

NEW YORK COMMUNITY BANCORP INC
Form 10-K
February 28, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

Annual Report Pursuant to Section 13 or 15(d) of
the Securities Exchange Act of 1934

For the fiscal year ended: December 31, 2013

Commission File Number 1-31565

NEW YORK COMMUNITY BANCORP, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

06-1377322
(I.R.S. Employer
Identification No.)

615 Merrick Avenue,

Westbury, New York
(Address of principal executive offices)

11590
(Zip code)

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

Securities registered pursuant to Section 12(b) of the Act:

Common Stock, \$0.01 par value and

Bifurcated Option Note Unit SecuritiESSM
(Title of Class)

New York Stock Exchange
(Name of exchange on which registered)

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

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Yes No

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

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

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

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

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

Large Accelerated Filer

Accelerated Filer

Non-Accelerated Filer

Smaller Reporting Company

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

As of June 30, 2013, the aggregate market value of the shares of common stock outstanding of the registrant was \$5.9 billion, excluding 15,912,947 shares held by all directors and executive officers of the registrant. This figure is based on the closing price of the registrant's common stock on June 28, 2013, \$14.00, as reported by the New York Stock Exchange.

The number of shares of the registrant's common stock outstanding as of February 21, 2014 was 442,163,059 shares.

Documents Incorporated by Reference

Portions of the definitive Proxy Statement for the Annual Meeting of Shareholders to be held on June 4, 2014 are incorporated by reference into Part III.

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For the purpose of this Annual Report on Form 10-K, 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, 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 and real estate markets or the banking industry;

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

changes in interest rates, which may affect our net income, prepayment penalty income, mortgage banking income, and other future cash flows, or the market value of our assets, including our investment securities;

changes in the quality or composition of our loan or securities portfolios;

changes in our capital management policies, including those regarding business combinations, dividends, and share repurchases, among others;

our use of derivatives to mitigate our interest rate exposure;

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

changes in deposit flows and wholesale borrowing facilities;

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

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;

changes in our customer base or in the financial or operating performances of our customers' businesses;

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

our ability to retain key personnel;

potential exposure to unknown or contingent liabilities of companies we have acquired or may acquire in the future;

the outcome of pending or threatened litigation, or of other matters before regulatory agencies, 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;

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

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 legislation, regulation, policies, or administrative practices, whether by judicial, governmental, or legislative action, including, but not limited to, the Dodd-Frank Wall Street Reform and Consumer Protection Act, and other changes pertaining to banking, securities, taxation, rent regulation and housing, financial accounting and reporting, environmental protection, and insurance, and the ability to comply with such changes in a timely manner;

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changes in the monetary and fiscal policies of the U.S. Government, including policies of the U.S. Department of the Treasury and the Board of Governors of the Federal Reserve System;

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

a material breach in performance by the Community Bank under our loss sharing agreements with the FDIC;

changes in our estimates of future reserves based upon the periodic review thereof under relevant regulatory and accounting requirements;

changes in regulatory expectations relating to predictive models we use in connection with stress testing and other forecasting or in the assumptions on which such modeling and forecasting are predicated;

the ability to successfully integrate any assets, liabilities, customers, systems, and management personnel of any banks we may acquire into our operations, and our ability to realize related revenue synergies and cost savings within expected time frames;

changes in our credit ratings or in our ability to access the capital markets;

war or terrorist activities; and

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

In addition, we routinely evaluate opportunities to expand through acquisitions and conduct due diligence activities in connection with such opportunities. As a result, acquisition discussions and, in some cases, negotiations, may take place at any time, and acquisitions involving cash or our debt or equity securities may occur.

Furthermore, the timing and occurrence or non-occurrence of events may be subject to circumstances beyond our control.

Please see Item 1A, Risk Factors, for a further discussion of factors that could affect the actual outcome of future events.

Readers are cautioned not to place undue reliance on the forward-looking statements contained herein, 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.

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GLOSSARY

BASIS POINT

Throughout this filing, the year-over-year changes that occur in certain financial measures are reported in terms of basis points. Each basis point is equal to one hundredth of a percentage point, or 0.01%.

BOOK VALUE PER SHARE

Book value per share refers to the amount of stockholders' equity attributable to each outstanding share of common stock, and is calculated by dividing total stockholders' equity at the end of a period by the number of shares outstanding at the same date.

BROKERED DEPOSITS

Refers to funds obtained, directly or indirectly, by or through deposit brokers that are then deposited into one or more deposit accounts at a bank.

CHARGE-OFF

Refers to the amount of a loan balance that has been written off against the allowance for losses on non-covered loans.

COMMERCIAL REAL ESTATE (CRE) LOAN

A mortgage loan secured by either an income-producing property owned by an investor and leased primarily for commercial purposes or, to a lesser extent, an owner-occupied building used for business purposes. The CRE loans in our portfolio are typically secured by office buildings, retail shopping centers, light industrial centers with multiple tenants, or mixed-use properties.

COST OF FUNDS

The interest expense associated with interest-bearing liabilities, typically expressed as a ratio of interest expense to the average balance of interest-bearing liabilities for a given period.

COVERED LOANS AND OTHER REAL ESTATE OWNED (OREO)

Refers to the loans and OREO we acquired in our AmTrust Bank (AmTrust) and Desert Hills Bank (Desert Hills) acquisitions, which are covered by loss sharing agreements with the FDIC. Please see the definition of Loss Sharing Agreements that appears later in this glossary.

DERIVATIVE

A term used to define a broad base of financial instruments, including swaps, options, and futures contracts, whose value is based upon, or derived from, an underlying rate, price, or index (such as interest rates, foreign currency, commodities, or prices of other financial instruments such as stocks or bonds).

DIVIDEND PAYOUT RATIO

The percentage of our earnings that is paid out to shareholders in the form of dividends. It is determined by dividing the dividend paid per share during a period by our diluted earnings per share during the same period of time.

DIVIDEND YIELD

Refers to the yield generated on a shareholder's investment in the form of dividends. The current dividend yield is calculated by annualizing the current quarterly cash dividend and dividing that amount by the current stock price.

EFFICIENCY RATIO

Measures total operating expenses as a percentage of the sum of net interest income and non-interest income.

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GOODWILL

Refers to the difference between the purchase price and the fair value of an acquired company's assets, net of the liabilities assumed. Goodwill is reflected as an asset on the balance sheet and is tested at least annually for impairment.

GOVERNMENT-SPONSORED ENTERPRISES (GSEs)

Refers to a group of financial services corporations that were created by the United States Congress to enhance the availability, and reduce the cost, of credit to certain targeted borrowing sectors, including home finance. The GSEs include, but are not limited to, the Federal National Mortgage Association (Fannie Mae), the Federal Home Loan Mortgage Corporation (Freddie Mac), and the Federal Home Loan Banks (the FHLBs).

GSE OBLIGATIONS

Refers to GSE mortgage-related securities (both certificates and collateralized mortgage obligations) and GSE debentures.

INTEREST RATE LOCK COMMITMENTS (IRLCs)

Refers to commitments we have made to originate new one-to-four family loans at specific (i.e., locked-in) interest rates. The volume of IRLCs at the end of a period is a leading indicator of loans to be originated in the near future.

INTEREST RATE SENSITIVITY

Refers to the likelihood that the interest earned on assets and the interest paid on liabilities will change as a result of fluctuations in market interest rates.

INTEREST RATE SPREAD

The difference between the yield earned on average interest-earning assets and the cost of average interest-bearing liabilities.

LOAN-TO-VALUE (LTV) RATIO

Measures the balance of a loan as a percentage of the appraised value of the underlying property.

LOSS SHARING AGREEMENTS

Refers to the agreements we entered into with the FDIC in connection with the loans and OREO we acquired in our AmTrust and Desert Hills acquisitions. The agreements call for the FDIC to reimburse us for 80% of any losses (and share in 80% of any recoveries) up to specified thresholds and to reimburse us for 95% of any losses (and share in 95% of any recoveries) beyond those thresholds with respect to the acquired assets, for specified periods of time. All of the loans and OREO acquired in the AmTrust and Desert Hills acquisitions are subject to these agreements and are referred to in this report either as covered loans, covered OREO, or, when discussed together, covered assets.

MORTGAGE BANKING INCOME

Refers to the income generated by our mortgage banking operation, which is recorded in non-interest income. Mortgage banking income has two components: income generated from the origination of one-to-four family loans for sale (income from originations) and income generated by servicing such loans (servicing income).

MORTGAGE SERVICING RIGHTS (MSRs)

The right to service mortgage loans for others is recognized as an asset, and recorded at fair value, when our one-to-four family loans are sold or securitized, servicing retained.

MULTI-FAMILY LOAN

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A mortgage loan secured by a rental or cooperative apartment building with more than four units.

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NET INTEREST INCOME

The difference between the interest income generated by loans and securities and the interest expense produced by deposits and borrowed funds.

NET INTEREST MARGIN

Measures net interest income as a percentage of average interest-earning assets.

NON-ACCRUAL LOAN

A loan generally is classified as a non-accrual loan when it is over 90 days past due. When a loan is placed on non-accrual status, we cease the accrual of interest owed, and previously accrued interest is reversed and charged against interest income. A loan generally is returned to accrual status when the loan is current and we have reasonable assurance that the loan will be fully collectible.

NON-COVERED LOANS AND OTHER REAL ESTATE OWNED

Refers to all of the loans and OREO in our portfolio that are not covered by our loss sharing agreements with the FDIC.

NON-PERFORMING LOANS AND ASSETS

Non-performing loans consist of non-accrual loans and loans over 90 days past due and still accruing interest. Non-performing assets consist of non-performing loans and OREO.

RENT-CONTROL/RENT-STABILIZATION

In New York City, where the vast majority of the properties securing our multi-family loans are located, the amount of rent that tenants may be charged on the apartments in certain buildings is restricted under certain rent-control or rent-stabilization laws. Rent-control laws apply to apartments in buildings that were constructed prior to February 1947. An apartment is said to be rent-controlled if the tenant has been living continuously in the apartment for a period of time beginning prior to July 1971. When a rent-controlled apartment is vacated, it typically becomes rent-stabilized. Rent-stabilized apartments are generally located in buildings with six or more units that were built between February 1947 and January 1974. Rent-controlled and -stabilized apartments tend to be more affordable to live in because of the applicable regulations, and buildings with a preponderance of such rent-regulated apartments are therefore less likely to experience vacancies in times of economic adversity.

REPURCHASE AGREEMENTS

Repurchase agreements are contracts for the sale of securities owned or borrowed by the Banks with an agreement to repurchase those securities at an agreed-upon price and date. The Banks' repurchase agreements are primarily collateralized by GSE obligations and other mortgage-related securities, and are entered into with either the FHLBs or various brokerage firms.

RETURN ON AVERAGE ASSETS

A measure of profitability determined by dividing net income by average assets for a given period.

RETURN ON AVERAGE STOCKHOLDERS' EQUITY

A measure of profitability determined by dividing net income by average stockholders' equity for a given period.

WHOLESALE BORROWINGS

Refers to advances drawn by the Banks against their respective lines of credit with the FHLBs, their repurchase agreements with the FHLBs and various brokerage firms, and federal funds purchased.

YIELD

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The interest income associated with interest-earning assets, typically expressed as a ratio of interest income to the average balance of interest-earning assets for a given period.

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PART I

ITEM 1. BUSINESS

General

With total assets of \$46.7 billion at December 31, 2013, we rank among the nation's 25 largest publicly traded bank holding companies. Primarily reflecting our growth through ten business combinations between November 30, 2000 and March 26, 2010, we currently have 273 branch offices, combined, in five states.

We are organized under Delaware Law as a multi-bank holding company and have two primary subsidiaries: New York Community Bank and New York Commercial Bank (hereinafter referred to as the "Community Bank" and the "Commercial Bank," respectively, and collectively as the "Banks").

New York Community Bank

Established in 1859, the Community Bank is a New York State-chartered savings bank with 243 branches that currently operate through seven local divisions. We compete for depositors in these diverse markets by emphasizing service and convenience, with a comprehensive menu of traditional and non-traditional products and services, and access to 24-hour banking both online and by phone.

In New York, we currently serve our Community Bank customers through Roslyn Savings Bank, with 52 branches on Long Island, a suburban market east of New York City comprised of Nassau and Suffolk counties; Queens County Savings Bank, with 38 branches in the New York City borough of Queens; Richmond County Savings Bank, with 22 branches in the borough of Staten Island; and Roosevelt Savings Bank, with nine branches in the borough of Brooklyn. In the Bronx and neighboring Westchester County, we currently have four branches that operate directly under the name "New York Community Bank."

In New Jersey, we serve our Community Bank customers through 49 branches that operate under the name Garden State Community Bank.

In Florida and Arizona, where we have 27 and 14 branches, respectively, we serve our customers through the AmTrust Bank division of the Community Bank.

In Ohio, we serve our Community Bank customers through 28 branches of Ohio Savings Bank.

We also are a leading producer of multi-family loans in New York City, with an emphasis on non-luxury apartment buildings that are rent-regulated and feature below-market rents. In addition to multi-family loans, which are our principal asset, we originate commercial real estate loans (primarily in New York City, as well as Long Island and New Jersey) and, to a much lesser extent, acquisition, development, and construction loans, and commercial and industrial loans.

Furthermore, we originate one-to-four family loans, primarily through our mortgage banking operation, which was acquired in connection with our acquisition of certain assets, and assumption of certain liabilities, of AmTrust Bank ("AmTrust") on December 4, 2009. In 2013, the vast majority of the one-to-four family loans we originated were agency-conforming loans sold to government-sponsored enterprises ("GSEs"), servicing retained. A smaller number of one-to-four family loans were originated for our own portfolio and primarily consisted of hybrid loans with conservative loan-to-value ratios. Hybrid loans are loans that initially feature a fixed rate of interest and convert to a floating rate of interest after a specified period of time.

Although the vast majority of the loans we produce for investment (i.e., for our portfolio) are secured by properties or businesses in New York City, and to a lesser extent, Long Island and New Jersey, the one-to-four family loans we originate through our mortgage banking operation are for the purchase or refinancing of homes throughout the United States.

New York Commercial Bank

The Commercial Bank is a New York State-chartered commercial bank with 30 branches in Manhattan, Queens, Brooklyn, Westchester County, and Long Island, including 18 that operate under the name "Atlantic Bank."

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Established in December 2005, the Commercial Bank competes for customers by emphasizing personal service and by addressing the needs of small and mid-size businesses, professional associations, and government agencies with a comprehensive menu of business solutions, including installment loans, revolving lines of credit, and cash management services. In addition, the Commercial Bank offers 24-hour banking online and by phone.

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Customers of the Commercial Bank may transact their business at any of our 243 Community Bank branches, and Community Bank customers may transact their business at any of the 30 branches of the Commercial Bank. In addition, customers of both Banks have access to their accounts through our ATMs in all five states.

Our Websites

We also serve our customers through three connected websites: www.myNYCB.com, www.NewYorkCommercialBank.com, and www.NYCBfamily.com. In addition to providing our customers with 24-hour access to their accounts, and information regarding our products and services, hours of service, and locations, these websites provide extensive information about the Company for the investment community. Earnings releases, dividend announcements, and other press releases are posted upon issuance to the Investor Relations portion of our websites. In addition, our filings with the U.S. Securities and Exchange Commission (the "SEC") (including our annual report on Form 10-K; our quarterly reports on Form 10-Q; and our current reports on Form 8-K), and all amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, are available without charge, typically within minutes of being filed. The websites also provide information regarding our Board of Directors and management team and the number of Company shares held by these insiders, as well as certain Board Committee charters and our corporate governance policies. The content of our websites shall not be deemed to be incorporated by reference into this Annual Report.

Overview

Lending

Loans represented \$32.9 billion, or 70.5%, of total assets at December 31, 2013. Our loan portfolio has three components:

1. Covered Loans Covered loans refers to the loans we acquired in connection with our FDIC-assisted acquisition of certain assets, and assumption of certain liabilities, of AmTrust and Desert Hills Bank ("Desert Hills"), which are covered by loss sharing agreements with the FDIC. At December 31, 2013, the balance of covered loans was \$2.8 billion; of this amount, \$2.5 billion were one-to-four family loans. To distinguish these covered loans from the loans in our portfolio that are not subject to these agreements (and that, for the most part, we ourselves originated), all other loans in our portfolio are referred to as non-covered loans.

2. Non-Covered Loans Held for Sale Non-covered loans held for sale refers to the one-to-four family loans that we originate and aggregate for sale, primarily to GSEs. At December 31, 2013, the held-for-sale loan portfolio totaled \$306.9 million. In the twelve months ended at that date, we originated \$6.2 billion of one-to-four family loans for sale.

3. Non-Covered Loans Held for Investment Referring to the loans we originate for our own portfolio, non-covered loans held for investment totaled \$29.8 billion at December 31, 2013. The year-end balance consisted primarily of loans secured by multi-family buildings in New York City, most of which are subject to rent regulation and feature below-market rents. In addition to multi-family loans, loans held for investment include commercial real estate loans and, to a much lesser extent, one-to-four family loans; acquisition, development, and construction loans; and commercial and industrial loans.

The components of our held-for-investment loan portfolio are described below:

Multi-Family Loans

Multi-family loans represented \$20.7 billion, or 69.4%, of non-covered loans held for investment at December 31, 2013, and represented \$7.4 billion, or 66.5%, of the loans we originated for investment over the course of the year.

The multi-family loans we originate are typically secured by non-luxury apartment buildings in New York City that are subject to rent regulation and feature below-market rents. Such loans are typically made to long-term property owners with a history of growing their cash flows over time by making improvements to the apartments and common areas in their buildings which, in turn, enables them to increase the rents their tenants pay. We also make multi-family loans to property owners who are seeking to expand their real estate holdings by purchasing additional properties.

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Our typical multi-family loan has a term of ten or twelve years, with a fixed rate of interest in years one through five or seven and a rate that either adjusts annually or is fixed for the five years that follow. Loans that prepay in the first five or seven years generate prepayment penalties ranging from five percentage points to one percentage point of the then-current loan balance, depending on the remaining term of the loan. If a loan is still outstanding in the sixth or eighth year and the borrower selects the fixed rate option, the prepayment penalties typically reset to a range of five percentage points to one percentage point over years six through ten or eight through twelve.

Reflecting the structure of our multi-family credits, and the tendency of our borrowers to refinance their loans as their cash flows increase, our average multi-family loan had an expected weighted average life of 2.9 years at December 31, 2013.

Commercial Real Estate (CRE) Loans

CRE loans represented \$7.4 billion, or 24.7%, of non-covered loans held for investment at December 31, 2013, and \$2.2 billion, or 19.4%, of loans produced for investment over the twelve months ended at that date. Our CRE loans feature the same structure as our multi-family credits, and had a weighted average life of 3.3 years at December 31, 2013.

The CRE loans we originate are secured by income-producing properties such as office buildings, retail centers, multi-tenanted light industrial properties, and mixed-use buildings, most of which are located in New York City and, to a lesser extent, on Long Island and in New Jersey.

One-to-Four Family Loans

Non-covered one-to-four family loans totaled \$560.7 million at December 31, 2013. The portfolio consists of loans acquired in our pre-2009 business combinations as well as loans we ourselves have originated.

Acquisition, Development, and Construction (ADC) Loans

Our ADC loan portfolio largely consists of loans that were originated for land acquisition, development, and construction of multi-family and residential tract projects in New York City and on Long Island, and, to a lesser extent, for the construction of owner-occupied one-to-four family homes and commercial properties. ADC loans represented \$344.1 million, or 1.2%, of total non-covered loans held for investment at December 31, 2013.

Commercial and Industrial (C&I) Loans

Included in Other loans in our Consolidated Statements of Condition, C&I loans represented \$813.7 million, or 2.7%, of non-covered loans held for investment at December 31, 2013. We divide our C&I loans into two categories: specialty finance and other C&I loans.

Our specialty finance loans are broadly syndicated loans that are brought to us by a select group of nationally recognized sources and generally are made to large corporate obligors, the majority of which are publicly traded, carry investment grade or near-investment grade ratings, and participate in stable industries nationwide. The loans we fund fall into three distinct categories (asset-based lending, equipment loan and lease financing, and dealer floor plan lending), and each of our credits is secured with a perfected first security interest in the underlying collateral and structured as senior debt.

Our other C&I loans are generally made to small and mid-size businesses, primarily located in New York City or on Long Island, for working capital (including inventory and receivables), business expansion, and the purchase of equipment and machinery.

Asset Quality

The quality of our assets continued to improve in 2013. Non-performing non-covered loans declined \$157.8 million year-over-year to \$103.5 million at December 31, 2013, representing 0.35% of total non-covered loans at that date. Reflecting the decline in non-performing non-covered loans, which was partly tempered by a \$42.1 million increase in non-covered other real estate owned (OREO) to \$71.4 million, non-performing non-covered assets fell \$115.7 million year-over-year to \$174.9 million, representing 0.40% of total non-covered assets at the end of the year.

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At December 31, 2013, the allowance for losses on non-covered loans totaled \$141.9 million, representing 0.48% of total non-covered loans and 137.10% of non-performing non-covered loans at that date. The provision for losses on non-covered loans was \$18.0 million in the twelve months ended December 31, 2013, while net charge-offs totaled \$17.0 million, representing 0.05% of average loans.

Funding Sources

Our primary funding sources consist of the deposits we gather through our branch network or add through acquisitions, and brokered deposits; wholesale borrowings, primarily in the form of Federal Home Loan Bank (FHLB) advances and repurchase agreements with the FHLB and various brokerage firms; cash flows produced by the repayment and sale of loans; and cash flows produced by securities repayments and sales.

Deposits totaled \$25.7 billion, representing 55.0% of total assets, at December 31, 2013. Included in the year-end balance were certificates of deposit (CDs) of \$6.9 billion; NOW and money market accounts of \$10.5 billion; savings accounts of \$5.9 billion; and non-interest-bearing accounts of \$2.3 billion.

Borrowed funds totaled \$15.1 billion at December 31, 2013, with wholesale borrowings representing \$14.7 billion, or 97.6% of that balance, and 31.6% of total assets at that date.

Loan repayments and sales generated cash flows of \$16.2 billion in 2013, while securities repayments and sales generated cash flows of \$1.6 billion.

Revenues

Our primary source of income is net interest income, which is the difference between the interest income generated by the loans we produce and the securities we invest in, and the interest expense produced by our interest-bearing deposits and borrowed funds. The level of net interest income we generate is influenced by a variety of factors, some of which are within our control (e.g., our mix of interest-earning assets and interest-bearing liabilities), and some of which are not (e.g., the level of short-term interest rates and market rates of interest, the degree of competition we face for deposits and loans, and the level of prepayment penalty income we receive). In 2013, net interest income rose \$6.6 million year-over-year, to \$1.2 billion, as an \$83.0 million decline in interest income was exceeded by an \$89.6 million decline in interest expense. Prepayment penalty income added \$136.8 million to interest income in 2013, as the combination of low market interest rates and continued economic improvement triggered an increase in refinancing activity and property transactions in our primary lending niche.

While net interest income is our primary source of income, it is supplemented by the non-interest income we produce. In 2013, our largest source of non-interest income was the income generated by our mortgage banking operation, primarily through the origination of loans for sale to GSEs. Mortgage banking income accounted for \$78.3 million of total non-interest income, including income from originations of \$50.9 million and servicing income of \$27.4 million. In addition, fee income from deposits and loans accounted for \$38.2 million of 2013 non-interest income, while BOLI income and other income accounted for \$29.9 million and \$41.8 million, respectively. Included in other income are the revenues from the sale of third-party investment products in our branches, and revenues from our investment advisory firm, Peter B. Cannell & Co., Inc., which had \$2.1 billion of assets under management at December 31, 2013.

Efficiency

The efficiency of our operation has long been a distinguishing characteristic, stemming from our focus on multi-family lending, which is broker-driven, and from the expansion of our franchise through acquisitions rather than de novo growth. Operating expenses represented 1.33% of average assets in the twelve months ended December 31, 2013, and our efficiency ratio was 42.71% for that period.

Our Market

Our current market for deposits consists of the 26 counties in the five states that are served by our branch network, including all five boroughs of New York City, Nassau and Suffolk Counties on Long Island, and Westchester County in New York; Essex, Hudson, Mercer, Middlesex, Monmouth, Ocean, and Union Counties in New Jersey; Maricopa and Yavapai Counties in Arizona; Cuyahoga, Lake, and Summit Counties in Ohio; and Broward, Collier, Lee, Miami-Dade, Palm Beach, and St. Lucie Counties in Florida.

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The market for the loans we produce varies, depending on the type of loan. For example, the vast majority of our multi-family loans are collateralized by rental apartment buildings in New York City, which is also home to the majority of the properties collateralizing our CRE loans. In contrast, we originate one-to-four family mortgage loans in all 50 states.

Competition for Deposits

The combined population of the 26 counties where our branches are located is approximately 29.6 million, and the number of banks and thrifts we compete with currently exceeds 350. With total deposits of \$25.7 billion at December 31, 2013, we ranked ninth among all bank and thrift depositories serving these 26 counties. We also ranked first among all banks and thrifts in Essex County, New Jersey, and third, fourth, and fourth, respectively, in Richmond, Queens, and Nassau Counties in New York. (Market share information was provided by SNL Financial.) We also compete for deposits with other financial institutions, including credit unions, Internet banks, and brokerage firms.

Our ability to attract and retain deposits is not only a function of short-term interest rates and industry consolidation, but also the competitiveness of the rates being offered by other financial institutions within our marketplace.

Competition for deposits is also influenced by several internal factors, including the opportunity to assume or acquire deposits through business combinations; the cash flows produced through loan and securities repayments and sales; and the availability of attractively priced wholesale funds. In addition, the degree to which we compete for deposits is influenced by the liquidity needed to fund our loan production and other outstanding commitments.

We vie for deposits and customers by placing an emphasis on convenience and service and, from time to time, by offering specific products at highly competitive rates. In addition to our 243 Community Bank branches and 30 Commercial Bank branches, we have 284 ATM locations, including 261 that operate 24 hours a day. Our customers also have 24-hour access to their accounts through our bank-by-phone service and online through our three websites, www.myNYCB.com, www.NewYorkCommercialBank.com, and www.NYCBfamily.com. We also offer certain higher-paying money market accounts through two dedicated websites, myBankingDirect.com and AmTrustDirect.com.

In addition to 199 traditional branches in New York, New Jersey, Florida, Ohio, and Arizona, our Community Bank currently has 38 in-store branches in New York and New Jersey 37 in supermarkets and one in a drug store. Because of the proximity of these branches to our traditional locations, our customers have the option of doing their banking seven days a week in many of the communities we serve. This service model is an important component of our efforts to attract and maintain deposits in a highly competitive marketplace. Of the remaining Community Bank locations, two branches are located on corporate campuses in New Jersey and four are customer service centers in New York.

We also compete by complementing our broad selection of traditional banking products with an extensive menu of alternative financial services, including insurance, annuities, and mutual funds of various third-party service providers. Furthermore, customers who come to us seeking a residential mortgage can begin the application process by phone, online, or in any branch.

In addition to checking and savings accounts, Individual Retirement Accounts, and CDs for both businesses and consumers, the Commercial Bank offers a suite of cash management products to address the needs of small and mid-size businesses, municipal and county governments, school districts, and professional associations.

Another competitive advantage is our strong community presence, with April 14, 2013 marking the 154th year of service of our forebear, Queens County Savings Bank. We have found that our longevity, as well as our strong capital position, are especially appealing to customers seeking a strong, stable, and service-oriented bank.

Competition for Loans

Our success as a producer of multi-family, CRE, ADC, and C&I loans is substantially tied to the economic health of the markets where we lend. Local economic conditions have a significant impact on loan demand, the value of the collateral securing our credits, and the ability of our borrowers to repay their loans.

The competition we face for loans also varies with the type of loan we are originating. In New York City, where the majority of the buildings collateralizing our multi-family loans are located, we compete for such loans on the basis of timely service and the expertise that stems from being a specialist in this lending niche. Among those we compete with for business in this market are Fannie Mae and Freddie Mac, insurance companies, and both local and regional banks and thrifts.

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While we anticipate that competition for multi-family loans will continue in the future, we believe that the significant volume of multi-family loans we produced in 2013 and in our year-end pipeline is indicative of our ability to compete for such loans.

Similarly, our ability to compete for CRE loans on a go-forward basis depends on the same factors that impact our ability to compete for multi-family credits, and on the degree to which other CRE lenders choose to step up their loan production as local market conditions continue to improve.

While we continue to originate one-to-four family, ADC, and C&I loans for investment, such loans represent a small portion of our loan portfolio.

Our mortgage banking operation competes with a significant number of financial and non-financial institutions throughout the nation that also originate and aggregate one-to-four family loans for sale. In 2013, held-for-sale originations totaled \$6.2 billion; of this amount, \$6.2 billion, or 99.7%, were agency-conforming loans and \$20.2 million, or 0.3%, were non-conforming (i.e., jumbo) loans. Reflecting the volume of loans funded in 2013 by our mortgage banking operation, we rank among the 20 largest aggregators of one-to-four family loans in the United States.

Environmental Issues

We encounter certain environmental risks in our lending activities. The existence of hazardous materials may make it unattractive for a lender to foreclose on the properties securing its loans. In addition, under certain conditions, lenders may become liable for the costs of cleaning up hazardous materials found on such properties. We attempt to mitigate such environmental risks by requiring either that a borrower purchase environmental insurance or that an appropriate environmental site assessment be completed as part of our underwriting review on the initial granting of CRE and ADC loans, regardless of location, and of any out-of-state multi-family loans we may produce. Depending on the results of an assessment, appropriate measures are taken to address the identified risks. In addition, we order an updated environmental analysis prior to foreclosing on such properties, and typically hold foreclosed multi-family, CRE, and ADC properties in subsidiaries.

Our attention to environmental risks also applies to the properties and facilities that house our bank operations. Prior to acquiring a large-scale property, a Phase 1 Environmental Property Assessment is typically performed by a licensed professional engineer to determine the integrity of, and/or the potential risk associated with, the facility and the property on which it is built. Properties and facilities of a smaller scale are evaluated by qualified in-house assessors, as well as by industry experts in environmental testing and remediation. This two-pronged approach identifies potential risks associated with asbestos-containing material, above and underground storage tanks, radon, electrical transformers (which may contain PCBs), ground water flow, storm and sanitary discharge, and mold, among other environmental risks. These processes assist us in mitigating environmental risk by enabling us to identify and address potential issues.

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The Community Bank has formed, or acquired through merger transactions, 33 active subsidiary corporations. Of these, 22 are direct subsidiaries of the Community Bank and 11 are subsidiaries of Community Bank-owned entities.

The 22 direct subsidiaries of the Community Bank are:

Name	Jurisdiction of Organization	Purpose
DHB Real Estate, LLC	Arizona	Organized to own interests in real estate
Mt. Sinai Ventures, LLC	Delaware	A joint venture partner in the development, construction, and sale of a 177-unit golf course community in Mt. Sinai, NY, all the units of which were sold by December 31, 2006
NYCB Mortgage Company, LLC	Delaware	Originates and aggregates one-to-four family loans, primarily servicing retained
Realty Funding Company, LLC	Delaware	Holding company for subsidiaries owning an interest in real estate
NYCB Specialty Finance Company, LLC	Massachusetts	Asset-based lending, equipment financing, and dealer floor plan lending
Eagle Rock Investment Corp.	New Jersey	Formed to hold and manage investment portfolios for the Company
Pacific Urban Renewal, Inc.	New Jersey	Owns a branch building
Somerset Manor Holding Corp.	New Jersey	Holding company for four subsidiaries that owned and operated two assisted-living facilities in New Jersey in 2005
Synergy Capital Investments, Inc.	New Jersey	Formed to hold and manage investment portfolios for the Company
1400 Corp.	New York	Manages properties acquired by foreclosure while they are being marketed for sale
BSR 1400 Corp.	New York	Organized to own interests in real estate
Bellingham Corp.	New York	Organized to own interests in real estate
Blizzard Realty Corp.	New York	Organized to own interests in real estate
CFS Investments, Inc.	New York	Sells non-deposit investment products
Main Omni Realty Corp.	New York	Organized to own interests in real estate
NYB Realty Holding Company, LLC	New York	Holding company for subsidiaries owning an interest in real estate
O.B. Ventures, LLC	New York	A joint venture partner in a 370-unit residential community in Plainview, New York, all the units of which were sold by December 31, 2004
RCBK Mortgage Corp.	New York	Organized to own interests in certain multi-family loans
RCSB Corporation	New York	Owns a branch building, Ferry Development Holding Company, and Woodhaven Investments, Inc.
RSB Agency, Inc.	New York	Sells non-deposit investment products
Richmond Enterprises, Inc.	New York	Holding company for Peter B. Cannell & Co., Inc.

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Roslyn National Mortgage Corporation

New York

Formerly operated as a mortgage loan originator and servicer and currently holds an interest in its former office space

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The 11 subsidiaries of Community Bank-owned entities are:

Name