NEW YORK COMMUNITY BANCORP INC
Form 10-Q
May 10, 2011

# 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 MARCH 31, 2011**

**Commission File Number 1-31565**

# NEW YORK COMMUNITY BANCORP, INC.

**(Exact name of registrant as specified in its charter)**

| **Delaware** | **06-1377322** |
|---|---|
| **(State or other jurisdiction of incorporation or organization)** | **(I.R.S. Employer Identification No.)** |

**615 Merrick Avenue, Westbury, New York 11590**

**(Address of principal executive offices)**

**(Registrant s telephone number, including area code) (516) 683-4100**

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 x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

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.

| | |
|---|---|
| Large Accelerated Filer x | Accelerated Filer ¨ |
| Non-accelerated Filer ¨ | 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 ¨ No x

437,348,593

Number of shares of common stock outstanding at

May 3, 2011

**NEW YORK COMMUNITY BANCORP, INC.**

**FORM 10-Q**

**Quarter Ended March 31, 2011**

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**NEW YORK COMMUNITY BANCORP, INC.**

**CONSOLIDATED STATEMENTS OF CONDITION**

**(in thousands, except share data)**

| | March 31, 2011 (unaudited) | December 31, 2010 |
|---|---|---|
| **ASSETS:** | | |
| Cash and cash equivalents | $ 2,351,729 | $ 1,927,542 |
| Securities: | | |
| Available-for-sale ($365,342 and $500,811 pledged, respectively) | 490,779 | 652,956 |
| Held to maturity ($4,084,011 and $3,881,139 pledged, respectively) (fair value of $4,326,541 and $4,157,322, respectively) | 4,304,218 | 4,135,935 |
| Total securities | 4,794,997 | 4,788,891 |
| Non-covered loans held for sale | 507,461 | 1,207,077 |
| Non-covered loans held for investment, net of deferred loan fees and costs | 24,024,733 | 23,707,494 |
| Less: Allowance for losses on non-covered loans | (146,306) | (158,942) |
| Non-covered loans held for investment, net | 23,878,427 | 23,548,552 |
| Covered loans | 4,141,082 | 4,297,869 |
| Less: Allowance for losses on covered loans | (11,903) | (11,903) |
| Covered loans, net | 4,129,179 | 4,285,966 |
| Total loans, net | 28,515,067 | 29,041,595 |
| Federal Home Loan Bank stock, at cost | 422,731 | 446,014 |
| Premises and equipment, net | 246,975 | 233,694 |
| FDIC loss share receivable | 777,183 | 814,088 |
| Goodwill | 2,436,159 | 2,436,159 |
| Core deposit intangibles, net | 70,349 | 77,734 |
| Bank-owned life insurance | 749,369 | 742,481 |
| Other real estate owned (includes $81,197 and $62,412 covered by FDIC loss sharing agreements, respectively) | 113,254 | 90,478 |
| Other assets | 569,131 | 592,013 |
| Total assets | $ 41,046,944 | $ 41,190,689 |
| **LIABILITIES AND STOCKHOLDERS EQUITY:** | | |
| Deposits: | | |
| NOW and money market accounts | $ 8,919,226 | $ 8,235,825 |
| Savings accounts | 3,949,970 | 3,885,785 |
| Certificates of deposit | 7,453,547 | 7,835,161 |
| Non-interest-bearing accounts | 1,875,404 | 1,852,280 |
| Total deposits | 22,198,147 | 21,809,051 |
| Borrowed funds: | | |
| Wholesale borrowings: | | |
| Federal Home Loan Bank advances | 7,859,163 | 8,375,659 |
| Repurchase agreements | 4,125,000 | 4,125,000 |
| Total wholesale borrowings | 11,984,163 | 12,500,659 |

| | | |
|---|---|---|
| Junior subordinated debentures | 426,903 | 426,992 |
| Other borrowings | 608,496 | 608,465 |
| Total borrowed funds | 13,019,562 | 13,536,116 |
| Other liabilities | 288,649 | 319,302 |
| Total liabilities | 35,506,358 | 35,664,469 |
| Stockholders equity: | | |
| Preferred stock at par $0.01 (5,000,000 shares authorized; none issued) | | |
| Common stock at par $0.01 (600,000,000 shares authorized; 437,341,143 shares and 435,646,845 shares issued and outstanding, respectively) | 4,373 | 4,356 |
| Paid-in capital in excess of par | 5,290,868 | 5,285,715 |
| Retained earnings | 295,866 | 281,844 |
| Accumulated other comprehensive loss, net of tax: | | |
| Net unrealized gain on securities available for sale, net of tax | 7,010 | 12,600 |
| Net unrealized losses on the non-credit portion of other-than-temporary impairment ( OTTI ) losses on securities, net of tax | (20,552) | (20,572) |
| Net unrealized loss on pension and post-retirement obligations, net of tax | (36,979) | (37,723) |
| Total accumulated other comprehensive loss, net of tax | (50,521) | (45,695) |
| Total stockholders equity | 5,540,586 | 5,526,220 |
| Total liabilities and stockholders equity | $ 41,046,944 | $ 41,190,689 |

See accompanying notes to the consolidated financial statements.

**NEW YORK COMMUNITY BANCORP, INC.**

**CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME**

**(in thousands, except share data)**

**(unaudited)**

| | For the Three Months Ended March 31, 2011 | 2010 |
|---|---|---|
| **INTEREST INCOME:** | | |
| Mortgage and other loans | $ 415,942 | $ 413,675 |
| Securities and money market investments | 54,981 | 68,703 |
| Total interest income | 470,923 | 482,378 |
| **INTEREST EXPENSE:** | | |
| NOW and money market accounts | 11,154 | 16,431 |
| Savings accounts | 4,127 | 5,745 |
| Certificates of deposit | 26,974 | 37,553 |
| Borrowed funds | 125,416 | 128,065 |
| Total interest expense | 167,671 | 187,794 |
| Net interest income | 303,252 | 294,584 |
| Provision for losses on non-covered loans | 26,000 | 20,000 |
| Provision for losses on covered loans | | |
| Net interest income after provisions for loan losses | 277,252 | 274,584 |
| **NON-INTEREST INCOME:** | | |
| Total loss on OTTI of securities | | (13,185) |
| Less: Non-credit portion of OTTI recorded in other comprehensive income (before taxes) | | 12,462 |
| Net loss on OTTI recognized in earnings | | (723) |
| Fee income | 11,899 | 13,965 |
| Bank-owned life insurance | 6,889 | 7,401 |
| Net gain (loss) on sales of securities | 9,992 | (8) |
| Gain on debt repurchase | | 293 |
| Mortgage banking income | 19,938 | 27,533 |
| Other income | 9,892 | 6,583 |
| Total non-interest income | 58,610 | 55,044 |
| **NON-INTEREST EXPENSE:** | | |
| Operating expenses: | | |
| Compensation and benefits | 72,068 | 66,900 |
| Occupancy and equipment | 21,940 | 21,665 |
| General and administrative | 45,309 | 40,290 |
| Total operating expenses | 139,317 | 128,855 |

| | | |
|---|---|---|
| Amortization of core deposit intangibles | 7,385 | 7,892 |
| Total non-interest expense | 146,702 | 136,747 |
| Income before income taxes | 189,160 | 192,881 |
| Income tax expense | 65,984 | 68,732 |
| **Net income** | 123,176 | 124,149 |
| Other comprehensive income, net of tax: | | |
| Net change in unrealized losses on securities and non-credit portion of OTTI losses on securities | (5,570) | (4,783) |
| Change in pension and post-retirement obligations | 744 | 834 |
| Total comprehensive income, net of tax | $ 118,350 | $ 120,200 |
| **Basic earnings per share** | $ 0.28 | $ 0.29 |
| **Diluted earnings per share** | $ 0.28 | $ 0.29 |

See accompanying notes to the consolidated financial statements.

**NEW YORK COMMUNITY BANCORP, INC.**

**CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS EQUITY**

**(in thousands, except share data)**

**(unaudited)**

| | | Three Months Ended March 31, 2011 |
|---|---|---|
| **COMMON STOCK (Par Value: $0.01):** | | |
| Balance at beginning of year | $ | 4,356 |
| Shares issued for exercise of stock options (85,294 shares) | | 1 |
| Shares issued for restricted stock awards (1,609,004 shares) | | 16 |
| Balance at end of period | | 4,373 |
| **PAID-IN CAPITAL IN EXCESS OF PAR:** | | |
| Balance at beginning of year | | 5,285,715 |
| Shares issued for restricted stock awards, net of forfeitures | | (43) |
| Compensation expense related to restricted stock awards | | 3,612 |
| Exercise of stock options | | (55) |
| Tax effect of stock plans | | 1,639 |
| Balance at end of period | | 5,290,868 |
| **RETAINED EARNINGS:** | | |
| Balance at beginning of year | | 281,844 |
| Net income | | 123,176 |
| Dividends paid on common stock ($0.25 per share) | | (109,154) |
| Balance at end of period | | 295,866 |
| **TREASURY STOCK:** | | |
| Balance at beginning of year | | |
| Purchase of common stock (128,010 shares) | | (2,381) |
| Exercise of stock options (126,514 shares) | | 2,354 |
| Shares issued for restricted stock awards (1,496 shares) | | 27 |
| Balance at end of period | | |
| **ACCUMULATED OTHER COMPREHENSIVE LOSS, NET OF TAX:** | | |
| Balance at beginning of year | | (45,695) |
| Other comprehensive (loss) income, net of tax: | | |
| Change in net unrealized gain/loss on securities available for sale, net of tax of $2,578 | | (3,837) |
| Amortization of the non-credit portion of OTTI losses recognized in other comprehensive income, net of tax of $14 | | 20 |
| Change in pension and post-retirement obligations, net of tax of $501 | | 744 |
| Less: Reclassification adjustment for sales of available-for-sale securities, net of tax of $1,178 | | (1,753) |
| Total other comprehensive income loss, net of tax | | (4,826) |
| Balance at end of period | | (50,521) |

| Total stockholders equity | $ | 5,540,586 |
|---|---|---|

See accompanying notes to the consolidated financial statements.

**NEW YORK COMMUNITY BANCORP, INC.**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

**(in thousands)**

**(unaudited)**

| | Three Months Ended March 31, 2011 | 2010 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES:** | | |
| Net income | $ 123,176 | $ 124,149 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: | | |
| Provision for loan losses | 26,000 | 20,000 |
| Depreciation and amortization | 5,891 | 4,935 |
| Amortization of premiums, net | 278 | 1,881 |
| Amortization of core deposit intangibles | 7,385 | 7,892 |
| Net (gain) loss on sale of securities | (9,992) | 8 |
| Net gain on sale of loans | (15,902) | (7,558) |
| Stock plan-related compensation | 3,612 | 4,057 |
| Loss on OTTI of securities recognized in earnings | | 723 |
| Changes in assets and liabilities: | | |
| Decrease in deferred tax asset, net | 16,625 | 1,235 |
| Decrease (increase) in other assets | 16,703 | (22,767) |
| (Decrease) increase in other liabilities | (29,408) | 98,575 |
| Origination of loans held for sale | (1,500,836) | (1,349,160) |
| Proceeds from sale of loans originated for sale | 2,211,232 | 911,038 |
| Net cash provided by (used in) operating activities | 854,764 | (204,992) |
| **CASH FLOWS FROM INVESTING ACTIVITIES:** | | |
| Proceeds from repayment of securities held to maturity | 224,978 | 332,077 |
| Proceeds from repayment of securities available for sale | 51,551 | 420,315 |
| Proceeds from sale of securities held to maturity | 227,039 | |
| Proceeds from sale of securities available for sale | 103,956 | 660 |
| Purchase of securities held to maturity | (613,191) | (565,524) |
| Net redemption of Federal Home Loan Bank stock | 23,283 | 56,211 |
| Net (increase) decrease in loans | (193,966) | 86,544 |
| Purchase of premises and equipment, net | (19,172) | (2,284) |
| Net cash acquired in business combination | | 140,895 |
| Net cash (used in) provided by investing activities | (195,522) | 468,894 |
| **CASH FLOWS FROM FINANCING ACTIVITIES:** | | |
| Net increase in deposits | 389,095 | 24,168 |
| Net decrease in short-term borrowed funds | (500,000) | |
| Net decrease in long-term borrowed funds | (16,554) | (333,340) |
| Tax effect of stock plans | 1,639 | 657 |
| Cash dividends paid on common stock | (109,154) | (108,157) |
| Treasury stock purchases | (2,381) | (1,706) |
| Net cash received from stock option exercises | 2,300 | 2,573 |
| Proceeds from issuance of common stock, net | | 28,935 |
| Net cash used in financing activities | (235,055) | (386,870) |

| | | |
|---|---|---|
| Net increase (decrease) in cash and cash equivalents | 424,187 | (122,968) |
| Cash and cash equivalents at beginning of period | 1,927,542 | 2,670,857 |
| Cash and cash equivalents at end of period | $ 2,351,729 | $ 2,547,889 |
| Supplemental information: | | |
| Cash paid for interest | $ 171,491 | $ 203,198 |
| Cash (received from) paid for income taxes | (10,134) | 18,819 |
| Non-cash investing and financing activities: | | |
| Transfers to other real estate owned from loans | 46,218 | 1,634 |

Note: Excluding the core deposit intangible and FDIC loss share receivable, the fair values of non-cash assets acquired, and of liabilities assumed, in the acquisition of Desert Hills Bank on March 26, 2010 were $230.5 million and $442.5 million, respectively.

See accompanying notes to the consolidated financial statements.

**NEW YORK COMMUNITY BANCORP, INC.**

**NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

## Note 1: Organization and Basis of Presentation

### Organization

Formerly known as Queens County Bancorp, Inc., New York Community Bancorp, Inc. (on a stand-alone basis, the Parent Company or, collectively with its subsidiaries, the Company ) was organized under Delaware law on July 20, 1993 and is the holding company for New York Community Bank and New York Commercial Bank (hereinafter referred to as the Community Bank and the Commercial Bank, respectively, and collectively as the Banks ). In addition, for the purpose of these Consolidated Financial Statements, the Community Bank and the Commercial Bank refer not only to the respective banks but also to their respective subsidiaries.

The Community Bank is the primary banking subsidiary of the Company. Founded on April 14, 1859 and formerly known as Queens County Savings Bank, the Community Bank converted from a state-chartered mutual savings bank to the capital stock form of ownership on November 23, 1993, at which date the Company issued its initial offering of common stock (par value: $0.01 per share) at a price of $25.00 per share. The Commercial Bank was established on December 30, 2005.

Reflecting nine stock splits, the Company s initial offering price adjusts to $0.93 per share. All share and per share data presented in this report have been adjusted to reflect the impact of the stock splits.

The Company changed its name to New York Community Bancorp, Inc. on November 21, 2000 in anticipation of completing the first of eight business combinations that expanded its footprint well beyond Queens County to encompass all five boroughs of New York City, Long Island, and Westchester County in New York, and seven counties in the northern and central parts of New Jersey. The Company expanded beyond this region to south Florida, northeast Ohio, and central Arizona through its FDIC-assisted acquisition of certain assets and its assumption of certain liabilities of AmTrust Bank ( AmTrust ) in December 2009, and extended its Arizona franchise through its FDIC-assisted acquisition of certain assets and its assumption of certain liabilities of Desert Hills Bank ( Desert Hills ) in March 2010.

Reflecting this strategy of growth through acquisitions, the Community Bank currently operates 242 branches, four of which operate directly under the Community Bank name. The remaining 238 branches operate through seven divisional banks Queens County Savings Bank, Roslyn Savings Bank, Richmond County Savings Bank, and Roosevelt Savings Bank (in New York), Garden State Community Bank in New Jersey, AmTrust Bank in Florida and Arizona, and Ohio Savings Bank in Ohio.

The Commercial Bank currently operates 34 branches in Manhattan, Queens, Brooklyn, Westchester County, and Long Island (all in New York), including 17 branches that operate under the name Atlantic Bank.

### Basis of Presentation

The following is a description of the significant accounting and reporting policies that the Company and its wholly-owned subsidiaries follow in preparing and presenting their consolidated financial statements, which conform to U.S. generally accepted accounting principles ( GAAP ) and to general practices within the banking industry. The preparation of financial statements in conformity with GAAP requires the Company to make estimates and judgments that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Estimates that are particularly susceptible to change in the near term are used in connection with the determination of the allowance for loan losses; the evaluation of goodwill for impairment; the evaluation of other-than-temporary impairment ( OTTI ) on securities; and the evaluation of the need for a valuation allowance on the Company s deferred tax assets. The current economic environment has increased the degree of uncertainty inherent in these material estimates.

The unaudited consolidated financial statements include the accounts of the Company and other entities in which the Company has a controlling financial interest. All inter-company accounts and transactions are eliminated

in consolidation. These unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company s 2010 Annual Report on Form 10-K. The Company currently has unconsolidated subsidiaries in the form of nine wholly-owned statutory business trusts, which were formed to issue guaranteed capital debentures ( capital securities ). Please see Note 6, Borrowed Funds, for additional information regarding these trusts.

When necessary, certain reclassifications have been made to prior-year amounts to conform to the current-year presentation.

**Note 2. Computation of Earnings per Share**

Basic earnings per share ( EPS ) is computed by dividing net income by the weighted-average number of common shares outstanding during the period. Weighted-average common shares are adjusted to exclude unallocated Employee Stock Ownership Plan ( ESOP ) shares. Diluted EPS is computed using the same method as basic EPS, however, the computation reflects the potential dilution that would occur if outstanding in-the-money stock options were exercised and converted into common stock.

Unvested stock-based compensation awards containing non-forfeitable rights to dividends are considered participating securities and therefore are included in the two-class method for calculating EPS. Under the two-class method, all earnings (distributed and undistributed) are allocated to common shares and participating securities based on their respective rights to receive dividends. The Company grants restricted stock to certain employees under its stock-based compensation plans. Recipients receive cash dividends during the vesting periods of these awards (i.e., including on the unvested portion of such awards). Since these dividends are non-forfeitable, the unvested awards are considered participating securities and will have earnings allocated to them.

The following table presents the Company s computation of basic and diluted EPS for the periods indicated:

| | Three Months Ended March 31, | |
|---|---|---|
| **(in thousands, except share and per share amounts)** | **2011** | **2010** |
| Net income | $ 123,176 | $ 124,149 |
| Less: Dividends paid on and earnings allocated to participating securities | (890) | (748) |
| Earnings applicable to common stock | $ 122,286 | $ 123,401 |
| Weighted average common shares outstanding | 435,563,415 | 432,131,304 |
| Basic earnings per common share | $ 0.28 | $ 0.29 |
| Earnings applicable to common stock | $ 122,286 | $ 123,401 |
| Weighted average common shares outstanding | 435,563,415 | 432,131,304 |
| Potential dilutive common shares (1) | 849,934 | 315,370 |
| Total shares for diluted earnings per share computation | 436,413,349 | 432,446,674 |
| Diluted earnings per common share and common share equivalents | $ 0.28 | $ 0.29 |

(1) Options to purchase 2,617,993 and 5,310,729 shares, respectively, of the Company s common stock that were outstanding as of March 31, 2011 and 2010, at respective weighted average exercise prices of $19.29 and $17.72, were excluded from the respective computations of diluted EPS because their inclusion would have had an antidilutive effect.

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**Note 3: Securities**

The following table summarizes the Company s portfolio of securities available for sale at March 31, 2011:

| | March 31, 2011 | | | |
|---|---|---|---|---|
| **(in thousands)** | **Amortized Cost** | **Gross Unrealized Gain** | **Gross Unrealized Loss** | **Fair Value** |
| Mortgage-Related Securities: | | | | |
| GSE[1] certificates | $ 163,923 | $ 6,560 | $ 58 | $ 170,425 |
| GSE CMOs[2] | 186,399 | 7,198 | | 193,597 |
| Private label CMOs | 40,875 | 166 | 9 | 41,032 |
| Total mortgage-related securities | $ 391,197 | $ 13,924 | $ 67 | $ 405,054 |
| Other Securities: | | | | |
| GSE debentures | $ 619 | $ | $ 5 | $ 614 |
| State, county, and municipal | 1,306 | 31 | 21 | 1,316 |
| Capital trust notes | 38,843 | 3,798 | 4,539 | 38,102 |
| Preferred stock | 18,124 | 454 | 11,964 | 6,614 |
| Common stock | 42,076 | 1,678 | 4,675 | 39,079 |
| Total other securities | $ 100,968 | $ 5,961 | $ 21,204 | $ 85,725 |
| Total securities available for sale[3] | $ 492,165 | $ 19,885 | $ 21,271 | $ 490,779 |

(1) Government-sponsored enterprises
(2) Collateralized mortgage obligations
(3) As of March 31, 2011, the non-credit portion of OTTI recorded in accumulated other comprehensive loss, net of tax ( AOCL ) was $12.5 million (before taxes).

As of March 31, 2011, the amortized cost of marketable equity securities included perpetual preferred stock of $18.1 million and common stock of $42.1 million. Perpetual preferred stock consisted of an investment in a Florida-based diversified financial services firm that provides a variety of banking, wealth management, and outsourced business processing services to high net worth clients and premier financial institutions. Common stock primarily consisted of an investment in a large cap equity fund and certain other funds that are Community Reinvestment Act ( CRA ) eligible.

The following table summarizes the Company s portfolio of securities available for sale at December 31, 2010:

| | December 31, 2010 | | | |
|---|---|---|---|---|
| **(in thousands)** | **Amortized Cost** | **Gross Unrealized Gain** | **Gross Unrealized Loss** | **Fair Value** |
| Mortgage-Related Securities: | | | | |
| GSE certificates | $ 203,480 | $ 8,067 | $ 32 | $ 211,515 |
| GSE CMOs | 213,839 | 8,464 | | 222,303 |
| Private label CMOs | 51,657 | 110 | 405 | 51,362 |
| Total mortgage-related securities | $ 468,976 | $ 16,641 | $ 437 | $ 485,180 |
| Other Securities: | | | | |
| U.S. Treasury obligations | $ 57,859 | $ 694 | $ | $ 58,553 |

| | | | | |
|---|---|---|---|---|
| GSE debentures | 620 | | | 620 |
| Corporate bonds | 4,814 | | 564 | 4,250 |
| State, county, and municipal | 1,304 | 41 | 11 | 1,334 |
| Capital trust notes | 38,843 | 8,550 | 5,389 | 42,004 |
| Preferred stock | 30,574 | 2,129 | 11,964 | 20,739 |
| Common stock | 42,044 | 3,786 | 5,554 | 40,276 |
| Total other securities | $ 176,058 | $ 15,200 | $ 23,482 | $ 167,776 |
| Total securities available for sale | $ 645,034 | $ 31,841 | $ 23,919 | $ 652,956 |

The following tables summarize the Company s portfolio of securities held to maturity at March 31, 2011 and December 31, 2010:

| | March 31, 2011 | | | | |
|---|---|---|---|---|---|
| (in thousands) | Amortized Cost | Carrying Amount | Gross Unrealized Gain | Gross Unrealized Loss | Fair Value |
| Mortgage-Related Securities: | | | | | |
| GSE certificates | $ 230,641 | $ 230,641 | $ 10,838 | $ 1,861 | $ 239,618 |
| GSE CMOs | 2,385,741 | 2,385,741 | 37,818 | 19,329 | 2,404,230 |
| Other mortgage-related securities | 6,722 | 6,722 | | | 6,722 |
| Total mortgage-related securities | $ 2,623,104 | $ 2,623,104 | $ 48,656 | $ 21,190 | $ 2,650,570 |
| Other Securities: | | | | | |
| GSE debentures | $ 1,452,108 | $ 1,452,108 | $ 5,404 | $ 15,275 | $ 1,442,237 |
| Corporate bonds | 83,495 | 83,495 | 5,952 | | 89,447 |
| Capital trust notes | 167,358 | 145,511 | 14,382 | 15,606 | 144,287 |
| Total other securities | $ 1,702,961 | $ 1,681,114 | $ 25,738 | $ 30,881 | $ 1,675,971 |
| Total securities held to maturity[(1)] | $ 4,326,065 | $ 4,304,218 | $ 74,394 | $ 52,071 | $ 4,326,541 |

(1) Held-to-maturity securities are reported at a carrying amount equal to amortized cost less the non-credit portion of OTTI recorded in AOCL. As of March 31, 2011, the non-credit portion recorded in AOCL was $21.8 million (before taxes).

| | December 31, 2010 | | | | |
|---|---|---|---|---|---|
| (in thousands) | Amortized Cost | Carrying Amount | Gross Unrealized Gain | Gross Unrealized Loss | Fair Value |
| Mortgage-Related Securities: | | | | | |
| GSE certificates | $ 208,993 | $ 208,993 | $ 12,206 | $ 1,094 | $ 220,105 |
| GSE CMOs | 2,763,545 | 2,763,545 | 47,352 | 28,345 | 2,782,552 |
| Other mortgage-related securities | 6,777 | 6,777 | | | 6,777 |
| Total mortgage-related securities | $ 2,979,315 | $ 2,979,315 | $ 59,558 | $ 29,439 | $ 3,009,434 |
| Other Securities: | | | | | |
| GSE debentures | $ 924,663 | $ 924,663 | $ 4,524 | $ 10,592 | $ 918,595 |
| Corporate bonds | 86,483 | 86,483 | 8,647 | 13 | 95,117 |
| Capital trust notes | 167,355 | 145,474 | 11,410 | 22,708 | 134,176 |
| Total other securities | $ 1,178,501 | $ 1,156,620 | $ 24,581 | $ 33,313 | $ 1,147,888 |
| Total securities held to maturity | $ 4,157,816 | $ 4,135,935 | $ 84,139 | $ 62,752 | $ 4,157,322 |

The Company had $422.7 million and $446.0 million of Federal Home Loan Bank ( FHLB ) stock, at cost, at March 31, 2011 and December 31, 2010, respectively. The Company is required to maintain this investment in order to have access to funding resources provided by the FHLB.

The following table summarizes the gross proceeds, gross realized gains, and gross realized losses from the sale of available-for-sale securities during the three months ended March 31, 2011 and the year ended December 31, 2010:

| (in thousands) | For the Three Months Ended March 31, 2011 | For the Year Ended December 31, 2010 |
|---|---|---|
| Gross proceeds | $ 103,956 | $ 660 |
| Gross realized gains | 2,941 | |
| Gross realized losses | 11 | 8 |

In addition, during the three months ended March 31, 2011, the Company sold held-to-maturity securities with gross proceeds totaling $227.0 million and gross realized gains of $7.1 million. These sales occurred as the Company either had collected a substantial portion (at least 85%) of the initial principal balance or there was evidence of significant deterioration in the issuer s creditworthiness.

Included in the capital trust note portfolio held at March 31, 2011 were three pooled trust preferred securities. The following table details the pooled trust preferred securities that had at least one credit rating below investment grade as of March 31, 2011:

| (dollars in thousands) | INCAPS Funding I Class B-2 Notes | Alesco Preferred Funding VII Ltd. Class C-1 Notes | Preferred Term Securities II Mezzanine Notes |
|---|---|---|---|
| Book value | $ 14,964 | $ 553 | $ 627 |
| Fair value | 18,465 | 725 | 1,076 |
| Unrealized gain | 3,501 | 172 | 449 |
| Lowest credit rating assigned to security | CCC- | C | C |
| Number of banks/insurance companies currently performing | 26 | 62 | 24 |
| Actual deferrals and defaults as a percentage of original collateral | 5% | 29% | 36% |
| Expected deferrals and defaults as a percentage of remaining performing collateral | 25 | 28 | 0 |
| Expected recoveries as a percentage of remaining performing collateral | 0 | 0 | 0 |
| Excess subordination as a percentage of remaining performing collateral | 10 | 0 | 0 |

As of March 31, 2011, after taking into account the Company s best estimates of future deferrals, defaults, and recoveries, two of its pooled trust preferred securities had no excess subordination in the classes it owns and one had excess subordination of 10%. Excess subordination is calculated after taking into account the deferrals, defaults, and recoveries noted in the table above, and indicates whether there is sufficient additional collateral to cover the outstanding principal balance of the class owned, after taking into account these projected deferrals, defaults, and recoveries.

The following table presents a roll-forward, from December 31, 2010 through March 31, 2011, of the credit loss component of OTTI on debt securities for which a non-credit component of OTTI was recognized in AOCL. The beginning balance represents the credit loss component for debt securities for which OTTI occurred prior to January 1, 2011. For credit-impaired debt securities, OTTI recognized in earnings after that date is presented as an addition in two components, based upon whether the current period is the first time a debt security was credit-impaired (initial credit impairment) or is not the first time a debt security was credit-impaired (subsequent credit impairment). There were no changes in the credit loss component of credit-impaired debt securities in the three months ended March 31, 2011:

| (in thousands) | | For the Three Months Ended March 31, 2011 |
|---|---|---|
| Beginning credit loss amount as of December 31, 2010 | | $ 201,854 |
| Add: | Initial other-than-temporary credit losses | |
| | Subsequent other-than-temporary credit losses | |
| Less: | Realized losses for securities sold | |
| | Securities intended or required to be sold | |
| | Increases in expected cash flows on debt securities | |
| Ending credit loss amount as of March 31, 2011 | | $ 201,854 |

OTTI losses on securities totaled $13.2 million in the three months ended March 31, 2010 and consisted entirely of trust preferred securities. The OTTI losses that were related to credit and, therefore, were recognized in earnings totaled $723,000 during this period, and were determined through a present-value analysis of expected cash flows on the securities. The significant inputs that the Company used to determine these expected cash flows were the anticipated magnitude and timing of interest payment deferrals, if any, and the underlying creditworthiness of the individual issuers whose debt acts as collateral for these trust preferred securities. The discount rate used to estimate the fair value was determined by considering the weighted average of certain market credit spreads, as well as credit spreads interpolated using other market factors. The discount rate used in determining the credit portion of OTTI, if any, is the yield on the position at the time of purchase.

The following table summarizes the carrying amount and estimated fair value of held-to-maturity debt securities, and the amortized cost and estimated fair value of available-for-sale debt securities, at March 31, 2011 by contractual maturity. Mortgage-related securities held to maturity and available for sale, all of which have prepayment provisions, are distributed to a maturity category based on the ends of the estimated average lives of such securities. Principal and amortization prepayments are not shown in maturity categories as they occur, but are considered in the determination of estimated average life.

| | Carrying Amount at March 31, 2011 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **(dollars in thousands)** | **Mortgage-Related Securities** | **Average Yield** | **U.S. Treasury and GSE Obligations** | **Average Yield** | **State, County, and Municipal** | **Average Yield[1]** | **Other Debt Securities[2]** | **Average Yield** | **Fair Value** |
| Held-to-Maturity Securities: | | | | | | | | | |
| Due within one year | $ | % | $ | % | $ | % | $ 8,763 | 7.79% | $ 8,956 |
| Due from one to five years | | | | | | | 23,981 | 5.80 | 24,563 |
| Due from five to ten years | 83,961 | 5.27 | 1,452,108 | 3.89 | | | 20,024 | 5.98 | 1,548,175 |
| Due after ten years | 2,539,143 | 3.87 | | | | | 176,238 | 7.29 | 2,744,847 |
| Total debt securities held to maturity | $ 2,623,104 | 3.92% | $ 1,452,108 | 3.89% | $ | % | $ 229,006 | 7.04% | $ 4,326,541 |
| Available-for-Sale Securities:[3] | | | | | | | | | |
| Due within one year | $ 3 | 2.78% | $ | % | $ 125 | 5.39% | $ | % | $ 128 |
| Due from one to five years | 10,534 | 7.20 | | | 630 | 6.10 | | | 11,264 |
| Due from five to ten years | 3,684 | 3.33 | | | 551 | 6.56 | | | 4,416 |
| Due after ten years | 376,976 | 4.69 | 619 | 5.26 | | | 38,843 | 4.88 | 429,278 |
| Total debt securities available for sale | $ 391,197 | 4.75% | $ 619 | 5.26% | $ 1,306 | 6.22% | $ 38,843 | 4.88% | $ 445,086 |

(1) Not presented on a tax-equivalent basis.

(2) Includes corporate bonds and capital trust notes. Included in capital trust notes are $15.5 million and $627,000 of pooled trust preferred securities available for sale and held to maturity, respectively, all of which are due after ten years. The remaining capital trust notes consist of single-issue trust preferred securities.

(3) As equity securities have no contractual maturity, they have been excluded from this table.

The Company had no commitments to purchase securities at March 31, 2011.

The following tables present held-to-maturity and available-for-sale securities having a continuous unrealized loss position for less than twelve months and for twelve months or longer as of March 31, 2011:

| **At March 31, 2011** | **Less than Twelve Months** | | **Twelve Months or Longer** | | **Total** | |
|---|---|---|---|---|---|---|
| **(in thousands)** | **Fair Value** | **Unrealized Loss** | **Fair Value** | **Unrealized Loss** | **Fair Value** | **Unrealized Loss** |
| Temporarily Impaired Held-to-Maturity Debt Securities: | | | | | | |
| GSE debentures | $ 1,075,857 | $ 15,275 | $ | $ | $ 1,075,857 | $ 15,275 |
| GSE certificates | 83,647 | 1,861 | | | 83,647 | 1,861 |
| GSE CMOs | 975,867 | 19,329 | | | 975,867 | 19,329 |
| Capital trust notes | | | 73,798 | 15,606 | 73,798 | 15,606 |
| Total temporarily impaired held-to-maturity debt securities | $ 2,135,371 | $ 36,465 | $ 73,798 | $ 15,606 | $ 2,209,169 | $ 52,071 |
| Temporarily Impaired Available-for-Sale Securities: | | | | | | |
| Debt Securities: | | | | | | |
| GSE certificates | $ 5,341 | $ 58 | $ | $ | $ 5,341 | $ 58 |
| Private label CMOs | 7,729 | 9 | | | 7,729 | 9 |
| GSE debentures | 614 | 5 | | | 614 | 5 |
| State, county, and municipal | 390 | 21 | | | 390 | 21 |
| Capital trust notes | 2,042 | 48 | 9,645 | 4,491 | 11,687 | 4,539 |
| Total temporarily impaired available-for-sale debt securities | $ 16,116 | $ 141 | $ 9,645 | $ 4,491 | $ 25,761 | $ 4,632 |
| Equity securities | 79 | 11 | 25,296 | 16,628 | 25,375 | 16,639 |
| Total temporarily impaired available-for-sale securities | $ 16,195 | $ 152 | $ 34,941 | $ 21,119 | $ 51,136 | $ 21,271 |

The twelve months or longer unrealized losses of $16.6 million relating to available-for-sale equity securities primarily consisted of two security positions. The first is a perpetual preferred stock of a Florida-based diversified financial services firm, which was evaluated under the debt model described earlier in this report. The second was a large cap equity fund. The respective twelve months or longer unrealized losses on the preferred stock and the large cap equity fund were $12.0 million and $4.0 million, respectively.

The following tables present held-to-maturity and available-for-sale securities having a continuous unrealized loss position for less than twelve months and for twelve months or longer as of December 31, 2010:

| **At December 31, 2010** | **Less than Twelve Months** | | **Twelve Months or Longer** | | **Total** | |
|---|---|---|---|---|---|---|
| **(in thousands)** | **Fair Value** | **Unrealized Loss** | **Fair Value** | **Unrealized Loss** | **Fair Value** | **Unrealized Loss** |
| Temporarily Impaired Held-to-Maturity Debt Securities: | | | | | | |
| GSE debentures | $ 569,361 | $ 10,592 | $ | $ | $ 569,361 | $ 10,592 |
| GSE certificates | 54,623 | 1,094 | | | 54,623 | 1,094 |
| GSE CMOs | 1,251,850 | 28,345 | | | 1,251,850 | 28,345 |
| Corporate bonds | 4,987 | 13 | | | 4,987 | 13 |
| Capital trust notes | | | 66,698 | 22,708 | 66,698 | 22,708 |
| Total temporarily impaired held-to-maturity debt securities | $ 1,880,821 | $ 40,044 | $ 66,698 | $ 22,708 | $ 1,947,519 | $ 62,752 |
| Temporarily Impaired Available-for-Sale Securities: | | | | | | |
| Debt Securities: | | | | | | |
| GSE certificates | $ 12,809 | $ 28 | $ 779 | $ 4 | $ 13,588 | $ 32 |
| Private label CMOs | | | 35,511 | 405 | 35,511 | 405 |
| Corporate bonds | | | 4,250 | 564 | 4,250 | 564 |
| State, county, and municipal | 399 | 11 | | | 399 | 11 |
| Capital trust notes | 1,988 | 102 | 8,848 | 5,287 | 10,836 | 5,389 |
| Total temporarily impaired available-for-sale debt securities | $ 15,196 | $ 141 | $ 49,388 | $ 6,260 | $ 64,584 | $ 6,401 |
| Equity securities | 79 | 11 | 25,339 | 17,507 | 25,418 | 17,518 |
| Total temporarily impaired available-for-sale securities | $ 15,275 | $ 152 | $ 74,727 | $ 23,767 | $ 90,002 | $ 23,919 |

An OTTI loss on impaired securities must be fully recognized in earnings if an investor has the intent to sell the debt security or if it is more likely than not that the investor will be required to sell the debt security before recovery of its amortized cost. However, even if an investor does not expect to sell a debt security, it must evaluate the expected cash flows to be received and determine if a credit loss has occurred. In the event that a credit loss occurs, only the amount of impairment associated with the credit loss is recognized in earnings. Amounts relating to factors other than credit losses are recorded in AOCL. Financial Accounting Standards Board ( FASB ) guidance also requires additional disclosures regarding the calculation of credit losses as well as factors considered by the investor in reaching a conclusion that an investment is not other than temporarily impaired.

Available-for-sale securities in unrealized loss positions are analyzed as part of the Company s ongoing assessment of OTTI. When the Company intends to sell such available-for-sale securities, the Company recognizes an impairment loss equal to the full difference between the amortized cost basis and the fair value of those securities. When the Company does not intend to sell available-for-sale equity or debt securities in an unrealized loss position, potential OTTI is considered based on a variety of factors, including the length of time and extent to which the fair value has been less than the cost; adverse conditions specifically related to the industry, the geographic area, or financial condition of the issuer, or the underlying collateral of a security; the payment structure of the security; changes to the rating of the security by a rating agency; the volatility of the fair value changes; and changes in fair value of the security after the balance sheet date. For debt securities, the Company estimates cash flows over the remaining life of the underlying collateral to assess whether credit losses exist and, where applicable, to determine if any adverse changes in cash flows have occurred. The Company s cash flow estimates take into account expectations of relevant market and economic data as of the end of the reporting period. As of March 31, 2011, the Company did not intend to sell the securities with an unrealized loss position in AOCL, and it was more likely than not that the Company would not be required to sell these securities before recovery of their amortized cost basis. The Company believes that the securities with an unrealized loss in AOCL were not other than temporarily impaired as of March 31, 2011.

Other factors considered in determining whether a loss is temporary include the length of time and the extent to which fair value has been below cost; the severity of the impairment; the cause of the impairment; the financial condition and near-term prospects of the issuer; activity in the market of the issuer that may indicate adverse credit conditions; and the forecasted recovery period using current estimates of volatility in market interest rates (including liquidity and risk premiums).

Management s assertion regarding its intent not to sell, or that it is not more likely than not that the Company will be required to sell the security before its anticipated recovery, considers a number of factors, including a quantitative estimate of the expected recovery period (which may extend to maturity) and management s intended strategy with respect to the identified security or portfolio. If management does have the intent to sell, or believes it is more likely than not that the Company will be required to sell the security before its anticipated recovery, the unrealized loss is charged directly to earnings in the Consolidated Statement of Income and Comprehensive Income.

The unrealized losses on the Company s GSE debentures and GSE CMOs at March 31, 2011 were primarily caused by movements in market interest rates and spread volatility, rather than credit risk. The Company purchased these investments either at par or at a discount relative to their face amount, and the contractual cash flows of these investments are guaranteed by the GSEs. Accordingly, it is expected that these securities would not be settled at a price that is less than the amortized cost of the Company s investment. Because the Company does not have the intent to sell the investments and it is not more likely than not that the Company will be required to sell the investments before anticipated recovery of fair value, which may be at maturity, the Company did not consider these investments to be other than temporarily impaired at March 31, 2011.

The Company reviews quarterly financial information related to its investments in capital securities as well as other information that is released by each financial institution to determine the continued creditworthiness of the issuer of the securities. The contractual terms of these investments do not permit settling the securities at prices that are less than the amortized costs of the investments; therefore, the Company expects that these investments would not be settled at prices that are less than their amortized costs. The Company continues to monitor these investments and currently estimates that the present value of expected cash flows is not less than the amortized cost of the securities. Because the Company does not have the intent to sell the investments and it is not more likely than

not that the Company will be required to sell them before the anticipated recovery of fair value, which may be at maturity, it did not consider these investments to be other-than-temporarily impaired at March 31, 2011. It is possible that these securities will perform worse than is currently expected, which could lead to adverse changes in cash flows from these securities and potential OTTI losses in the future. Events that may occur in the future at the financial institutions that issued these securities could trigger material unrecoverable declines in fair values for the Company s investments and therefore could result in future potential OTTI losses. Such events include, but are not limited to, government intervention, deteriorating asset quality and credit metrics, significantly higher levels of default and loan loss provisions, losses in value on the underlying collateral, deteriorating credit enhancement, net operating losses, and further illiquidity in the financial markets.

The unrealized losses on the Company s private label CMOs were insignificant at March 31, 2011. Current characteristics of each security owned, such as delinquency and foreclosure levels, credit enhancement, and projected losses and coverage, are reviewed periodically by management. Accordingly, it is expected that the securities would not be settled at a price less than the amortized cost of the Company s investment. Because the Company does not have the intent to sell the investments and it is not more likely than not that the Company will be required to sell the investments before anticipated recovery of fair value, which may be at maturity, the Company did not consider these investments to be other than temporarily impaired at March 31, 2011. It is possible that the underlying loan collateral of these securities will perform worse than is currently expected, which could lead to adverse changes in cash flows from these securities and future OTTI losses. Events that could trigger material unrecoverable declines in fair values, and therefore potential OTTI losses for these securities in the future, include, but are not limited to, deterioration of credit metrics, significantly higher levels of default, loss in value on the underlying collateral, deteriorating credit enhancement, and further illiquidity in the financial markets.

At March 31, 2011, the Company s equity securities portfolio consisted of perpetual preferred and common stock, and mutual funds. The Company considers a decline in fair value of available-for-sale equity securities to be other than temporary if the Company does not expect to recover the entire amortized cost basis of the security. In analyzing its investments in perpetual preferred stock for OTTI, the Company uses an impairment model that is applied to debt securities, consistent with guidance provided by the SEC, provided that there has been no evidence of deterioration in the creditworthiness of the issuer. The unrealized losses on the Company s equity securities were primarily caused by market volatility. In addition, perpetual preferred stock was impacted by widening interest rate spreads across market sectors related to the continued illiquidity and uncertainty in the marketplace. The Company evaluated the near-term prospects of a recovery of fair value for each security in the portfolio, together with the severity and duration of impairment to date. Based on this evaluation, and the Company s ability and intent to hold these investments for a reasonable period of time sufficient to realize a near-term forecasted recovery of fair value, the Company did not consider these investments to be other than temporarily impaired at March 31, 2011. Nonetheless, it is possible that these equity securities will perform worse than is currently expected, which could lead to adverse changes in their fair values or the failure of the securities to fully recover in value as presently forecasted by management, causing the Company to record OTTI losses in future periods. Events that could trigger material declines in the fair values of these securities include, but are not limited to, deterioration in the equity markets; a decline in the quality of the loan portfolios of the issuers in which the Company has invested; and the recording of higher loan loss provisions and net operating losses by such issuers.

The investment securities designated as having a continuous loss position for twelve months or more at March 31, 2011 consisted of 13 capital trust notes and five equity securities. At December 31, 2010, the investment securities designated as having a continuous loss position for twelve months or more consisted of two mortgage-related securities, one corporate debt obligation, eleven capital trust notes, and seven equity securities. At March 31, 2011 and December 31, 2010, the combined market value of these securities represented unrealized losses of $36.4 million and $46.5 million, respectively. At March 31, 2011, the fair value of securities having a continuous loss position for twelve months or more was 23.9% below their collective amortized cost of $152.2 million. At December 31, 2010, the fair value of such securities was 24.0% below their collective amortized cost of $193.5 million.

**Note 4: Loans**

The following table sets forth the composition of the loan portfolio at March 31, 2011 and December 31, 2010:

| | March 31, 2011 | | December 31, 2010 | |
|---|---|---|---|---|
| **(dollars in thousands)** | **Amount** | **Percent of Non-Covered Loans Held for Investment** | **Amount** | **Percent of Non-Covered Loans Held for Investment** |
| Non-Covered Loans Held for Investment: | | | | |
| Mortgage Loans: | | | | |
| Multi-family | $ 16,898,020 | 70.32% | $ 16,807,913 | 70.88% |
| Commercial real estate | 5,702,677 | 23.73 | 5,439,611 | 22.94 |
| Acquisition, development, and construction | 554,761 | 2.31 | 569,537 | 2.40 |
| One-to-four family | 155,813 | 0.65 | 170,392 | 0.72 |
| Total mortgage loans held for investment | 23,311,271 | 97.01 | $ 22,987,453 | 96.94 |
| Other Loans: | | | | |
| Commercial and industrial | 639,207 | 2.66 | 641,663 | 2.70 |
| Other | 79,668 | 0.33 | 85,559 | 0.36 |
| Total other loans held for investment | 718,875 | 2.99 | 727,222 | 3.06 |
| Total non-covered loans held for investment | $ 24,030,146 | 100.00% | $ 23,714,675 | 100.00% |
| Net deferred loan origination fees | (5,413) | | (7,181) | |
| Allowance for losses on non-covered loans | (146,306) | | (158,942) | |
| Non-covered loans held for investment, net | 23,878,427 | | 23,548,552 | |
| Covered loans | 4,141,082 | | 4,297,869 | |
| Allowance for losses on covered loans | (11,903) | | (11,903) | |
| Total covered loans, net | 4,129,179 | | 4,285,966 | |
| Loans held for sale | 507,461 | | 1,207,077 | |
| Total loans, net | $ 28,515,067 | | $ 29,041,595 | |

**Non-Covered Loans**

***Non-Covered Loans Held for Investment***

The majority of the loans the Company originates for investment are multi-family loans, most of which are collateralized by non-luxury apartment buildings in New York City that feature below-market rents.

The Company also originates the following types of loans for investment: commercial real estate ( CRE ) loans, primarily in New York City, Long Island, and New Jersey; and, to a lesser extent, acquisition, development, and construction ( ADC ) loans and commercial and industrial ( C&I ) loans. ADC loans are primarily originated for multi-family and residential tract projects in New York City and Long Island, while C&I loans are made to small and mid-size businesses in New York City, Long Island, New Jersey, and Arizona, on both a secured and unsecured basis, for working capital, business expansion, and the purchase of machinery and equipment.

Payments on multi-family and CRE loans generally depend on the income produced by the underlying properties which, in turn, depends on their successful operation and management. The ability of the Company s borrowers to repay these loans may be impacted by adverse conditions in the local real estate market and the local economy. While the Company generally requires that such loans be qualified on the basis of the collateral property s current cash flows, appraised value, and debt service coverage ratio, among other factors, there can be no assurance that its

underwriting policies will protect the Company from credit-related losses or delinquencies.

ADC loans typically involve a higher degree of credit risk than financing on improved, owner-occupied real estate. The risk of loss on an ADC loan is largely dependent upon the accuracy of the initial appraisal of the property s value upon completion of construction or development; the estimated cost of construction, including interest; and the estimated time to complete and/or sell or lease such property. The Company seeks to minimize these risks by maintaining consistent lending policies and rigorous underwriting standards. However, if the estimate of value proves to be inaccurate, the cost of completion is greater than expected, the length of time to complete

and/or sell or lease the collateral property is greater than anticipated, or if there is a downturn in the local economy or real estate market, the property could have a value upon completion that is insufficient to assure full repayment of the loan. This could have a material adverse effect on the quality of the ADC loan portfolio, and could result in significant losses or delinquencies.

The Company seeks to minimize the risks involved in C&I lending by underwriting such loans on the basis of the cash flows produced by the business; by requiring that such loans be collateralized by various business assets, including inventory, equipment, and accounts receivable, among others; and by requiring personal guarantees. However, the capacity of a borrower to repay a C&I loan is substantially dependent on the degree to which his or her business is successful. In addition, the collateral underlying such loans may depreciate over time, may not be conducive to appraisal, or may fluctuate in value, based upon the results of operations of the business.

The markets served by the Company have been impacted by widespread economic weakness and high unemployment, which have contributed to a rise in charge-offs and non-performing assets. The ability of the Company s borrowers to repay their loans, and the value of the collateral securing such loans, could be further adversely impacted by continued or more significant economic weakness in its local markets as a result of increased unemployment, declining real estate values, or increased residential and office vacancies. This not only could result in the Company experiencing a further increase in charge-offs and/or non-performing assets, but also could necessitate an increase in the provision for loan losses. These events, if they were to occur, would have an adverse impact on the Company s results of operations and its capital.

***One-to-Four Family Loans Originated for Sale***

The Community Bank s mortgage banking subsidiary, NYCB Mortgage Company, LLC, is one of the 20 largest aggregators of one-to-four family loans for sale to GSEs in the United States. Approximately 1,000 community banks, credit unions, mortgage companies, and mortgage brokers use the subsidiary s proprietary web-accessible mortgage banking platform to originate one-to-four family loans in all 50 states.

Prior to December 2010, the Company originated one-to-four family loans in its branches and on its web site on a pass-through, or conduit, basis, and would sell the loans to the third-party conduit shortly after they closed. Since December 2010, the Company has been originating one-to-four family loans in its branches and on its web site through several selected clients of its mortgage banking operation, rather than through the single third-party conduit with which it previously worked. The agency-conforming one-to-four family loans produced for its customers are now aggregated with loans produced by its mortgage banking clients throughout the nation, and sold.

The Company also services mortgage loans for various third parties. At March 31, 2011, the unpaid principal balance of serviced loans amounted to $11.2 billion. At December 31, 2010, the unpaid principal balance of serviced loans amounted to $9.5 billion.

***Asset Quality***

The following table presents information regarding the quality of the Company s non-covered loans at March 31, 2011:

| (in thousands) | 30-89 Days Past Due | Non-Accrual | 90 Days or More Delinquent and Still Accruing Interest | Total Past Due Loans | Total Current Loans | Total Loans Receivable |
|---|---|---|---|---|---|---|
| Multi-family | $ 18,510 | $ 388,352 | $ | $ 406,862 | $ 16,491,158 | $ 16,898,020 |
| Commercial real estate | 7,824 | 106,915 | | 114,739 | 5,587,938 | 5,702,677 |
| Acquisition, development, and construction | 14,874 | 85,626 | | 100,500 | 454,261 | 554,761 |
| One-to-four family | 2,586 | 16,625 | | 19,211 | 136,602 | 155,813 |
| Commercial and industrial | 4,266 | 16,933 | | 21,199 | 618,008 | 639,207 |
| Other | 652 | 2,353 | | 3,005 | 76,663 | 79,668 |
| Total | $ 48,712 | $ 616,804 | $ | $ 665,516 | $ 23,364,630 | $ 24,030,146 |

At December 31, 2010, non-covered loans 30-89 days past due totaled $151.0 million and non-covered non-accrual loans totaled $624.4 million.

In accordance with GAAP, the Company is required to account for certain loan modifications or restructurings as troubled debt restructurings ( TDRs ). In general, a modification or restructuring of a loan constitutes a TDR if the Company grants a concession to a borrower experiencing financial difficulty. Loans modified in TDRs are placed on non-accrual status until the Company determines that future collection of principal and interest is reasonably assured, which generally requires that the borrower demonstrate performance according to the restructured terms for a period of at least six months.

The following table presents additional information regarding the Company s TDRs as of March 31, 2011:

| (in thousands) | Accruing | Non-Accrual | Total |
|---|---|---|---|
| Multi-family | $ 124,149 | $ 157,878 | $ 282,027 |
| Commercial real estate | 3,885 | 62,280 | 66,165 |
| Acquisition, development, and construction | | 17,666 | 17,666 |
| Commercial and industrial | | 3,917 | 3,917 |
| One-to-four family | | 1,520 | 1,520 |
| Total | $ 128,034 | $ 243,261 | $ 371,295 |

In an effort to proactively manage delinquent loans, the Company has selectively extended to certain borrowers concessions such as rate reductions, extension of maturity dates, and forbearance agreements. As of March 31, 2011, loans on which concessions were made with respect to rate reductions amounted to $258.8 million; loans on which maturities were extended amounted to $55.8 million; and loans in connection with which forbearance agreements were reached amounted to $56.7 million.

Most of the Company s TDRs involve rate reductions and/or forbearance of arrears, which thus far have proven the most successful in enabling selected borrowers to emerge from delinquency and keep their loans current.

The eligibility of a borrower for work-out concessions of any nature depends upon the facts and circumstances of each transaction, which may change from period to period, and involve judgment by Company personnel regarding the likelihood that the concession will result in the maximum recovery for the Company.

The following table summarizes the Company s non-covered loan portfolio by credit quality indicator at March 31, 2011:

| (in thousands) | Multi-Family | Commercial Real Estate | Acquisition, Development, and Construction | One-to-Four Family | Total Mortgage Segment | Commercial and Industrial | Other | Total Other Loan Segment |
|---|---|---|---|---|---|---|---|---|
| Credit Quality Indicator: | | | | | | | | |
| Pass | $ 16,316,748 | $ 5,511,559 | $ 448,921 | $ 143,866 | $ 22,421,094 | $ 597,549 | $ 77,316 | $ 674,865 |
| Special mention | 56,236 | 63,713 | 6,650 | | 126,599 | 19,909 | | 19,909 |
| Substandard | 524,941 | 126,771 | 99,190 | 11,947 | 762,849 | 21,747 | 2,352 | 24,099 |
| Doubtful | 95 | 634 | | | 729 | | | |
| Loss | | | | | | 2 | | 2 |
| Total | $ 16,898,020 | $ 5,702,677 | $ 554,761 | $ 155,813 | $ 23,311,271 | $ 639,207 | $ 79,668 | $ 718,875 |

The preceding classifications follow regulatory guidelines and can be generally described as follows: pass loans are of satisfactory quality; special mention loans have a potential weakness or risk that may result in the deterioration of future repayment; substandard loans are inadequately protected by the current net worth and paying capacity of the borrower or of the collateral pledged (these loans have a well defined weakness and there is a distinct possibility that the Company will sustain some loss); doubtful loans, based on existing circumstances, have weaknesses that make collection or liquidation in full highly questionable and improbable. In addition, residential loans are classified utilizing an inter-regulatory agency methodology that incorporates the extent of delinquency and the loan-to-value ratios. These classifications are the most current available and were generally updated within the last twelve months.

**Covered Loans**

The following table presents the balance of covered loans acquired in the AmTrust and Desert Hills acquisitions as of March 31, 2011:

| (dollars in thousands) | Amount | Percent of Covered Loans |
|---|---|---|
| Loan Category: | | |
| One-to-four family | $ 3,735,103 | 90.2% |
| All other loans | 405,979 | 9.8 |
| Total covered loans | $ 4,141,082 | 100.0% |

The Company refers to the loans acquired in the AmTrust and Desert Hills acquisitions as covered loans because the Company will be reimbursed for a substantial portion of any future losses on these loans under the terms of the FDIC loss sharing agreements. Covered loans are accounted for under FASB Accounting Standards Codification ( ASC ) 310-30, and initially measured at fair value, which includes estimated future credit losses expected to be incurred over the lives of the loans. Under ASC 310-30, purchasers are permitted to aggregate acquired loans into one or more pools, provided that the loans have common risk characteristics. A pool is then accounted for as a single asset with a single composite interest rate and an aggregate expectation of cash flows.

At March 31, 2011 and December 31, 2010, the outstanding balance of covered loans (representing amounts owed to the Company) totaled $5.0 billion and $5.2 billion, respectively. The carrying values of such loans were $4.1 billion and $4.3 billion, respectively, at March 31, 2011 and December 31, 2010.

At the respective acquisition dates, the Company estimated the fair values of the AmTrust and Desert Hills loan portfolios, which represented the expected cash flows from the portfolios discounted at market-based rates. In estimating such fair value, the Company (a) calculated the contractual amount and timing of undiscounted principal and interest payments (the undiscounted contractual cash flows ); and (b) estimated the amount and timing of undiscounted expected principal and interest payments (the undiscounted expected cash flows ). The amount by which the undiscounted expected cash flows exceed the estimated fair value (the accretable yield ) is accreted into interest income over the lives of the loans. The difference between the undiscounted contractual cash flows and the undiscounted expected cash flows is referred to as the non-accretable difference. The non-accretable difference represents an estimate of the credit risk in the loan portfolios at the acquisition date.

The accretable yield is affected by changes in interest rate indices for variable rate loans, changes in prepayment assumptions, and changes in expected principal and interest payments over the estimated lives of the loans. Prepayments affect the estimated life of covered loans and could change the amount of interest income, and possibly principal, expected to be collected. Changes in the expected principal and interest payments over the estimated life are driven by the credit outlook and actions taken with borrowers. The Company periodically evaluates the estimates of cash flows expected to be collected. Expected future cash flows from interest payments are based on the variable rates at the time of the periodic evaluation. Estimates of expected cash flows that are impacted by changes in interest rate indices for variable rate loans and prepayment assumptions are treated as prospective yield adjustments included in interest income.

Changes in the accretable yield for acquired loans were as follows for the three months ended March 31, 2011:

| (in thousands) | Accretable Yield |
|---|---|
| Balance at beginning of period | $ 1,356,844 |
| Reclassification from accretable yield | (16,036) |
| Accretion | (51,708) |
| Balance at end of period | $ 1,289,100 |

In connection with the Desert Hills acquisition, the Company also acquired OREO, all of which is covered under an FDIC loss sharing agreement. Covered OREO was initially recorded at

its estimated fair value on the acquisition date, based on independent appraisals less the estimated selling costs. Any subsequent write-downs due to declines in fair value will be charged to non-interest expense, with a partially offsetting non-interest income item for the loss reimbursement under the FDIC loss sharing agreement. Any recoveries of previous write-downs are credited to non-interest expense with a corresponding charge to non-interest income for the portion of the recovery that is due to the FDIC.

The FDIC loss share receivable represents the present value of the estimated losses on covered loans to be reimbursed by the FDIC. The estimated losses were based on the same cash flow estimates used in determining the fair value of the covered loans. The FDIC loss share receivable will be reduced as losses are recognized on covered loans and loss sharing payments are received from the FDIC. Realized losses in excess of acquisition-date estimates will result in an increase in the FDIC loss share receivable. Conversely, if realized losses are less than acquisition-date estimates, the FDIC loss share receivable will be reduced.

The following table presents information regarding the Company s covered loans 90 days or more past due at March 31, 2011 and December 31, 2010:

| **(in thousands)** | **March 31, 2011** | **December 31, 2010** |
|---|---|---|
| Covered Loans 90 Days or More Past Due: | | |
| One-to-four family | $ 321,145 | $ 310,929 |
| Other loans | 52,945 | 49,898 |
| Total covered loans 90 days or more past due | $ 374,090 | $ 360,827 |

The following table presents information regarding the Company s covered loans that were 30 to 89 days past due at March 31, 2011 and December 31, 2010:

| **(in thousands)** | **March 31, 2011** | **December 31, 2010** |
|---|---|---|
| Loans 30-89 Days Past Due: | | |
| One-to-four family | $ 106,409 | $ 108,691 |
| Other loans | 12,385 | 21,851 |
| Total loans 30-89 days past due | $ 118,794 | $ 130,542 |

At March 31, 2011, the Company had $118.8 million of covered loans that were 30 to 89 days past due, and covered loans of $374.1 million that were 90 days or more past due but considered to be performing due to the application of the yield accretion method under ASC 310-30. The remaining portion of the Company s covered loan portfolio totaled $3.6 billion at March 31, 2011 and is considered current. ASC 310-30 allows the Company to aggregate credit-impaired loans acquired in the same fiscal quarter into one or more pools, provided that the loans have common risk characteristics. A pool is then accounted for as a single asset with a single composite interest rate and an aggregate expectation of cash flows. Accordingly, loans that may have been classified as non-performing loans by AmTrust or Desert Hills are no longer classified as non-performing because, at the respective dates of acquisition, the Company believed that it would fully collect the new carrying value of these loans. The new carrying value represents the contractual balance, reduced by the portion expected to be uncollectible (referred to as the non-accretable difference ) and by an accretable yield (discount) that is recognized as interest income. It is important to note that management s judgment is required in reclassifying loans subject to ASC 310-30 as performing loans, and is dependent on having a reasonable expectation about the timing and amount of the cash flows to be collected, even if the loan is contractually past due.

There was no provision for or recovery on losses on covered loans during the three months ended March 31, 2011. The Company determined that there was no change in the expected underlying cash flows that was attributable to credit deterioration or impairment.

**Note 5: Allowance for Loan Losses**

The following tables provide additional information regarding the Company s allowance for loan losses, based upon the method of evaluating loan impairment:

| **(in thousands)** | $26,861,902<br>**Mortgage** | $26,861,902<br>**Other** | $26,861,902<br>**Total** |
|---|---|---|---|
| Allowance for Loan Losses at March 31, 2011: | | | |
| Individually evaluated for impairment | $ 10,354 | $ 1,017 | $ 11,371 |
| Collectively evaluated for impairment | 117,963 | 16,972 | 134,935 |
| Loans acquired with deteriorated credit quality | 11,903 | | 11,903 |
| Total | $ 140,220 | $ 17,989 | $ 158,209 |