

NEW YORK COMMUNITY BANCORP INC  
Form 10-Q  
November 09, 2007  
[Table of Contents](#)

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 10-Q**

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**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF**

**THE SECURITIES EXCHANGE ACT OF 1934**

For the Quarterly Period Ended September 30, 2007

Commission File Number 1-31565

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**NEW YORK COMMUNITY BANCORP, INC.**

(Exact name of registrant as specified in its charter)

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**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

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

(Address of principal executive offices)

**06-1377322**  
(I.R.S. Employer

Identification No.)

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

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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

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. Large Accelerated Filer  Accelerated Filer  Non-Accelerated Filer

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

Par Value: \$0.01

Classes of Common Stock

323,604,166

Number of shares outstanding at

November 1, 2007

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**Table of Contents**

**NEW YORK COMMUNITY BANCORP, INC.**

**FORM 10-Q**

**Quarter Ended September 30, 2007**

|   | <b>Page No.</b> |
|---|-----------------|
| <b>INDEX</b>  |                 |
| <b>Part I. FINANCIAL INFORMATION</b>  |                 |
| Item 1. <b>Financial Statements</b>   |                 |
| <u>Consolidated Statements of Condition as of September 30, 2007 (unaudited) and December 31, 2006</u>  | 1               |
| <u>Consolidated Statements of Income and Comprehensive Income for the Three and Nine Months Ended September 30, 2007 and 2006 (unaudited)</u> | 2               |
| <u>Consolidated Statement of Changes in Stockholders' Equity for the Nine Months Ended September 30, 2007 (unaudited)</u>                     | 3               |
| <u>Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2007 and 2006 (unaudited)</u>                                | 4               |
| <u>Notes to the Unaudited Consolidated Financial Statements</u>   | 5               |
| Item 2. <b><u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u></b>                                   | 15              |
| Item 3. <b><u>Quantitative and Qualitative Disclosures about Market Risk</u></b>  | 46              |
| Item 4. <b><u>Controls and Procedures</u></b>   | 46              |
| <b>Part II. OTHER INFORMATION</b>   |                 |
| Item 1. <b><u>Legal Proceedings</u></b>   | 47              |
| Item 1A. <b><u>Risk Factors</u></b>   | 48              |
| Item 2. <b><u>Unregistered Sales of Equity Securities and Use of Proceeds</u></b>   | 48              |
| Item 3. <b><u>Defaults Upon Senior Securities</u></b>   | 49              |
| Item 4. <b><u>Submission of Matters to a Vote of Security Holders</u></b>   | 49              |
| Item 5. <b><u>Other Information</u></b>   | 49              |
| Item 6. <b><u>Exhibits</u></b>  | 49              |
| <b><u>Signatures</u></b>  | 50              |
| <b>Exhibits</b>   |                 |

**Table of Contents****NEW YORK COMMUNITY BANCORP, INC.****CONSOLIDATED STATEMENTS OF CONDITION**

(in thousands, except share data)

|  | September 30,<br>2007 | December 31,<br>2006 |
|--|-----------------------|----------------------|
|  | (unaudited)           |                      |
| <b>Assets:</b>   |                       |                      |
| Cash and cash equivalents  | \$ 1,279,622          | \$ 230,759           |
| Securities available for sale:   |                       |                      |
| Mortgage-related securities (\$993,906 and \$1,592,064 pledged, respectively)  | 1,036,077             | 1,664,337            |
| Other securities (\$156,398 and \$102,067 pledged, respectively)   | 440,586               | 276,450              |
| Securities held to maturity:   |                       |                      |
| Mortgage-related securities (\$2,324,600 and \$1,374,806 pledged, respectively; fair value of \$2,286,659 and \$1,272,546, respectively) | 2,366,817             | 1,387,817            |
| Other securities (\$1,479,121 and \$1,155,070 pledged, respectively; fair value of \$2,052,093 and \$1,593,023, respectively)            | 2,053,630             | 1,597,380            |
| Total securities   | 5,897,110             | 4,925,984            |
| Loans, net of deferred loan fees and costs   | 19,001,084            | 19,652,891           |
| Less: Allowance for loan losses  | (88,030)              | (85,389)             |
| Loans, net   | 18,913,054            | 19,567,502           |
| Federal Home Loan Bank of New York stock, at cost  | 376,080               | 404,311              |
| Premises and equipment, net  | 197,455               | 196,084              |
| Goodwill   | 2,349,504             | 2,148,108            |
| Core deposit intangibles   | 112,701               | 106,381              |
| Bank-owned life insurance ( BOLI )   | 635,140               | 585,013              |
| Other assets   | 279,239               | 318,228              |
| Total assets   | \$30,039,905          | \$28,482,370         |
| <b>Liabilities and Stockholders Equity:</b>  |                       |                      |
| Deposits:  |                       |                      |
| NOW and money market accounts  | \$ 2,947,587          | \$ 3,156,988         |
| Savings accounts   | 2,456,765             | 2,394,145            |
| Certificates of deposit  | 6,619,367             | 5,944,585            |
| Non-interest-bearing accounts  | 1,543,785             | 1,123,286            |
| Total deposits   | 13,567,504            | 12,619,004           |
| Official checks outstanding  | 22,215                | 20,158               |
| Borrowed funds:  |                       |                      |
| Wholesale borrowings   | 11,225,313            | 11,070,333           |
| Junior subordinated debentures   | 500,527               | 455,659              |
| Other borrowings   | 352,634               | 354,016              |
| Total borrowed funds   | 12,078,474            | 11,880,008           |
| Mortgagors escrow  | 119,922               | 74,736               |

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|   |                     |                     |
|---|---------------------|---------------------|
| Other liabilities   | 220,316             | 198,627             |
| <b>Total liabilities</b>  | <b>26,008,431</b>   | <b>24,792,533</b>   |
| 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; 314,823,165 and 295,350,936 shares issued and outstanding) | 3,148               | 2,954               |
| Paid-in capital in excess of par  | 3,659,859           | 3,341,340           |
| Retained earnings (partially restricted)  | 403,940             | 421,313             |
| Less: Unallocated common stock held by Employee Stock Ownership Plan ( ESOP )   | (3,751)             | (4,604)             |
| Common stock held by Supplemental Executive Retirement Plan ( SERP )  | (3,113)             | (3,113)             |
| Accumulated other comprehensive loss, net of tax  | (28,609)            | (68,053)            |
| <b>Total stockholders' equity</b>   | <b>4,031,474</b>    | <b>3,689,837</b>    |
| <b>Commitments and contingencies</b>  |                     |                     |
| <b>Total liabilities and stockholders' equity</b>   | <b>\$30,039,905</b> | <b>\$28,482,370</b> |

See accompanying notes to the unaudited consolidated financial statements.

**Table of Contents****NEW YORK COMMUNITY BANCORP, INC.****CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME**

(in thousands, except per share data)

(unaudited)

|   | For the               |           | For the               |            |
|---|-----------------------|-----------|-----------------------|------------|
|   | Three Months Ended    |           | Nine Months Ended     |            |
|   | September 30,<br>2007 | 2006      | September 30,<br>2007 | 2006       |
| <b>Interest Income:</b>                               |                       |           |                       |            |
| Mortgage and other loans                              | \$302,665             | \$288,839 | \$ 914,601            | \$ 821,519 |
| Securities  | 81,833                | 72,108    | 225,840               | 218,564    |
| Money market investments                              | 12,726                | 350       | 27,193                | 994        |
| Total interest income                                 | 397,224               | 361,297   | 1,167,634             | 1,041,077  |
| <b>Interest Expense:</b>                              |                       |           |                       |            |
| NOW and money market accounts                         | 24,067                | 30,397    | 73,215                | 87,580     |
| Savings accounts                                      | 7,195                 | 5,299     | 20,206                | 12,391     |
| Certificates of deposit                               | 78,589                | 70,148    | 229,151               | 178,115    |
| Borrowed funds  | 132,495               | 115,575   | 382,847               | 342,089    |
| Mortgagors escrow                                     | 26                    | 31        | 93                    | 141        |
| Total interest expense                                | 242,372               | 221,450   | 705,512               | 620,316    |
| Net interest income                                   | 154,852               | 139,847   | 462,122               | 420,761    |
| Provision for loan losses                             |                       |           |                       |            |
| Net interest income after provision for loan losses   | 154,852               | 139,847   | 462,122               | 420,761    |
| <b>Non-interest Income:</b>                           |                       |           |                       |            |
| Fee income  | 10,624                | 10,437    | 31,124                | 28,531     |
| Bank-owned life insurance                             | 6,999                 | 6,110     | 19,364                | 17,351     |
| Net (loss) gain on sale of securities                 | (7,307)               |           | 1,888                 | 2,823      |
| Gain on sale of bank-owned property                   | 64,879                |           | 64,879                |            |
| Loss on debt redemption                               |                       |           | (1,848)               |            |
| Loss on other-than-temporary impairment of securities |                       |           | (56,958)              |            |
| Loss on mark-to-market of interest rate swaps         |                       |           |                       | (6,071)    |
| Other   | 9,247                 | 6,920     | 26,145                | 23,668     |
| Total non-interest income                             | 84,442                | 23,467    | 84,594                | 66,302     |
| <b>Non-interest Expense:</b>                          |                       |           |                       |            |
| Operating expenses:                                   |                       |           |                       |            |
| Compensation and benefits                             | 40,599                | 34,478    | 117,728               | 96,536     |
| Occupancy and equipment                               | 16,739                | 15,875    | 49,333                | 41,894     |
| General and administrative                            | 15,462                | 16,075    | 50,679                | 44,433     |

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|  |                  |                  |                   |                   |
|--|------------------|------------------|-------------------|-------------------|
| Total operating expenses   | 72,800           | 66,428           | 217,740           | 182,863           |
| Prepayment of borrowings   |                  |                  | 3,190             | 26,477            |
| Termination of interest rate swaps                               |                  |                  |                   | 1,132             |
| Amortization of core deposit intangibles                         | 5,855            | 5,049            | 16,680            | 12,822            |
| <b>Total non-interest expense</b>                                | <b>78,655</b>    | <b>71,477</b>    | <b>237,610</b>    | <b>223,294</b>    |
| Income before income taxes                                       | 160,639          | 91,837           | 309,106           | 263,769           |
| Income tax expense   | 49,730           | 29,360           | 97,404            | 84,305            |
| <b>Net Income</b>  | <b>\$110,909</b> | <b>\$ 62,477</b> | <b>\$ 211,702</b> | <b>\$ 179,464</b> |
| <b>Comprehensive income, net of tax:</b>                         |                  |                  |                   |                   |
| Change in net unrealized losses on securities                    | 12,557           | 22,993           | 38,810            | 231               |
| Amortization relating to pension and post-retirement obligations | 212              |                  | 634               |                   |
| Total comprehensive income, net of tax                           | \$123,678        | \$ 85,470        | \$ 251,146        | \$ 179,695        |
| <b>Basic earnings per share</b>                                  | <b>\$0.36</b>    | <b>\$0.21</b>    | <b>\$0.69</b>     | <b>\$0.64</b>     |
| <b>Diluted earnings per share</b>                                | <b>\$0.35</b>    | <b>\$0.21</b>    | <b>\$0.69</b>     | <b>\$0.63</b>     |

See accompanying notes to the unaudited consolidated financial statements.

**Table of Contents****NEW YORK COMMUNITY BANCORP, INC.****CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY**

(in thousands, except share data)

(unaudited)

|   | <b>Nine Months Ended<br/>September 30, 2007</b> |
|---|---|
| <b>Common Stock (Par Value: \$0.01):</b>  |   |
| Balance at beginning of year  | \$ 2,954  |
| Shares issued (19,472,229 shares)   | 194   |
| Balance at end of period  | 3,148   |
| <b>Paid-in Capital in Excess of Par:</b>  |   |
| Balance at beginning of year  | 3,341,340                                       |
| Allocation of ESOP stock  | 3,859   |
| Restricted stock activity   | 2,390   |
| Exercise of stock options   | 58,851  |
| Tax effect of stock plans   | (2,355)   |
| Shares issued for acquisition of PennFed Financial Services, Inc. (15,977,941 shares) | 255,779   |
| Cash-in-lieu of fractional shares   | (5)   |
| Balance at end of period  | 3,659,859                                       |
| <b>Retained Earnings (partially restricted):</b>                                      |   |
| Balance at beginning of year  | 421,313   |
| Net income  | 211,702   |
| Dividends paid on common stock (\$0.75 per share for the nine-month period)           | (229,642)                                       |
| Effect of adoption of Financial Accounting Standards Board Interpretation No. 48      | 567   |
| Balance at end of period  | 403,940   |
| <b>Treasury Stock:</b>  |   |
| Balance at beginning of year  |   |
| Purchase of common stock (5,437 shares)   | (95)  |
| Exercise of stock options (5,437 shares)  | 95  |
| Balance at end of period  |   |
| <b>Unallocated Common Stock Held by ESOP:</b>   |   |
| Balance at beginning of year  | (4,604)   |
| Earned portion of ESOP  | 853   |
| Balance at end of period  | (3,751)   |
| <b>Common Stock Held by SERP:</b>   |   |
| Balance at beginning of year  | (3,113)   |
| Balance at end of period  | (3,113)   |



**Accumulated Other Comprehensive Loss, Net of Tax:**

|  |             |
|--|-------------|
| Balance at beginning of year   | (68,053)    |
| Change in net unrealized loss on securities available for sale, net of tax of \$(2,258)  | 3,476       |
| Amortization of net unrealized loss on securities transferred from available for sale to held to maturity, net of tax of \$(1,267)                       | 1,950       |
| Amortization relating to pension and post-retirement obligations, net of tax of \$(416)  | 634         |
| Less: Reclassification adjustment for net gain on sale of securities and loss on other-than-temporary impairment of securities, net of tax of \$(21,687) | 33,384      |
| Balance at end of period   | (28,609)    |
| Total stockholders equity  | \$4,031,474 |

See accompanying notes to the unaudited consolidated financial statements.

**Table of Contents****NEW YORK COMMUNITY BANCORP, INC.****CONSOLIDATED STATEMENTS OF CASH FLOWS**

(in thousands)

(unaudited)

|   | <b>Nine Months Ended<br/>September 30,</b> |                  |
|---|--|------------------|
|   | <b>2007</b>                                | <b>2006</b>      |
| <b>Cash Flows from Operating Activities:</b>                                      |  |                  |
| Net income  | \$ 211,702                                 | \$ 179,464       |
| Adjustments to reconcile net income to net cash provided by operating activities: |  |                  |
| Depreciation and amortization   | 13,922                                     | 11,383           |
| Accretion of discounts, net   | (1,403)                                    | (3,966)          |
| Net change in net deferred loan origination costs and fees                        | (56)                                       | (142)            |
| Amortization of core deposit intangibles  | 16,680                                     | 12,822           |
| Net gain on sale of securities  | (1,888)                                    | (2,823)          |
| Gain on sale of bank-owned property   | (64,879)                                   |                  |
| Net gain on sale of loans   | (705)                                      | (523)            |
| Stock plan-related compensation   | 7,109                                      | 4,740            |
| Loss on other-than-temporary impairment of securities                             | 56,958                                     |                  |
| Changes in assets and liabilities:  |  |                  |
| Decrease in deferred income taxes, net  | 31,878                                     | 37,473           |
| Decrease in other assets  | 16,604                                     | 25,301           |
| Increase (decrease) in official checks outstanding                                | 2,057                                      | (26,304)         |
| Increase (decrease) in other liabilities  | 10,092                                     | (15,958)         |
| Origination of loans held for sale  | (66,181)                                   | (42,236)         |
| Proceeds from sale of loans originated for sale                                   | 62,792                                     | 41,825           |
| <b>Net cash provided by operating activities</b>                                  | <b>294,682</b>                             | <b>221,056</b>   |
| <b>Cash Flows from Investing Activities:</b>                                      |  |                  |
| Proceeds from repayment of securities held to maturity                            | 259,667                                    | 192,019          |
| Proceeds from repayment of securities available for sale                          | 238,275                                    | 303,787          |
| Proceeds from sale of securities available for sale                               | 1,959,994                                  | 1,236,530        |
| Purchase of securities available for sale   | (517,954)                                  | (175,320)        |
| Purchase of securities held to maturity   | (1,691,663)                                |                  |
| Net redemption (purchase) of Federal Home Loan Bank of New York stock             | 53,077                                     | (27,908)         |
| Adjustments to intangible assets, net   |  | (3,128)          |
| Net proceeds from sale of bank-owned property                                     | 99,608                                     |                  |
| Proceeds from sale of loans   | 755,948                                    |                  |
| Net decrease (increase) in loans  | 1,165,218                                  | (1,518,121)      |
| Purchase of premises and equipment, net   | (7,298)                                    | (8,885)          |
| Net cash acquired (used) in acquisitions  | 138,781                                    | (325,765)        |
| <b>Net cash provided by (used in) investing activities</b>                        | <b>2,453,653</b>                           | <b>(326,791)</b> |
| <b>Cash Flows from Financing Activities:</b>                                      |  |                  |
| Net decrease in deposits  | (1,045,370)                                | (149,783)        |
| Net (decrease) increase in borrowed funds   | (495,862)                                  | 50,075           |
| Net increase in mortgagors' escrow  | 33,092                                     | 47,053           |
| Tax effect of stock plans   | (2,355)                                    | 231              |

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|  |                    |                |
|--|--------------------|----------------|
| Proceeds from issuance of common stock   |                    | 400,172        |
| Cash dividends paid on common stock  | (229,642)          | (213,421)      |
| Treasury stock purchases   | (95)               | (2,352)        |
| Net cash received from stock option exercises  | 40,765             | 11,766         |
| Cash in lieu of fractional shares  | (5)                | (2)            |
| <b>Net cash (used in) provided by financing activities</b>                                   | <b>(1,699,472)</b> | <b>143,739</b> |
| Net increase in cash and cash equivalents  | 1,048,863          | 38,004         |
| Cash and cash equivalents at beginning of period   | 230,759            | 231,803        |
| Cash and cash equivalents at end of period   | \$ 1,279,622       | \$ 269,807     |
| <b>Supplemental information:</b>   |                    |                |
| Cash paid for:   |                    |                |
| Interest   | \$707,694          | \$633,606      |
| Income taxes   | 41,578             | 7,669          |
| <b>Non-cash investing activities:</b>  |                    |                |
| Mortgage loans securitized and transferred to mortgage-related securities available for sale | \$593,816          | \$             |
| Transfer to other real estate owned from loans   | 706                |                |

Note: The fair values of non-cash assets acquired, excluding goodwill and core deposit intangibles, and liabilities assumed in the acquisition of PennFed Financial Services, Inc. on April 2, 2007 were \$2.3 billion and \$2.2 billion, respectively.

See accompanying notes to the unaudited consolidated financial statements.

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**Table of Contents**

**NEW YORK COMMUNITY BANCORP, INC.**

**NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

**Note 1. Basis of Presentation**

The accompanying unaudited consolidated financial statements include the accounts of New York Community Bancorp, Inc. and subsidiaries (the Company), including its two principal banking subsidiaries, New York Community Bank (the Community Bank) and New York Commercial Bank (the Commercial Bank). The unaudited consolidated financial statements reflect all normal recurring adjustments that, in the opinion of management, are necessary to present a fair statement of the results for the periods presented. There are no other adjustments reflected in the accompanying consolidated financial statements. The results of operations for the three and nine months ended September 30, 2007 are not necessarily indicative of the results of operations that may be expected for all of 2007.

Certain information and note disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles (GAAP) have been condensed or omitted, pursuant to the rules and regulations of the Securities and Exchange Commission (the SEC).

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 balances and transactions have been eliminated. These unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's 2006 Annual Report on Form 10-K.

**Note 2. Stock-based Compensation**

At September 30, 2007, the Company had 8,230,400 shares available for grant as options, restricted stock, or other forms of related rights under the New York Community Bancorp, Inc. 2006 Stock Incentive Plan (the 2006 Stock Incentive Plan), which was approved by the Company's shareholders at its Annual Meeting on June 7, 2006. Under the 2006 Stock Incentive Plan, the Company granted 726,100 shares of restricted stock in the nine months ended September 30, 2007, with a weighted average fair value of \$17.69 per share on the date of grant. The nine-month amount includes 14,000 shares of restricted stock that were granted in the third quarter and that had a weighted average fair value of \$16.45 per share on the date of grant.

In addition, the Company had nine stock option plans at September 30, 2007: the 1993 and 1997 New York Community Bancorp, Inc. Stock Option Plans; the 1993 and 1996 Haven Bancorp, Inc. Stock Option Plans; the 1998 Richmond County Financial Corp. Stock Compensation Plan; the T R Financial Corp. 1993 Incentive Stock Option Plan; the Roslyn Bancorp, Inc. 1997 and 2001 Stock-based Incentive Plans; and the 1998 Long Island Financial Corp. Stock Option Plan (collectively, the Stock Option Plans). All stock options granted under the Stock Option Plans expire ten years from the date of grant.

At the time of grant, all options were to have vested in whole or in part over two to five years from the date of issuance, with all options becoming 100% exercisable in the event that employment terminated due to death, disability, normal retirement, or in the event of a change in control of the Community Bank or the Company. On December 30, 2005, the Board of Directors of the Company accelerated the vesting of, and vested, all unvested stock options that were outstanding at that date (the Acceleration). A total of 1.4 million options held by 179 individuals were impacted by the Acceleration. No other terms and conditions of the accelerated options were changed. As a result of the Acceleration, the Company was able to avoid recognizing compensation and benefits expense that it otherwise would have had to recognize in 2006 and 2007.

In connection with its adoption of Statement of Financial Accounting Standards (SFAS) No. 123R, Share-based Payments, on January 1, 2006, and using the modified prospective approach, the Company recognizes compensation and benefits expense related to share-based payments at fair value on the grant date, and recognizes such expense in the financial statements over the vesting period during which the employee provides service in exchange for the award. However, as there were no unvested options in the nine months ended September 30, 2007 or 2006, the Company did not record any compensation and benefits expense relating to stock options during these periods.

**Table of Contents**

At the present time, the Company primarily issues new shares of common stock at market value to satisfy the exercise of stock options. On occasion, the Company will utilize common stock held in Treasury to satisfy the exercise of options, in which case the difference between the average cost of Treasury shares and the exercise price is recorded as an adjustment to retained earnings or paid-in-capital on the date of exercise. At September 30, 2007, there were 15,715,105 stock options outstanding. The number of shares available for future issuance under the Stock Option Plans was 143,307 at September 30, 2007.

The status of the Company's Stock Option Plans at September 30, 2007 and the changes that occurred during the nine months ended at that date are summarized in the following table:

|  | <b>For the Nine Months Ended<br/>September 30, 2007</b> |  |
|--|---|--|
|  | <b>Number of<br/>Stock Options</b>                      | <b>Weighted<br/>Average<br/>Exercise Price</b> |
| Stock options outstanding and exercisable, beginning of period | 19,019,717  | \$15.12  |
| Exercised  | (2,811,470)   | 14.64  |
| Forfeited  | (493,142)   | 15.87  |
| Stock options outstanding and exercisable, end of period       | 15,715,105  | 15.18  |

Total stock options outstanding and exercisable at September 30, 2007 had a weighted average remaining contractual life of 4.31 years, a weighted average exercise price of \$15.18 per share, and an aggregate intrinsic value of \$62.3 million. The intrinsic values of options exercised during the nine months ended September 30, 2007 and 2006 were \$7.8 million and \$5.2 million, respectively.

A summary of activity with regard to restricted stock awards in the nine months ended September 30, 2007 is presented in the following table:

|                                | <b>For the Nine Months Ended<br/>September 30, 2007</b> |   |
|--------------------------------|---|---|
|                                | <b>Number of<br/>Shares</b>                             | <b>Weighted Average<br/>Grant Date<br/>Fair Value</b> |
| Unvested at January 1, 2007    | 47,000  | \$16.53   |
| Granted                        | 726,100   | 17.69   |
| Vested                         | (10,500)  | 16.55   |
| Cancelled                      | (4,500)   | 17.80   |
| Unvested at September 30, 2007 | 758,100   | 17.64   |

As of September 30, 2007, unrecognized compensation cost relating to unvested restricted stock totaled \$11.1 million and will be recognized over a remaining weighted average period of 2.4 years. Compensation and benefits expense related to restricted stock grants is recognized on a straight-line basis over the vesting period, and totaled \$2.4 million for the nine months ended September 30, 2007. There was no compensation expense relating to restricted stock grants during the nine months ended September 30, 2006.

**Table of Contents****Note 3. Securities**

The following table summarizes the amortized cost and estimated market values of the Company's held-to-maturity securities at the dates indicated:

| (in thousands)                           | September 30, 2007 |                    | December 31, 2006  |                    |
|--|--------------------|--------------------|--------------------|--------------------|
|  | Amortized Cost     | Fair Market Value  | Amortized Cost     | Fair Market Value  |
| <b>Mortgage-related securities:</b>      |                    |                    |                    |                    |
| GSE <sup>(1)</sup> certificates          | \$ 253,532         | \$ 257,270         | \$ 5,483           | \$ 5,585           |
| GSE CMOs <sup>(2)</sup>                  | 2,106,741          | 2,022,845          | 1,376,062          | 1,260,689          |
| Other mortgage-related securities        | 6,544              | 6,544              | 6,272              | 6,272              |
| <b>Total mortgage-related securities</b> | <b>\$2,366,817</b> | <b>\$2,286,659</b> | <b>\$1,387,817</b> | <b>\$1,272,546</b> |
| <b>Other securities:</b>                 |                    |                    |                    |                    |
| U.S. Government agency obligations       | \$1,786,569        | \$1,779,679        | \$1,167,570        | \$1,143,938        |
| Corporate bonds                          | 155,147            | 159,404            | 156,156            | 164,136            |
| Capital trust notes                      | 111,914            | 113,010            | 273,654            | 284,949            |
| <b>Total other securities</b>            | <b>\$2,053,630</b> | <b>\$2,052,093</b> | <b>\$1,597,380</b> | <b>\$1,593,023</b> |
| <b>Total securities held to maturity</b> | <b>\$4,420,447</b> | <b>\$4,338,752</b> | <b>\$2,985,197</b> | <b>\$2,865,569</b> |

(1) Government-sponsored enterprises

(2) Collateralized mortgage obligations

The following table summarizes the amortized cost and estimated market values of the Company's available-for-sale securities at the dates indicated:

| (in thousands)                           | September 30, 2007 |                    | December 31, 2006  |                    |
|--|--------------------|--------------------|--------------------|--------------------|
|  | Amortized Cost     | Fair Market Value  | Amortized Cost     | Fair Market Value  |
| <b>Mortgage-related securities:</b>      |                    |                    |                    |                    |
| GSE certificates                         | \$ 266,795         | \$ 269,068         | \$ 835,965         | \$ 799,490         |
| GSE CMOs                                 | 616,926            | 609,552            | 345,558            | 331,638            |
| Private label CMOs                       | 159,194            | 156,383            | 547,635            | 532,000            |
| Other mortgage-related securities        | 1,074              | 1,074              | 1,209              | 1,209              |
| <b>Total mortgage-related securities</b> | <b>\$1,043,989</b> | <b>\$1,036,077</b> | <b>\$1,730,367</b> | <b>\$1,664,337</b> |
| <b>Other securities:</b>                 |                    |                    |                    |                    |
| U.S. Government agency obligations       | \$ 184,878         | \$ 191,039         | \$ 100,607         | \$ 101,650         |
| U.S. Treasury obligations                | 1,097              | 1,109              | 1,096              | 1,099              |
| Corporate and other bonds                | 55,819             | 51,385             | 39,673             | 37,125             |
| State, county, and municipal obligations | 6,526              | 6,405              | 6,644              | 6,554              |
| Foreign government bonds                 |                    |                    | 1,002              | 1,002              |
| Capital trust notes                      | 69,364             | 66,840             | 20,750             | 17,297             |
| Preferred stock                          | 65,930             | 63,326             | 65,930             | 65,785             |
| Common stock                             | 59,468             | 60,482             | 45,904             | 45,938             |

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|                                     |             |             |             |             |
|-------------------------------------|-------------|-------------|-------------|-------------|
| Total other securities              | \$ 443,082  | \$ 440,586  | \$ 281,606  | \$ 276,450  |
| Total securities available for sale | \$1,487,071 | \$1,476,663 | \$2,011,973 | \$1,940,787 |

Following the acquisition of PennFed Financial Services, Inc. ( PennFed ) in the second quarter of 2007, the Company began the process of repositioning the post-merger balance sheet. Among the actions taken was the sale of \$1.1 billion of available-for-sale mortgage-related securities in July 2007. In connection with the sale, the Company recorded a \$57.0 million pre-tax loss on the other-than-temporary impairment of securities (the impairment loss ) in the second quarter of 2007 and a \$7.3 million pre-tax loss on the sale of such securities in the third quarter of the year. The impairment loss represented the excess of amortized cost over fair value at June 30, 2007 and reflected the effect of increases in market yields subsequent to the purchase dates. The impairment loss and the loss on the sale of securities are recorded in Non-interest Income in the Consolidated Statements of Income.

The Company determined that the remaining unrealized losses on securities at September 30, 2007 were temporary impairments due to changes in market interest rates and not to significant credit deterioration or other factors. Management expects that the unrealized losses on securities will be recovered within a reasonable period of time through a typical interest rate cycle, and believes that the Company has the ability to retain these securities until recovery of market value.

**Table of Contents****Note 4. Loans, net**

The following table provides a summary of the Company's loan portfolio at the dates indicated:

| (dollars in thousands)              | September 30, 2007 |                  | December 31, 2006 |                  |
|-------------------------------------|--------------------|------------------|-------------------|------------------|
|                                     | Amount             | Percent of Total | Amount            | Percent of Total |
| <b>Mortgage loans:</b>              |                    |                  |                   |                  |
| Multi-family                        | \$13,636,386       | 71.77%           | \$14,529,097      | 73.93%           |
| Commercial real estate              | 3,097,492          | 16.30            | 3,114,440         | 15.85            |
| Construction                        | 1,140,068          | 6.00             | 1,102,732         | 5.61             |
| 1-4 family                          | 310,045            | 1.63             | 230,508           | 1.17             |
| Total mortgage loans                | 18,183,991         | 95.70            | 18,976,777        | 96.56            |
| Net deferred loan origination costs | 88                 |                  | 651               |                  |
| Mortgage loans, net                 | 18,184,079         |                  | 18,977,428        |                  |
| <b>Other loans:</b>                 |                    |                  |                   |                  |
| Commercial and industrial           | 723,408            |                  | 643,116           |                  |
| Consumer                            | 89,537             |                  | 26,598            |                  |
| Leases, net                         | 4,771              |                  | 7,079             |                  |
| Total other loans                   | 817,716            | 4.30             | 676,793           | 3.44             |
| Net deferred loan origination fees  | (711)              |                  | (1,330)           |                  |
| Total other loans, net              | 817,005            |                  | 675,463           |                  |
| Less: Allowance for loan losses     | 88,030             |                  | 85,389            |                  |
| Loans, net                          | \$18,913,054       | 100.00%          | \$19,567,502      | 100.00%          |

In connection with the repositioning of the balance sheet following the PennFed acquisition, the Company securitized \$593.8 million of the one-to-four family loans that had been acquired in the transaction in the second quarter of 2007, in accordance with SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities. The resultant securities were recorded in the available-for-sale securities portfolio at an initial cost basis of \$588.4 million, and were subsequently sold in the third quarter of the year. In connection with the securitization, the Company also recorded a \$5.4 million mortgage servicing right asset which is being amortized over a period of seven years.

**Note 5. Borrowed Funds**

The following table provides a summary of the Company's borrowed funds at the dates indicated:

| (in thousands)                  | September 30, 2007 | December 31, 2006 |
|---------------------------------|--------------------|-------------------|
| FHLB-NY advances                | \$ 7,052,140       | \$ 7,240,684      |
| Repurchase agreements           | 4,173,173          | 3,767,649         |
| Federal funds purchased         |                    | 62,000            |
| Junior subordinated debentures  | 500,527            | 455,659           |
| Senior debt                     | 190,634            | 192,016           |
| Preferred stock of subsidiaries | 162,000            | 162,000           |
| Total borrowed funds            | \$12,078,474       | \$11,880,008      |



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In the second quarter of 2007, the Company recorded a pre-tax charge of \$3.2 million for the prepayment of \$330.3 million of wholesale borrowings.

At September 30, 2007, the Company had \$500.5 million of outstanding junior subordinated deferrable interest debentures ( junior subordinated debentures ) held by nine statutory business trusts (the Trusts ) that issued guaranteed capital securities. The Trusts are accounted for as unconsolidated subsidiaries in accordance with Financial Accounting Standards Board ( FASB ) Interpretation No. 46, Consolidation of Variable Interest Entities. The capital securities qualified as Tier 1 capital of the Company at that date. The proceeds of each

**Table of Contents**

issuance were invested in a series of junior subordinated debentures of the Company. The underlying asset of each statutory business trust is the relevant debenture. The Company has fully and unconditionally guaranteed the obligations under each trust's capital securities to the extent set forth in a guarantee by the Company to each trust. The Trusts' capital securities are each subject to mandatory redemption, in whole or in part, upon repayment of the debentures at their stated maturity or earlier redemption.

The following table provides a summary of the outstanding capital securities issued by each trust and the carrying amounts of the junior subordinated debentures issued by the Company to each trust as of September 30, 2007:

| Issuer                             | Interest Rate             | Junior                 |             | Date of           | Stated Maturity   | Optional Redemption |
|------------------------------------|---------------------------|------------------------|-------------|-------------------|-------------------|---------------------|
|                                    | of Capital                | Subordinated           | Capital     |                   |                   |                     |
|                                    | Securities                | Debenture              | Securities  |                   |                   |                     |
|                                    | and                       | Carrying               | Amount      |                   |                   |                     |
| Issuer                             | Debentures <sup>(1)</sup> | Amount                 | Outstanding | Original Issue    | Stated Maturity   | Date                |
|                                    |                           | (dollars in thousands) |             |                   |                   |                     |
| Haven Capital Trust II             | 10.250                    | \$ 23,333              | \$ 22,550   | May 26, 1999      | June 30, 2029     | June 30, 2009       |
| Queens County Capital Trust I      | 11.045                    | 10,309                 | 10,000      | July 26, 2000     | July 19, 2030     | July 19, 2010       |
| Queens Statutory Trust I           | 10.600                    | 15,464                 | 15,000      | September 7, 2000 | September 7, 2030 | September 7, 2010   |
| New York Community Capital Trust V | 6.000                     | 191,679                | 183,174     | November 4, 2002  | November 1, 2051  | November 4, 2007    |
| New York Community Capital Trust X | 7.295                     | 123,712                | 120,000     | December 14, 2006 | December 15, 2036 | December 15, 2011   |
| LIF Statutory Trust I              | 10.600                    | 8,163                  | 7,931       | September 7, 2000 | September 7, 2030 | September 7, 2010   |
| PennFed Capital Trust II           | 10.180                    | 14,140                 | 13,768      | March 28, 2001    | June 8, 2031      | June 8, 2011        |
| PennFed Capital Trust III          | 8.944                     | 31,252                 | 30,324      | June 2, 2003      | June 15, 2033     | June 15, 2008       |
| NYCB Capital Trust XI              | 6.881                     | 82,475                 | 80,000      | April 16, 2007    | June 30, 2037     | June 30, 2012       |
|                                    |                           | \$500,527              | \$482,747   |                   |                   |                     |

(1) Excludes the effect of purchase accounting adjustments.

On April 2, 2007, Haven Capital Trust I ( Haven Trust I ) redeemed all \$17.4 million of its fixed-rate trust preferred securities, and Roslyn Preferred Trust I ( Roslyn Trust I ) redeemed all \$63.0 million of its floating rate trust preferred securities. The Haven Trust I securities had a fixed annual interest rate of 10.46%, while the Roslyn Trust I securities had a floating annual interest rate equal to the six-month London Interbank Offered Rate ( LIBOR ) plus 3.60%. In the second quarter of 2007, the Company recorded in non-interest income a loss of \$1.8 million in connection with the write-off of unamortized issuance costs and a redemption premium stemming from the early redemption of Haven Trust I and Roslyn Trust I.

On April 16, 2007, the Company announced that it had replaced the Haven Trust I and Roslyn Trust I securities through the issuance of \$80.0 million of trust preferred securities with a floating annual interest rate equal to the three-month LIBOR plus 1.65%. The new trust preferred securities were issued by NYCB Capital Trust XI, a statutory business trust formed by the Company, and were sold to a pooled investment vehicle in a private placement offering, pursuant to an applicable exemption from registration under the Securities Act of 1933, as amended.

**Table of Contents****Note 6. Pension and Other Post-retirement Benefits**

The following table sets forth the disclosures for the Company's pension and post-retirement plans for the periods indicated:

| (in thousands)                               | For the Three Months Ended September 30, |                 |          |                 |
|--|--|-----------------|----------|-----------------|
|  | 2007                                     |                 | 2006     |                 |
|  | Pension                                  | Post-retirement | Pension  | Post-retirement |
|  | Benefits                                 | Benefits        | Benefits | Benefits        |
| Components of net periodic (credit) expense: |  |                 |          |                 |
| Interest cost                                | \$ 1,585                                 | \$285           | \$ 1,569 | \$273           |
| Service cost                                 |  | 2               |          | 2               |
| Expected return on plan assets               | (2,581)                                  |                 | (2,526)  |                 |
| Unrecognized past service liability          | 51                                       | 11              | 50       | 11              |
| Amortization of unrecognized loss            | 253                                      | 29              | 381      | 17              |
| Net periodic (credit) expense                | \$ (692)                                 | \$327           | \$ (526) | \$303           |

| (in thousands)                               | For the Nine Months Ended September 30, |                 |           |                 |
|--|---|-----------------|-----------|-----------------|
|  | 2007                                    |                 | 2006      |                 |
|  | Pension                                 | Post-retirement | Pension   | Post-retirement |
|  | Benefits                                | Benefits        | Benefits  | Benefits        |
| Components of net periodic (credit) expense: |   |                 |           |                 |
| Interest cost                                | \$ 4,755                                | \$855           | \$ 4,199  | \$778           |
| Service cost                                 |   | 6               |           | 6               |
| Expected return on plan assets               | (7,743)                                 |                 | (6,912)   |                 |
| Unrecognized past service liability          | 153                                     | 32              | 150       | 32              |
| Amortization of unrecognized loss            | 758                                     | 87              | 1,143     | 52              |
| Net periodic (credit) expense                | \$(2,077)                               | \$980           | \$(1,420) | \$868           |

As discussed in the notes to the consolidated financial statements presented in the Company's 2006 Annual Report on Form 10-K, the Company expects to contribute \$1.7 million to its post-retirement plan in 2007.

**Note 7. Computation of Earnings per Share**

| (in thousands, except share and per share data)   | Three Months Ended September 30, |             | Nine Months Ended September 30, |             |
|---|----------------------------------|-------------|---------------------------------|-------------|
|   | 2007                             | 2006        | 2007                            | 2006        |
| Net income  | \$110,909                        | \$62,477    | \$211,702                       | \$179,464   |
| Weighted average common shares outstanding  | 312,077,886                      | 292,244,262 | 305,485,131                     | 282,314,713 |
| Basic earnings per common share   | \$0.36                           | \$0.21      | \$0.69                          | \$0.64      |
| Weighted average common shares outstanding  | 312,077,886                      | 292,244,262 | 305,485,131                     | 282,314,713 |
| Additional dilutive shares using the average market value for the period when utilizing the treasury stock method | 1,519,299                        | 1,306,357   | 1,413,904                       | 1,465,159   |
| Total shares for diluted earnings per share   | 313,597,185                      | 293,550,619 | 306,899,035                     | 283,779,872 |

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|  |        |        |        |        |
|--|--------|--------|--------|--------|
| Diluted earnings per common share and common share equivalents | \$0.35 | \$0.21 | \$0.69 | \$0.63 |
|--|--------|--------|--------|--------|

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**Table of Contents**

**Note 8. Impact of Accounting Pronouncements**

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities - including an amendment of FASB Statement No. 115*. SFAS No. 159 provides companies with the option of electing fair value as an alternative measurement for most financial assets and liabilities. It also establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. SFAS No. 159 requires companies to provide additional information that will help investors and other users of financial statements to more easily understand the effect of a company's choice to use fair value on its earnings. It also requires entities to display the fair value of those assets and liabilities for which the company has chosen to use fair value on the face of the balance sheet. Under SFAS No. 159, fair value is used for both the initial and subsequent measurement of the designated assets and/or liabilities, with the changes in value recognized in earnings. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. The Company has not completed its evaluation of the impact of adopting SFAS No. 159; however, it did not elect early adoption of the Standard, which was permitted as of the beginning of its 2007 fiscal year.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurement*, which defines and establishes a framework for measuring fair value, and expands disclosures required for fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007 and for interim periods within those fiscal years. The provisions of SFAS No. 157 are to be applied prospectively as of the beginning of the fiscal year in which it is initially applied, except in limited circumstances. The Company does not anticipate that the adoption of SFAS No. 157 will have a material impact on its financial condition or results of operations.

In 2006, the Emerging Issues Task Force (EITF) of the FASB reached final consensus on accounting for life insurance in Issue No. 06-4, *Accounting for Deferred Compensation and Post-retirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements* (EITF Issue No. 06-4) and Issue No. 06-5, *Accounting for Purchases of Life Insurance - Determining the Amount That Could Be Realized in Accordance with FASB Technical Bulletin (FTB) No. 85-4, Accounting for Purchases of Life Insurance* (EITF Issue No. 06-5). EITF Issue No. 06-4 concluded that an employer, entering into an endorsement split-dollar life insurance arrangement that provides an employee with a post-retirement benefit, has not effectively settled the obligation by purchasing the life insurance. Therefore, a liability for the future benefits should be recognized in accordance with SFAS No. 106, *Employers' Accounting for Post-retirement Benefits other than Pensions*, or Accounting Principles Board (APB) Opinion No. 12, *Omnibus Opinion - 1967*. The consensus on EITF Issue No. 06-4 is effective for fiscal years beginning after December 15, 2007 and may be recognized as a change in accounting principle through a cumulative-effect adjustment to retained earnings as of the beginning of the year of adoption or by a change in accounting principle through retrospective application to all prior periods. The Company has not completed its evaluation of the impact of adopting EITF Issue No. 06-4.

EITF Issue No. 06-5 concluded that a policyholder should consider other amounts included in the contractual terms of an insurance policy, in addition to cash surrender value, when determining the asset value that could be realized under the terms of the insurance contract in accordance with FTB No. 85-4. These other amounts include non-discretionary amounts (those items that are not contingent as of the balance sheet date) and time-based amounts (i.e., deferred acquisition costs tax) which would be accounted for on a present-value basis. Items that are subject to the insurance company's intent to pay would not be included in the asset value. In addition, the amount that could be realized should be determined on an individual policy or certificate level. The consensus on EITF Issue No. 06-5 is effective for fiscal years beginning after December 15, 2006 and would be recognized through a cumulative-effect adjustment to retained earnings as of the beginning of the year of adoption for all life insurance contracts currently held, or by a change in accounting principle through retrospective application to all prior periods. The Company's adoption of EITF Issue No. 06-5 on January 1, 2007 did not have an impact on its financial condition or results of operations.

**Note 9. Income Taxes**

In July 2006, the FASB issued Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes - an Interpretation of FASB Statement No. 109*. FIN 48 prescribes a recognition threshold and measurement

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**Table of Contents**

attribute for use in connection with the obligation of a company to recognize, measure, present, and disclose in its financial statements uncertain tax positions that the company has taken or expects to take on a tax return. Upon adoption of FIN 48, only tax positions that meet a more likely than not threshold at the effective date may be recognized or may continue to be recognized. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company's adoption of FIN 48 on January 1, 2007 decreased its income tax liability for unrecognized tax benefits by \$4.1 million through a \$3.5 million reduction in the opening balance of goodwill and a \$567,000 increase in the opening balance of retained earnings.

After its adoption of FIN 48, the Company had \$26.8 million of unrecognized gross tax benefits. Of this amount, \$12.9 million, if recognized, would affect the effective tax rate, with the balance of the unrecognized tax benefits relating to potential adjustments to goodwill or paid-in capital. There were no significant changes to these amounts during the quarters ended September 30, June 30, or March 31, 2007.

Interest and penalties (if any) related to the underpayment of income taxes will continue to be classified as a component of income tax expense in the Consolidated Statements of Income. Accrued interest on tax liabilities was \$1.9 million as of January 1, 2007, with no significant additional interest accrued during the quarters ended September 30, June 30, or March 31, 2007.

The following significant tax filings are open for examination:

Federal tax filings of the Company and acquired companies for the tax years 2002 through the present;

New York State and City tax filings of the Company for the tax years 2000 through the present; and

New York State and City tax filings of acquired companies for varying tax periods, including 1998 through the present.

In addition, there are federal tax receivables from various carryback claims and amended returns which are also subject to examination and can be disallowed based on findings relating to the determination of tax in the carryback or amended tax years.

It is reasonably possible that some audits will be finalized within the next 12 months. The Company anticipates that any change to the amount of unrecognized tax benefits will not materially impact its results of operations during that time frame.

**Note 10. Business Combinations**

*Acquisition of PennFed Financial Services, Inc.*

On April 2, 2007, the Company acquired PennFed for an aggregate purchase price of \$271.8 million. Pursuant to the Agreement and Plan of Merger announced on November 2, 2006, PennFed merged with and into the Company, and its primary subsidiary, Penn Federal Savings Bank, merged with and into the Company's savings bank subsidiary, New York Community Bank. Under the terms of the agreement, PennFed shareholders received 1.222 shares of Company common stock for each share of PennFed stock held at the effective date of the merger. The Company issued 15,977,941 shares of common stock to satisfy the exchange of shares, the value of which was determined based on the average closing price of the Company's common stock for the two days prior to, and the two days following, the announcement of the acquisition.

The acquisition added 24 branches and \$1.6 billion of deposits to the Community Bank franchise in New Jersey, increasing its deposit market share in Essex, Hudson, and Union counties, where it previously had eight branches, and expanding its footprint into the southern/central New Jersey counties of Ocean, Monmouth, and Middlesex.

The purchase price was allocated to the acquired assets and liabilities of PennFed based on their fair value as of April 2, 2007. As the Company is still in the process of finalizing these values, the allocation of the purchase price presented in the following table is subject to revision.

**Table of Contents**

|                           |                     |
|---------------------------|---------------------|
| <b>(in thousands)</b>     |                     |
| <b>Assets:</b>            |                     |
| Cash and cash equivalents | \$ 22,714           |
| Securities                | 465,447             |
| Loans, net                | 1,650,310           |
| Premises and equipment    | 33,792              |
| Goodwill                  | 190,612             |
| Core deposit intangible   | 20,900              |
| Other assets              | 98,610              |
| <b>Total assets</b>       | <b>\$ 2,482,385</b> |
| <b>Liabilities:</b>       |                     |
| Deposits                  | \$ 1,614,935        |
| Borrowed funds            | 568,719             |
| Other liabilities         | 26,886              |
| <b>Total liabilities</b>  | <b>\$ 2,210,540</b> |

In the second quarter of 2007, the Company sold \$1.4 billion of the loans acquired in the PennFed transaction, in whole or securitized form.

A core deposit intangible asset ( CDI ) of \$20.9 million was recognized in connection with the PennFed acquisition and is being amortized on an accelerated basis over an estimated useful life of ten years. The Company retained the services of an independent valuation firm to determine the amount of CDI recorded. Operating results for PennFed were not significant to the consolidated operating results of the Company and, consequently, pro forma operating results have not been presented herein. Included in the purchase price were accrued merger-related costs of approximately \$24.2 million. At September 30, 2007, accrued merger-related costs of \$6.2 million remained in other liabilities in the Consolidated Statement of Condition and consisted primarily of employment benefits, professional fees, and costs associated with the cancellation of certain data processing contracts. It is estimated that none of the goodwill stemming from the acquisition of PennFed will be deductible for income tax purposes.

*Acquisition of Doral Bank, FSB Branch Network*

On March 15, 2007, the Company announced that its commercial bank subsidiary, New York Commercial Bank, and Doral Bank, FSB ( Doral ), the New York City-based subsidiary of Doral Financial Corporation, had signed a definitive purchase and assumption agreement, pursuant to which the Commercial Bank would acquire Doral's branch network in New York City, as well as certain of its assets and liabilities. The transaction was completed on July 26, 2007, adding two branches in Manhattan, six in Queens, and three in Brooklyn to the Commercial Bank franchise and boosting the number of Commercial Bank branches from 27 to 38.

In addition, the transaction provided the Company with assets of \$494.4 million, including securities of \$155.3 million and loans of \$206.1 million; wholesale borrowings of \$124.2 million; and deposits of \$377.5 million, for which the Company paid a premium of 2.6%.

The Company also recorded goodwill of \$11.5 million and CDI of \$2.1 million in connection with the Doral transaction. The CDI is being amortized on an accelerated basis over an estimated useful life of ten years.

A portion of the loans that were acquired in the Doral transaction were subsequently sold in the fourth quarter of the year.

**Table of Contents**

**Note 11. Subsequent Event**

*Acquisition of Synergy Financial Group, Inc.*

Pursuant to a definitive agreement announced on May 13, 2007, the Company acquired Synergy Financial Group, Inc. ( Synergy ), the holding company for Synergy Bank, on October 1, 2007, at which date Synergy merged with and into the Company, and Synergy Bank merged with and into the Community Bank.

Under the terms of the agreement, Synergy shareholders received 0.80 of a share of Company common stock for each share of Synergy common stock held at the effective date of the merger. The Company issued 8,676,840 shares of common stock to satisfy the tax-free exchange, the value of which was determined based on the average closing price of the Company s common stock for the two days prior to, and the two days following, the announcement of the acquisition.

The transaction added 21 branches to the Community Bank s franchise in New Jersey, including one in Mercer County, five in Middlesex County, four in Monmouth County, and 11 in Union County, all in the central part of the state. In addition, the acquisition provided the Company with total assets of approximately \$900 million, including loans of approximately \$700 million and securities of approximately \$135 million; wholesale borrowings of approximately \$250 million; and total deposits of approximately \$560 million.

**Note 12. Gain on Sale of Bank-owned Property**

*Sale of Atlantic Bank Headquarters*

On July 16, 2007, the Company completed the sale of its property located at 960 Avenue of the Americas in Manhattan to 960 Sixth Avenue LLC, a U.S. subsidiary of Statuto Group, a company based in Milan, Italy. The Company had acquired and recorded the property at fair value based on an independent appraisal in connection with its acquisition of Atlantic Bank of New York on April 28, 2006. The sales price was \$105.0 million and, after selling expenses, the Company received net proceeds of \$99.6 million. The carrying value of the property at the time of sale was \$34.7 million, resulting in a pre-tax gain on sale of \$64.9 million, which was recorded in Non-interest Income in the accompanying Consolidated Statements of Income in the third quarter of 2007.



**Table of Contents**

**NEW YORK COMMUNITY BANCORP, INC.**

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS**

**OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

*For the purpose of this Quarterly Report on Form 10-Q, the words we, us, our, and the Company are used to refer to New York Community Bancorp, Inc. and our consolidated subsidiaries, including New York Community Bank and New York Commercial Bank (the Community Bank and the Commercial Bank, respectively, and collectively, the Banks ).*

**Forward-looking Statements and Associated Risk Factors**

This report, like many written and oral communications presented by New York Community Bancorp, Inc. and our authorized officers, may contain certain forward-looking statements regarding our prospective performance and strategies within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. We intend such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995, and are including this statement for purposes of said safe harbor provisions.

Forward-looking statements, which are based on certain assumptions and describe future plans, strategies, and expectations of the Company, are generally identified by use of the words anticipate, believe, estimate, expect, intend, plan, project, seek, strive, try, or future or such as will, would, should, could, may, or similar expressions. Our ability to predict results or the actual effects of our plans or strategies is inherently uncertain. Accordingly, actual results may differ materially from anticipated results.

There are a number of factors, many of which are beyond our control, that could cause actual conditions, events, or results to differ significantly from those described in our forward-looking statements. These factors include, but are not limited to:

General economic conditions and trends, either nationally or in some or all of the areas in which we and our customers conduct our respective businesses;

Conditions in the securities markets or the banking industry;

Changes in interest rates, which may affect our net income, prepayment penalties, and other future cash flows, or the market value of our assets;

Changes in deposit flows, and in the demand for deposit, loan, and investment products and other financial services in the markets we serve;

Changes in the financial or operating performance of our customers' businesses;

Changes in real estate values, which could impact the quality of the assets securing the loans in our portfolio;

Changes in the quality or composition of our loan or investment portfolios;

Changes in competitive pressures among financial institutions or from non-financial institutions;

Changes in our customer base;

Potential exposure to unknown or contingent liabilities of companies we target for acquisition;

Our ability to retain key members of management;

Our timely development of new lines of business and competitive products or services in a changing environment, and the acceptance of such products or services by our customers;

Any interruption or breach of security resulting in failures or disruptions in customer account management, general ledger, deposit, loan, or other systems;

Any interruption in customer service due to circumstances beyond our control;

The outcome of pending or threatened litigation, or of other matters before regulatory agencies, or of matters resulting from regulatory exams, whether currently existing or commencing in the future;

Environmental conditions that exist or may exist on properties owned by, leased by, or mortgaged to the Company;

Changes in estimates of future reserve requirements based upon the periodic review thereof under relevant regulatory and accounting requirements;

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**Table of Contents**

Changes in legislation, regulation, and policies, including, but not limited to, those pertaining to banking, securities, tax, environmental protection, and insurance, and the ability to comply with such changes in a timely manner;

Changes in accounting principles, policies, practices, or guidelines;

Operational issues stemming from, and/or capital spending necessitated by, the potential need to adapt to industry changes in information technology systems, on which we are highly dependent;

The ability to keep pace with, and implement on a timely basis, technological changes;

Changes in the monetary and fiscal policies of the U.S. Government, including policies of the U.S. Treasury and the Federal Reserve Board;

War or terrorist activities; and

Other economic, competitive, governmental, regulatory, and geopolitical factors affecting our operations, pricing, and services.

In addition, the following factors, among others, could cause the actual results of our recent acquisitions of PennFed Financial Services, Inc. and Synergy Financial Group, Inc., our acquisition of 11 branches and certain assets and liabilities from Doral Bank, FSB, and the expected benefits of the respective transactions to the combined company and our shareholders to differ materially from the expectations stated in this filing: the ability of the Company to successfully integrate the assets, liabilities, customers, systems, and any personnel it has acquired into its operations pursuant to these transactions; and the ability to realize the related revenue synergies and cost savings within the expected time frames.

In addition, we routinely evaluate opportunities to expand through acquisitions and frequently conduct due diligence activities in connection with such opportunities. As a result, acquisition discussions and, in some cases, negotiations, may take place in the future, and acquisitions involving cash, debt, or equity securities may occur. Furthermore, the timing and occurrence or non-occurrence of events may be subject to circumstances beyond our control.

Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this report. Except as required by applicable law or regulation, we undertake no obligation to update these forward-looking statements to reflect events or circumstances that occur after the date on which such statements were made.

**Reconciliations of Stockholders' Equity, Tangible Stockholders' Equity, and Adjusted Tangible Stockholders' Equity; Total Assets, Tangible Assets, and Adjusted Tangible Assets; and the Related Capital Measures**

Although tangible stockholders' equity, adjusted tangible stockholders' equity, tangible assets, and adjusted tangible assets are not measures that are calculated in accordance with U.S. generally accepted accounting principles ( GAAP ), management uses these non-GAAP measures in its analysis of our performance. We believe that these non-GAAP measures are important indications of our ability to grow both organically and through business combinations and, with respect to tangible stockholders' equity and adjusted tangible stockholders' equity, our ability to pay dividends and to engage in various capital management strategies.

We calculate tangible stockholders' equity by subtracting from stockholders' equity the sum of our goodwill and core deposit intangibles ( CDI ), and calculate tangible assets by subtracting the same sum from our total assets. To calculate our ratio of tangible stockholders' equity to tangible assets, we divide our tangible stockholders' equity by our tangible assets, both of which include after-tax net unrealized losses on securities. We also calculate our ratio of tangible stockholders' equity to tangible assets excluding our after-tax net unrealized losses on securities, as such losses are impacted by changes in market interest rates and therefore tend to change from day to day. This ratio is referred to in this report as the ratio of adjusted tangible stockholders' equity to adjusted tangible assets.

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Neither tangible stockholders' equity, adjusted tangible stockholders' equity, tangible assets, adjusted tangible assets, nor the related tangible capital measures should be considered in isolation or as a substitute for stockholders' equity or any other capital measure prepared in accordance with GAAP. Moreover, the manner in which we calculate these non-GAAP capital measures may differ from that of other companies reporting measures of capital with similar names.

**Table of Contents**

Reconciliations of our stockholders' equity, tangible stockholders' equity, and adjusted tangible stockholders' equity; our total assets, tangible assets, and adjusted tangible assets; and the related capital measures at September 30, 2007 and December 31, 2006 follow:

| (dollars in thousands)   | September 30, 2007 | December 31, 2006 |
|--|--------------------|-------------------|
| Total stockholders' equity   | \$ 4,031,474       | \$ 3,689,837      |
| Less: Goodwill   | (2,349,504)        | (2,148,108)       |
| Core deposit intangibles   | (112,701)          | (106,381)         |
| <br>Tangible stockholders' equity                                      | <br>\$ 1,569,269   | <br>\$ 1,435,348  |
| Total assets   | \$30,039,905       | \$28,482,370      |
| Less: Goodwill   | (2,349,504)        | (2,148,108)       |
| Core deposit intangibles   | (112,701)          | (106,381)         |
| <br>Tangible assets  | <br>\$27,577,700   | <br>\$26,227,881  |
| <br>Stockholders' equity to total assets                               | <br>13.42%         | <br>12.95%        |
| <br>Tangible stockholders' equity to tangible assets                   | <br>5.69%          | <br>5.47%         |
| Tangible stockholders' equity  | \$1,569,269        | \$1,435,348       |
| Add back: After-tax net unrealized losses on securities                | 13,315             | 52,125            |
| <br>Adjusted tangible stockholders' equity                             | <br>\$1,582,584    | <br>\$1,487,473   |
| Tangible assets  | \$27,577,700       | \$26,227,881      |
| Add back: After-tax net unrealized losses on securities                | 13,315             | 52,125            |
| <br>Adjusted tangible assets   | <br>\$27,591,015   | <br>\$26,280,006  |
| <br>Adjusted tangible stockholders' equity to adjusted tangible assets | <br>5.74%          | <br>5.66%         |

**Critical Accounting Policies**

We have identified the accounting policies below as being critical to understanding our financial condition and results of operations. Certain accounting policies are considered to be important to the portrayal of our financial condition, since they require management to make complex or subjective judgments, some of which may relate to matters that are inherently uncertain. The inherent sensitivity of our consolidated financial statements to these critical accounting policies, and the judgments, estimates, and assumptions used therein, could have a material impact on our financial condition or results of operations.

*Allowance for Loan Losses*

The allowance for loan losses is increased by the provisions for loan losses charged to operations and reduced by net charge-offs or reversals. A separate loan loss allowance is established for each of the Community Bank and the Commercial Bank and, except as otherwise noted below, the process for establishing the allowance for loan losses is the same for each.

Management establishes the allowances for loan losses through an assessment of probable losses in each of the respective loan portfolios. Several factors are considered in this process, including historical and projected default rates and loss severities; internal risk ratings; loan size; economic, industry, and environmental factors; and loan impairment, as defined under Statement of Financial Accounting Standards (SFAS) No. 114, Accounting by Creditors for Impairment of a Loan, as amended by SFAS No. 118, Accounting by Creditors for Impairment of a Loan/Income Recognition and Disclosures. Under SFAS Nos. 114 and 118, a loan is classified as impaired



## **Table of Contents**

when, based on current information and events, it is probable that a creditor will be unable to collect all amounts due under the contractual terms of the loan. We apply SFAS Nos. 114 and 118 to all loans except smaller balance homogenous loans and loans carried at fair value or the lower of cost or fair value.

In establishing the loan loss allowances, management also considers the Banks' current business strategies and credit processes, including compliance with stringent guidelines established by the respective Boards of Directors with regard to credit limitations, loan approvals, underwriting criteria, and loan workout procedures.

In accordance with the pertinent policies, the allowances for loan losses are segmented to correspond to the various types of loans in the loan portfolios. These loan categories are assessed with specific emphasis on the internal risk ratings, underlying collateral, credit underwriting, and loan size. These factors correspond to the respective levels of quantified and inherent risk.

The assessments take into consideration loans that have been adversely rated, primarily through the valuation of the collateral supporting each loan. Adversely rated loans are loans that are either non-performing or that exhibit certain weaknesses that could jeopardize payment in accordance with their original terms. Larger loans are assigned risk ratings based upon a routine review of the credit files, while smaller loans exceeding 90 days in arrears are assigned risk ratings based upon an aging schedule. Quantified risk factors are assigned for each risk-rating category to provide an allocation to the overall loan loss allowance.

The remainder of each loan portfolio is then assessed, by loan type, with similar risk factors being considered, including the borrower's ability to pay and our past loan loss experience with each type of loan. These loans are also assigned quantified risk factors, which result in allocations to the allowances for loan losses for each particular loan or loan type in the portfolio.

In order to determine their overall adequacy, each of the respective loan loss allowances is reviewed quarterly by management and by the Mortgage and Real Estate Committee of the Community Bank's Board of Directors or the Credit Committee of the Board of Directors of the Commercial Bank, as applicable.

Other factors considered, and processes involved, in determining the appropriate level of the allowances for loan losses include, but are not limited to:

1. End-of-period levels and observable trends in non-performing loans;
2. Charge-offs experienced over prior periods, including an analysis of the underlying factors leading to the delinquencies and subsequent charge-offs (if any);
3. Periodic inspections of the loan collateral by qualified in-house property appraisers/inspectors, as applicable;
4. Regular meetings of executive management with the pertinent Board committee, during which observable trends in the local economy and/or the real estate market are discussed;
5. Full assessment by the pertinent Board of Directors of the aforementioned factors when making a business judgment regarding the impact of anticipated changes on the future level of the allowance for loan losses; and
6. Analysis of the portfolio in the aggregate, as well as on an individual loan basis, taking into consideration payment history, underwriting analyses, and internal risk ratings.

While management uses available information to recognize losses on loans, future additions to the respective loan loss allowances may be necessary, based on changes in economic and local market conditions beyond management's control. In addition, the Community Bank and/or the Commercial Bank may be required to take certain charge-offs and/or recognize additions to their loan loss allowances, based on the judgment of regulatory agencies with regard to information provided to them during their examinations.

### *Securities*

The securities portfolio consists of mortgage-related securities, and debt and equity (other) securities. Securities that are classified as available for sale are carried at estimated fair value, with any unrealized gains and losses, net of taxes, reported as accumulated other comprehensive income or loss in stockholders' equity. Securities that we have the positive intent and ability to hold to maturity are classified as held to maturity and are carried at amortized cost.

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## **Table of Contents**

The market values of our securities, particularly our fixed-rate securities, are affected by changes in market interest rates. In general, as interest rates rise, the market value of fixed-rate securities will decline; as interest rates fall, the market value of fixed-rate securities will increase. We conduct a periodic review and evaluation of the securities portfolio to determine if the decline in the fair value of any security below its carrying value is other than temporary. Estimated fair values for securities are based on published or securities dealers' market values. If we deem any decline in value to be other than temporary, the security is written down to a new cost basis and the resulting loss is charged against earnings.

In the third quarter of 2007, we sold \$1.1 billion of securities at a loss of \$7.3 million, which was equivalent to \$5.0 million, or \$0.02 per diluted share, after-tax. In connection with the third quarter sale, we recorded a \$57.0 million loss on the other-than-temporary impairment of these securities (the impairment loss) in the three months ended June 30, 2007. The second quarter impairment loss was equivalent to \$38.7 million, or \$0.12 per diluted share, after-tax.

### *Goodwill Impairment*

Goodwill is presumed to have an indefinite useful life and is tested for impairment, rather than amortized, at the reporting unit level, at least once a year. Impairment exists when the carrying amount of goodwill exceeds its implied fair value. If the fair value of a reporting unit exceeds its carrying amount at the time of testing, the goodwill of the reporting unit is not considered impaired. According to SFAS No. 142, *Goodwill and Other Intangible Assets*, quoted market prices in active markets are the best evidence of fair value and are to be used as the basis for measurement, when available. Other acceptable valuation methods include present-value measurements based on multiples of earnings or revenues, or similar performance measures. Differences in the identification of reporting units and in valuation techniques could result in materially different evaluations of impairment.

For the purpose of goodwill impairment testing, we have identified one reporting unit. We performed our annual goodwill impairment test as of January 1, 2007, and determined that the fair value of the reporting unit was in excess of its carrying value, using the quoted market price of our common stock on the impairment testing date as the basis for determining fair value. As of the annual impairment test date, there was no indication of goodwill impairment.

### *Income Taxes*

We estimate income taxes payable based on the amount we expect to owe the various taxing authorities (i.e., federal, state, and local). Income taxes represent the net estimated amount due to, or to be received from, such taxing authorities. In estimating income taxes, management assesses the relative merits and risks of the appropriate tax treatment of transactions, taking into account statutory, judicial, and regulatory guidance in the context of our tax position. In this process, management also relies on tax opinions, recent audits, and historical experience. Although we use available information to record income taxes, underlying estimates and assumptions can change over time as a result of unanticipated events or circumstances such as changes in tax laws and judicial guidance influencing our overall tax position.

In April 2007, the State of New York enacted new legislation which included a number of tax provisions that are effective for the calendar tax year beginning January 1, 2007 and that will have an impact on the Company. Specifically, the new law phased out, over four years, the favorable adjustment to income received from subsidiary capital attributable to REIT entities that has historically been used by banking corporations in the computation of taxable income. Additionally, corporate income tax rates were reduced from 7.5% to 7.1%. These provisions are not expected to have a material impact on the Company's 2007 income tax expense.



## **Table of Contents**

### **Recent Events**

#### *Dividend Payment*

On October 18, 2007, the Board of Directors declared a quarterly cash dividend of \$0.25 per share, payable on November 15, 2007 to shareholders of record at the close of business on November 6, 2007.

#### *Acquisition of Synergy Financial Group, Inc.*

Pursuant to a definitive agreement announced on May 13, 2007, the Company acquired Synergy Financial Group, Inc. ( Synergy ), the holding company for Synergy Bank, on October 1, 2007, at which date Synergy merged with and into the Company, and Synergy Bank merged with and into the Community Bank.

Under the terms of the agreement, Synergy shareholders received 0.80 of a share of Company common stock for each share of Synergy common stock held at the effective date of the merger. The Company issued 8,676,840 common shares to satisfy the tax-free exchange, the value of which was determined based on the average closing price of the Company's common stock for the two days prior to, and the two days following, the announcement of the acquisition.

The transaction added 21 branches to the Community Bank's franchise in New Jersey, including one in Mercer County, five in Middlesex County, four in Monmouth County, and 11 in Union County, all in the central part of the state. In addition, the acquisition provided the Company with total assets of approximately \$900 million, including loans of approximately \$700 million and securities of approximately \$135 million; wholesale borrowings of approximately \$250 million; and total deposits of approximately \$560 million.

### **Executive Summary**

New York Community Bancorp, Inc. is a multi-bank holding company with two primary subsidiaries: New York Community Bank, a New York State-chartered savings bank with 180 locations serving customers in all five boroughs of New York City, Long Island, and Westchester County in New York, and Essex, Hudson, Mercer, Middlesex, Monmouth, Ocean, and Union Counties in New Jersey; and New York Commercial Bank, a New York State-chartered commercial bank with 38 locations serving customers in Manhattan, Queens, and Brooklyn, Westchester County, and Long Island.

The Community Bank franchise includes 45 branches that were acquired in 2007: 24 branches in connection with our acquisition of PennFed Financial Services, Inc. ( PennFed ) on April 2nd, and 21 branches in connection with our acquisition of Synergy on October 1st. The two acquisitions expanded our franchise in New Jersey from eight to 53 branches, and increased our deposit market share in the state. Reflecting the merger-related growth in deposits, we currently rank fifth among thrift depositories in the seven New Jersey counties we serve.

In the eight counties comprising our market in New York, the Community Bank ranks third among all thrift depositories, and in each of Queens, Nassau, and Richmond counties, we rank second among all thrifts.

The Commercial Bank franchise includes 11 branches of Doral Bank, FSB ( Doral ) that were acquired on July 26, 2007, and which were converted to the systems used by our commercial bank franchise the following day. On the basis of deposit market share, the Commercial Bank currently ranks 14th among all commercial bank depositories in the six counties it serves.

In connection with the Doral transaction, we also acquired assets of \$494.4 million, including loans of \$206.1 million, and deposits of \$377.5 million.

At September 30, 2007, we had total assets of \$30.0 billion, including total loans of \$19.0 billion, and total deposits of \$13.6 billion, including \$6.9 billion of core deposit accounts (defined as NOW and money market accounts, savings accounts, and non-interest-bearing accounts).

## **Table of Contents**

### *The Post-merger Repositioning of our Balance Sheet*

The repositioning of our balance sheet following our merger transactions has been a consistent component of our business model since our first acquisition was completed on November 30, 2000. With our acquisition of PennFed on April 2nd of this year, we began the process of selling certain acquired assets, and of utilizing the cash flows to invest in alternative assets or to repay our higher-cost funds.

While PennFed had total assets of \$2.3 billion at the date of acquisition, we sold \$1.4 billion of its one-to-four family and home equity loans in the second quarter, including \$593.8 million of one-to-four family loans that were sold in securitized form. A portion of the proceeds from the sale of loans was utilized in the second quarter of 2007 to purchase government agency-backed securities totaling \$671.2 million. At the end of the quarter, another portion of the proceeds was used to prepay wholesale borrowings of \$330.3 million with an average cost of 5.35%. The prepayment generated a pre-tax charge of \$3.2 million, which reduced our second quarter and nine-month 2007 earnings by \$2.2 million, or \$0.01 per diluted share.

The repositioning of our balance sheet continued in the third quarter of 2007, with the sale of \$1.1 billion of lower-yielding securities in July. In connection with the sale, and in accordance with Financial Accounting Standards Board ( FASB ) Staff Position FAS 115-1/124-1, we recorded a \$57.0 million loss on the other-than-temporary impairment of securities (the impairment loss ) in the second quarter, and a \$7.3 million loss on the sale of such securities in the third quarter of the year. The \$57.0 million represented the excess of amortized cost of the securities over fair value at June 30, 2007, and reflected the effect of increases in market yields subsequent to the purchase dates.

The impairment loss reduced our second quarter 2007 earnings by \$38.7 million, or \$0.12 per basic and diluted share, and the sale of the impaired securities reduced our third quarter 2007 earnings by \$5.0 million, or \$0.02 per basic and diluted share. The cash flows from the sale of these securities were subsequently invested in agency-backed obligations that featured higher yields.

### *The Sale of our Atlantic Bank Headquarters*

In the third quarter of 2007, we sold the building located at 960 Avenue of the Americas in Manhattan that had served as headquarters for the Atlantic Bank division of the Commercial Bank. The building had been acquired in connection with our acquisition of Atlantic Bank of New York ( Atlantic Bank ) on April 28, 2006, and was recorded at a fair value of \$34.7 million based on an independent appraisal of the property. The sale of the building on July 16, 2007 generated gross proceeds of \$105.0 million, net proceeds of \$99.6 million, and a pre-tax gain of \$64.9 million in the third quarter of this year. After-tax, the gain on sale increased our third quarter 2007 earnings by \$44.8 million, or \$0.14 per basic and diluted share.

The acquisition of the Doral branches in July provided us with an alternate space in midtown Manhattan to serve as the headquarters for the Atlantic Bank division of the Commercial Bank.

### *The Synergy Acquisition*

In addition to adding 21 branches to our Community Bank franchise in New Jersey, the acquisition of Synergy on October 1, 2007 provided us with assets of approximately \$900 million, including loans of approximately \$700 million, and deposits of approximately \$560 million, including approximately \$250 million of core deposit accounts.

### *Third Quarter 2007 Performance Highlights*

Our third quarter 2007 performance was highlighted by a year-over-year increase in earnings, largely attributable to the gain on the sale of the Atlantic Bank building; the expansion of our net interest income and margin; the consistent quality of our assets; and our continuing capital strength.

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## Table of Contents

### Year-over-year Earnings Growth

The aforementioned gain on the sale of the Atlantic Bank property in July 2007 contributed \$44.8 million to our third quarter 2007 earnings of \$110.9 million, and \$0.14 to our diluted earnings per share of \$0.35. In the third quarter of 2006, our earnings totaled \$62.5 million, and were equivalent to \$0.21 per diluted share. In addition to the gain on the sale of the Atlantic Bank property, the year-over-year increase in our third quarter 2007 earnings primarily reflects a \$15.0 million rise in net interest income, together with a \$3.4 million rise in fee income, other income, and income from our investment in bank-owned life insurance ( BOLI ), combined. These increases were partially offset by a \$7.2 million rise in non-interest expense and a \$20.4 million rise in income tax expense.

### Year-over-year Margin Expansion

Prepayment penalties continued to be a significant factor in our performance in the three months ended September 30, 2007, as they were in the second quarter of the year. Although the level of prepayment penalty income declined \$5.2 million on a linked-quarter basis to \$17.1 million, the level rose \$11.8 million year-over-year. The year-over-year increase in prepayment penalty income contributed to the \$15.0 million, or 10.7%, rise in net interest income to \$154.9 million, while the linked-quarter reduction contributed to a \$6.2 million decline.

The level of prepayment penalty income also contributed to the relative stability of our net interest margin on a linked-quarter basis, and to the expansion of our margin year-over-year. Our margin was 2.41% in the current third quarter, as compared to 2.44% and 2.24%, respectively, in the trailing and year-earlier three months.

The growth of net interest income and the expansion of our margin were tempered by a \$444.5 million year-over-year reduction in the average loan balance to \$19.0 billion, as we opted to limit our multi-family loan production rather than vie for product in a highly competitive marketplace. Thus, while loan originations totaled \$3.4 billion in the nine months ended September 30, 2007, they were exceeded by repayments of \$6.0 billion during this time.

While the average balance of loans declined year-over-year, the average yield on loans reflected a 43-basis point increase, largely due to the rise in prepayment penalty income noted above. In addition, management's decision not to lend aggressively in the current market resulted in the roll-off of lower-yielding credits, while new loan originations featured higher yields.

The level of prepayment penalty income recorded is a function of various factors, including the contractual maturities of the loans in our portfolio and the level and perceived direction of market interest rates. The levels of net interest income and net interest margin may therefore vary with the level of prepayment penalty income in future periods.

### Consistent Asset Quality

Reflecting the strength of our multi-family lending niche, as well as our conservative credit and underwriting standards, charge-offs totaled \$151,000 in the current third quarter, bringing the year-to-date total to \$286,000, or 0.001% of average loans. In addition, while non-performing assets rose \$7.5 million to \$22.3 million over the course of the quarter, the ratio of non-performing assets to total assets rose a modest two basis points to 0.07% at quarter-end.

### Continued Capital Strength

The maintenance of a strong capital position ranks high among our objectives, as reflected in our measures of capital at quarter-end. At September 30, 2007, stockholders' equity totaled \$4.0 billion, up \$341.6 million from the year-end 2006 balance, and represented 13.42% of total assets and a book value per share of \$12.85.

Tangible stockholders' equity rose \$133.9 million during this time to \$1.6 billion, and represented 5.69% of tangible assets at September 30, 2007. Excluding after-tax net unrealized losses on securities of \$13.3 million, the ratio of adjusted tangible equity to adjusted tangible assets was 5.74%. (Please see the reconciliations of stockholders' equity, tangible stockholders' equity, and adjusted tangible stockholders' equity; total assets, tangible assets, and adjusted tangible assets; and the related capital measures that appear earlier in this report.)

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## **Table of Contents**

In addition, the capital position of our subsidiary banks continued to be solid, with both the Community Bank and the Commercial Bank exceeding the requirements for classification as well capitalized institutions at September 30, 2007.

Reflecting the strength of our capital and our earnings, the Board of Directors declared a \$0.25 per share dividend payable on November 15, 2007 to shareholders of record at the close of business on November 6, 2007.

### **The Interest Rate Environment**

The yield curve, which had ranged from flat to inverted over the course of several quarters, reversed direction in the second quarter of 2007 and grew modestly steeper as the third quarter progressed. The steepening of the yield curve increased after the 18th of September, when the Federal Open Market Committee of the Federal Reserve Board of Governors (the FOMC) reduced its target fed funds rate (the rate at which banks borrow funds from one another) by 50 basis points to 4.75%. This was the first reduction in the fed funds rate in 13 quarters; the FOMC raised the fed funds rate from 1.00% to 5.25% between June 30, 2004 and June 29, 2006. The fed funds rate was again reduced on October 31, 2007, from 4.75% to 4.50%.

Given the current rate environment and the recent disruption in the credit market, we have begun to widen the spreads on our multi-family and commercial real estate loans to some degree. In addition, the reduction in the fed funds rate has enabled us to reduce the rates we pay on our retail deposits.

### **Summary of Financial Condition at September 30, 2007**

Assets totaled \$30.0 billion at September 30, 2007, reflecting a linked-quarter increase of \$416.2 million and a \$1.6 billion increase from the balance recorded at December 31, 2006. The linked-quarter increase was partially due to the Doral transaction, which contributed assets of \$494.4 million on July 26th. The nine-month increase reflects both the Doral transaction and, to some extent, the assets acquired on April 2nd in connection with the acquisition of PennFed. Although PennFed had assets of \$2.3 billion on the date the merger was completed, we sold \$1.4 billion of its assets during the second quarter, in connection with the post-merger repositioning of our balance sheet.

### **Loans**

Total loans represented \$19.0 billion, or 63.3%, of total assets at September 30, 2007, representing an \$83.0 million increase from the June 30th balance and a \$651.8 million decrease from the balance recorded at December 31, 2006. Loans totaled \$18.9 billion and represented 63.9% of total assets at the close of the trailing quarter, and totaled \$19.7 billion, representing 69.0% of total assets, at December 31, 2006. While loan originations totaled \$3.4 billion in the first nine months of the year, the volume was exceeded by nine-month repayments and sales of \$6.0 billion, including \$1.4 billion from the second quarter sale of PennFed's one-to-four family loans in whole or securitized form.

In the third quarter of this year, repayments totaled \$1.3 billion but were modestly offset by a combination of loans produced and loans acquired. In addition to third quarter 2007 originations of \$1.2 billion, the balance of outstanding loans at September 30, 2007 reflects loans acquired in connection with the Doral branch transaction. The transaction added loans of \$206.1 million to our portfolio on July 26, 2007, including multi-family loans of \$18.1 million, commercial real estate loans of \$35.4 million, one-to-four family loans of \$48.9 million, and other loans of \$103.6 million. A portion of the loans that were acquired in the Doral transaction were subsequently sold in the fourth quarter of the year.

#### *Multi-family Loans*

Multi-family loans totaled \$13.6 billion at September 30, 2007, a \$97.7 million increase from the June 30th balance and an \$892.7 million reduction from the balance at December 31, 2006. The September 30, 2007 balance represented 71.8% of loans outstanding, as compared to 71.6% and 73.9%, respectively, at the prior period-ends. The average multi-family loan had a principal balance of \$3.5 million at September 30, 2007 and the portfolio of multi-family loans had an average loan-to-value ratio of 63.4% at that date.

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## **Table of Contents**

Multi-family loan originations totaled \$1.7 billion in the first nine months of 2007, including \$680.8 million in the third quarter of the year. Multi-family loans thus accounted for 50.6% and 57.3%, respectively, of year-to-date and third quarter loan originations, as compared to 60.2% and 48.8%, respectively, in the year-earlier periods.

We generally make multi-family loans to long-term owners of rent-regulated buildings who typically utilize the funds they borrow to make improvements to the buildings and the apartments therein. The loans in our portfolio generally feature a term of ten years, with a fixed rate of interest for the first five years of the mortgage, and an alternative rate of interest in years six through ten. The rate charged in the first five years is generally based on the five-year Constant Maturity Treasury rate (the five-year CMT) plus a 150-basis point margin. In view of the recent changes in the interest rate environment and the credit market, the spread above the five-year CMT has widened in recent weeks.

During years six through ten, the borrower has the option of selecting an annually adjustable rate that is 250 basis points above the prime rate of interest, or a fixed rate that is 275 basis points above the five-year CMT at the time of repricing. The latter option also requires the payment of a fee equal to one percentage point of the then-outstanding loan amount. The minimum rate at repricing is equal to the rate in the initial five-year term.

As improvements are made to the collateral property, New York State and City rent regulations permit an increase in the rents on the apartments, thus creating more cash flows for the owner to borrow against. As the rent roll increases, the property owner historically has opted to refinance the loan, even in a rising interest rate environment. This cycle has repeated itself over the course of many decades, with property values increasing and borrowers typically refinancing before the loan reaches its sixth year. Accordingly, the expected weighted average life of the multi-family loan portfolio was 3.5 years at September 30, 2007.

Multi-family loans that refinance within the first five years are subject to an established prepayment penalty schedule. Depending on the remaining term of the loan at the time of prepayment, the penalties normally range from five percentage points to one percentage point of the amount to be prepaid. Prepayment penalties are recorded as interest income and are therefore reflected in our average loan and asset yields and net interest margin. Reflecting an increase in property sales and refinancing activity, the volume of prepayment penalties increased to \$53.1 million in the first nine months of 2007 from \$20.8 million in the first nine months of 2006. Included in the current nine-month amount was third quarter prepayment penalty income of \$17.1 million, down \$5.2 million on a linked-quarter basis but up \$11.8 million year-over-year.

Our emphasis on multi-family loans is driven by several factors, including their structure which has limited our exposure to interest rate volatility to some extent, as compared to other longer-term mortgage loans. Another factor driving our focus on multi-family loans has been the historical quality of these assets. We generally consider multi-family loans to involve a modest degree of credit risk as compared to certain other types of credits, since the loans we make are typically collateralized by rent-regulated buildings which tend to be stable and fully occupied. Because the buildings securing the loans are generally well maintained, and because the rents are typically below market, occupancy levels generally remain more or less constant, even during times of economic adversity. Accordingly, we have not had a loss on a loan within this niche for more than 25 years.

### *Commercial Real Estate Loans*

Notwithstanding the loans acquired in connection with the Doral transaction, commercial real estate loans represented \$3.1 billion, or 16.3%, of total loans at the end of September, down \$116.9 million and \$16.9 million, respectively, from the balances recorded at June 30, 2007 and December 31, 2006. Commercial real estate loan originations totaled \$152.8 million in the third quarter of 2007, boosting the year-to-date volume to \$305.6 million, which represented 9.0% of total loans produced over the nine-month period. At September 30, 2007, the average commercial real estate loan had a principal balance of \$2.0 million, and the portfolio had an average loan-to-value ratio of 56.8%.

## Table of Contents

We structure our commercial real estate loans along the same lines as our multi-family credits, i.e., with a fixed rate of interest for the first five years of the loan that is generally tied to the five-year CMT, plus a spread that generally ranges from 165 to 175 basis points. In recent weeks, the spread above the five-year CMT has been somewhat wider, given the changes that have occurred in the current rate environment and our marketplace. For years six through ten, the borrower has the option of selecting an annually adjustable rate that is 250 basis points above the prime rate of interest, or a fixed rate that is 300 basis points above the five-year CMT at the time of repricing. The latter option also requires the payment of a fee equal to one percentage point of the then-outstanding loan amount. The minimum rate at repricing is equivalent to the rate featured in the initial five-year term.

Like multi-family loans, commercial real estate loans that refinance within the first five years are subject to an established prepayment penalty schedule. Depending on the remaining term of the loan at the time of prepayment, the penalties normally range from five percentage points to one percentage point of the amount to be prepaid. Our commercial real estate loans tend to refinance within three to four years of origination, and the expected weighted average life of the portfolio was 3.3 years at September 30, 2007.

### *Construction Loans*

Construction loans totaled \$1.1 billion at the close of the current third quarter, a \$4.6 million reduction from the second quarter-end balance and a \$37.3 million increase from the balance recorded at December 31, 2006. The September 30, 2007 balance reflects year-to-date originations of \$461.0 million, including third quarter originations of \$83.0 million.

Our construction loans typically feature shorter terms than our multi-family and commercial real estate credits, and are generally originated for the construction of residential subdivisions, owner-occupied one-to-four family homes under contract, multi-family buildings, and commercial real estate properties that primarily are located in the New York metropolitan area.

Residential subdivision and multi-family construction loans are typically originated for terms of 18 to 24 months, with a prime-based floating rate of interest. Such loans have had a strong credit history, with no losses recorded for more than a decade. They also generate origination fees that are amortized over the life of the loan and are recorded as interest income.

Loans originated for the construction of owner-occupied one-to-four family homes under contract, and for the acquisition and development of multi-family and commercial real estate properties, are also comparatively short-term in nature, ranging up to two years for one-to-four family home construction and up to three years for the development of multi-family and commercial properties. Such loans feature a daily floating prime-based index and have a minimum floor.

### *One-to-four Family Loans*

Largely reflecting loans acquired in our merger transactions, the balance of one-to-four family loans totaled \$310.0 million at September 30, 2007, signifying a \$26.3 million increase from the balance at June 30, 2007 and a \$79.5 million increase from the balance at December 31, 2006.

### *Other Loans*

Other loans totaled \$817.7 million at September 30, 2007, an \$80.9 million increase from the June 30, 2007 balance and a \$140.9 million increase from the balance at December 31, 2006. The three-month increase largely reflects the impact of the Doral transaction, which contributed \$103.6 million of other loans on July 26th, as previously discussed. The nine-month increase largely reflects other loans acquired in the Doral transaction, as well as the acquisition of PennFed on April 2nd.

Commercial and industrial ( C&I ) loans accounted for \$723.4 million, or 88.5%, of the September 30, 2007 balance, as compared to \$630.5 million, representing 85.6% of other loans, at June 30, 2007 and \$643.1 million, representing 95.0% of other loans, at December 31, 2006. We originated \$842.4 million of other loans in the first nine months of 2007, including \$258.0 million in the third quarter; C&I loans accounted for \$820.7 million and \$253.1 million of the respective amounts.

## Table of Contents

A broad range of C&I loans, both collateralized and unsecured, are made available to small and mid-size businesses for working capital, business expansion, and the purchase or lease of machinery and equipment. The purpose of the loan is considered in determining its term and structure, and the pricing is generally tied to the prime rate of interest.

### Asset Quality

The quality of our assets continued to be strong in the third quarter of 2007, reflecting not only our niche as a multi-family lender on rent-regulated buildings, but also the absence of any subprime and Alt-A loans from our loan portfolio.

Charge-offs totaled \$151,000 in the three months ended September 30, 2007, bringing the year-to-date total to \$286,000, which represented 0.001% of average loans. In the year-earlier nine month period, charge-offs totaled \$279,000 and represented a comparable percentage of average loans.

Non-performing assets totaled \$22.3 million at September 30, 2007, a \$7.5 million increase from the balance at June 30, 2007 and a \$260,000 reduction from the balance recorded at year-end 2006. The ratio of non-performing assets to total assets was 0.07% at the close of the current third quarter, as compared to 0.05% and 0.08%, respectively, at the earlier period-ends.

Non-performing loans accounted for \$20.8 million of non-performing assets at the close of the current third quarter and represented 0.11% of total loans. At June 30, 2007 and December 31, 2006, non-performing loans totaled \$13.7 million and \$21.2 million, representing 0.07% and 0.11% of total loans, respectively. Included in non-performing loans at the end of September were non-accrual mortgage loans of \$13.4 million and other non-accrual loans of \$7.4 million. While the balance of non-accrual mortgage loans reflected a nine-month reduction of \$4.7 million, the balance of other non-accrual loans reflected a nine-month increase of \$4.3 million. In addition, non-accrual mortgage loans rose \$2.6 million from the balance at June 30, 2007, while other non-accrual loans rose \$4.4 million over the three-month period.

The balance of non-performing assets also includes properties that are acquired through foreclosure, which are classified as other real estate owned. Other real estate owned is recorded at the lower of the unpaid principal balance or fair value at the date of acquisition, less the estimated cost of selling the property at that time. At September 30, 2007, other real estate owned totaled \$1.5 million, up \$482,000 from the balance at June 30, 2007 and \$135,000 from the balance recorded at year-end 2006. We currently do not expect to incur a loss when such properties are sold.

The allowance for loan losses totaled \$88.0 million at September 30, 2007, as compared to \$88.2 million and \$85.4 million at June 30, 2007 and December 31, 2006, respectively. The nine-month increase reflects the addition of a \$2.9 million loan loss allowance in the PennFed transaction, which more than offset year-to-date charge-offs of \$286,000. The loan loss allowance represented 0.46% of total loans and 423.06% of non-performing loans at the close of the current third quarter, as compared to 0.47% and 641.64%, respectively, at June 30, 2007 and to 0.43% and 402.72%, respectively, at year-end 2006.

The manner in which the allowance for loan losses is established, and the assumptions made in that process, are considered critical to our financial condition and results of operations. Such assumptions are based on judgments that are difficult, complex, and subjective, regarding various matters of inherent uncertainty. Accordingly, the policies that govern management's assessment of the allowance for loan losses are considered Critical Accounting Policies and are discussed under that heading earlier in this report.

**Table of Contents**

The following table presents information regarding our consolidated allowance for loan losses and non-performing assets at September 30, 2007 and December 31, 2006:

| (dollars in thousands)                            | At or For the<br>Nine Months Ended<br>September 30, 2007 | At or For the<br>Year Ended<br>December 31, 2006 |
|---|--|--|
| <b>Allowance for Loan Losses:</b>                 |  |  |
| Balance at beginning of period                    | \$85,389   | \$79,705   |
| Allowance acquired in merger transactions         | 2,927  | 6,104  |
| Charge-offs                                       | (286)  | (420)  |
| <b>Balance at end of period</b>                   | <b>\$88,030</b>  | <b>\$85,389</b>                                  |
| <b>Non-performing Assets:</b>                     |  |  |
| Non-accrual mortgage loans                        | \$13,359   | \$18,072   |
| Other non-accrual loans                           | 7,449  | 3,131  |
| <b>Total non-accrual loans</b>                    | <b>20,808</b>  | <b>21,203</b>                                    |
| Other real estate owned                           | 1,476  | 1,341  |
| <b>Total non-performing assets</b>                | <b>\$22,284</b>  | <b>\$22,544</b>                                  |
| <b>Ratios:</b>                                    |  |  |
| Non-performing loans to total loans               | 0.11%  | 0.11%  |
| Non-performing assets to total assets             | 0.07   | 0.08   |
| Allowance for loan losses to non-performing loans | 423.06   | 402.72   |
| Allowance for loan losses to total loans          | 0.46   | 0.43   |

**Securities**

Securities rose to \$5.9 billion at September 30, 2007 from \$5.7 billion at June 30, 2007 and from \$4.9 billion at December 31, 2006. The ratio of securities to total assets was 19.6% at the end of September, as compared to 19.2% and 17.3%, respectively, at the prior period-ends. In addition to our purchase of agency-backed obligations in the second and third quarters, the increase in securities reflects the agency-backed obligations acquired in the Doral branch transaction and a portion of the securities that were acquired with PennFed. In connection with the post-merger repositioning of our balance sheet, we sold \$1.1 billion of lower-yielding securities in July 2007, and utilized the proceeds to invest in higher-yielding mortgage-related agency obligations and government debentures as the third quarter progressed.

The sale of securities generated a third quarter loss of \$7.3 million, in addition to a loss on the other-than-temporary impairment of those securities in the second quarter of this year. Reflecting the impairment loss, which amounted to \$57.0 million, the after-tax net unrealized loss on available-for-sale securities declined to \$5.9 million at September 30, 2007 from \$17.9 million and \$42.8 million, respectively, at June 30, 2007 and December 31, 2006.

Available-for-sale securities represented \$1.5 billion, or 25.0%, of total securities at the close of the current third quarter, down \$1.3 billion, or 46.3%, from the balance at June 30, 2007 and \$464.1 million, or 23.9%, from the balance at December 31, 2006. Held-to-maturity securities totaled \$4.4 billion at the end of September, up \$1.5 billion and \$1.4 billion, respectively, from the balances recorded at the earlier period-ends.

Mortgage-related securities represented \$1.0 billion, or 70.2%, of available-for-sale securities at September 30, 2007, and \$2.4 billion, or 53.5%, of securities held to maturity. Other securities accounted for the remaining \$440.6 million of available-for-sale securities and for the remaining \$2.1 billion of held-to-maturity securities at that date. At September 30, 2007, the respective market values of mortgage-related securities and other securities held to maturity were \$2.3 billion and \$2.1 billion, representing 96.6% and 99.9% of the respective carrying values.



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The estimated weighted average life of the securities portfolio was 5.95 years at the end of September, as compared to 5.48 years at December 31, 2006. The estimated weighted average life of mortgage-related securities was 5.63 years and 4.98 years, respectively, at the corresponding dates.

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## Table of Contents

### Sources of Funds

On a stand-alone basis, the Company has four primary funding sources for the payment of dividends, share repurchases, and other corporate uses: dividends paid to the Company by the Banks; capital raised through the issuance of debt instruments; capital raised through the issuance of stock; and repayments of, and income from, investment securities.

On a consolidated basis, the Company's funding primarily stems from the cash flows generated through the repayment of loans; the cash flows generated through securities sales and repayments; the deposits we gather through our branch network or acquire in merger transactions; and the use of wholesale funding. During the third quarter of 2007, additional cash flows stemmed from the sale of our Atlantic Bank headquarters in Manhattan, which generated net proceeds of \$99.6 million.

Loans generated cash flows of \$5.4 billion in the first nine months of 2007, including repayments of \$4.6 billion. In the third quarter of the year, loans generated cash flows of \$1.3 billion, with sales accounting for a modest \$12.3 million of the total and the remainder stemming from repayments.

Securities generated cash flows of \$2.5 billion in the first nine months of 2007, including \$1.5 billion in the third quarter of the year. Securities sales accounted for \$1.4 billion and \$2.0 billion of the cash flows generated in the three- and nine-month periods, respectively, with repayments accounting for the remaining \$109.1 million and \$497.9 million, respectively.

Deposits totaled \$13.6 billion at September 30, 2007, a \$201.8 million, or 1.5%, reduction from the second quarter-end balance and a \$948.5 million, or 7.5%, increase from the balance recorded at December 31, 2006. The nine-month increase was largely attributable to the transactions with PennFed and Doral. While the Doral transaction contributed to the balance of deposits at the end of September, the amount contributed was offset by the run-off of higher-cost deposits, as we continued to price our products conservatively.

Certificates of deposit ( CDs ) accounted for \$6.6 billion, or 48.8%, of total deposits at September 30, 2007, down \$262.1 million from the balance recorded at June 30, 2007 and up \$674.8 million from the balance recorded at year-end 2006. In addition to allowing the run-off of higher-cost retail CDs during the quarter, the three-month decline indicates a reduction in brokered CDs, as further discussed below.

Core deposits represented \$6.9 billion, or 51.2%, of total deposits at the end of September, as compared to \$6.9 billion and \$6.7 billion, respectively, at the earlier period-ends. While non-interest-bearing accounts rose \$354.6 million to \$1.5 billion over the course of the quarter, the increase was tempered by a \$172.6 million decline in NOW and money market accounts to \$2.9 billion and a \$121.6 million decline in savings accounts to \$2.5 billion during this time. The nine-month increase in core deposits was the net effect of a \$62.6 million rise in savings accounts, a \$420.5 million rise in non-interest-bearing accounts, and a \$209.4 million decrease in NOW and money market accounts.

Brokered deposits totaled \$874.9 million at the close of the current third quarter, down \$134.7 million and \$68.9 million, respectively, from the balances recorded at June 30, 2007 and December 31, 2006. The nine-month decline was the net effect of a \$268.0 million reduction in brokered NOW and money market accounts to \$396.7 million and a \$199.1 million increase in brokered CDs to \$478.2 million. In contrast, the balance of brokered CDs declined \$111.6 million over the course of the current third quarter, despite the addition of \$17.7 million in the transaction with Doral. Brokered NOW and money market accounts also declined, albeit by a more modest \$23.1 million, during this time.

Borrowed funds totaled \$12.1 billion at September 30, 2007, up \$507.6 million and \$198.5 million, respectively, from the balances recorded at June 30, 2007 and December 31, 2006. Wholesale borrowings accounted for \$11.2 billion of the September 30th balance, and were up \$508.1 million and \$155.0 million, respectively, from the amounts recorded at the earlier dates. The higher balance partly reflects wholesale borrowings that were assumed in connection with the Doral transaction.

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**Table of Contents**

Federal Home Loan Bank of New York ( FHLB-NY ) advances accounted for \$7.1 billion of wholesale borrowings at September 30, 2007, with repurchase agreements accounting for the remaining \$4.2 billion.

Reflecting the increase in wholesale borrowings and the reduction in total assets over the course of the quarter, wholesale borrowings represented 37.4% of total assets at September 30, 2007, as compared to 36.2% at the trailing quarter-end. At December 31, 2006, wholesale borrowings represented 38.9% of total assets.

Also reflected in the balance of borrowed funds at September 30, 2007 were junior subordinated debentures of \$500.5 million, including \$45.6 million acquired in the transaction with PennFed. Senior debt and preferred stock of subsidiaries accounted for the remaining \$352.6 million of borrowed funds at quarter-end.

**Asset and Liability Management and the Management of Interest Rate Risk**

We manage our assets and liabilities to reduce our exposure to changes in market interest rates. The asset and liability management process has three primary objectives: to evaluate the interest rate risk inherent in certain balance sheet accounts; to determine the appropriate level of risk, given our business strategy, operating environment, capital and liquidity requirements, and performance objectives; and to manage that risk in a manner consistent with the Board's approved guidelines.

*Market Risk*

As a financial institution, we are focused on reducing our exposure to interest rate volatility, which represents our primary market risk. Changes in market interest rates represent the greatest challenge to our financial performance, as such changes can have a significant impact on the level of income and expense recorded on a large portion of our interest-earning assets and interest-bearing liabilities, and on the market value of all interest-earning assets, other than those possessing a short term to maturity. To reduce our exposure to changing rates, the Board of Directors and management monitor interest rate sensitivity on a regular or as needed basis so that adjustments in the asset and liability mix can be made when deemed appropriate.

The actual duration of mortgage loans and mortgage-related securities can be significantly impacted by changes in prepayment levels and market interest rates. The level of prepayments may be impacted by a variety of factors, including the economy in the region where the underlying mortgages were originated; seasonal factors; demographic variables; and the assumability of the underlying mortgages. However, the largest determinants of prepayments are market interest rates and the availability of refinancing opportunities.

To manage our interest rate risk, we have been pursuing the following strategies: (1) emphasizing the origination and retention of intermediate-term assets, including multi-family, commercial real estate, and construction loans; (2) originating one-to-four family loans on a pass-through basis and selling them without recourse; (3) selling lower-yielding securities and utilizing the cash flows to fund loan production, purchase higher-yielding securities, or to reduce our higher-cost funding sources, such as wholesale borrowings and brokered deposits; (4) increasing the prevalence of deposits within our mix of funding sources; (5) repositioning our wholesale borrowings to reduce the interest rate and extend the call date or maturity; and (6) engaging in merger transactions with other financial institutions in order to replace our higher-cost wholesale funding sources with lower-cost deposits, including non-interest-bearing accounts.

*Interest Rate Sensitivity Analysis*

The matching of assets and liabilities may be analyzed by examining the extent to which such assets and liabilities are interest rate sensitive and by monitoring a bank's interest rate sensitivity gap. An asset or liability is said to be interest rate sensitive within a specific time frame if it will mature or reprice within that period of time. The interest rate sensitivity gap is defined as the difference between the amount of interest-earning assets maturing or repricing within a specific time frame and the amount of interest-bearing liabilities maturing or repricing within that same period of time. In a rising interest rate environment, an institution with a negative gap would generally be expected, absent the effects of other factors, to experience a greater increase in the cost of its interest-bearing liabilities than it would in the yield on its interest-earning assets, thus producing a decline in its net interest income.

**Table of Contents**

Conversely, in a declining rate environment, an institution with a negative gap would generally be expected to experience a lesser reduction in the yield on its interest-earning assets than it would in the cost of its interest-bearing liabilities, thus producing an increase in its net interest income.

In a rising interest rate environment, an institution with a positive gap would generally be expected to experience a greater increase in the yield on its interest-earning assets than it would in the cost of its interest-bearing liabilities, thus producing an increase in its net interest income. Conversely, in a declining rate environment, an institution with a positive gap would generally be expected to experience a lesser reduction in the cost of its interest-bearing liabilities than it would in the yield on its interest-earning assets, thus producing a decline in its net interest income.

At September 30, 2007, our one-year gap was a positive 2.12%, as compared to a negative 6.91% at June 30, 2007 and a negative 11.66% at December 31, 2006. The movement of our one-year gap over the course of the quarter was largely attributable to the extension of wholesale borrowings totaling \$3.0 billion to terms in the range of five to ten years.

The following table sets forth the amounts of interest-earning assets and interest-bearing liabilities outstanding at September 30, 2007 which, based on certain assumptions stemming from our historical experience, are expected to reprice or mature in each of the future time periods shown. Except as stated below, the amounts of assets and liabilities shown as repricing or maturing during a particular time period were determined in accordance with the earlier of (1) the term to repricing, or (2) the contractual terms of the asset or liability. The table provides an approximation of the projected repricing of assets and liabilities at September 30, 2007 on the basis of contractual maturities, anticipated prepayments (including anticipated calls on wholesale borrowings), and scheduled rate adjustments within a three-month period and subsequent selected time intervals. For loans and mortgage-related securities, prepayment rates were assumed to range up to 20% annually. Savings accounts, Super NOW accounts, and NOW accounts were assumed to decay at an annual rate of 5% for the first five years and 15% for the years thereafter. Money market accounts, with the exception of accounts with specified repricing dates, were assumed to decay at an annual rate of 20% for the first five years and 50% in the years thereafter.

Prepayment and deposit decay rates can have a significant impact on our estimated gap. While we believe our assumptions to be reasonable, there can be no assurance that assumed prepayment and decay rates will approximate actual future loan prepayments and deposit withdrawal activity.

**Table of Contents****Interest Rate Sensitivity Analysis**

| (dollars in thousands)   | At September 30, 2007 |                       |                                   |                                     |                                  |                    | Total        |
|--|-----------------------|-----------------------|-----------------------------------|-------------------------------------|----------------------------------|--------------------|--------------|
|  | Three Months or Less  | Four to Twelve Months | More Than One Year to Three Years | More Than Three Years to Five Years | More Than Five Years to 10 Years | More Than 10 Years |              |
| <b>Interest-earning Assets:</b>  |                       |                       |                                   |                                     |                                  |                    |              |
| Mortgage and other loans <sup>(1)</sup>  | \$2,938,953           | \$ 4,110,373          | \$7,141,195                       | \$3,946,329                         | \$ 758,150                       | \$ 85,276          | \$18,980,276 |
| Mortgage-related securities <sup>(2)(3)</sup>  | 218,916               | 385,613               | 813,051                           | 640,802                             | 928,227                          | 416,285            | 3,402,894    |
| Other securities <sup>(2)</sup>  | 794,862               | 462,451               | 85,880                            | 196,500                             | 485,723                          | 844,880            | 2,870,296    |
| Money market investments   | 1,025,589             |                       |                                   |                                     |                                  |                    | 1,025,589    |
| Total interest-earning assets  | 4,978,320             | 4,958,437             | 8,040,126                         | 4,783,631                           | 2,172,100                        | 1,346,441          | 26,279,055   |
| <b>Interest-bearing Liabilities:</b>   |                       |                       |                                   |                                     |                                  |                    |              |
| Savings accounts   | 30,710                | 92,129                | 227,558                           | 205,371                             | 1,057,515                        | 843,482            | 2,456,765    |
| NOW and Super NOW accounts   | 8,433                 | 25,298                | 62,486                            | 56,393                              | 290,386                          | 231,615            | 674,611      |
| Money market accounts  | 246,256               | 320,009               | 614,416                           | 393,226                             | 677,223                          | 21,846             | 2,272,976    |
| Certificates of deposit  | 1,610,070             | 3,585,511             | 1,187,660                         | 140,648                             | 95,478                           |                    | 6,619,367    |
| Borrowed funds   | 1,828,133             | 1,554,054             | 900,163                           | 924,309                             | 6,488,486                        | 383,329            | 12,078,474   |
| Total interest-bearing liabilities   | 3,723,602             | 5,577,001             | 2,992,283                         | 1,719,947                           | 8,609,088                        | 1,480,272          | 24,102,193   |
| Interest rate sensitivity gap per period <sup>(4)</sup>                                    | \$1,254,718           | \$ (618,564)          | \$5,047,843                       | \$3,063,684                         | \$(6,436,988)                    | \$ (133,831)       | \$ 2,176,862 |
| Cumulative interest sensitivity gap  | \$1,254,718           | \$636,154             | \$5,683,997                       | \$8,747,681                         | \$2,310,693                      | \$2,176,862        |              |
| Cumulative interest sensitivity gap as a percentage of total assets                        | 4.18%                 | 2.12%                 | 18.92%                            | 29.12%                              | 7.69%                            | 7.25%              |              |
| Cumulative net interest-earning assets as a percentage of net interest-bearing liabilities | 133.70                | 106.84                | 146.24                            | 162.43                              | 110.21                           | 109.03             |              |

(1) For the purpose of the gap analysis, non-performing loans and the allowance for loan losses have been excluded.

(2) Mortgage-related and other securities, including FHLB-NY stock, are shown at their respective carrying values.

(3) Expected amount based, in part, on historical experience.

(4) The interest rate sensitivity gap per period represents the difference between interest-earning assets and interest-bearing liabilities.

**Table of Contents**

Certain shortcomings are inherent in the method of analysis presented in the preceding Interest Rate Sensitivity Analysis. For example, although certain assets and liabilities may have similar maturities or periods to repricing, they may react in different degrees to changes in market interest rates. The interest rates on certain types of assets and liabilities may fluctuate in advance of the market, while interest rates on other types may lag behind changes in market interest rates. Additionally, certain assets, such as adjustable-rate loans, have features that restrict changes in interest rates both on a short-term basis and over the life of the asset. Furthermore, in the event of a change in interest rates, prepayment and early withdrawal levels would likely deviate from those assumed in calculating the table. Finally, the ability of some borrowers to repay their adjustable-rate loans may be adversely impacted by an increase in market interest rates.

Management also monitors interest rate sensitivity through the use of a model that generates estimates of the change in our net portfolio value ( NPV ) over a range of interest rate scenarios. NPV is defined as the net present value of expected cash flows from assets, liabilities, and off-balance sheet contracts. The model assumes estimated loan prepayment rates, reinvestment rates, and deposit decay rates.

To monitor our overall sensitivity to changes in interest rates, we model the effect of instantaneous increases and decreases in interest rates on our assets and liabilities. While the NPV analysis provides an indication of our interest rate risk exposure at a particular point in time, such measurements are not intended to, and do not, provide a precise forecast of the effect of changes in market interest rates on our net interest income, and may very well differ from actual results.

Based on the information and assumptions in effect at September 30, 2007, the following table reflects the estimated percentage change in our NPV assuming both a 100- and 200-basis point increase and a 100- and 200-basis point reduction in interest rates:

| <b>Changes in<br/>Interest Rates<br/>(in basis points)</b> | <b>Estimated Percentage Change in<br/>Net Portfolio Value</b> |
|--|---|
| + 200 over one year  | (14.01)%  |
| + 100 over one year  | (5.57)  |
| - 100 over one year  | (1.43)  |
| - 200 over one year  | (9.13)  |

We also utilize an internal net interest income simulation to manage our sensitivity to interest rate risk. The simulation incorporates various market-based assumptions regarding the impact of changing interest rates on future levels of our financial assets and liabilities. The assumptions used in the net interest income simulation are inherently uncertain. Actual results may differ significantly from those presented in the table below, due to the frequency, timing, and magnitude of changes in interest rates; changes in spreads between maturity and repricing categories; and prepayments, among other factors, coupled with any actions taken to counter the effects of any such changes.

Based on the information and assumptions in effect at September 30, 2007, the following table reflects the estimated percentage change in future net interest income for the next twelve months, assuming a gradual increase or decrease in interest rates during such time:

| <b>Changes in<br/>Interest Rates<br/>(in basis points)<sup>(1)</sup></b> | <b>Estimated Percentage Change in<br/>Future Net Interest Income</b> |
|--|--|
| + 200 over one year  | (7.87)%  |
| + 100 over one year  | (3.77)   |
| - 100 over one year  | 0.96   |
| - 200 over one year  | (0.95)   |

(1) In general, short- and long-term rates are assumed to increase or decrease in parallel fashion across all four quarters and then remain unchanged.

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**Table of Contents**

Management notes that no assurances can be given that future changes in our mix of assets and liabilities will not result in greater changes to the gap, NPV, or net interest income simulation.

**Liquidity, Off-balance Sheet Arrangements and Contractual Commitments, and Capital Position**

*Liquidity*

We manage liquidity to ensure that our cash flows are sufficient to support our operations and to compensate for any temporary mismatches with regard to sources and uses of funds caused by erratic deposit and loan demand.

As discussed under Sources of Funds, we have several funding sources, including principal repayments on loans; cash flows from securities sales and repayments; deposits; and borrowed funds, primarily in the form of wholesale borrowings. While borrowed funds and the scheduled amortization of loans and securities are predictable funding sources, deposit flows and loan and securities prepayments are subject to such external factors as market interest rates, competition, and economic conditions, and, accordingly, are less predictable.

In the nine months ended September 30, 2007, our investing activities provided net cash of \$2.5 billion. While our primary investing activity is loan production, the level of repayments during this time exceeded the level of loans produced, resulting in a net decrease in loans.

The net cash used in financing activities during this time totaled \$1.7 billion, largely reflecting the aforementioned declines in deposits and borrowed funds. Our operating activities provided net cash of \$294.7 million in the first nine months of this year.

We monitor our liquidity on a daily basis to ensure that sufficient funds are available to meet our financial obligations, including withdrawals from depository accounts, outstanding loan commitments, contractual long-term debt payments, and operating leases. Our most liquid assets are cash and cash equivalents, which totaled \$1.3 billion at September 30, 2007, as compared to \$230.8 million at December 31, 2006. The increase in liquidity reflects the remainder of the cash flows produced through the sale of one-to-four family loans acquired in the PennFed transaction, which were primarily invested in overnight federal funds prior to being invested in agency-backed obligations or used to fund the outflow of higher-cost deposits. Additional liquidity is available through our approved line of credit with the FHLB-NY and our portfolio of available-for-sale securities.

CDs due to mature in one year or less from September 30, 2007 totaled \$5.2 billion. While our ability to retain and attract CDs depends on various factors, including the competitiveness of the terms and interest rates we offer, our desire to retain and attract CDs depends on our need for such funding, and the availability and attractiveness of other sources of funds. For example, the infusion of deposits through our recent acquisitions has reduced our need to vie aggressively for term deposits in our highly competitive marketplace.

*Off-balance Sheet Arrangements and Contractual Commitments*

At September 30, 2007, we had outstanding mortgage loan commitments of \$791.8 million, including commitments to originate multi-family loans of \$379.0 million, and outstanding letters of credit totaling \$70.3 million. In addition, we continue to be obligated under numerous non-cancelable operating lease and license agreements, including leases on certain branches that were assumed in the transactions with PennFed and Doral. As the impact of these leases is not material, the amounts involved in our operating lease and license agreements at September 30, 2007 remained comparable to the amounts recorded at December 31, 2006, as disclosed in our 2006 Annual Report on Form 10-K.

*Capital Position*

Stockholders' equity totaled \$4.0 billion at September 30, 2007, a \$341.6 million increase from the balance at December 31, 2006. The September 30, 2007 amount was equivalent to 13.42% of total assets and a book value of \$12.85 per share, based on 313,633,512 shares. The December 31, 2006 amount was equivalent to 12.95% of total assets and a book value of \$12.56 per share, based on 293,890,372 shares.

**Table of Contents**

We calculate book value by subtracting the number of unallocated Employee Stock Ownership Plan ( ESOP ) shares at the end of a period from the number of shares outstanding at the same date. The number of unallocated ESOP shares at September 30, 2007 and December 31, 2006 was 1,189,653 and 1,460,564, respectively. We calculate book value in this manner to be consistent with our calculations of basic and diluted earnings per share, both of which exclude unallocated ESOP shares from the number of shares outstanding in accordance with SFAS No. 128, Earnings per Share.

The nine-month increase in stockholders' equity was largely attributable to our issuance of 15,977,941 shares of common stock with a value of \$255.9 million, in connection with the PennFed acquisition on April 2, 2007.

Excluding goodwill of \$2.3 billion and CDI of \$112.7 million, we reported tangible stockholders' equity of \$1.6 billion at September 30, 2007, equivalent to 5.69% of tangible assets and a tangible book value of \$5.00 per share. At December 31, 2006, we reported tangible stockholders' equity of \$1.4 billion, equivalent to 5.47% of tangible assets and a tangible book value of \$4.88 per share.

Excluding after-tax net unrealized losses on securities in the amount of \$13.3 million, our adjusted tangible stockholders' equity was equivalent to 5.74% of adjusted tangible assets at September 30, 2007. Excluding after-tax net unrealized losses on securities of \$52.1 million, the ratio of adjusted tangible stockholders' equity to adjusted tangible assets was 5.66% at December 31, 2006. (Please see the reconciliations of stockholders' equity, tangible stockholders' equity, and adjusted tangible stockholders' equity; total assets, tangible assets, and adjusted tangible assets; and the related measures that appear earlier in this report.)

In addition to the aforementioned issuance of shares, our tangible stockholders' equity was supported by nine-month 2007 net income of \$211.7 million and a \$36.9 million reduction in the after-tax net unrealized loss on available-for-sale securities to \$5.9 million. These contributing factors were largely offset by the payment of a \$0.25 per share dividend in each of the year's first three quarters, amounting to a total distribution of \$229.6 million.

Consistent with our historical performance, our capital levels exceeded the minimum federal requirements for a bank holding company at September 30, 2007. On a consolidated basis, our leverage capital equaled \$2.3 billion, representing 8.33% of adjusted average assets, and our Tier 1 and total risk-based capital equaled \$2.3 billion and \$2.4 billion, representing 12.79% and 13.37%, respectively, of risk-weighted assets. At December 31, 2006, our leverage capital, Tier 1 risk-based capital, and total risk-based capital amounted to \$2.1 billion, \$2.1 billion, and \$2.2 billion, representing 8.14% of adjusted average assets, 11.76% of risk-weighted assets, and 12.31% of risk-weighted assets, respectively.

In addition, as of September 30, 2007, both the Community Bank and the Commercial Bank were categorized as well capitalized under the FDIC's regulatory framework for prompt corrective action. To be categorized as well capitalized, a bank must maintain a minimum leverage capital ratio of 5.00%, a minimum Tier 1 risk-based capital ratio of 6.00%, and a minimum total risk-based capital ratio of 10.00%.

The following regulatory capital analyses set forth the leverage, Tier 1 risk-based, and total risk-based capital levels at September 30, 2007 for the Company, the Community Bank, and the Commercial Bank, each in comparison with the minimum federal requirements.

**Regulatory Capital Analysis (Company)**

| (dollars in thousands)         | At September 30, 2007 |       |                    |        |             |        |
|--------------------------------|-----------------------|-------|--------------------|--------|-------------|--------|
|                                | Leverage Capital      |       | Risk-based Capital |        |             |        |
|                                |                       |       | Tier 1             |        | Total       |        |
|                                | Amount                | Ratio | Amount             | Ratio  | Amount      | Ratio  |
| Total capital                  | \$2,286,403           | 8.33% | \$2,286,403        | 12.79% | \$2,389,433 | 13.37% |
| Regulatory capital requirement | 1,097,532             | 4.00  | 714,802            | 4.00   | 1,429,605   | 8.00   |
| Excess                         | \$1,188,871           | 4.33% | \$1,571,601        | 8.79%  | \$ 959,828  | 5.37%  |



**Table of Contents****Regulatory Capital Analysis (New York Community Bank)**

| (dollars in thousands)         | At September 30, 2007 |       |             |        |                    |        |
|--------------------------------|-----------------------|-------|-------------|--------|--------------------|--------|
|                                | Leverage Capital      |       | Tier 1      |        | Risk-based Capital |        |
|                                | Amount                | Ratio | Amount      | Ratio  | Amount             | Ratio  |
| Total capital                  | \$1,996,708           | 8.05% | \$1,996,708 | 12.53% | \$2,077,522        | 13.04% |
| Regulatory capital requirement | 992,033               | 4.00  | 637,441     | 4.00   | 1,274,883          | 8.00   |
| Excess                         | \$1,004,675           | 4.05% | \$1,359,267 | 8.53%  | \$ 802,639         | 5.04%  |

**Regulatory Capital Analysis (New York Commercial Bank)**

| (dollars in thousands)         | At September 30, 2007 |        |           |        |                    |        |
|--------------------------------|-----------------------|--------|-----------|--------|--------------------|--------|
|                                | Leverage Capital      |        | Tier 1    |        | Risk-based Capital |        |
|                                | Amount                | Ratio  | Amount    | Ratio  | Amount             | Ratio  |
| Total capital                  | \$329,045             | 11.35% | \$329,045 | 16.83% | \$336,274          | 17.20% |
| Regulatory capital requirement | 115,985               | 4.00   | 78,197    | 4.00   | 156,394            | 8.00   |
| Excess                         | \$213,060             | 7.35%  | \$250,848 | 12.83% | \$179,880          | 9.20%  |

**Earnings Summary for the Three Months Ended September 30, 2007**

In the three months ended September 30, 2007, we recorded earnings of \$110.9 million, including an after-tax gain of \$44.8 million on the sale of our Atlantic Bank headquarters and an after-tax loss of \$5.0 million on the sale of securities that were determined to be impaired in the second quarter of the year. On a per-share basis, our third quarter 2007 earnings were equivalent to \$0.36 (basic) and \$0.35 (diluted), including a \$0.14 per share gain on the sale of the Atlantic Bank building, which was partially offset by a \$0.02 per share loss on the sale of securities.

By comparison, we recorded earnings of \$62.5 million, or \$0.21 per basic and diluted share, in the third quarter of 2006.

In addition to the earnings contributed by the sale of the Atlantic Bank building, our third quarter 2007 earnings reflect year-over-year increases in net interest income, fee income, BOLI income, and other income, which, in the aggregate, exceeded the increases in non-interest expense and income tax expense.

In the three months ended June 30, 2007, we recorded earnings of \$36.0 million, or \$0.12 per basic and diluted share. While the sale of securities generated an after-tax gain of \$6.2 million, or \$0.02 per share, in the second quarter, the benefit was significantly exceeded by the aforementioned impairment loss, which reduced our second quarter 2007 earnings by \$38.7 million, or \$0.12 per share, after tax. Our second quarter 2007 earnings were also reduced by a \$2.2 million, or \$0.01 per share, after-tax charge on the prepayment of wholesale borrowings and a \$1.3 million after-tax loss on the early redemption of certain trust preferred securities (the loss on debt redemption).

**Net Interest Income**

Net interest income is our primary source of income. Its level is largely a function of the average balance of our interest-earning assets, the average balance of our interest-bearing liabilities, and the spread between the yield on such assets and the cost of such liabilities. These factors are influenced by the pricing and mix of our interest-earning assets and interest-bearing liabilities which, in turn, may be impacted by such external factors as economic conditions, competition for loans and deposits, market interest rates, and the monetary policy of the FOMC.

The FOMC reduces, maintains, or increases the target fed funds rate as it deems necessary. The FOMC lowered the fed funds rate by fifty basis points on September 18, 2007, from 5.25% to 4.75%. The reduction in the fed funds rate was the first in 13 quarters; from June 30, 2004 through June 29, 2006, the FOMC raised the rate a total of 425 basis points. Subsequently, on October 31, 2007, the fed funds rate was again reduced, to 4.50%.



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**Table of Contents**

While the fed funds rate impacts the cost of our short-term borrowings and deposits, the yields on our loans and other interest-earning assets are typically impacted by intermediate-term market interest rates. As previously indicated, the pricing of our multi-family and commercial real estate loans is generally based on the five-year CMT plus a spread of 150 basis points, in the case of multi-family loans, and a spread of 165 to 175 basis points in the case of commercial real estate loans. The five-year CMT averaged 4.51% in the current third quarter, reaching a low of 4.00% on September 10, 2007 and a high of 5.10% on July 6, 2007.

In addition, the level of net interest income we record is significantly influenced by the level of prepayment penalty income that stems from the prepayment of multi-family and commercial real estate loans. Since such penalties are recorded as interest income, an increase or decrease in their level will be reflected in the average yield of loans and assets, and therefore, in our net interest margin and interest rate spread. In the third quarter of 2007, prepayment penalty income totaled \$17.1 million, signifying a \$5.2 million, or 23.4% reduction linked-quarter and an \$11.8 million, or 221.2%, increase year-over-year.

Net interest income totaled \$154.9 million in the three months ended September 30, 2007, down \$6.2 million from the trailing-quarter level, but up \$15.0 million, or 10.7%, from the level recorded in the three months ended September 30, 2006. The linked-quarter decline was the net effect of a \$3.8 million reduction in interest income to \$397.2 million and a \$2.4 million rise in interest expense to \$242.4 million. The year-over-year increase in net interest income was the net effect of a \$35.9 million rise in interest income and a \$20.9 million rise in interest expense.

The year-over-year increase in net interest income was largely due to an uptick in refinancing activity and property sales in the multi-family sector, which not only resulted in the aforementioned increase in prepayment penalty income but also the roll-off of lower-yielding loans and the replenishment of our asset mix with higher-yielding loans and securities. In addition to the aforementioned decline in prepayment penalty income, the linked-quarter decline in net interest income reflects the continued reduction in the average balance of interest-earning assets, which was coupled with an increase in interest-bearing liabilities.

*Year-over-year Comparison*

The year-over-year rise in interest income was driven by a \$790.7 million increase in the average balance of interest-earning assets to \$26.0 billion, together with a 37-basis point rise in the average yield to 6.11%. The higher average balance was largely attributable to the PennFed acquisition. The higher yield was primarily due to the aforementioned increase in prepayment penalty income, the reduction in lower-yielding assets, and an increase in the yield on securities reflecting the post-merger repositioning of the balance sheet.

The interest income produced by loans rose \$13.8 million year-over-year to \$302.7 million, as a \$444.5 million decline in the average balance to \$19.0 billion was offset by a 43-basis point increase in the average yield to 6.37%. In addition, the interest income produced by securities rose \$9.7 million year-over-year, to \$81.8 million, the combined effect of a \$275.2 million increase in the average balance to \$6.0 billion and a 42-basis point rise in the average yield to 5.47%.

The year-over-year increase in interest expense was driven by an \$869.1 million rise in the average balance of interest-bearing liabilities to \$24.4 billion, together with a 21-basis point rise in the average cost of funds to 3.95%. While the increase in interest expense was primarily due to an increase in higher-cost funding, it also reflects a reduction in the mark-to-market accretion on the borrowed funds acquired in our merger with Roslyn Bancorp, Inc. on October 31, 2003.

The interest expense produced by interest-bearing deposits rose \$4.0 million year-over-year to \$109.9 million, the net effect of a \$50.5 million decrease in the average balance to \$12.5 billion and a 15-basis point increase in the average cost to 3.50%. The bulk of the increase was produced by CDs, which averaged \$6.8 billion in the current third quarter, as compared to \$6.4 billion in the year-earlier three months. Reflecting the higher average balance and a 26-basis point increase in the average cost to 4.60%, CDs generated third quarter 2007 interest expense of \$78.6 million, up \$8.4 million from the year-earlier amount.

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**Table of Contents**

Savings accounts produced third quarter 2007 interest expense of \$7.2 million, an increase of \$1.9 million, the net effect of a \$28.9 million decline in the average balance to \$2.5 billion and a 31-basis point rise in the average cost to 1.13%. The interest expense produced by NOW and money market accounts meanwhile declined by \$6.3 million to \$24.1 million, the combined effect of a \$374.5 million reduction in the average balance to \$3.1 billion and a 39-basis point reduction in the average cost of such funds to 3.12%. In addition, the average balance of non-interest-bearing deposits declined by \$8.5 million to \$1.2 billion year-over-year.

Borrowed funds generated third quarter 2007 interest expense of \$132.5 million, a \$16.9 million increase from the level recorded in the third quarter of 2006. The year-over-year rise was attributable to a \$919.6 million increase in the average balance to \$11.9 billion and a 24-basis point increase in the average cost of such funds to 4.42%.

*Net Interest Margin and Interest Rate Spread*

The preceding factors also contributed to the year-over-year expansion of our interest rate spread and net interest margin, which equaled 2.16% and 2.41%, respectively, in the current third quarter, as compared to 2.00% and 2.24%, respectively, in the third quarter of 2006.

*Linked-quarter Comparison*

The linked-quarter decline in third quarter 2007 interest income was driven by a \$359.4 million reduction in the average balance of interest-earning assets, which more than offset the benefit of a one-basis point rise in the average yield. The lower average balance was largely attributable to a decline in the average balance of loans over the course of the quarter, as our conservative approach to lending in the current market resulted in the volume of repayments exceeding the volume of loans produced. The increase in the average yield was limited by the aforementioned reduction in prepayment penalty income, which resulted in a decline in the average yield on loans. The latter decline was largely offset by an increase in the yield on securities during the quarter, reflecting both the repositioning and growth of the securities portfolio.

The interest income produced by loans declined \$10.8 million over the course of the quarter, reflecting a \$485.8 million reduction in the average balance and a seven-basis point drop in the average yield. During this time, the interest income produced by securities rose \$8.5 million, the combined effect of a \$263.2 million increase in the average balance and a 35-basis point increase in the average yield. The linked-quarter rise in the average balance and yield reflect our purchase of higher-yielding agency-backed obligations with the cash flows produced through the sale of lower-yielding securities early in July.

The linked-quarter increase in interest expense was the net effect of a \$306.8 million decline in the average balance of interest-bearing liabilities and a five-basis point increase in the average cost of funds. The lower average balance was largely attributable to a \$441.0 million decline in average interest-bearing deposits, including a \$224.8 million decrease in average CDs and a \$65.2 million decrease in average NOW and money market accounts. The interest expense produced by NOW and money market accounts declined \$1.2 million linked-quarter, the effect of the lower average balance and a 12-basis point decline in the average cost of such funds. The interest expense produced by CDs fell \$1.7 million during the quarter, as the cost of such funds held steady and the average balance declined. The interest expense produced by savings accounts fell \$115,000, as an \$83.9 million decline in the average balance more than offset a one-basis point rise in the average cost. During this time, the average balance of non-interest-bearing deposits rose \$18.6 million.

While the interest expense produced by interest-bearing deposits thus fell \$3.0 million linked-quarter, the reduction was exceeded by a \$5.5 million increase in the interest expense produced by borrowed funds. The increase was the combined result of a \$134.2 million rise in the average balance and a nine-basis point rise in the average cost. These increases were largely due to the Doral transaction, which contributed borrowed funds of \$124.2 million on July 26th.

Reflecting the same factors that contributed to the linked-quarter decline in our net interest income, our spread and margin declined four and three basis points, respectively, in the three months ended September 30, 2007.

**Table of Contents**

It should be noted that the level of prepayment penalty income in any given quarter depends on the volume of loans that refinance or prepay during that time. Such activity is largely dependent on current market conditions, including real estate values; the perceived direction of market interest rates; and the contractual repricing and maturity dates of the loans. Accordingly, the level of prepayment penalties is unpredictable in nature. While the amount of prepayment penalty income received in the first nine months of this year has already exceeded the amount received in the prior year's four quarters, the level of prepayment penalty income received during the fourth quarter of 2007 may or may not differ significantly from the levels recorded in the first three quarters of this year.

The following tables set forth certain information regarding our average balance sheet for the periods indicated, including the average yields on our interest-earning assets and the average costs of our interest-bearing liabilities. Average yields are calculated by dividing the interest income produced by the average balance of interest-earning assets. Average costs are calculated by dividing the interest expense produced by the average balance of interest-bearing liabilities. The average balances for the period are derived from average balances that are calculated daily. The average yields and costs include fees that are considered adjustments to such average yields and costs.

**Table of Contents****Net Interest Income Analysis (Year-over-year Comparison)**

(dollars in thousands)

(unaudited)

|  | Three Months Ended September 30, |           |                           |                    |           |                           |
|--|----------------------------------|-----------|---------------------------|--------------------|-----------|---------------------------|
|  | 2007                             |           |                           | 2006               |           |                           |
|  | Average<br>Balance               | Interest  | Average<br>Yield/<br>Cost | Average<br>Balance | Interest  | Average<br>Yield/<br>Cost |
| <b>Assets:</b>   |                                  |           |                           |                    |           |                           |
| Interest-earning assets:   |                                  |           |                           |                    |           |                           |
| Mortgage and other loans, net <sup>(1)</sup>                     | \$18,979,750                     | \$302,665 | 6.37%                     | \$19,424,240       | \$288,839 | 5.94%                     |
| Securities <sup>(2) (3)</sup>                                    | 5,987,562                        | 81,833    | 5.47                      | 5,712,371          | 72,108    | 5.05                      |
| Money market investments   | 989,423                          | 12,726    | 5.10                      | 29,436             | 350       | 4.72                      |
| Total interest-earning assets                                    | 25,956,735                       | 397,224   | 6.11                      | 25,166,047         | 361,297   | 5.74                      |
| Non-interest-earning assets                                      | 3,859,546                        |           |                           | 3,407,162          |           |                           |
| Total assets   | \$29,816,281                     |           |                           | \$28,573,209       |           |                           |
| <b>Liabilities and Stockholders Equity:</b>                      |                                  |           |                           |                    |           |                           |
| Interest-bearing deposits:                                       |                                  |           |                           |                    |           |                           |
| NOW and money market accounts                                    | \$ 3,064,306                     | \$ 24,067 | 3.12%                     | \$ 3,438,853       | \$ 30,397 | 3.51%                     |
| Savings accounts   | 2,534,661                        | 7,195     | 1.13                      | 2,563,579          | 5,299     | 0.82                      |
| Certificates of deposit  | 6,772,774                        | 78,589    | 4.60                      | 6,416,244          | 70,148    | 4.34                      |
| Mortgagors escrow  | 99,653                           | 26        | 0.10                      | 103,218            | 31        | 0.12                      |
| Total interest-bearing deposits                                  | 12,471,394                       | 109,877   | 3.50                      | 12,521,894         | 105,875   | 3.35                      |
| Borrowed funds   | 11,891,671                       | 132,495   | 4.42                      | 10,972,048         | 115,575   | 4.18                      |
| Total interest-bearing liabilities                               | 24,363,065                       | 242,372   | 3.95                      | 23,493,942         | 221,450   | 3.74                      |
| Non-interest-bearing deposits                                    | 1,219,793                        |           |                           | 1,228,255          |           |                           |
| Other liabilities  | 282,208                          |           |                           | 217,744            |           |                           |
| Total liabilities  | 25,865,066                       |           |                           | 24,939,941         |           |                           |
| Stockholders equity  | 3,951,215                        |           |                           | 3,633,268          |           |                           |
| Total liabilities and stockholders equity                        | \$29,816,281                     |           |                           | \$28,573,209       |           |                           |
| Net interest income/interest rate spread                         |                                  | \$154,852 | 2.16%                     |                    | \$139,847 | 2.00%                     |
| Net interest-earning assets/net interest margin                  | \$1,593,670                      |           | 2.41%                     | \$1,672,105        |           | 2.24%                     |
| Ratio of interest-earning assets to interest-bearing liabilities |                                  |           | 1.07x                     |                    |           | 1.07x                     |

(1) Amounts are net of net deferred loan origination costs/(fees) and the allowance for loan losses, and include loans held for sale and non-performing loans.

(2) Amounts are at amortized cost.

(3) Includes FHLB-NY stock.



**Table of Contents****Net Interest Income Analysis (Linked-quarter Comparison)**

(dollars in thousands)

(unaudited)

|  | September 30, 2007 |           | Three Months Ended  |                 | June 30, 2007 |                     |
|--|--------------------|-----------|---------------------|-----------------|---------------|---------------------|
|  | Average Balance    | Interest  | Average Yield/ Cost | Average Balance | Interest      | Average Yield/ Cost |
| <b>Assets:</b>   |                    |           |                     |                 |               |                     |
| Interest-earning assets:   |                    |           |                     |                 |               |                     |
| Mortgage and other loans, net <sup>(1)</sup>                     | \$18,979,750       | \$302,665 | 6.37%               | \$19,465,563    | \$313,469     | 6.44%               |
| Securities <sup>(2) (3)</sup>                                    | 5,987,562          | 81,833    | 5.47                | 5,724,322       | 73,319        | 5.12                |
| Money market investments   | 989,423            | 12,726    | 5.10                | 1,126,275       | 14,221        | 5.06                |
| Total interest-earning assets                                    | 25,956,735         | 397,224   | 6.11                | 26,316,160      | 401,009       | 6.10                |
| Non-interest-earning assets                                      | 3,859,546          |           |                     | 3,793,709       |               |                     |
| Total assets   | \$29,816,281       |           |                     | \$30,109,869    |               |                     |
| <b>Liabilities and Stockholders Equity:</b>                      |                    |           |                     |                 |               |                     |
| Interest-bearing deposits:                                       |                    |           |                     |                 |               |                     |
| NOW and money market accounts                                    | \$ 3,064,306       | \$ 24,067 | 3.12%               | \$ 3,129,495    | \$ 25,246     | 3.24%               |
| Savings accounts   | 2,534,661          | 7,195     | 1.13                | 2,618,547       | 7,310         | 1.12                |
| Certificates of deposit  | 6,772,774          | 78,589    | 4.60                | 6,997,582       | 80,334        | 4.60                |
| Mortgagors escrow  | 99,653             | 26        | 0.10                | 166,731         | 34            | 0.08                |
| Total interest-bearing deposits                                  | 12,471,394         | 109,877   | 3.50                | 12,912,355      | 112,924       | 3.51                |
| Borrowed funds   | 11,891,671         | 132,495   | 4.42                | 11,757,489      | 127,003       | 4.33                |
| Total interest-bearing liabilities                               | 24,363,065         | 242,372   | 3.95                | 24,669,844      | 239,927       | 3.90                |
| Non-interest-bearing deposits                                    | 1,219,793          |           |                     | 1,201,180       |               |                     |
| Other liabilities  | 282,208            |           |                     | 321,978         |               |                     |
| Total liabilities  | 25,865,066         |           |                     | 26,193,002      |               |                     |
| Stockholders equity  | 3,951,215          |           |                     | 3,916,867       |               |                     |
| Total liabilities and stockholders equity                        | \$29,816,281       |           |                     | \$ 30,109,869   |               |                     |
| Net interest income/interest rate spread                         |                    | \$154,852 | 2.16%               |                 | \$161,082     | 2.20%               |
| Net interest-earning assets/net interest margin                  | \$1,593,670        |           | 2.41%               | \$1,646,316     |               | 2.44%               |
| Ratio of interest-earning assets to interest-bearing liabilities |                    |           | 1.07x               |                 |               | 1.07x               |

(1) Amounts are net of net deferred loan origination costs/(fees) and the allowance for loan losses, and include loans held for sale and non-performing loans.

(2) Amounts are at amortized cost.

(3) Includes FHLB-NY stock.

**Provision for Loan Losses**



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The provision for loan losses is based on management's assessment of the adequacy of the loan loss allowance. This assessment, made periodically, considers several factors, including the current and historical performance of the loan portfolio and its inherent risk characteristics; the level of non-performing loans and charge-offs; regulatory guidance; local economic conditions; and the direction of real estate values.

As a result of management's assessment, no provision for loan losses was recorded in the first three quarters of 2007 or the first three quarters of 2006. As previously indicated in the earlier asset quality discussion, non-performing loans represented \$20.8 million, or 0.11%, of total loans, at September 30, 2007, as compared to \$13.7 million, representing 0.07% of total loans, at June 30, 2007, and \$21.2 million, representing 0.11% of total loans, at December 31, 2006. Charge-offs totaled \$151,000 in the current third quarter, bringing the year-to-date total to \$286,000.

At September 30, 2007, the allowance for loan losses totaled \$88.0 million, up \$2.6 million from the balance recorded at December 31, 2006. The increase reflects the \$2.9 million loan loss allowance we acquired in the PennFed transaction, which more than offset the charge-offs we recorded year-to-date. The allowance for loan losses represented 423.06% of non-performing loans at September 30, 2007 and 0.46% of total loans at that date.

**Table of Contents**

Please see Critical Accounting Policies earlier in this report for a detailed discussion of the factors considered by management in determining the allowance for loan losses, together with our earlier discussion of asset quality.

**Non-interest Income**

Non-interest income generally consists of fee income (comprised primarily of fees related to retail deposits); income generated by our investment in BOLI; and other income, which primarily includes the revenues produced through the sale of third-party investment products and by our subsidiary investment advisory firm, Peter B. Cannell & Co., Inc. ( PBC ).

Non-interest income totaled \$84.4 million in the third quarter of 2007, as compared to a non-interest loss of \$23.9 million and non-interest income of \$23.5 million in the trailing and year-earlier three months, respectively. The current third quarter amount was increased by the \$64.9 million pre-tax gain on the sale of our Atlantic Bank headquarters, which more than offset the \$7.3 million pre-tax loss on the sale of securities that were written down in the second quarter of the year. The level of non-interest income recorded in the three months ended September 30, 2007 also reflects linked-quarter and year-over-year increases in BOLI and other income. Fee income declined modestly on a linked-quarter basis but was up from the level recorded in the third quarter of 2006.

The non-interest loss recorded in the second quarter of 2007 reflects the aforementioned pre-tax impairment loss of \$57.0 million, in addition to the \$1.8 million pre-tax loss on debt redemption that was recorded in connection with the early redemption of Haven Capital Trust I and Roslyn Preferred Trust I. These losses were partly offset by a \$9.2 million pre-tax net gain on the sale of securities during the three-month period.

The following table summarizes the components of non-interest income (loss) for the three months ended September 30, 2007, June 30, 2007, and September 30, 2006:

| (in thousands)  | For the Three Months Ended |                  |                       |
|---|----------------------------|------------------|-----------------------|
|   | September 30,<br>2007      | June 30,<br>2007 | September 30,<br>2006 |
| Fee income  | \$10,624                   | \$ 10,747        | \$10,437              |
| BOLI income   | 6,999                      | 6,283            | 6,110                 |
| Net (loss) gain on sale of securities                 | (7,307)                    | 9,195            |                       |
| Gain on sale of bank-owned property                   | 64,879                     |                  |                       |
| Loss on debt redemption                               |                            | (1,848)          |                       |
| Loss on other-than-temporary impairment of securities |                            | (56,958)         |                       |
| Other income:   |                            |                  |                       |
| PBC   | 3,820                      | 3,755            | 3,281                 |
| Third-party investment product sales                  | 2,268                      | 2,690            | 1,599                 |
| Gain on sale of 1-4 family and other loans            | 174                        | 359              | 89                    |
| Other   | 2,985                      | 1,848            | 1,951                 |
| Total other income                                    | 9,247                      | 8,652            | 6,920                 |
| Total non-interest income (loss)                      | \$84,442                   | \$(23,929)       | \$23,467              |

**Non-interest Expense**

Non-interest expense consists of operating expenses, which include compensation and benefits, occupancy and equipment, and general and administrative ( G&A ) expenses; and the amortization of the CDI stemming from our business combinations. Non-interest expense totaled \$78.7 million in the current third quarter, as compared to \$84.6 million and \$71.5 million, respectively, in the trailing and year-earlier three months. The trailing quarter amount was increased by the aforementioned pre-tax charge of \$3.2 million for the prepayment of wholesale borrowings.

**Table of Contents**

Operating expenses accounted for \$72.8 million of non-interest expense in the current third quarter, as compared to \$75.6 million and \$66.4 million in the trailing and year-earlier three months. Included in the third quarter 2007 amount was compensation and benefits expense of \$40.6 million, as compared to \$39.9 million and \$34.5 million, respectively, in the earlier periods. Largely reflecting the impact of the PennFed and Doral transactions, the number of full-time equivalent employees rose to 2,655 at September 30, 2007 from 2,626 and 2,461 at June 30, 2007 and September 30, 2006, respectively.

Occupancy and equipment expense totaled \$16.7 million in the current third quarter, down \$752,000 on a linked-quarter basis, but up \$864,000 from the year-earlier amount. The year-over-year increase primarily reflects the addition of PennFed's branch network and, to a lesser extent, the addition of 11 branches in the transaction with Doral. The linked-quarter decline reflects a reduction in depreciation and maintenance costs on bank buildings, offset by an increase in rental expense stemming from the Doral branches and the sale of the Atlantic Bank building, where we still operate a branch. General and administrative expenses totaled \$15.5 million in the current third quarter, down \$2.7 million and \$613,000, respectively, from the levels recorded in the second quarter of 2007 and the third quarter of 2006. The linked-quarter reduction largely reflects declines in legal and professional fees, as well as insurance costs.

CDI amortization totaled \$5.9 million in the current third quarter, up \$32,000 on a linked-quarter basis and \$806,000 year-over-year. The linked-quarter increase reflects the amortization of the additional CDI that stemmed from the Doral transaction; the year-over-year increase reflects the amortization of the additional CDI that stemmed from the transactions with both PennFed and Doral.

**Income Tax Expense**

We recorded income tax expense of \$49.7 million in the current third quarter, up \$33.2 million from the trailing quarter level and up \$20.4 million year-over-year. The linked-quarter increase largely reflects the favorable impact of the gain on the sale of the Atlantic Bank headquarters on our third quarter pre-tax income, as compared to the adverse impact of the impairment loss on our pre-tax income in the second quarter of the year. Pre-tax income totaled \$160.6 million in the current third quarter, signifying a linked-quarter increase of \$108.1 million and a year-over-year increase of \$68.8 million. In addition, the effective tax rate equaled 31.0% in the third quarter of 2007, as compared to 31.5% and 32.0%, respectively, in the earlier periods.

Please see the discussion entitled "Income Taxes" under "Critical Accounting Policies" earlier in this report.

**Earnings Summary for the Nine Months Ended September 30, 2007**

We recorded earnings of \$211.7 million, or \$0.69 per basic and diluted share, in the nine months ended September 30, 2007, as compared to \$179.5 million, or \$0.64 per basic and \$0.63 per diluted share, in the nine months ended September 30, 2006. The current nine-month amounts reflect the impact of (1) the after-tax gain of \$44.8 million, or \$0.14 per share, on the sale of our Atlantic Bank headquarters; (2) the \$38.7 million, or \$0.12 per share, impairment loss; (3) a \$1.2 million after-tax net gain on the sale of securities; (4) the \$2.2 million, or \$0.01 per share, after-tax charge for the prepayment of wholesale borrowings; and (5) the \$1.3 million after-tax loss on debt redemption. Combined, these five factors added \$3.9 million to our earnings for the nine months ended September 30, 2007, equivalent to \$0.01 per basic and diluted share.

In the year-earlier nine-month period, our earnings were impacted by an \$18.8 million, or \$0.07 per share, after-tax repositioning charge in connection with the Atlantic Bank acquisition, and an after-tax loss of \$3.6 million, or \$0.01 per share, on the mark-to-market of interest rate swaps. Together, these factors reduced our earnings for the nine months ended September 30, 2006 by \$22.4 million, or \$0.08 per basic and diluted share. The repositioning charge consisted of a charge for the prepayment of certain wholesale borrowings and a charge for the termination of our interest rate swaps.

**Net Interest Income**

Net interest income rose to \$462.1 million in the nine months ended September 30, 2007 from \$420.8 million in the nine months ended September 30, 2006. The increase was driven by a \$126.6 million rise in interest income to \$1.2 billion, which exceeded an \$85.2 million rise in interest expense to \$705.5 million.

**Table of Contents**

The year-over-year increase in net interest income largely reflects the benefit of a \$32.3 million rise in prepayment penalty income to \$53.1 million, which contributed to an increase in the average yield and interest income produced by loans. In addition, the level of net interest income in the current nine-month period reflects the nine- and six-month impact of the Atlantic Bank and PennFed acquisitions, as well as the deployment of the cash flows from the run-off of lower-yielding loans and the sale of lower-yielding securities into interest-earning assets that featured higher yields.

The year-over-year increase in interest income was the result of a \$1.1 billion rise in the average balance of interest-earning assets to \$25.7 billion, together with a 42-basis point rise in the average yield to 6.06%. The average balance was boosted by a \$642.4 million increase in average loans to \$19.3 billion together with a \$685.4 million increase in average money market investments to \$715.6 million. Reflecting a 45-basis point rise in the average yield to 6.32%, as well as the higher average balance, loans produced interest income of \$914.6 million in the nine months ended September 30, 2007, a \$93.1 million increase from the level recorded in the nine months ended September 30, 2006. The interest income produced by money market investments rose \$26.2 million to \$27.2 million, as the higher balance combined with a 67-basis point rise in the average yield on such assets to 5.08%. While the average balance of securities declined \$252.7 million during this time, to \$5.7 billion, the interest income produced by such assets rose \$7.3 million to \$225.8 million, as the average yield on securities rose 39 basis points to 5.31%.

The year-over-year increase in interest expense was attributable to a \$988.2 million rise in the average balance of interest-bearing liabilities to \$24.1 billion and a 32-basis point rise in the average cost of funds to 3.91%. The average balance was boosted by two primary factors: the nine-month impact of the deposits and borrowed funds acquired in the Atlantic Bank transaction and the six-month impact of those acquired in the transaction with PennFed. The higher average cost reflects the level of short-term interest rates in the current nine-month period as compared to the level in the nine months ended September 30, 2006.

Interest-bearing deposits generated interest expense of \$322.7 million in the first nine months of 2007, a year-over-year increase of \$44.4 million. The increase was the combined result of a \$229.6 million rise in the average balance of such funds to \$12.3 billion, and a 43-basis point rise in the average cost to 3.50%. The higher balance was primarily the net effect of a \$775.1 million rise in average CDs to \$6.6 billion and a \$555.1 million decline in average NOW and money market accounts to \$3.0 billion. The interest expense produced by CDs rose \$51.0 million year-over-year to \$229.2 million, as the higher balance combined with a 56-basis point rise in the average cost of such funds to 4.62%. The interest expense produced by NOW and money market accounts declined \$14.4 million to \$73.2 million, reflecting the lower average balance and a four-basis point reduction in the average cost of such funds to 3.21%. In addition, the interest expense produced by savings accounts rose \$7.8 million to \$20.2 million as a \$6.7 million rise in the average balance combined with a 41-basis point rise in the average cost of such funds to 1.07%. Non-interest-bearing accounts averaged \$1.2 billion in the first nine months of 2007, signifying a \$65.6 million increase year-over-year.

The interest expense produced by borrowed funds totaled \$382.8 million in the first nine months of 2007, a \$40.8 million increase from the level recorded in the first nine months of 2006. The increase was attributable to a \$758.5 million rise in the average balance of such funds to \$11.8 billion and a 20-basis point rise in the average cost to 4.35%.

Reflecting the same combination of factors that contributed to the year-over-year rise in net interest income, our interest rate spread and net interest margin expanded 10 and 12 basis points, respectively, to 2.15% and 2.39% in the nine months ended September 30, 2007.

The following table sets forth certain information regarding our average balance sheet for the periods indicated, including the average yields on our interest-earning assets and the average costs of our interest-bearing liabilities. Average yields are calculated by dividing the interest income produced by the average balance of interest-earning assets. Average costs are calculated by dividing the interest expense produced by the average balance of interest-bearing liabilities. The average balances for the period are derived from average balances that are calculated daily. The average yields and costs include fees that are considered adjustments to such average yields and costs.

**Table of Contents****Net Interest Income Analysis**

(dollars in thousands)

(unaudited)

|  | Nine Months Ended September 30, |            |                |              |            |                |
|--|---------------------------------|------------|----------------|--------------|------------|----------------|
|  | 2007                            |            |                | 2006         |            |                |
|  | Average                         | Average    | Yield/<br>Cost | Average      | Average    | Yield/<br>Cost |
|  | Balance                         | Interest   | Cost           | Balance      | Interest   | Cost           |
| <b>Assets:</b>   |                                 |            |                |              |            |                |
| Interest-earning assets:   |                                 |            |                |              |            |                |
| Mortgage and other loans, net <sup>(1)</sup>                     | \$19,310,587                    | \$ 914,601 | 6.32%          | \$18,668,144 | \$ 821,519 | 5.87%          |
| Securities <sup>(2) (3)</sup>                                    | 5,675,776                       | 225,840    | 5.31           | 5,928,496    | 218,564    | 4.92           |
| Money market investments   | 715,563                         | 27,193     | 5.08           | 30,164       | 994        | 4.41           |
| Total interest-earning assets                                    | 25,701,926                      | 1,167,634  | 6.06           | 24,626,804   | 1,041,077  | 5.64           |
| Non-interest-earning assets                                      | 3,691,006                       |            |                | 3,347,185    |            |                |
| Total assets   | \$29,392,932                    |            |                | \$27,973,989 |            |                |
| <b>Liabilities and Stockholders Equity:</b>                      |                                 |            |                |              |            |                |
| Interest-bearing deposits:                                       |                                 |            |                |              |            |                |
| NOW and money market accounts                                    | \$ 3,045,754                    | \$ 73,215  | 3.21%          | \$ 3,600,867 | \$ 87,580  | 3.25%          |
| Savings accounts   | 2,519,384                       | 20,206     | 1.07           | 2,512,672    | 12,391     | 0.66           |
| Certificates of deposit  | 6,634,885                       | 229,151    | 4.62           | 5,859,821    | 178,115    | 4.06           |
| Mortgagors escrow  | 128,803                         | 93         | 0.10           | 125,828      | 141        | 0.15           |
| Total interest-bearing deposits                                  | 12,328,826                      | 322,665    | 3.50           | 12,099,188   | 278,227    | 3.07           |
| Borrowed funds   | 11,773,987                      | 382,847    | 4.35           | 11,015,469   | 342,089    | 4.15           |
| Total interest-bearing liabilities                               | 24,102,813                      | 705,512    | 3.91           | 23,114,657   | 620,316    | 3.59           |
| Non-interest-bearing deposits                                    | 1,172,809                       |            |                | 1,107,236    |            |                |
| Other liabilities  | 291,347                         |            |                | 246,863      |            |                |
| Total liabilities  | 25,566,969                      |            |                | 24,468,756   |            |                |
| Stockholders equity  | 3,825,963                       |            |                | 3,505,233    |            |                |
| Total liabilities and stockholders equity                        | \$29,392,932                    |            |                | \$27,973,989 |            |                |
| Net interest income/interest rate spread                         |                                 | \$ 462,122 | 2.15%          |              | \$ 420,761 | 2.05%          |
| Net interest-earning assets/net interest margin                  | \$1,599,113                     |            | 2.39%          | \$1,512,147  |            | 2.27%          |
| Ratio of interest-earning assets to interest-bearing liabilities |                                 |            | 1.07x          |              |            | 1.07x          |

(1) Amounts are net of net deferred loan origination costs/(fees) and the allowance for loan losses, and include loans held for sale and non-performing loans.

(2) Amounts are at amortized cost.

(3) Includes FHLB-NY stock.

**Provision for Loan Losses**

As previously noted, the provision for loan losses is based on management's assessment of the loan loss allowance and the current and historical performance of the loan portfolio, among other factors. We recorded no provision for loan losses in the nine months ended September 30, 2007 or 2006. For additional information, please see the third quarter 2007 discussion of the provision for loan losses, and the discussions of the allowance for loan losses and asset quality earlier in this report.

**Non-interest Income**

Non-interest income totaled \$84.6 million in the first nine months of 2007, as compared to \$66.3 million in the first nine months of 2006.

While the gain on the sale of our Atlantic Bank headquarters added \$64.9 million to the current nine-month total, its benefit was significantly tempered by the \$57.0 million impairment loss and the \$1.8 million loss on debt redemption, both of which were recorded in the second quarter of the year. The level of non-interest income recorded in the year-earlier nine-month period was reduced by a \$6.1 million loss on interest rate swaps.

**Table of Contents**

The year-over-year rise in non-interest income also reflects a \$2.6 million increase in fee income to \$31.1 million, a \$2.0 million increase in BOLI income to \$19.4 million, and a \$2.5 million increase in other income to \$26.1 million. The latter increase stemmed primarily from a \$2.1 million rise in the revenues produced through the sale of third-party investment products and a \$1.1 million rise in the income derived from PBC.

The following table summarizes the components of our non-interest income for the nine months ended September 30, 2007 and 2006:

| (in thousands)  | For the Nine Months Ended |                 |
|---|---------------------------|-----------------|
|   | September 30,             |                 |
|   | 2007                      | 2006            |
| Fee income  | \$ 31,124                 | \$28,531        |
| BOLI  | 19,364                    | 17,351          |
| Net gain on sale of securities                        | 1,888                     | 2,823           |
| Gain on sale of bank-owned property                   | 64,879                    |                 |
| Loss on debt redemption                               | (1,848)                   |                 |
| Loss on other-than-temporary impairment of securities | (56,958)                  |                 |
| Loss on mark-to-market of interest rate swaps         |                           | (6,071)         |
| Other income:   |                           |                 |
| PBC   | 11,156                    | 10,077          |
| Third-party investment product sales                  | 7,130                     | 5,018           |
| Gain on sale of 1-4 family and other loans            | 705                       | 523             |
| Other   | 7,154                     | 8,050           |
| <b>Total other income</b>                             | <b>26,145</b>             | <b>23,668</b>   |
| <b>Total non-interest income</b>                      | <b>\$ 84,594</b>          | <b>\$66,302</b> |

**Non-interest Expense**

We recorded non-interest expense of \$237.6 million in the current nine-month period, as compared to \$223.3 million in the first nine months of 2006.

Operating expenses rose \$34.9 million year-over-year, to \$217.7 million, the result of a \$21.2 million increase in compensation and benefits expense to \$117.7 million; a \$7.4 million increase in occupancy and equipment expense to \$49.3 million; and a \$6.2 million increase in G&A expense to \$50.7 million. The across-the-board increase was largely due to the expansion of our branch network through the Atlantic Bank, PennFed, and Doral transactions, and the related increases in staffing and marketing, among other expansion-related costs. In addition, the rise in compensation and benefits expense reflects the implementation of our stock incentive and management incentive compensation plans in the second quarter of the year.

The amortization of CDI rose \$3.9 million year-over-year to \$16.7 million, reflecting the CDI acquired in the transactions with Atlantic Bank, PennFed, and Doral.

**Income Tax Expense**

We recorded income tax expense of \$97.4 million in the current nine-month period, up \$13.1 million from the level recorded in the first nine months of 2006. The increase was attributable to a \$45.3 million rise in pre-tax income to \$309.1 million, which was tempered by a 50-basis point decline in the effective tax rate to 31.5%.

**Table of Contents**

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Quantitative and qualitative disclosures about the Company's market risk were presented on pages 75 - 80 of our 2006 Annual Report on Form 10-K, filed with the U.S. Securities and Exchange Commission (the SEC) on March 1, 2007. Subsequent changes in the Company's market risk profile and interest rate sensitivity are detailed in the discussion entitled Asset and Liability Management and the Management of Interest Rate Risk in this quarterly report.

**ITEM 4. CONTROLS AND PROCEDURES**

(a) Disclosure Controls and Procedures

As of the end of the period covered by this report, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Rule 13a-15(b), as adopted by the SEC under the Securities Exchange Act of 1934 (the Exchange Act). Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of the end of the period covered by this report in ensuring that information required to be disclosed by the Company in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Commission's rules and forms.

(b) Internal Control over Financial Reporting

There have not been any changes in the Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fiscal quarter to which this report relates that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.



**Table of Contents**

**NEW YORK COMMUNITY BANCORP, INC.**

**PART II OTHER INFORMATION**

**Item 1. Legal Proceedings**

In the ordinary course of business, the Company and its subsidiaries are defendants in or parties to a number of pending and threatened legal actions and proceedings. We believe we have meritorious defenses with respect to these cases and intend to defend them vigorously. At the present time, management is not in a position to determine whether resolution of these cases will have a material adverse effect on the Company.

In February 1983, the contents of various safe deposit boxes were burglarized at a branch office of CFS Bank, now the Queens County Savings Bank division of the Community Bank. The Community Bank is a defendant in a lawsuit, brought in Supreme Court, Queens County, New York whereby the plaintiffs have alleged CFS Bank was negligent in safeguarding the safe deposit box contents and are seeking recovery of approximately \$12.3 million in damages. This amount does not include statutory prejudgment interest of 9% per annum from the date of loss that could be awarded on a judgment amount. Plaintiffs also named Wells Fargo Alarm Services, a division of Baker Protection Services, Inc. ( Wells Fargo ), the alarm company, as a defendant. CFS Bank filed a cross claim against Wells Fargo alleging that its gross negligence caused or contributed to the loss. The Court entered summary judgment dismissing plaintiffs' claims against Wells Fargo, but denied Wells Fargo's motion to dismiss CFS Bank's cross claim for gross negligence against Wells Fargo. That ruling was affirmed on appeal. Discovery is complete and the plaintiffs have requested a jury trial, which trial has not been scheduled. The ultimate liability, if any, from the disposition of the pending claims cannot presently be determined.

In 2004, the Company and various executive officers and directors were named in certain putative securities law class action lawsuits brought in the United States District Court, Eastern District of New York, and one class action lawsuit brought in the Supreme Court of the State of New York, Kings County that was later removed by the defendants to federal court. On August 9, 2005, the Court consolidated the actions and appointed a lead plaintiff. On October 6, 2005, the lead plaintiff filed a consolidated amended complaint on behalf of a putative class of persons and entities, other than defendants, who purchased or otherwise acquired the Company's securities from June 27, 2003 to July 1, 2004, alleging claims under Sections 11 and 12 of the Securities Act of 1933, Sections 10 and 14 of the Securities Exchange Act of 1934, and Rule 10b-5, promulgated pursuant to Section 10 of the Securities Exchange Act of 1934. Plaintiffs allege, among other things, that the registration statement issued in connection with the Company's merger with Roslyn Bancorp, Inc. and other documents and statements made by executive management were inaccurate and misleading, contained untrue statements of material facts, omitted other facts necessary to make the statements made not misleading, and concealed and failed to adequately disclose material facts, pertaining to, among other things, the Company's business plans and its exposure to interest rate risk. The defendants moved to dismiss the action on December 19, 2005. On September 18, 2006, the Court entered a Memorandum of Decision and Order dismissing the consolidated action in its entirety, finding that the amended complaint failed to allege any actionable misstatement or omission. On October 4, 2006, the lead plaintiff filed a Motion for Reconsideration of that order insofar as it denied plaintiffs' leave to amend and a Motion to add Co-lead Counsel. On June 29, 2007, the Court entered a Memorandum of Decision and Order denying the Motion for Reconsideration and denying as moot the Motion to add Co-lead Counsel. On July 25, 2007, the lead plaintiff filed a Notice of Appeal, which it has subsequently withdrawn. The plaintiff in the action removed from state court also has filed a Notice of Appeal from the Court's decision insofar as it declined to remand that action to state court. This appeal is currently pending in the Second Circuit.

Based upon the same facts and allegations described in the prior paragraph, on November 9, 2004, an additional suit was filed in the Eastern District of New York alleging that the Company and various of its officers violated the Employee Retirement Income Security Act of 1974, as amended ( ERISA ). The suit was brought on behalf of a putative class of participants in the New York Community Bank Employee Savings Plan. The defendants moved to dismiss the ERISA action. On February 6, 2006, the Court granted in part and denied in part the motion to dismiss. The Court ruled that one of the two putative class representatives did not have standing under ERISA, but found that there were issues of fact concerning the standing of the other putative class representative. After the parties engaged in limited discovery concerning the plaintiff's standing under ERISA,

**Table of Contents**

defendants renewed their motion to dismiss. On October 25, 2006, the Court entered an order dismissing the remaining claims in this action on the ground that the plaintiffs lack standing to pursue the claims. On November 20, 2006, plaintiffs filed a notice of appeal, which is currently pending in the Second Circuit.

On May 6, 2005, sixteen of the Company's current or former officers and directors were named as defendants in a putative derivative action filed by an alleged shareholder on behalf of the Company in the United States District Court for the Eastern District of New York. The same shareholder previously had sent the Company's Board of Directors a letter reciting many of the allegations made in the putative class actions, and demanding that the Board take a variety of actions allegedly required to address those allegations. The Board appointed a committee of independent directors to evaluate what response, if any, to make to this letter. Nevertheless, the putative derivative plaintiff filed this action repeating the same allegations, and purporting to seek on behalf of the Company money damages, restitution, and equitable relief against the defendants for various alleged breaches of duty and alleged corporate waste. On August 15, 2005, the plaintiff filed an amended complaint, repeating the same substantive allegations of fact. On September 30, 2005, the defendants filed motions to dismiss this action, which motions remain pending.

Management believes that the defendants have meritorious defenses against each of the preceding actions and will vigorously defend both the substantive and procedural aspects of the litigations.

**Item 1A. Risk Factors**

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, Item 1A. Risk Factors, in the Company's Annual Report on Form 10-K for the year ended December 31, 2006, as such factors could materially affect the Company's business, financial condition, or future results. The risks described in the Company's Annual Report on Form 10-K are not the only risks that the Company faces. Additional risks and uncertainties not currently known to the Company, or that the Company currently deems to be immaterial, also may have a material adverse impact on the Company's business, financial condition, or results.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds***Share Repurchase Program*

During the three months ended September 30, 2007, the Company allocated \$1,675 toward the repurchase of shares of its common stock, as outlined in the following table:

| Period   | (a)  | (b)                                    | (c)   | (d)  |
|--|--|--|---|--|
|  | Total Number of Shares (or Units) Purchased <sup>(1)</sup> | Average Price Paid per Share (or Unit) | Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs | Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs <sup>(2)</sup> |
| Month #1:<br>July 1, 2007 through<br>July 31, 2007     |  | \$                                     |   | 1,469,783  |
| Month #2:<br>August 1, 2007 through<br>August 31, 2007 |  |  |   | 1,469,783  |

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Month #3:

September 1, 2007 through

|                    |    |          |    |           |
|--------------------|----|----------|----|-----------|
| September 30, 2007 | 88 | 19.03    | 88 | 1,469,695 |
| Total              | 88 | \$ 19.03 | 88 |           |

- 
- (1) All of the shares repurchased in the third quarter of 2007 were purchased on the open market.
- (2) On April 20, 2004, with 44,816 shares remaining under the Board of Directors five million-share repurchase authorization on February 26, 2004, the Board authorized the repurchase of up to an additional five million shares. At September 30, 2007, 1,469,695 shares remained available under the April 20, 2004 authorization. Under said authorization, shares may be repurchased on the open market or in privately negotiated transactions until completion or upon termination of the repurchase authorization by the Board.

**Table of Contents**

**Item 3. Defaults Upon Senior Securities**

Not applicable.

**Item 4. Submission of Matters to a Vote of Security Holders**

Not applicable.

**Item 5. Other Information**

Not applicable.

**Item 6. Exhibits**

- Exhibit 3.1: Amended and Restated Certificate of Incorporation <sup>(1)</sup>
- Exhibit 3.2: Certificates of Amendment of Amended and Restated Certificate of Incorporation <sup>(2)</sup>
- Exhibit 3.3: Bylaws, as amended and restated <sup>(3)</sup>
- Exhibit 4.1: Specimen Stock Certificate <sup>(4)</sup>
- Exhibit 4.2: Registrant will furnish, upon request, copies of all instruments defining the rights of holders of long-term debt instruments of the registrant and its consolidated subsidiaries.
- Exhibit 31.1: Certification pursuant to Rule 13a-14(a)/15d-14(a)
- Exhibit 31.2: Certification pursuant to Rule 13a-14(a)/15d-14(a)
- Exhibit 32: Certifications pursuant to 18 U.S.C. 1350

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- (1) Incorporated by reference to Exhibits filed with the Company's Form 10-Q filed with the Securities and Exchange Commission on May 11, 2001 (File No. 000-22278).
  - (2) Incorporated by reference to Exhibits filed with the Company's Form 10-K for the year ended December 31, 2003 (File No. 001-31565).
  - (3) Incorporated by reference to Exhibits filed with the Company's Form 8-K filed with the Securities and Exchange Commission on June 20, 2007 (File No. 001-31565).
  - (4) Incorporated by reference to Exhibits filed with the Company's Registration Statement on Form S-1 (Registration No. 333-66852).

**Table of Contents**

**NEW YORK COMMUNITY BANCORP, INC.**

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

New York Community Bancorp, Inc.  
(Registrant)

DATE: November 9, 2007

BY: /s/ Joseph R. Ficalora  
Joseph R. Ficalora  
Chairman, President, and  
Chief Executive Officer

DATE: November 9, 2007

BY: /s/ Thomas R. Cangemi  
Thomas R. Cangemi  
Senior Executive Vice President  
and Chief Financial Officer