competition.

Borrowed Funds. Borrowed funds increased $524.9 million, or 50.5%, to $1.56 billion at June 30, 2008 from $1.04 billion at June 30, 2007. The increase in borrowings was largely to fund the Company s loan growth for the same period. We were able to take advantage of several opportunities to purchase high quality residential loans at favorable prices on a bulk purchase basis. The bulk loan purchases were mostly funded by longer term wholesale borrowings because of the lower rates available in the wholesale markets. Using longer term borrowings to fund mortgage loans helps mitigating the Company s exposure to interest rate risk.

Stockholders Equity. Stockholders equity decreased $30.3 million to $828.5 million at June 30, 2008 from $858.9 million at June 30, 2007. The decrease was primarily attributed to the repurchase of our common stock totaling $58.0 million partially offset by net income of $16.0 million for the year ended June 30, 2008. Other factors impacting stockholders equity were compensation costs associated with stock options and restricted stock, the change in the accumulated other comprehensive loss, and the allocation of ESOP shares.

Analysis of Net Interest Income

Net interest income represents the difference between income we earn on our interest-earning assets and the expense we pay on interest-bearing liabilities. Net interest income depends on the volume of interest-earning assets and interest-bearing liabilities and the interest rates earned on such assets and paid on such liabilities.

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Average Balances and Yields. The following tables set forth average balance sheets, average yields and costs, and certain other information for the periods indicated. No tax-equivalent yield adjustments were made, as the effect thereof was not material. All average balances are daily average balances. Non-accrual loans were included in the computation of average balances, but have been reflected in the table as loans carrying a zero yield. The yields set forth below include the effect of deferred fees, discounts and premiums that are amortized or accreted to interest income or expense.

	For the Years Ended June 30,							
	2008			2007			2006	
	Average Outstanding Balance	Interest Earned/ Paid	Average Yield/ Rate	Average Outstanding Balance	Interest Earned/ Paid	Average Yield/ Rate	Average Outstanding Balance	Interest Earned/ Paid
	(Dollars in thousands)							
arning assets:								
aring deposits	$ 32,948	$ 974	2.96%	$ 25,701	$ 993	3.86%	$ 92,616	$ 3,241
e agreements and								
ds sold	5,798	162	2.79				16,387	613
available-for-sale(1)	235,385	10,826	4.60	406,274	18,006	4.43	618,970	26,233
held-to-maturity	1,438,804	67,977	4.72	1,689,890	80,310	4.75	2,009,729	90,378
	4,043,398	229,634	5.68	3,305,807	182,996	5.54	2,462,270	128,603
HLB	44,939	3,234	7.20	40,304	2,918	7.24	55,440	2,982
est-earning assets	5,801,272	312,807	5.39	5,467,976	285,223	5.22	5,255,412	252,050
st-earning assets	185,705			170,671			143,236	
s	$ 5,986,977			$ 5,638,647			$ 5,398,648	
earing liabilities:								
posits	$ 372,846	7,718	2.07	$ 302,331	4,685	1.55	$ 379,282	3,145
aring checking	353,564	7,329	2.07	321,155	7,473	2.33	323,873	6,088
rket accounts	204,952	5,005	2.44	185,849	3,596	1.93	255,154	3,423
s of deposit	2,909,550	132,693	4.56	2,719,327	124,382	4.57	2,491,183	85,720
funds	1,208,529	54,950	4.55	1,121,697	55,127	4.91	1,115,723	45,218
est-bearing liabilities	5,049,441	207,695	4.11	4,650,359	195,263	4.20	4,565,215	143,594
st-bearing liabilities	102,828			87,946			66,433	
ities	5,152,269			4,738,305			4,631,648	
ers equity	834,708			900,342			767,000	
ities and rs equity	$ 5,986,977			$ 5,638,647			$ 5,398,648	
t income		$ 105,112			$ 89,960			$ 108,456

t rate spread(2)	1.28%	1.02%	
t-earning assets(3)	$ 751,831	$ 817,617	$ 690,197
t margin(4)	1.81%	1.65%	
terest-earning assets erest-bearing	1.15x	1.18x	1.15x

(1) Securities available-for-sale are stated at amortized cost, adjusted for unamortized purchased premiums and discounts.

(2) Net interest rate spread represents the difference between the yield on average interest-earning assets and the cost of average interest-bearing liabilities.

(3) Net interest-earning assets represent total interest-earning assets less total interest-bearing liabilities.

(4) Net interest margin represents net interest income divided by average total interest-earning assets.

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Rate/Volume Analysis

The following table presents the effects of changing rates and volumes on our net interest income for the periods indicated. The rate column shows the effects attributable to changes in rate (changes in rate multiplied by prior volume). The volume column shows the effects attributable to changes in volume (changes in volume multiplied by prior rate). The net column represents the sum of the prior columns. For purposes of this table, changes attributable to both rate and volume, which cannot be segregated, have been allocated proportionately, based on the changes due to rate and the changes due to volume.

	Years Ended June 30, 2008 vs. 2007			Years Ended June 30, 2007 vs. 2006		
	Increase (Decrease) Due to		Net Increase	Increase (Decrease) Due to		Net Increase
	Volume	Rate	(Decrease)	Volume	Rate	(Decrease)
	(In thousands)					
Interest-earning assets:						
Interest-bearing deposits	$ 244	$ (263)	$ (19)	$ (2,555)	$ 307	$ (2,248)
Repurchase agreements	162		162	(613)		(613)
Securities available-for-sale	(7,839)	659	(7,180)	(9,211)	984	(8,227)
Securities held-to-maturity	(10,946)	(1,387)	(12,333)	(13,895)	3,827	(10,068)
Net loans	43,961	2,677	46,638	48,133	6,260	54,393
Stock in FHLB	334	(18)	316	(938)	874	(64)
Total interest-earning assets	25,916	1,668	27,584	20,921	12,252	33,173
Interest-bearing liabilities:						
Savings deposits	1,243	1,790	3,033	(743)	2,283	1,540
Interest-bearing checking	715	(859)	(144)	(52)	1,437	1,385
Money market accounts	397	1,012	1,409	(1,086)	1,259	173
Certificates of deposit	8,676	(365)	8,311	8,413	30,249	38,662
Total deposits	11,031	1,578	12,609	6,532	35,228	41,760
Borrowed funds	4,111	(4,288)	(177)	1,072	8,837	9,909
Total interest-bearing liabilities	15,142	(2,710)	12,432	7,604	44,065	51,669
Increase (decrease) in net interest income	$ 10,774	$ 4,378	$ 15,152	$ 13,317	$ (31,813)	$ (18,496)

Comparison of Operating Results for the Years Ended June 30, 2008 and 2007

Net Income. Net income for the year ended June 30, 2008 was $16.0 million compared to net income of $22.3 million for the year ended June 30, 2007. Net income for the year ended June 30, 2007 included a $9.9 million tax benefit, partially offset by a $3.7 million pre-tax loss from a balance sheet restructuring.

Net Interest Income. Net interest income increased by $15.2 million, or 16.8%, to $105.1 million for the year ended June 30, 2008 from $90.0 million for the year ended June 30, 2007. Our net interest margin also increased by 16 basis points from 1.65% for the year ended June 30, 2007 to 1.81% for the year ended June 30, 2008.

The increase in net interest income for the year ended June 30, 2008, was partially attributed to lower short term interest rates and more stable longer term rates. The effect of this steeper yield curve allowed us to lower deposit rates while keeping mortgage rates relatively stable. In addition, we were able to take advantage of several opportunities to purchase high quality residential loans at favorable prices to grow our loan portfolio. The increase was partially offset by the average balance of interest-bearing liabilities increasing for the year ended June 30, 2008.

Interest and Dividend Income. Total interest and dividend income increased by $27.6 million, or 9.7%, to $312.8 million for the year ended June 30, 2008 from $285.2 million for the year ended June 30, 2007. This increase

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was primarily due to a $333.3 million, or 6.1%, increase in the average balance of interest-earning asse