

Northfield Bancorp, Inc.
Form 10-Q
November 09, 2018
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2018

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For transition period from _____ to _____
Commission File Number 001-35791

NORTHFIELD BANCORP, INC.
(Exact name of registrant as specified in its charter)

Delaware 80-0882592
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)
581 Main Street, Woodbridge, New Jersey 07095
(Address of principal executive offices) (Zip Code)

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

Not Applicable
(Former name, former address, and former fiscal year, if changed since last report)

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for shorter period that the registrant was required to submit such files). Yes No

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

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company
Emerging growth company

Edgar Filing: Northfield Bancorp, Inc. - Form 10-Q

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date.

49,542,865 shares of Common Stock, par value \$0.01 per share, were issued and outstanding as of October 31, 2018.

NORTHFIELD BANCORP, INC.
Form 10-Q Quarterly Report
Table of Contents

	Page
<u>PART I - FINANCIAL INFORMATION</u>	
Item 1. <u>Financial Statements</u>	<u>3</u>
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>42</u>
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>55</u>
Item 4. <u>Controls and Procedures</u>	<u>57</u>
<u>PART II - OTHER INFORMATION</u>	
Item 1. <u>Legal Proceedings</u>	<u>58</u>
Item 1A. <u>Risk Factors</u>	<u>58</u>
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>58</u>
Item 3. <u>Defaults Upon Senior Securities</u>	<u>58</u>
Item 4. <u>Mine Safety Disclosures</u>	<u>58</u>
Item 5. <u>Other Information</u>	<u>58</u>
Item 6. <u>Exhibits</u>	<u>58</u>
<u>SIGNATURES</u>	<u>59</u>

Table of Contents

PART I

ITEM 1. FINANCIAL STATEMENTS

NORTHFIELD BANCORP, INC.

CONSOLIDATED BALANCE SHEETS

(Unaudited) (In thousands, except share amounts)

	September 30, 2018	December 31, 2017
ASSETS:		
Cash and due from banks	\$ 13,332	\$ 17,446
Interest-bearing deposits in other financial institutions	45,403	40,393
Total cash and cash equivalents	58,735	57,839
Trading securities	10,670	9,597
Debt securities available-for-sale, at estimated fair value	740,518	513,782
Debt securities held-to-maturity, at amortized cost (estimated fair value of \$9,186 at September 30, 2018, and \$9,892 at December 31, 2017)	9,560	9,931
Equity securities	1,183	1,339
Originated loans held-for-investment, net	2,597,816	2,425,275
Loans acquired	588,517	692,803
Purchased credit-impaired ("PCI") loans held-for-investment	20,535	22,741
Loans held-for-investment, net	3,206,868	3,140,819
Allowance for loan losses	(27,687)	(26,160)
Net loans held-for-investment	3,179,181	3,114,659
Accrued interest receivable	11,984	10,713
Bank owned life insurance	153,218	150,604
Federal Home Loan Bank of New York stock, at cost	23,960	25,046
Premises and equipment, net	25,229	25,746
Goodwill	38,411	38,411
Other real estate owned	—	850
Other assets	33,766	32,900
Total assets	\$ 4,286,415	\$ 3,991,417
LIABILITIES AND STOCKHOLDERS' EQUITY:		
LIABILITIES:		
Deposits	\$ 3,141,268	\$ 2,836,979
Borrowed funds	441,191	471,549
Advance payments by borrowers for taxes and insurance	16,999	14,798
Accrued expenses and other liabilities	32,537	29,214
Total liabilities	3,631,995	3,352,540
STOCKHOLDERS' EQUITY:		
Preferred stock, \$0.01 par value; 25,000,000 shares authorized, none issued or outstanding	—	—
Common stock, \$0.01 par value: 150,000,000 shares authorized, 60,933,707 shares issued at September 30, 2018 and December 31, 2017, 49,534,744 and 48,803,885 outstanding at September 30, 2018, and December 31, 2017, respectively	609	609
Additional paid-in-capital	545,739	548,864
Unallocated common stock held by employee stock ownership plan	(21,479)	(22,244)

Edgar Filing: Northfield Bancorp, Inc. - Form 10-Q

Retained earnings	297,289	281,138	
Accumulated other comprehensive loss	(13,579) (5,451)
Treasury stock at cost; 11,398,963 and 12,129,822 shares at September 30, 2018, and December 31, 2017, respectively	(154,159) (164,039)
Total stockholders' equity	654,420	638,877	
Total liabilities and stockholders' equity	\$4,286,415	\$3,991,417	

See accompanying notes to unaudited consolidated financial statements.

3

Table of Contents

NORTHFIELD BANCORP, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited) (In thousands, except per share data)

	Three Months		Nine Months	
	Ended September		Ended September	
	30,	30,	30,	30,
	2018	2017	2018	2017
Interest income:				
Loans	\$32,443	\$30,424	\$94,686	\$89,085
Mortgage-backed securities	3,475	2,175	9,269	6,791
Other securities	1,104	370	2,427	905
Federal Home Loan Bank of New York dividends	428	365	1,240	1,061
Deposits in other financial institutions	277	191	722	412
Total interest income	37,727	33,525	108,344	98,254
Interest expense:				
Deposits	7,593	4,168	18,854	11,687
Borrowings	2,210	2,005	6,252	5,629
Total interest expense	9,803	6,173	25,106	17,316
Net interest income	27,924	27,352	83,238	80,938
Provision for loan losses	1,304	488	2,008	1,371
Net interest income after provision for loan losses	26,620	26,864	81,230	79,567
Non-interest income:				
Fees and service charges for customer services	1,241	1,238	3,602	3,563
Income on bank owned life insurance	919	970	2,787	4,438
Gains on securities transactions, net	419	337	892	1,001
Other	58	70	205	197
Total non-interest income	2,637	2,615	7,486	9,199
Non-interest expense:				
Compensation and employee benefits	9,443	9,593	27,681	29,339
Occupancy	3,015	2,807	9,061	8,460
Furniture and equipment	239	279	747	871
Data processing	1,153	1,155	3,527	3,436
Professional fees	886	569	2,558	2,034
FDIC insurance	241	279	812	795
Other	2,123	2,146	6,880	6,055
Total non-interest expense	17,100	16,828	51,266	50,990
Income before income tax expense	12,157	12,651	37,450	37,776
Income tax expense	3,081	4,525	7,318	11,292
Net income	\$9,076	\$8,126	\$30,132	\$26,484
Net income per common share:				
Basic	\$0.19	\$0.18	\$0.65	\$0.59
Diluted	\$0.19	\$0.17	\$0.64	\$0.57

See accompanying notes to unaudited consolidated financial statements.

Table of Contents

NORTHFIELD BANCORP, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME - (Continued)

(Unaudited) (In thousands)

	Three Months Ended September 30, 2018		Nine Months Ended September 30, 2017	
Net Income	\$9,076	\$8,126	\$30,132	\$26,484
Other comprehensive (loss) income:				
Unrealized (losses) gains on debt securities:				
Net unrealized holding (losses) gains on debt securities	(2,674)	(4)	(11,117)	3,082
Less: reclassification adjustment for net (gains) losses included in net income (included in gains on securities transactions, net)	(7)	—	(178)	4
Net unrealized (losses) gains	(2,681)	(4)	(11,295)	3,086
Amortization related to post retirement benefit obligation	—	27	—	81
Other comprehensive (loss) income, before tax	(2,681)	23	(11,295)	3,167
Income tax benefit (expense) related to net unrealized holding (losses) gains on debt securities	748	1	3,117	(1,234)
Income tax benefit (expense) related to reclassification adjustment for (losses) gains included in net income	2	—	50	(2)
Income tax expense related to post retirement benefit adjustment	—	(11)	—	(33)
Other comprehensive (loss) income, net of tax	(1,931)	13	(8,128)	1,898
Comprehensive income	\$7,145	\$8,139	\$22,004	\$28,382

See accompanying notes to unaudited consolidated financial statements.

5

Table of Contents

NORTHFIELD BANCORP, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

Nine Months Ended September 30, 2018 and 2017

(Unaudited) (In thousands, except share data)

	Common Stock			Unallocated Common Stock Held by the Employee Stock Ownership Plan	Retained Earnings	Accumulated Other Comprehensive Income (loss) Net of tax	Treasury Stock	Total Stockholders' Equity
	Shares Outstanding	Par Value	Additional Paid-in Capital					
Balance at December 31, 2016	48,526,658	\$ 609	\$547,910	\$(23,466)	\$268,226	\$ (4,332)	\$(167,751)	\$ 621,196
Net income					26,484			26,484
Other comprehensive income, net of tax						1,898		1,898
Cumulative effect of change in accounting principle - adoption of ASU No. 2016-09			(2,898)		2,898			—
ESOP shares allocated or committed to be released			869	771				1,640
Stock compensation expense			4,765					4,765
Net issuance of restricted stock	19,180		(261)				261	—
Exercise of stock options, net	334,934		(4,430)				4,530	100
Cash dividends declared and paid (\$0.24 per common share)					(11,034)			(11,034)
Balance at September 30, 2017	48,880,772	\$ 609	\$545,955	\$(22,695)	\$286,574	\$ (2,434)	\$(162,960)	\$ 645,049
Balance at December 31, 2017	48,803,885	\$ 609	\$548,864	\$(22,244)	\$281,138	\$ (5,451)	\$(164,039)	\$ 638,877
Net income					30,132			30,132
Other comprehensive loss, net of tax						(8,128)		(8,128)
ESOP shares allocated or committed to be released			755	765				1,520
			4,087					4,087

Edgar Filing: Northfield Bancorp, Inc. - Form 10-Q

Stock compensation expense									
Net issuance of restricted stock	10,040		(133)				133		—
Exercise of stock options, net	721,145		(7,834)				9,752		1,918
Cash dividends declared and paid (\$0.30 per common share)					(13,981)				(13,981)
Repurchase of treasury stock (average cost of \$16.85 per share)	(326)						(5)		(5)
Balance at September 30, 2018	49,534,744	\$ 609	\$ 545,739	\$ (21,479)	\$ 297,289	\$ (13,579)	\$ (154,159)		\$ 654,420

See accompanying notes to unaudited consolidated financial statements.

Table of Contents

NORTHFIELD BANCORP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited) (In thousands)

	Nine Months Ended September 30,	
	2018	2017
Net income	\$30,132	\$26,484
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	2,008	1,371
ESOP and stock compensation expense	5,607	6,405
Depreciation	2,261	2,449
Amortization of premiums, and deferred loan costs, net of (accretion) of discounts, and deferred loan fees	1,798	1,551
Amortization of intangible assets	247	292
Income on bank owned life insurance	(2,787)	(4,438)
Proceeds from sale of loans held-for-sale	—	494
Gains on securities transactions, net	(892)	(1,001)
Net purchases of trading securities	(359)	(363)
Increase in accrued interest receivable	(1,271)	(535)
Decrease in other assets	2,052	3,069
Increase (decrease) in accrued expenses and other liabilities	3,323	(1,352)
Net cash provided by operating activities	42,119	34,426
Cash flows from investing activities:		
Net increase in loans receivable	(29,891)	(107,567)
Purchase of loans	(37,593)	(59,087)
Purchases of Federal Home Loan Bank of New York stock	(14,956)	(16,640)
Redemptions of Federal Home Loan Bank of New York stock	16,042	11,992
Purchases of debt securities available-for-sale	(359,265)	(67,053)
Principal payments and maturities on debt securities available-for-sale	88,630	84,882
Principal payments and maturities on debt securities held-to-maturity	352	152
Proceeds from sale of debt securities available-for-sale	32,115	967
Proceeds from bank owned life insurance	173	2,828
Proceeds from sale of other real estate owned	850	—
Purchases and improvements of premises and equipment	(1,744)	(1,043)
Net cash used in investing activities	(305,287)	(150,569)
Cash flows from financing activities:		
Net increase in deposits	304,289	21,815
Dividends paid	(13,981)	(11,034)
Exercise of stock options	1,918	100
Purchase of treasury stock	(5)	—
Increase in advance payments by borrowers for taxes and insurance	2,201	1,934
Repayments under capital lease obligations	(188)	(166)
Proceeds from securities sold under agreements to repurchase and other borrowings	397,465	331,653
Repayments related to securities sold under agreements to repurchase and other borrowings	(427,635)	(221,003)
Net cash provided by financing activities	264,064	123,299
Net increase in cash and cash equivalents	896	7,156
Cash and cash equivalents at beginning of period	57,839	96,085

Cash and cash equivalents at end of period	\$58,735	\$103,241
--	----------	-----------

See accompanying notes to unaudited consolidated financial statements.

7

Table of Contents

NORTHFIELD BANCORP, INC.
 CONSOLIDATED STATEMENTS OF CASH FLOWS - (Continued)
 (Unaudited) (In thousands)

	Nine Months Ended September 30,	
	2018	2017
Supplemental cash flow information:		
Cash paid during the period for:		
Interest	\$24,699	\$17,052
Income taxes	7,767	5,500
Non-cash transactions:		
Loans charge-offs/(recoveries), net	481	(133)
Transfer of originated loans held-for-investment to loans held-for-sale at fair value	—	2,009

See accompanying notes to unaudited consolidated financial statements.

8

Table of Contents

NORTHFIELD BANCORP, INC.

Notes to Unaudited Consolidated Financial Statements

Note 1 – Basis of Presentation

The consolidated financial statements are comprised of the accounts of Northfield Bancorp, Inc. (the “Company”) and its wholly owned subsidiaries, Northfield Investments, Inc. and Northfield Bank (the “Bank”), and the Bank’s wholly-owned significant subsidiaries, NSB Services Corp. and NSB Realty Trust. All significant intercompany accounts and transactions have been eliminated in consolidation.

In the opinion of management, all adjustments (consisting solely of normal and recurring adjustments) necessary for the fair presentation of the consolidated financial condition and the consolidated results of operations for the unaudited periods presented have been included. The results of operations and other data presented for the three and nine months ended September 30, 2018, are not necessarily indicative of the results of operations that may be expected for the year ending December 31, 2018 or for any other period. Whenever necessary, certain prior year amounts are reclassified to conform to the current year presentation.

In preparing the unaudited consolidated financial statements in conformity with U.S. generally accepted accounting principles (U.S. GAAP), management has made estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the consolidated statements of financial condition and results of operations for the periods indicated. Material estimates that are particularly susceptible to change are: the allowance for loan losses, the evaluation of goodwill and other intangible assets, impairment on investment securities, fair value measurements of assets and liabilities, and income taxes. Estimates and assumptions are reviewed periodically and the effects of revisions are reflected in the consolidated financial statements in the period they are deemed necessary. While management uses its best judgment, actual amounts or results could differ significantly from those estimates.

Certain information and note disclosures usually included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission (SEC) for the preparation of interim financial statements. The consolidated financial statements presented should be read in conjunction with the audited consolidated financial statements and notes to consolidated financial statements included in the Annual Report on Form 10-K for the year ended December 31, 2017, of the Company as filed with the SEC.

Note 2 – Debt Securities Available-for-Sale

The following is a comparative summary of mortgage-backed and other debt securities available-for-sale at September 30, 2018, and December 31, 2017 (in thousands):

	September 30, 2018			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Mortgage-backed securities:				
Pass-through certificates:				
Government sponsored enterprises (GSE)	\$305,272	\$ 383	\$ 6,184	\$299,471
Real estate mortgage investment conduits (REMICs):				
GSE	269,374	39	12,231	257,182
Non-GSE	61	—	1	60
	574,707	422	18,416	556,713
Other debt securities:				
Municipal bonds	276	2	—	278
Corporate bonds	184,219	352	1,044	183,527
	184,495	354	1,044	183,805
Total debt securities available-for-sale	\$759,202	\$ 776	\$ 19,460	\$740,518

Table of Contents

NORTHFIELD BANCORP, INC.

Notes to Unaudited Consolidated Financial Statements - (Continued)

	December 31, 2017			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Mortgage-backed securities:				
Pass-through certificates:				
GSE	\$ 179,320	\$ 1,429	\$ 2,454	\$ 178,295
REMICs:				
GSE	273,501	287	6,859	266,929
Non-GSE	80	—	1	79
	452,901	1,716	9,314	445,303
Other debt securities:				
Municipal bonds	343	6	—	349
Corporate bonds	67,927	401	198	68,130
	68,270	407	198	68,479
Total debt securities available-for-sale	\$ 521,171	\$ 2,123	\$ 9,512	\$ 513,782

The following is a summary of the expected maturity distribution of debt securities available-for-sale, other than mortgage-backed securities, at September 30, 2018 (in thousands):

Available-for-sale	Amortized cost	Estimated fair value
Due in one year or less	\$ 24,830	\$ 24,703
Due after one year through five years	149,773	149,190
Due after five years through ten years	9,892	9,912
	\$ 184,495	\$ 183,805

Contractual maturities for mortgage-backed securities are not included above, as expected maturities on mortgage-backed securities may differ from contractual maturities as borrowers may have the right to call or prepay obligations with or without penalties.

Certain securities available-for-sale are pledged or encumbered to secure borrowings under Pledge Agreements and Repurchase Agreements and for other purposes required by law. At September 30, 2018, the fair value of securities available-for-sale that were pledged to secure borrowings and deposits was \$537.1 million.

For the three and nine months ended September 30, 2018, the Company had gross proceeds of \$2.5 million and \$32.1 million, respectively, on sales of debt securities available-for-sale, with gross realized gains of \$7,000 and \$183,000 and gross realized losses of \$0 and \$5,000. There were no sales of securities available-for-sale for the three months ended September 30, 2017. For the nine months ended September 30, 2017, the Company had gross proceeds of \$967,000 on sales of debt securities available-for-sale, with no gross realized gains and gross realized losses of \$4,000. The Company recognized net gains of \$412,000 and \$714,000 on its trading securities portfolio during the three and nine months ended September 30, 2018, respectively. The Company recognized net gains of \$337,000 and \$1.0 million, on its trading securities portfolio during the three and nine months ended September 30, 2017, respectively.

Table of Contents

NORTHFIELD BANCORP, INC.

Notes to Unaudited Consolidated Financial Statements - (Continued)

Gross unrealized losses on mortgage-backed and other debt securities available-for-sale, and the estimated fair value of the related securities, aggregated by security category and length of time that individual securities have been in a continuous unrealized loss position, at September 30, 2018, and December 31, 2017, were as follows (in thousands):

	September 30, 2018					
	Less than 12 months		12 months or more		Total	
	Unrealized losses	Estimated fair value	Unrealized losses	Estimated fair value	Unrealized losses	Estimated fair value
Mortgage-backed securities:						
Pass-through certificates:						
GSE	\$2,698	\$185,891	\$3,486	\$65,491	\$6,184	\$251,382
REMICs:						
GSE	7,667	172,671	4,564	78,771	12,231	251,442
Non-GSE	—	—	1	60	1	60
Other debt securities:						
Corporate bonds	688	105,996	356	14,805	1,044	120,801
Total	\$11,053	\$464,558	\$8,407	\$159,127	\$19,460	\$623,685
	December 31, 2017					
	Less than 12 months		12 months or more		Total	
	Unrealized losses	Estimated fair value	Unrealized losses	Estimated fair value	Unrealized losses	Estimated fair value
Mortgage-backed securities:						
Pass-through certificates:						
GSE	\$439	\$48,931	\$2,015	\$76,113	\$2,454	\$125,044
REMICs:						
GSE	933	103,644	5,926	139,830	6,859	243,474
Non-GSE	—	—	1	79	1	79
Other debt securities:						
Corporate bonds	61	11,006	137	15,084	198	26,090
Total	\$1,433	\$163,581	\$8,079	\$231,106	\$9,512	\$394,687

The Company held 32 pass-through mortgage-backed securities issued or guaranteed by GSEs, 18 REMIC mortgage-backed securities issued or guaranteed by GSEs, one REMIC mortgage-backed security not issued or guaranteed by a GSE, and three corporate bonds that were in a continuous unrealized loss position of twelve months or greater at September 30, 2018. There were 47 pass-through mortgage-backed securities issued or guaranteed by GSEs, 40 REMIC mortgage-backed securities issued or guaranteed by a GSE, and 15 corporate bonds that were in an unrealized loss position of less than twelve months at September 30, 2018. All securities referred to above, other than one corporate security with a fair value of \$5.0 million and an unrealized loss of \$17,000, were rated investment grade at September 30, 2018. Management evaluated these securities and concluded that the declines in value relate to the general interest rate environment and are considered temporary. The securities cannot be prepaid in a manner that would result in the Company not receiving substantially all of its amortized cost. The Company neither has an intent to sell, nor is it more likely than not that the Company will be required to sell, the securities before the recovery of their amortized cost basis or, if necessary, maturity.

The fair values of our investment securities could decline in the future if the underlying performance of the collateral for the collateralized mortgage obligations or other securities deteriorates and our credit enhancement levels do not

provide sufficient protections to our contractual principal and interest, which may result in other-than-temporary impairment in the future. The Company did not recognize any other-than-temporary impairment charges during the three and nine months ended September 30, 2018, or September 30, 2017.

Table of Contents

NORTHFIELD BANCORP, INC.

Notes to Unaudited Consolidated Financial Statements - (Continued)

Note 3 – Debt Securities Held-to-Maturity

The following is a summary of debt securities held-to-maturity at September 30, 2018, and December 31, 2017 (in thousands):

	September 30, 2018			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Mortgage-backed securities:				
Pass-through certificates:				
GSEs	\$9,560	\$	—\$ 374	\$ 9,186
Total securities held-to-maturity	\$9,560	\$	—\$ 374	\$ 9,186
	December 31, 2017			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Mortgage-backed securities:				
Pass-through certificates:				
GSEs	\$9,931	\$ 17	\$ 56	\$ 9,892
Total securities held-to-maturity	\$9,931	\$ 17	\$ 56	\$ 9,892

Contractual maturities for mortgage-backed securities are not presented, as expected maturities on mortgage backed securities may differ from contractual maturities as borrowers may have the right to call or prepay obligations with or without penalties. There were no sales of held-to-maturity securities for the three and nine months ended September 30, 2018, or September 30, 2017.

At September 30, 2018, debt securities held-to-maturity with a carrying value of \$7.0 million were pledged to secure borrowings and deposits.

Gross unrealized losses on mortgage-backed securities held-to-maturity, and the estimated fair value of the related securities, aggregated by security category and length of time that individual securities have been in a continuous unrealized loss position, at September 30, 2018 and December 31, 2017, were as follows (in thousands):

	September 30, 2018					
	Less than 12 months		12 months or more		Total	
	Unrealized losses	Estimated fair value	Unrealized losses	Estimated fair value	Unrealized losses	Estimated fair value
Mortgage-backed securities:						
Pass-through certificates:						
GSEs	\$194	\$ 5,643	\$180	\$ 3,543	\$374	\$ 9,186
Total securities held-to-maturity	\$194	\$ 5,643	\$180	\$ 3,543	\$374	\$ 9,186
	December 31, 2017					
	Less than 12 months		12 months or more		Total	
	Unrealized losses	Estimated fair value	Unrealized losses	Estimated fair value	Unrealized losses	Estimated fair value
Mortgage-backed securities:						
Pass-through certificates:						

Mortgage-backed securities:
Pass-through certificates:

Edgar Filing: Northfield Bancorp, Inc. - Form 10-Q

GSEs	\$7	\$ 3,922	\$49	\$ 3,735	\$56	\$ 7,657
Total securities held-to-maturity	\$7	\$ 3,922	\$49	\$ 3,735	\$56	\$ 7,657

12

Table of Contents

NORTHFIELD BANCORP, INC.

Notes to Unaudited Consolidated Financial Statements - (Continued)

The Company held two pass-through mortgage-backed securities held-to-maturity, issued or guaranteed by GSEs that were in a continuous unrealized loss position of greater than twelve months at September 30, 2018, and four pass-through mortgage-backed securities held-to-maturity, issued or guaranteed by GSEs that were in a continuous unrealized loss position of less than twelve months at September 30, 2018. Management evaluated these securities and concluded that the declines in value relate to the general interest rate environment and are considered temporary. The securities cannot be prepaid in a manner that would result in the Company not receiving substantially all of its amortized cost. The Company neither has an intent to sell, nor is it more likely than not that the Company will be required to sell, the securities before the recovery of their amortized cost basis or, if necessary, maturity.

The fair values of our investment securities could decline in the future if the underlying performance of the collateral for the collateralized mortgage obligations or other securities deteriorates and our credit enhancement levels do not provide sufficient protections to our contractual principal and interest. As a result, there is a risk that significant other-than-temporary impairments may occur in the future given the current economic environment. The Company did not recognize any other-than-temporary impairment charges in earnings on securities held-to-maturity during the three and nine months ended September 30, 2018, or September 30, 2017.

Note 4 – Equity Securities

At September 30, 2018 and December 31, 2017, equity securities totaled \$1.2 million and \$1.3 million, respectively. Equity securities consist of money market mutual funds, recorded at fair value of \$148,000 and \$323,000, at September 30, 2018 and December 31, 2017, respectively, and an investment in a private Small Business Administration (“SBA”) Loan Fund recorded at net asset value of \$1.0 million at both September 30, 2018, and December 31, 2017. As the SBA Loan Fund operates as a private fund, its shares are not publicly traded and therefore have no readily determinable market value. The investment in the fund is recorded at net asset value as a practical expedient for reporting fair market value. Upon adoption of Accounting Standards Update (“ASU”) No. 2016-01, Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities as of January 1, 2018, the Company reclassified its equity securities out of available-for-sale securities to equity securities on the consolidated balance sheets for all periods presented. For further details on ASU No. 2016-01 see Note 12 - “Recently Issued and Adopted Accounting Pronouncements.”

Table of Contents

NORTHFIELD BANCORP, INC.

Notes to Unaudited Consolidated Financial Statements - (Continued)

Note 5 – Loans

Net loans held-for-investment are as follows (in thousands):

	September 30, 2018	December 31, 2017
Real estate loans:		
Multifamily	\$ 1,847,871	\$ 1,735,712
Commercial mortgage	502,691	445,225
One-to-four family residential mortgage	92,533	100,942
Home equity and lines of credit	75,719	66,254
Construction and land	27,044	34,545
Total real estate loans	2,545,858	2,382,678
Commercial and industrial loans	43,755	34,828
Other loans	1,374	1,430
Total commercial and industrial and other loans	45,129	36,258
Deferred loan cost, net	6,829	6,339
Originated loans held-for-investment, net	2,597,816	2,425,275
PCI Loans	20,535	22,741
Loans acquired:		
One-to-four family residential mortgage	243,586	275,053
Multifamily	153,408	199,149
Commercial mortgage	146,005	163,962
Home equity and lines of credit	18,279	20,455
Construction and land	13,556	17,201
Total acquired real estate loans	574,834	675,820
Commercial and industrial loans	13,668	16,946
Other loans	15	37
Total loans acquired, net	588,517	692,803
Loans held-for-investment, net	3,206,868	3,140,819
Allowance for loan losses	(27,687)	(26,160)
Net loans held-for-investment	\$ 3,179,181	\$ 3,114,659

There were no loans held-for-sale at September 30, 2018, or December 31, 2017.

PCI loans totaled \$20.5 million at September 30, 2018, as compared to \$22.7 million at December 31, 2017. The majority of the PCI loan balance is attributable to those loans acquired as part of a Federal Deposit Insurance Corporation-assisted transaction. The Company accounts for PCI loans utilizing U.S. GAAP applicable to loans acquired with deteriorated credit quality. At September 30, 2018, PCI loans consist of approximately 28% commercial real estate loans and 49% commercial and industrial loans, with the remaining balance in residential and home equity loans. At December 31, 2017, PCI loans consist of approximately 27% commercial real estate loans and 50% commercial and industrial loans, with the remaining balance in residential and home equity loans.

The following table details the accretion of interest income for PCI loans for the three and nine months ended September 30, 2018 and September 30, 2017 (in thousands):

	At or for the three months ended September 30,	At or for the nine months ended September 30,
--	--	---

Edgar Filing: Northfield Bancorp, Inc. - Form 10-Q

	2018	2017	2018	2017
Balance at the beginning of period	\$22,386	\$21,442	\$24,502	\$24,215
Accretion into interest income	(1,025)	(1,361)	(3,141)	(4,134)
Balance at end of period	\$21,361	\$20,081	\$21,361	\$20,081

14

Table of Contents

NORTHFIELD BANCORP, INC.

Notes to Unaudited Consolidated Financial Statements - (Continued)

The following tables set forth activity in our allowance for loan losses, by loan type, as of and for the three and nine months ended September 30, 2018, and September 30, 2017 (in thousands):

Three Months Ended September 30, 2018

Real Estate

	Commercial	One-to-Four Family and Land	Construction and Multifamily	Home Equity and Lines of Credit	Commercial and Industrial	Other	Unallocated Total	Originated Loans Total	Purchased Credit-Impaired	Acquired Impaired	Total	
Allowance for loan losses:												
Beginning balance	\$5,718	\$ 384	\$ 438	\$17,603	\$279	\$1,402	\$107	\$ —	\$25,931	\$ 951	\$ —	\$26,882
Charge-offs	(444)	—	—	—	—	(72)	(1)	—	(517)	—	—	(517)
Recoveries	12	—	—	—	—	—	—	12	—	6	18	
Provisions (credit)	1,165	8	28	(323)	(39)	482	(11)	—	1,310	—	(6)	1,304
Ending balance	\$6,451	\$ 392	\$ 466	\$17,280	\$240	\$1,812	\$95	\$ —	\$26,736	\$ 951	\$ —	\$27,687

Three Months Ended September 30, 2017

Real Estate

	Commercial	One-to-Four Family and Land	Construction and Multifamily	Home Equity and Lines of Credit	Commercial and Industrial	Other	Unallocated Total	Originated Loans Total	Purchased Credit-Impaired	Acquired Impaired	Total	
Allowance for loan losses:												
Beginning balance	\$5,236	\$ 550	\$ 229	\$16,636	\$363	\$1,532	\$97	\$ —	\$24,643	\$ 896	\$ 66	\$25,605
Charge-offs	—	—	—	(6)	—	(73)	—	—	(79)	—	—	(79)
Recoveries	18	—	—	—	34	10	—	62	—	23	85	
Provisions (credit)	(109)	(85)	475	507	(292)	69	(22)	—	543	—	(55)	488
Ending balance	\$5,145	\$ 465	\$ 704	\$17,137	\$105	\$1,538	\$75	\$ —	\$25,169	\$ 896	\$ 34	\$26,099

Table of Contents

NORTHFIELD BANCORP, INC.

Notes to Unaudited Consolidated Financial Statements - (Continued)

Nine Months Ended September 30, 2018

Real Estate

	Commercial	One-to-Four Family	Construction and Land	Multifamily	Home Equity and Lines of Credit	Commercial and Industrial	Other	Unallocated Total	Originated Loans Total	Purchased Credit-Impaired	Acquired Loans	Total
Allowance for loan losses:												
Beginning balance	\$5,196	\$503	\$610	\$17,374	\$122	\$1,273	\$94	\$—	\$25,172	\$951	\$37	\$26,160
Charge-offs	(447)	—	—	—	(60)	(72)	1	—	(578)	—	(1)	(579)
Recoveries	37	3	—	26	—	20	—	—	86	—	12	98
Provisions/(credit)	1,665	(114)	(144)	(120)	178	591	—	—	2,056	—	(48)	2,008
Ending balance	\$6,451	\$392	\$466	\$17,280	\$240	\$1,812	\$95	\$—	\$26,736	\$951	\$—	\$27,687

Nine Months Ended September 30, 2017

Real Estate

	Commercial	One-to-Four Family	Construction and Land	Multifamily	Home Equity and Lines of Credit	Commercial and Industrial	Other	Unallocated Total	Originated Loans Total	Purchased Credit-Impaired	Acquired Loans	Total
Allowance for loan losses:												
Beginning balance	\$5,432	\$664	\$172	\$14,952	\$588	\$1,720	\$96	\$—	\$23,624	\$896	\$75	\$24,595
Charge-offs	(4)	—	—	(184)	(104)	(73)	—	—	(365)	—	(30)	(395)
Recoveries	52	—	—	278	97	74	—	—	501	—	27	528
Provisions/(credit)	(335)	(199)	532	2,091	(476)	(183)	(21)	—	1,409	—	(38)	1,371
Ending balance	\$5,145	\$465	\$704	\$17,137	\$105	\$1,538	\$75	\$—	\$25,169	\$896	\$34	\$26,099

Table of Contents

NORTHFIELD BANCORP, INC.

Notes to Unaudited Consolidated Financial Statements - (Continued)

The following tables detail the amount of loans receivable held-for-investment, net of deferred loan fees and costs, that are evaluated individually, and collectively, for impairment, and the related portion of the allowance for loan losses that is allocated to each loan portfolio segment, at September 30, 2018, and December 31, 2017 (in thousands):

September 30, 2018

Real Estate

	Commercial	One-to-Four Family	Construction and Land	Multifamily	Home Equity and Lines of Credit	Commercial and Industrial	Other	Originated Loans Total	Purchased Credit-Impaired	Acquired Impaired	Total
Allowance for loan losses:											
Ending balance:											
individually evaluated for impairment	\$501	\$19	\$—	\$—	\$5	\$4	\$—	\$529	\$—	\$—	\$529
Ending balance: collectively evaluated for impairment	\$5,950	\$373	\$466	\$17,280	\$235	\$1,808	\$95	\$26,207	\$951	\$—	\$27,158
Loans, net:											
Ending balance	\$503,225	\$93,603	\$27,112	\$1,851,275	\$77,375	\$43,851	\$1,375	\$2,597,816	\$20,535	\$588,517	\$3,206,868
Ending balance: individually evaluated for impairment	\$16,220	\$1,916	\$—	\$1,271	\$63	\$76	\$—	\$19,546	\$—	\$3,787	\$23,333
Ending balance: collectively evaluated for impairment	\$487,005	\$91,687	\$27,112	\$1,850,004	\$77,312	\$43,775	\$1,375	\$2,578,270	\$20,535	\$584,730	\$3,183,535

December 31, 2017

Real Estate

	Commercial	One-to-Four Family	Construction and Land	Multifamily	Home Equity and Lines of	Commercial and Industrial	Other	Originated Loans Total	Purchased Credit-Impaired	Acquired Impaired	Total
--	------------	--------------------	-----------------------	-------------	--------------------------	---------------------------	-------	------------------------	---------------------------	-------------------	-------

Credit

Allowance for loan losses: Ending balance: individually evaluated for impairment	\$—	\$38	\$—	\$—	\$4	\$3	\$—	\$45	\$—	\$37	\$82
Ending balance: collectively evaluated for impairment	\$5,196	\$465	\$610	\$17,374	\$118	\$1,270	\$94	\$25,127	\$951	\$—	\$26,078
Loans, net: Ending balance	\$445,781	\$101,650	\$34,620	\$1,739,220	\$67,679	\$34,893	\$1,432	\$2,425,275	\$22,741	\$692,803	\$3,140,819
Ending balance: individually evaluated for impairment	\$16,008	\$1,996	\$—	\$1,310	\$69	\$159	\$—	\$19,542	\$—	\$1,543	\$21,085
Ending balance: collectively evaluated for impairment	\$429,773	\$99,654	\$34,620	\$1,737,910	\$67,610	\$34,734	\$1,432	\$2,405,733	\$22,741	\$691,260	\$3,119,734

Table of Contents

NORTHFIELD BANCORP, INC.

Notes to Unaudited Consolidated Financial Statements - (Continued)

The Company monitors the credit quality of its loan portfolio on a regular basis. Credit quality is monitored by reviewing certain credit quality indicators. Management has determined that loan-to-value ratios (at period end) and internally assigned credit risk ratings by loan type are the key credit quality indicators that best measure the credit quality of the Company's loan receivables. Loan-to-value ("LTV") ratios used by management in monitoring credit quality are based on current period loan balances and original appraised values at time of origination (unless a current appraisal has been obtained as a result of the loan being deemed impaired). In calculating the provision for loan losses, based on past loan loss experience, management has determined that commercial real estate loans and multifamily loans having loan-to-value ratios, as described above, of less than 35%, and one-to-four family loans having loan-to-value ratios, as described above, of less than 60%, require less of a loss factor than those with higher loan to value ratios.

The Company maintains a credit risk rating system as part of the risk assessment of its loan portfolio. The Company's lending officers are required to assign a credit risk rating to each loan in their portfolio at origination. This risk rating is reviewed periodically and adjusted if necessary. Monthly, management presents monitored assets to the loan committee. In addition, the Company engages a third-party independent loan reviewer that performs semi-annual reviews of a sample of loans, validating the credit risk ratings assigned to such loans. The credit risk ratings play an important role in the establishment of the loan loss provision and the allowance for loan losses for originated loans held-for-investment. After determining the general reserve loss factor for each originated portfolio segment held-for-investment, the originated portfolio segment held-for-investment balance collectively evaluated for impairment is multiplied by the general reserve loss factor for the respective portfolio segment in order to determine the general reserve.

When assigning a risk rating to a loan, management utilizes the Bank's internal nine-point credit risk rating system.

1. Strong
2. Good
3. Acceptable
4. Adequate
5. Watch
6. Special Mention
7. Substandard
8. Doubtful
9. Loss

Loans rated 1 to 5 are considered pass ratings. An asset is classified substandard if it is inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Substandard assets have well defined weaknesses based on objective evidence, and are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected. Assets classified as doubtful have all of the weaknesses inherent in those classified substandard with the added characteristic that the weaknesses present make collection or liquidation in full highly questionable and improbable based on current circumstances. Assets classified as loss are those considered uncollectible and of such little value that their continuance as assets is not warranted. Assets which do not currently expose the Company to sufficient risk to warrant classification in one of the aforementioned categories, but possess weaknesses, are required to be designated special mention.

Table of Contents

NORTHFIELD BANCORP, INC.

Notes to Unaudited Consolidated Financial Statements - (Continued)

The following tables detail the recorded investment of originated loans held-for-investment, net of deferred fees and costs, by loan type and credit quality indicator at September 30, 2018, and December 31, 2017 (in thousands):

September 30, 2018

Real Estate

Internal Risk Rating	Multifamily		Commercial		One-to-Four Family		Construction and Land	Home Equity and Lines of Credit	Commercial and Industrial	Other	Total
	< 35% LTV	=> 35% LTV	< 35% LTV	=> 35% LTV	< 60% LTV	=> 60% LTV					
	Pass	\$154,512	\$1,694,833	\$70,369	\$420,158	\$55,765					
Special Mention	—	620	399	1,148	665	—	—	27	493	—	3,352
Substandard	—	1,310	—	11,151	1,422	568	—	214	101	—	14,766
Originated loans held-for-investment, net	\$154,512	\$1,696,763	\$70,768	\$432,457	\$57,852	\$35,751	\$27,112	\$77,375	\$43,851	\$1,375	\$2,597

December 31, 2017

Real Estate

Internal Risk Rating	Multifamily		Commercial		One-to-Four Family		Construction and Land	Home Equity and Lines of Credit	Commercial and Industrial	Other	Total
	< 35% LTV	=> 35% LTV	< 35% LTV	=> 35% LTV	< 60% LTV	=> 60% LTV					
	Pass	\$131,792	\$1,603,947	\$84,620	\$346,857	\$60,400					
Special Mention	—	1,897	410	2,170	683	—	—	28	571	—	5,759
Substandard	—	1,584	—	11,724	1,470	593	—	225	181	—	15,777
Originated loans held-for-investment, net	\$131,792	\$1,607,428	\$85,030	\$360,751	\$62,553	\$39,097	\$34,620	\$67,679	\$34,893	\$1,432	\$2,425

Table of Contents

NORTHFIELD BANCORP, INC.

Notes to Unaudited Consolidated Financial Statements - (Continued)

Included in loans receivable (including loans held-for-sale) are loans for which the accrual of interest income has been discontinued due to deterioration in the financial condition of the borrowers. The recorded investment of these non-accrual loans was \$10.0 million and \$5.5 million at September 30, 2018, and December 31, 2017, respectively. Generally, loans are placed on non-accrual status when they become 90 days or more delinquent, or sooner if considered appropriate by management, and remain on non-accrual status until they are brought current, have six consecutive months of performance under the loan terms, and factors indicating reasonable doubt about the timely collection of payments no longer exist. Therefore, loans may be current in accordance with their loan terms, or may be less than 90 days delinquent and still be on a non-accruing status.

These non-accrual amounts included loans deemed to be impaired of \$6.7 million and \$3.1 million at September 30, 2018, and December 31, 2017, respectively. Loans on non-accrual status with principal balances less than \$500,000, and therefore not meeting the Company's definition of an impaired loan, amounted to \$3.3 million and \$2.4 million at September 30, 2018, and December 31, 2017, respectively. There were no non-accrual loans held-for-sale at September 30, 2018 and December 31, 2017. Loans past due 90 days or more and still accruing interest were \$33,000 and \$28,000 at September 30, 2018 and December 31, 2017, respectively, and consisted of loans that are considered well-secured and in the process of collection.

Table of Contents

NORTHFIELD BANCORP, INC.

Notes to Unaudited Consolidated Financial Statements - (Continued)

The following tables set forth the detail, and delinquency status, of non-performing loans (non-accrual loans and loans past due 90 days or more and still accruing), net of deferred fees and costs, at September 30, 2018, and December 31, 2017, excluding loans held-for-sale and PCI loans which have been segregated into pools. For PCI loans, each loan pool is accounted for as a single asset with a single composite interest rate and an aggregate expectation of cash flows (in thousands):

21

Table of Contents

NORTHFIELD BANCORP, INC.

Notes to Unaudited Consolidated Financial Statements - (Continued)

	September 30, 2018				
	Total Non-Performing Loans				
	Non-Accruing Loans				
	90			90 Days	Total
	0-29	30-89	Total	Past Due	Non-Performing
	Days	Days		and	Loans
	Past	Past		Accruing	
	Due	More			
	Due	Due			
Loans held-for-investment:					
Real estate loans:					
Commercial					
LTV => 35%					
Substandard	\$—	—\$3,696	\$3,696	\$—	—\$ 3,696
Total commercial	—	3,696	3,696	—	3,696
One-to-four family residential					
LTV < 60%					
Substandard	—240	277	517	—	517
Total	—240	277	517	—	517
LTV => 60%					
Substandard	—33	—	33	—	33
Total one-to-four family residential	—273	277	550	—	550
Home equity and lines of credit					
Substandard	75—	—	75	—	75
Total home equity and lines of credit	75—	—	75	—	75
Total non-performing loans held-for-investment, originated	75273	3,973	4,321	—	4,321
Loans acquired:					
Real estate loans:					
Commercial					
LTV < 35%					
Substandard	—	289	289	—	289
LTV => 35%					
Substandard	518,088	537	4,143	—	4,143
Total commercial	518,088	826	4,432	—	4,432
One-to-four family residential					
LTV < 60%					
Substandard					