NEW YORK COMMUNITY BANCORP INC
Form 10-Q
May 10, 2010
Table of Contents

# UNITED STATES

# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# FORM 10-Q

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

## THE SECURITIES EXCHANGE ACT OF 1934

**For the Quarterly Period Ended March 31, 2010**

**Commission File Number 1-31565**

# NEW YORK COMMUNITY BANCORP, INC.

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

| | |
|---|---|
| **Delaware** | **06-1377322** |

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

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

**(Address of principal executive offices)**

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

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

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

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

| | | | |
|---|---|---|---|
| Large Accelerated Filer | x | Accelerated Filer | ¨ |
| Non-accelerated Filer | ¨ | Smaller Reporting Company | ¨ |

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

435,452,463

Number of shares of common stock outstanding at May 3, 2010

**Table of Contents**

**NEW YORK COMMUNITY BANCORP, INC.**

**FORM 10-Q**

**Quarter Ended March 31, 2010**

Table of Contents

**NEW YORK COMMUNITY BANCORP, INC.**

**CONSOLIDATED STATEMENTS OF CONDITION**

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

| | March 31, 2010 (unaudited) | December 31, 2009 |
|---|---|---|
| **Assets:** | | |
| Cash and cash equivalents | $ 2,547,889 | $ 2,670,857 |
| Securities available for sale: | | |
| Mortgage-related ($609,519 and $602,233 pledged, respectively) | 679,912 | 774,205 |
| Other securities ($316,411 and $302,022 pledged, respectively) | 424,384 | 744,441 |
| Total available-for-sale securities | 1,104,296 | 1,518,646 |
| Securities held to maturity: | | |
| Mortgage-related ($2,181,431 and $2,459,161 pledged, respectively) (fair value of $2,268,566 and $2,551,608, respectively) | 2,187,537 | 2,465,956 |
| Other securities ($1,770,266 and $1,564,585 pledged, respectively) (fair value of $2,242,142 and $1,698,054, respectively) | 2,257,643 | 1,757,641 |
| Total held-to-maturity securities | 4,445,180 | 4,223,597 |
| Total securities | 5,549,476 | 5,742,243 |
| Loans held for sale | 764,358 | |
| Non-covered loans held for investment, net of deferred loan fees and costs | 23,417,756 | 23,376,599 |
| Less: Allowance for loan losses | (137,443) | (127,491) |
| Non-covered loans held for investment, net | 23,280,313 | 23,249,108 |
| Covered loans (includes $351.3 million of loans held for sale at December 31, 2009) | 4,759,139 | 5,016,100 |
| Total loans, net | 28,803,810 | 28,265,208 |
| Federal Home Loan Bank ( FHLB ) stock, at cost | 444,118 | 496,742 |
| Premises and equipment, net | 202,514 | 205,165 |
| FDIC loss share receivable | 796,841 | 743,276 |
| Goodwill | 2,436,401 | 2,436,401 |
| Core deposit intangibles, net | 101,108 | 105,764 |
| Bank-owned life insurance | 722,171 | 715,962 |
| Other assets (includes $44.6 million of other real estate owned ( OREO ) covered by FDIC loss sharing agreements at March 31, 2010) | 826,409 | 772,251 |
| Total assets | $ 42,430,737 | $ 42,153,869 |
| **Liabilities and Stockholders Equity:** | | |
| Deposits: | | |
| NOW and money market accounts | $ 7,966,846 | $ 7,706,288 |
| Savings accounts | 3,873,954 | 3,788,294 |
| Certificates of deposit | 9,185,762 | 9,053,891 |
| Non-interest-bearing accounts | 1,704,659 | 1,767,938 |
| Total deposits | 22,731,221 | 22,316,411 |

| | | |
|---|---|---|
| Borrowed funds: | | |
| FHLB advances | 8,670,024 | 8,955,769 |
| Repurchase agreements | 4,125,000 | 4,125,000 |
| Total wholesale borrowings | 12,795,024 | 13,080,769 |
| Junior subordinated debentures | 427,251 | 427,371 |
| Other borrowings | 653,575 | 656,546 |
| Total borrowed funds | 13,875,850 | 14,164,686 |
| Other liabilities | 410,205 | 305,870 |
| Total liabilities | 37,017,276 | 36,786,967 |
| 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; 435,441,094 and 433,197,332 shares issued, respectively; 435,441,094 and 433,197,332 shares outstanding, respectively) | 4,354 | 4,332 |
| Paid-in capital in excess of par | 5,272,490 | 5,238,231 |
| Retained earnings | 191,185 | 175,193 |
| Unallocated common stock held by Employee Stock Ownership Plan ( ESOP ) | (716) | (951) |
| Accumulated other comprehensive loss, net of tax: | | |
| Net unrealized loss on available-for-sale securities and the non-credit portion of other-than-temporary impairment ( OTTI ) losses, net of tax | (11,232) | (6,274) |
| Net unrealized loss on securities transferred from available for sale to held to maturity, net of tax | (3,752) | (3,927) |
| Net unrealized loss on pension and post-retirement obligations, net of tax | (38,868) | (39,702) |
| Total accumulated other comprehensive loss, net of tax | (53,852) | (49,903) |
| Total stockholders equity | 5,413,461 | 5,366,902 |
| Total liabilities and stockholders equity | $ 42,430,737 | $ 42,153,869 |

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 Three Months Ended March 31, 2010 | 2009 |
|---|---|---|
| **Interest Income:** | | |
| Mortgage and other loans | $ 413,675 | $ 321,717 |
| Securities and money market investments | 68,703 | 78,389 |
| Total interest income | 482,378 | 400,106 |
| **Interest Expense:** | | |
| NOW and money market accounts | 16,431 | 7,563 |
| Savings accounts | 5,745 | 4,216 |
| Certificates of deposit | 37,553 | 52,723 |
| Borrowed funds | 128,065 | 128,689 |
| Total interest expense | 187,794 | 193,191 |
| Net interest income | 294,584 | 206,915 |
| Provision for loan losses | 20,000 | 6,000 |
| Net interest income after provision for loan losses | 274,584 | 200,915 |
| **Non-Interest Income:** | | |
| Total loss on OTTI of securities | (13,185) | |
| Less: Non-credit portion of OTTI recorded in other comprehensive income (before taxes) | 12,462 | |
| Net loss on OTTI recognized in earnings | (723) | |
| Fee income | 13,965 | 9,291 |
| Bank-owned life insurance | 7,401 | 6,840 |
| Net loss on sale of securities | (8) | |
| Gain on debt repurchase | 293 | |
| Other | 34,116 | 6,045 |
| Total non-interest income | 55,044 | 22,176 |
| **Non-Interest Expense:** | | |
| Operating expenses: | | |
| Compensation and benefits | 66,900 | 42,422 |
| Occupancy and equipment | 21,665 | 18,736 |
| General and administrative | 40,290 | 22,753 |
| Total operating expenses | 128,855 | 83,911 |
| Amortization of core deposit intangibles | 7,892 | 5,687 |

| | | |
|---|---|---|
| Total non-interest expense | 136,747 | 89,598 |
| Income before income taxes | 192,881 | 133,493 |
| Income tax expense | 68,732 | 44,804 |
| **Net Income** | $ 124,149 | $ 88,689 |
| Other comprehensive income, net of tax: | | |
| Change in net unrealized (loss) gain on securities and non-credit portion of OTTI for the period | (4,783) | 8,030 |
| Change in pension and post-retirement obligations | 834 | 1,203 |
| Total comprehensive income, net of tax | $ 120,200 | $ 97,922 |
| **Basic earnings per share** | $ 0.29 | $ 0.26 |
| **Diluted earnings per share** | $ 0.29 | $ 0.26 |

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)**

| | Three Months Ended March 31, 2010 |
|---|---|
| **Common Stock (Par Value: $0.01):** | |
| Balance at beginning of year | $ 4,332 |
| Shares issued for restricted stock awards (353,944 shares) | 4 |
| Shares issued for stock options exercised (123,336 shares) | 1 |
| Shares issued in connection with the direct stock purchase feature of the Dividend Reinvestment and Stock Purchase Plan ( DRP ) (1,766,482 shares) | 17 |
| Balance at end of period | 4,354 |
| **Paid-in Capital in Excess of Par:** | |
| Balance at beginning of year | 5,238,231 |
| Allocation of ESOP stock | 920 |
| Shares issued for restricted stock awards, net of forfeitures | (666) |
| Compensation expense related to restricted stock awards | 2,902 |
| Exercise of stock options | 1,528 |
| Tax effect of stock plans | 657 |
| Shares issued in connection with the direct stock purchase feature of the DRP | 28,918 |
| Balance at end of period | 5,272,490 |
| **Retained Earnings:** | |
| Balance at beginning of year | 175,193 |
| Net income | 124,149 |
| Dividends paid on common stock ($0.25 per share) | (108,157) |
| Balance at end of period | 191,185 |
| **Treasury Stock:** | |
| Balance at beginning of year | |
| Purchase of common stock (116,066 shares) | (1,706) |
| Exercise of stock options (70,510 shares) | 1,044 |
| Shares issued for restricted stock awards (45,556 shares) | 662 |
| Balance at end of period | |
| **Unallocated Common Stock Held by ESOP:** | |
| Balance at beginning of year | (951) |
| Earned portion of ESOP | 235 |
| Balance at end of period | (716) |
| **Accumulated Other Comprehensive Loss, net of tax:** | |

| | |
|---|---|
| Balance at beginning of year | (49,903) |
| Change in net unrealized gain on securities available for sale, net of tax of $1,408 | 2,219 |
| Non-credit portion of OTTI losses recognized in other comprehensive income, net of tax of $4,838 | (7,624) |
| Amortization of net unrealized loss on securities transferred from available for sale to held to maturity, net of tax of $111 | 175 |
| Change in pension and post-retirement obligations, net of tax of $529 | 834 |
| Reclassification adjustment for loss on sale and OTTI of securities, net of tax of $284 | 447 |
| Balance at end of period | (53,852) |
| Total stockholders equity at end of period | $ 5,413,461 |

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)**

| | Three Months Ended March 31, 2010 | 2009 |
|---|---|---|
| **Cash Flows from Operating Activities:** | | |
| Net income | $ 124,149 | $ 88,689 |
| Adjustments to reconcile net income to net cash used in operating activities: | | |
| Provision for loan losses | 20,000 | 6,000 |
| Depreciation and amortization | 4,935 | 5,024 |
| Amortization of premiums (accretion of discounts), net | 1,881 | (532) |
| Net change in net deferred loan origination costs and fees | 1,846 | (322) |
| Amortization of core deposit intangibles | 7,892 | 5,687 |
| Net loss on sale of securities | 8 | |
| Net gain on sale of loans | (7,558) | (108) |
| Stock plan-related compensation | 4,057 | 3,485 |
| Loss on OTTI of securities recognized in earnings | 723 | |
| Changes in assets and liabilities: | | |
| Decrease (increase) in deferred tax asset, net | 1,235 | (2,879) |
| Increase in other assets | (22,767) | (15,602) |
| Increase (decrease) in other liabilities | 98,575 | (165,410) |
| Origination of loans held for sale | (1,349,160) | (17,661) |
| Proceeds from sale of loans originated for sale | 911,038 | 15,446 |
| **Net cash used in operating activities** | (203,146) | (78,183) |
| **Cash Flows from Investing Activities:** | | |
| Proceeds from repayment of securities held to maturity | 332,077 | 929,929 |
| Proceeds from repayment of securities available for sale | 420,315 | 52,966 |
| Proceeds from sale of securities available for sale | 660 | |
| Purchase of securities held to maturity | (565,524) | (822,245) |
| Net redemption (purchase) of FHLB stock | 56,211 | (15,745) |
| Net decrease (increase) in loans | 84,698 | (103,622) |
| Purchase of premises and equipment, net | (2,284) | (657) |
| Net cash acquired in business combinations | 140,895 | |
| **Net cash provided by investing activities** | 467,048 | 40,626 |
| **Cash Flows from Financing Activities:** | | |
| Net increase (decrease) in deposits | 24,168 | (123,384) |
| Net increase in short-term borrowed funds | | 159,900 |
| Net (decrease) increase in long-term borrowed funds | (333,340) | 49,897 |
| Tax effect of stock plans | 657 | 1,887 |
| Cash dividends paid on common stock | (108,157) | (86,079) |
| Treasury stock purchases | (1,706) | (624) |
| Net cash received from stock option exercises | 2,573 | 25 |
| Proceeds from issuance of common stock, net | 28,935 | |

| | | |
|---|---|---|
| **Net cash (used in) provided by financing activities** | (386,870) | 1,622 |
| | | |
| Net decrease in cash and cash equivalents | (122,968) | (35,935) |
| Cash and cash equivalents at beginning of period | 2,670,857 | 203,216 |
| | | |
| Cash and cash equivalents at end of period | $ 2,547,889 | $ 167,281 |
| | | |
| Supplemental information: | | |
| Cash paid for interest | $ 203,198 | $ 190,489 |
| Cash paid for income taxes | 18,819 | 66,053 |
| Non-cash investing and financing activities: | | |
| Transfers to other real estate owned from loans | 1,634 | 561 |

Note: Excluding the CDI and the FDIC loss share receivable, the fair values of non-cash assets acquired and of liabilities assumed in the acquisition of Desert Hills Bank on March 26, 2010 were $254.1 million and $442.3 million, respectively.

See accompanying notes to the unaudited consolidated financial statements.

**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 bank 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 months ended March 31, 2010 are not necessarily indicative of the results of operations that may be expected for all of 2010.

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 2009 Annual Report on Form 10-K.

Certain reclassifications have been made to the prior-period consolidated financial statements to conform to the current-period presentation.

**Note 2: Business Combinations**

***AmTrust Bank***

On December 4, 2009, the Community Bank acquired certain assets and assumed certain liabilities of AmTrust Bank ( AmTrust ) from the FDIC in an FDIC-assisted transaction (the AmTrust acquisition ). Headquartered in Cleveland, Ohio, AmTrust was a savings bank that operated 29 branches in Ohio, 25 branches in Florida, and 12 branches in Arizona.

The purpose of the AmTrust acquisition was to expand the Company s footprint into new markets, and to enhance its funding mix with the acquisition of low-cost core deposits.

As part of the Purchase and Assumption Agreement entered into by the Community Bank with the FDIC, the Community Bank entered into loss sharing agreements, in accordance with which the FDIC will cover a substantial portion of any future losses on the acquired loans. The acquired loans that are subject to the loss sharing agreements are collectively referred to as covered loans. Under the terms of the loss sharing agreements, the FDIC is obligated to reimburse the Community Bank for 80% of losses up to $907.0 million and 95% of losses in excess of $907.0 million with respect to the covered loans.

In addition, the Community Bank will reimburse the FDIC for 80% of recoveries with respect to losses for which the FDIC paid the Community Bank 80% reimbursement, and for 95% of recoveries with respect to losses for which the FDIC paid the Community Bank 95% reimbursement under the loss sharing agreements. The expected net reimbursements under the loss sharing agreements were recorded as an indemnification asset (an FDIC loss share receivable ) at an estimated fair value of $740.0 million on the acquisition date. The loss sharing agreements are subject to the Company following certain servicing procedures, as specified in the loss sharing agreements with the FDIC.

Furthermore, the Community Bank has agreed to pay to the FDIC, on January 18, 2020 (the True-Up Measurement Date ), half of the amount, if positive, calculated as (1) $181,400,000 minus (2) the sum of (a) 25%

NEW YORK COMMUNITY BANCORP, INC.

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

of the asset discount bid made in connection with the AmTrust acquisition; (b) 25% of the Cumulative Shared-Loss Payments (as defined below); and (c) the sum of the period servicing amounts for every consecutive twelve-month period prior to, and ending on, the True-Up Measurement Date in respect of each of the shared loss agreements during which the applicable shared loss agreement is in effect (with such period servicing amounts to equal, for any twelve-month period with respect to which each of the shared loss agreements during which such shared loss agreement is in effect, the product of the simple average of the principal amount of shared loss loans and shared loss assets at the beginning and end of such period and 1%). For the purposes of the above calculation, Cumulative Shared-Loss Payments means (i) the aggregate of all of the payments made or payable to the Community Bank under the shared-loss agreements minus (ii) the aggregate of all of the payments made or payable to the FDIC under the shared-loss agreements.

These reimbursable losses and recoveries are based on the book value of the relevant loans as determined by the FDIC as of the effective date of the AmTrust acquisition. The amount that the Community Bank realizes on these loans could differ materially from the carrying value that will be reflected in any financial statements, based upon the timing and amount of collections and recoveries on the covered loans in future periods.

Based on the closing with the FDIC as of December 4, 2009, the Community Bank (a) acquired $5.0 billion in loans, $760.0 million in investment securities, $4.0 billion in cash and cash equivalents (including $3.2 billion due from, and subsequently paid by, the FDIC), and $1.2 billion in other assets; and (b) assumed $8.2 billion in deposits, $2.6 billion in borrowings, and $92.5 million in other liabilities.

The Company has determined that the AmTrust acquisition constitutes a business combination as defined by Codification Topic 805, Business Combinations. Codification Topic 805 establishes principles and requirements as to how the acquirer of a business recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any non-controlling interest in the acquiree. Accordingly, the acquired assets, including the FDIC loss share receivable (which is accounted for as an indemnification asset under Codification Topic 805) and identifiable intangible assets, and the liabilities assumed in the AmTrust acquisition, were measured and recorded at estimated fair value as of the December 4, 2009 acquisition date.

The application of the acquisition method of accounting resulted in a bargain purchase gain of $139.6 million, which is included in non-interest income in the Company s Consolidated Statement of Income and Comprehensive Income for the year ended December 31, 2009. This gain amounted to $84.2 million after-tax.

Although the Community Bank did not immediately acquire or lease the real estate, banking facilities, furniture, fixtures, or equipment of AmTrust as part of the Purchase and Assumption Agreement, it has the option to purchase or lease these items from the FDIC. The terms of these options expire 170 days after December 4, 2009, unless extended by the FDIC. Acquisition costs will be based on current appraisals and determined at a later date.

Because of the short time period between the December 4, 2009 closing of the transaction and the end of the Company s fiscal year on December 31, 2009, the Company continues to analyze its estimates of the fair values of the loans acquired and the indemnification asset recorded. As the Company finalizes its analysis of these assets, there may be adjustments to the recorded carrying values.

Table of Contents

**NEW YORK COMMUNITY BANCORP, INC.**

**NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

A summary of the net assets acquired and the estimated fair value adjustments resulting in the net gain follows:

| (in thousands) | December 4, 2009 |
|---|---|
| AmTrust s cost basis liabilities in excess of assets | $ (2,799,630) |
| Cash payments received from the FDIC | 3,220,650 |
| Net assets acquired before fair value adjustments | 421,020 |
| Fair value adjustments: | |
| Loans | (946,083) |
| FDIC loss share receivable | 740,000 |
| Core deposit intangible | 40,797 |
| FHLB borrowings | (69,814) |
| Repurchase agreements | (11,180) |
| Certificates of deposit | (26,858) |
| FDIC equity appreciation instrument | (8,275) |
| Pre-tax gain on the AmTrust acquisition | $ 139,607 |
| Deferred income tax liability | (55,410) |
| Net after-tax gain on the AmTrust acquisition | $ 84,197 |

The net after-tax gain represents the excess of the estimated fair value of the assets acquired (including cash payments received from the FDIC) over the estimated fair value of the liabilities assumed and is influenced significantly by the FDIC-assisted transaction process. Under the FDIC-assisted transaction process, only certain assets and liabilities are transferred to the acquirer and, depending on the nature and amount of the acquirer s bid, the FDIC may be required to make a cash payment to the acquirer. As indicated in the preceding table, net liabilities of $2.8 billion (i.e., the cost basis) were transferred to the Company in the AmTrust acquisition, and the FDIC made cash payments to the Company totaling $3.2 billion.

In many cases, the determination of the fair value of the assets acquired and liabilities assumed required management to make estimates about discount rates, future expected cash flows, market conditions, and other future events that are highly subjective in nature and subject to change. These fair value estimates are considered preliminary, and are subject to change for up to one year after the closing date of the acquisition as additional information relative to closing date fair values becomes available. The Community Bank and the FDIC are engaged in ongoing discussions that may impact which assets and liabilities are ultimately acquired or assumed by the Community Bank and/or the purchase price.

Table of Contents

**NEW YORK COMMUNITY BANCORP, INC.**

**NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The following table sets forth the assets acquired and liabilities assumed, at fair value, in the AmTrust acquisition:

| (in thousands) | December 4, 2009 |
|---|---|
| **Assets** | |
| Cash and cash equivalents | $ 4,021,454 |
| Securities available for sale: | |
| Mortgage-related securities | 121,846 |
| Other securities | 638,170 |
| Total securities | 760,016 |
| Loans covered by loss sharing agreements: | |
| One- to four-family mortgage loans | 4,701,591 |
| Home equity lines of credit ( HELOCs ) and consumer loans | 314,412 |
| Total loans covered by loss sharing agreements | 5,016,003 |
| FDIC loss share receivable | 740,000 |
| FHLB-Cincinnati stock | 110,592 |
| Core deposit intangible | 40,797 |
| Other assets | 275,827 |
| Total assets acquired | $ 10,964,689 |
| **Liabilities** | |
| Deposits: | |
| NOW and money market accounts | $ 2,861,172 |
| Savings accounts | 878,365 |
| Certificates of deposit | 3,853,929 |
| Non-interest-bearing accounts | 613,678 |
| Total deposits | 8,207,144 |
| Borrowed funds: | |
| FHLB advances | 2,119,632 |
| Repurchase agreements | 461,180 |
| Total borrowed funds | 2,580,812 |
| Other liabilities | 92,536 |
| Total liabilities assumed | $ 10,880,492 |
| Net assets acquired | $ 84,197 |

In addition, as part of the consideration for the transaction, the Company issued an equity appreciation instrument to the FDIC. Under the terms of the equity appreciation instrument, the FDIC had the opportunity to obtain, at the sole option of the Company, a cash payment or shares of its common stock with a value equal to the product of (a) $25 million and (b) the amount by which the average of the volume weighted average price of its common stock for each of the two New York Stock Exchange trading days immediately prior to the exercise of the equity appreciation instrument exceeded $12.33. The equity appreciation instrument was exercisable by the FDIC from December 9, 2009 through December 23, 2009 and was valued at $8.3 million when issued. The FDIC exercised the equity appreciation instrument, which was settled in cash for $23.3 million by the Company.

In December 2009, the Company extinguished the acquired repurchase agreements with a cash payment of $461.2 million.

***Desert Hills Bank***

On March 26, 2010, the Community Bank acquired certain assets and assumed certain liabilities of Desert Hills Bank ( Desert Hills ) from the FDIC in an FDIC-assisted transaction (the Desert Hills acquisition ). Headquartered in Phoenix, Arizona, Desert Hills operated six branch locations in Arizona.

The purpose of the Desert Hills acquisition was to strengthen the Company s franchise in Arizona and to enhance its funding mix with the acquisition of low-cost core deposits.

**NEW YORK COMMUNITY BANCORP, INC.**

**NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

As part of the Purchase and Assumption Agreement entered into by the Community Bank with the FDIC, the Community Bank entered into loss sharing agreements in accordance with which the FDIC will cover a substantial portion of any future losses on loans and other real estate owned ( OREO ). The acquired loans that are subject to the loss sharing agreements are collectively referred to as covered loans and the acquired OREO that is subject to the loss sharing agreements is collectively referred to as covered OREO. The loans and OREO acquired in the Desert Hills acquisition are referred to collectively as covered assets. Under the terms of the loss sharing agreements, the FDIC is obligated to reimburse the Community Bank for 80% of losses of up to $101.4 million and 95% of losses in excess of $101.4 million with respect to the covered assets.

In addition, the Community Bank will reimburse the FDIC for 80% of recoveries with respect to losses for which the FDIC paid the Community Bank 80% reimbursement, and for 95% of recoveries with respect to losses for which the FDIC paid the Community Bank 95% reimbursement under the loss sharing agreements. The expected net reimbursements under the loss sharing agreements were recorded as an indemnification asset (an FDIC loss share receivable) at an estimated fair value of $44.0 million on the acquisition date. The loss sharing agreements are subject to the Company following certain servicing procedures, as specified in the loss sharing agreements with the FDIC.

Furthermore, the Community Bank has agreed to pay to the FDIC, on May 6, 2020 (the True-Up Measurement Date ), half of the amount, if positive, calculated as (1) $20,282,800 minus (2) the sum of (a) 25% of the asset discount bid made in connection with the Desert Hills acquisition; (b) 25% of the Cumulative Shared-Loss Payments (as defined below); and (c) the sum of the period servicing amounts for every consecutive twelve-month period prior to, and ending on, the True-Up Measurement Date in respect of each of the shared loss agreements during which the applicable shared loss agreement is in effect (with such period servicing amounts to equal, for any twelve-month period with respect to which each of the shared loss agreements during which such shared loss agreement is in effect, the product of the simple average of the principal amount of shared loss loans and shared loss assets at the beginning and end of such period and 1%). For the purposes of the above calculation, Cumulative Shared-Loss Payments means (i) the aggregate of all of the payments made or payable to the Community Bank under the shared-loss agreements minus (ii) the aggregate of all of the payments made or payable to the FDIC under the shared-loss agreements.

The above reimbursable losses and recoveries are based on the book value of the relevant assets as determined by the FDIC as of the effective date of the Desert Hills acquisition. The amount that the Community Bank realizes on these assets could differ materially from the carrying value that will be reflected in any financial statements, based upon the timing and amount of collections and recoveries on the assets in future periods.

The Company has determined that the Desert Hills acquisition constitutes a business combination as defined by Codification Topic 805. Accordingly, the acquired assets, including the FDIC loss share receivable (which is accounted for as an indemnification asset under Codification Topic 805) and identifiable intangible assets, and the liabilities assumed in the Desert Hills acquisition, were measured and recorded at estimated fair value as of the March 26, 2010 acquisition date.

Although the Community Bank did not immediately acquire or lease the real estate, banking facilities, furniture, fixtures, or equipment of Desert Hills as part of the Purchase and Assumption Agreement, it has the option to purchase or lease these items from the FDIC. The terms of these options expire 90 days after March 26, 2010, unless extended by the FDIC. Acquisition costs will be based on current appraisals and determined at a later date.

Under the FDIC-assisted transaction process, only certain assets and liabilities are transferred to the acquirer and, depending on the nature and amount of the acquirer s bid, the FDIC may be required to make a cash payment to the acquirer. The Community Bank acquired assets at value including $140.9 million in cash and cash equivalents (inclusive of $86.8 million received from the FDIC), loans of $199.5 million, OREO of $44.6 million, and securities of $5.2 million. The Community Bank also assumed, at fair value, $390.6 million in deposits and $44.5 million in FHLB-San Francisco advances. These advances were extinguished by the Community Bank in March with a cash payment of $44.5 million on March 29, 2010. Because of the short time period between the March 26, 2010 closing of the transaction and the end of the Company s fiscal quarter on March 31, 2010, the Company continues to analyze its estimates of the fair values of the loans acquired and the indemnification asset recorded. As the Company finalizes its analysis of these assets, there may be adjustments to the recorded carrying values.

**NEW YORK COMMUNITY BANCORP, INC.**

**NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

In many cases, the determination of the fair value of the assets acquired and liabilities assumed required management to make estimates about discount rates, future expected cash flows, market conditions, and other future events that are highly subjective in nature and subject to change. These fair value estimates are considered preliminary. They are also subject to change for up to one year after the closing date of the acquisition as additional information relative to closing date fair values becomes available. The Community Bank and the FDIC are engaged in ongoing discussions that may impact which assets and liabilities are ultimately acquired or assumed by the Community Bank and/or the purchase price.

**Fair Value of Assets Acquired and Liabilities Assumed**

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, reflecting assumptions that a market participant would use when pricing an asset or liability. In some cases, the estimation of fair values requires management to make estimates about discount rates, future expected cash flows, market conditions, and other future events that are highly subjective in nature and are subject to change. Described below are the methods used to determine the fair values of the significant assets acquired and liabilities assumed in the AmTrust and Desert Hills acquisitions.

***Cash and Cash Equivalents***

With respect to the AmTrust acquisition, included in cash and cash equivalents at December 4, 2009 were cash and due from banks of $394.1 million, federal funds sold of $415.0 million, and $3.2 billion due from the FDIC. Cash payments of $3.0 billion and $186.0 million were subsequently made by the FDIC to the Community Bank on December 7 and December 30, 2009, respectively. With respect to the Desert Hills acquisition, included in the $140.9 million of cash and cash equivalents acquired on March 26, 2010 was $86.8 million due from the FDIC. A cash payment of $86.8 million was subsequently made by the FDIC to the Community Bank on March 29, 2010.

The estimated fair values of cash and cash equivalents approximate their stated face amounts, as these financial instruments are either due on demand or have short-term maturities.

***Investment Securities and FHLB Stock***

Quoted market prices for the securities acquired were used to determine their fair values. If quoted market prices were not available for a specific security, then quoted prices for similar securities in active markets were used to estimate the fair value.

The fair value of FHLB stock approximates the redemption amount.

***Loans***

The acquired loan portfolios are segregated into various components for valuation purposes in order to group loans based on their significant financial characteristics, such as loan type (mortgages, HELOCs, commercial and industrial, or consumer), borrower type, and payment status (performing or non-performing). The estimated fair values of mortgage and other loans were computed by discounting the anticipated cash flows from the respective portfolios. We estimated the cash flows expected to be collected at the acquisition date by using interest rate risk and prepayment risk models that incorporated our best estimate of current key assumptions, such as default rates, loss severity rates, and prepayment speeds. Prepayment assumptions use swap rates and various relevant reference rates (e.g., U.S. Treasury obligations) as benchmarks. Prepayment assumptions are developed by reference to historical prepayment speeds of loans with similar characteristics and by developing base curves for loans with particular reset and prepayment penalty periods. Once the base curves are determined, other factors that will influence constant prepayment rates in the future include, but are not limited to, current loan-to-value ratios, loan balances, home price appreciation, documentation type, and forward rates. Loss severity rates are based on, or

**NEW YORK COMMUNITY BANCORP, INC.**

**NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

developed by using, historical loss rates of loans in a loan performance database. The major inputs include, but are not limited to, current loan-to-value ratios, home price appreciation, payment history, original FICO scores, original debt-to-income ratios, property type, and loan balances.

The expected cash flows from the acquired loan portfolios were discounted at market rates. The discount rates assumed a risk-free rate plus an additional spread to compensate for the uncertainty inherent in the acquired loans. The methods used to estimate fair value are extremely sensitive to the assumptions and estimates used. While management attempted to use assumptions and estimates that best reflected the acquired loan portfolios and current market conditions, a greater degree of subjectivity is inherent in these values than in those determined in active markets. Accordingly, readers are cautioned in using this information for purposes of evaluating the financial condition and/or value of the Company in and of itself or in comparison with any other company.

The Company refers to the loans acquired in the AmTrust and Desert Hills acquisitions as covered loans because the Company will be reimbursed for a substantial portion of any future losses on these loans under the terms of the FDIC loss sharing agreements. Covered loans are accounted for under Codification Topic 310-30, Loans and Debt Securities Acquired with Deteriorated Credit Quality and initially measured at fair value, which includes estimated future credit losses expected to be incurred over the lives of the loans. On the acquisition dates, the Company estimated the fair value of the acquired loan portfolios, excluding loans held for sale, which represented the expected cash flows from the portfolio discounted at market-based rates. In estimating such fair value, the Company (a) calculated the contractual amount and timing of undiscounted principal and interest payments (the undiscounted contractual cash flows ); and (b) estimated the amount and timing of undiscounted expected principal and interest payments (the undiscounted expected cash flows ). The amount by which the undiscounted expected cash flows exceed the estimated fair value (the accretable yield ) is accreted into interest income over the life of the loans. The difference between the undiscounted contractual cash flows and the undiscounted expected cash flows is referred to as the non-accretable difference. The non-accretable difference represents an estimate of the credit risk in the acquired loan portfolios at the acquisition dates. Under Codification Topic 310-30, purchasers are permitted to aggregate acquired loans into one or more pools, provided that the loans have common risk characteristics. A pool is then accounted for as a single asset with a single composite interest rate and an aggregate expectation of cash flows.

***Other Real Estate Owned ( OREO )***

OREO is recorded at its estimated fair value on the date of acquisition, based on independent appraisals less estimated selling costs.

***FDIC Loss Share Receivable***

The respective FDIC loss share receivables were measured separately from the respective covered assets as they are not contractually embedded in any of the covered loans or covered OREO. For example, the loss share receivable related to estimated future loan losses is not transferable should the Company sell a loan prior to foreclosure or maturity. The fair value of the combined loss share receivable represents the present value of the estimated cash payments expected to be received from the FDIC for future losses on covered assets, based on the credit adjustment estimated for each covered asset and the loss sharing percentages. These cash flows reflect the uncertainty of the timing and receipt of the loss sharing reimbursements from the FDIC and are discounted at a market-based rate. The amount ultimately collected for this asset is dependent upon the performance of the underlying covered assets, the passage of time, and claims submitted to the FDIC.

***Core Deposit Intangible ( CDI )***

CDI is a measure of the value of non-interest-bearing accounts, checking accounts, savings accounts, and NOW and money market accounts that are acquired in a business combination. The fair value of the CDI stemming from any given business combination is based on the present value of the expected cost savings attributable to the core deposit funding, relative to an alternative source of funding. The CDI that relates to the AmTrust and Desert Hills acquisitions will be amortized over an estimated useful life of seven years to approximate the existing deposit relationships acquired. The Company evaluates such identifiable intangibles for impairment when an indication of impairment exists.

NEW YORK COMMUNITY BANCORP, INC.

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

*Deposit Liabilities*

The fair values of deposit liabilities with no stated maturity (i.e., NOW and money market accounts, savings accounts, and non-interest-bearing accounts) are equal to the carrying amounts payable on demand. The fair values of certificates of deposit ( CDs ) represent contractual cash flows, discounted using interest rates currently offered on deposits with similar characteristics and remaining maturities.

*Borrowed Funds*

The estimated fair value of borrowed funds is based on either bid quotations received from securities dealers or on the discounted value of contractual cash flows with interest rates currently in effect for borrowed funds with similar maturities.

**Note 3. Stock-Based Compensation**

At March 31, 2010, the Company had 4,653,558 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 ). Under the 2006 Stock Incentive Plan, the Company granted 399,500 shares of restricted stock in the three months ended March 31, 2010, with an average fair value of $16.29 per share on the date of grant and a vesting period of five years. Compensation and benefits expense related to restricted stock grants is recognized on a straight-line basis over the vesting period, and totaled $2.9 million and $2.5 million, respectively, in the three months ended March 31, 2010 and 2009.

A summary of activity with regard to restricted stock awards during the three months ended March 31, 2010 is presented in the following table:

| | For the Three Months Ended March 31, 2010 | |
|---|---|---|
| | Number of Shares | Weighted Average Grant Date Fair Value |
| Unvested at January 1, 2010 | 3,000,824 | $13.95 |
| Granted | 399,500 | 16.29 |
| Vested | (156,700) | 15.00 |
| Forfeited | | |
| Unvested at March 31, 2010 | 3,243,624 | 14.19 |

As of March 31, 2010, unrecognized compensation costs relating to unvested restricted stock totaled $39.8 million. This amount will be recognized over a remaining weighted average period of 3.9 years.

In addition, the Company had eleven stock option plans at March 31, 2010: 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; the 1998 Long Island Financial Corp. Stock Option Plan; and the 2003 and 2004 Synergy Financial Group, Inc. Stock Option Plans (all eleven plans collectively referred to as the Stock Option Plans ). All stock options granted under the Stock Option Plans expire ten years from the date of grant.

Using the modified prospective approach, the Company recognizes compensation costs related to share-based payments at fair value on the date of grant, and recognizes such costs 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 at any time during the three months ended March 31, 2010 or the year ended

December 31, 2009, the Company did not record any compensation and benefits expense relating to stock options during these periods.

Generally, the Company issues new shares of common stock to satisfy the exercise of options. The Company may also use common stock held in Treasury to satisfy the exercise of options. In such event, the difference

NEW YORK COMMUNITY BANCORP, INC.

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 March 31, 2010, there were 12,838,385 stock options outstanding. The number of shares available for future issuance under the Stock Option Plans was 11,151 at March 31, 2010.

The status of the Company s Stock Option Plans at March 31, 2010 and the changes that occurred during the three months ended at that date are summarized in the following table:

| | For the Three Months Ended March 31, 2010 | |
|---|---|---|
| | Number of Stock Options | Weighted Average Exercise Price |
| Stock options outstanding and exercisable at January 1, 2010 | 13,037,564 | $15.56 |
| Exercised | (193,846) | 13.13 |
| Forfeited | (5,333) | 13.85 |
| Stock options outstanding and exercisable at March 31, 2010 | 12,838,385 | 15.60 |

Total stock options outstanding and exercisable at March 31, 2010 had a weighted average remaining contractual life of 2.09 years, a weighted average exercise price of $15.60 per share, and an aggregate intrinsic value of $20.3 million. The intrinsic value of options exercised during the three months ended March 31, 2010 was $597,000. The intrinsic value of options exercised in the prior three-month period was nominal.

**Note 4. Securities**

The following tables summarize the Company s portfolio of securities available for sale at March 31, 2010 and December 31, 2009:

| | March 31, 2010 | | | |
|---|---|---|---|---|
| (in thousands) | Amortized Cost | Gross Unrealized Gain | Gross Unrealized Loss | Fair Value |
| Mortgage-Related Securities: | | | | |
| GSE certificates[1] | $ 243,712 | $ 7,307 | $ 433 | $ 250,586 |
| GSE CMOs[2] | 336,961 | 13,993 | | 350,954 |
| Private label CMOs | 82,325 | | 3,953 | 78,372 |
| Total mortgage-related securities | $ 662,998 | $ 21,300 | $ 4,386 | $ 679,912 |
| Other Securities: | | | | |
| U.S. Treasury obligations | $ 292,580 | $ 51 | $ 210 | $ 292,421 |
| GSE debentures | 19,700 | 15 | | 19,715 |
| Corporate bonds | 5,810 | 8 | 802 | 5,016 |
| State, county, and municipal | 6,403 | 33 | 214 | 6,222 |
| Capital trust notes | 38,754 | 7,482 | 5,321 | 40,915 |
| Preferred stock | 31,400 | 951 | 10,978 | 21,373 |
| Common stock | 43,477 | 1,703 | 6,458 | 38,722 |

| | | | | |
|---|---|---|---|---|
| Total other securities | $ 438,124 | $ 10,243 | $ 23,983 | $ 424,384 |
| Total securities available for sale[3] | $ 1,101,122 | $ 31,543 | $ 28,369 | $ 1,104,296 |

(1) Government-sponsored enterprises
(2) Collateralized mortgage obligations
(3) As of March 31, 2010, the non-credit portion of OTTI recorded in accumulated other comprehensive loss, net of tax ( AOCL ) was $512,000 (before taxes).

Table of Contents

**NEW YORK COMMUNITY BANCORP, INC.**

**NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

| | December 31, 2009 | | | |
|---|---|---|---|---|
| **(in thousands)** | **Amortized Cost** | **Gross Unrealized Gain** | **Gross Unrealized Loss** | **Fair Value** |
| Mortgage-Related Securities: | | | | |
| GSE certificates | $ 264,769 | $ 7,741 | $ 702 | $ 271,808 |
| GSE CMOs | 400,770 | 16,013 | | 416,783 |
| Private label CMOs | 91,612 | | 5,998 | 85,614 |
| Total mortgage-related securities | $ 757,151 | $ 23,754 | $ 6,700 | $ 774,205 |
| Other Securities: | | | | |
| U.S. Treasury obligations | $ 607,022 | $ 21 | $ 592 | $ 606,451 |
| GSE debentures | 30,179 | 11 | | 30,190 |
| Corporate bonds | 5,811 | 9 | 919 | 4,901 |
| State, county, and municipal | 6,402 | 38 | 281 | 6,159 |
| Capital trust notes | 39,151 | 5,125 | 5,438 | 38,838 |
| Preferred stock | 31,400 | 1,117 | 11,283 | 21,234 |
| Common stock | 42,693 | 1,606 | 7,631 | 36,668 |
| Total other securities | $ 762,658 | $ 7,927 | $ 26,144 | $ 744,441 |
| Total securities available for sale | $ 1,519,809 | $ 31,681 | $ 32,844 | $ 1,518,646 |

The following tables summarize the Company s portfolio of securities held to maturity at March 31, 2010 and December 31, 2009:

| | March 31, 2010 | | | | |
|---|---|---|---|---|---|
| **(in thousands)** | **Amortized Cost** | **Carrying Amount[(1)]** | **Gross Unrealized Gain** | **Gross Unrealized Loss** | **Fair Value** |
| Mortgage-Related Securities: | | | | | |
| GSE certificates | $ 197,796 | $ 197,796 | $ 14,860 | $ | $ 212,656 |
| GSE CMOs | 1,982,834 | 1,982,834 | 72,797 | 6,628 | 2,049,003 |
| Other mortgage-related securities | 6,907 | 6,907 | | | 6,907 |
| Total mortgage-related securities | $ 2,187,537 | $ 2,187,537 | $ 87,657 | $ 6,628 | $ 2,268,566 |
| Other Securities: | | | | | |
| GSE debentures | $ 2,002,252 | $ 2,002,252 | $ 3,396 | $ 2,809 | $ 2,002,839 |
| Corporate bonds | 101,085 | 101,085 | 6,767 | 117 | 107,735 |
| Capital trust notes | 176,286 | 154,306 | 2,366 | 25,104 | 131,568 |
| Total other securities | $ 2,279,623 | $ 2,257,643 | $ 12,529 | $ 28,030 | $ 2,242,142 |
| Total securities held to maturity | $ 4,467,160 | $ 4,445,180 | $ 100,186 | $ 34,658 | $ 4,510,708 |

(1) Held-to-maturity securities are reported at a carrying amount equal to amortized cost less the non-credit portion of OTTI recorded in AOCL. As of March 31, 2010, the non-credit portion recorded in AOCL was $22.0 million (before taxes).

| | December 31, 2009 | | | | |
|---|---|---|---|---|---|
| (in thousands) | Amortized Cost | Carrying Amount | Gross Unrealized Gain | Gross Unrealized Loss | Fair Value |
| Mortgage-Related Securities: | | | | | |
| GSE certificates | $ 234,290 | $ 234,290 | $ 16,031 | $ | $ 250,321 |
| GSE CMOs | 2,224,873 | 2,224,873 | 75,948 | 6,327 | 2,294,494 |
| Other mortgage-related securities | 6,793 | 6,793 | | | 6,793 |
| Total mortgage-related securities | $ 2,465,956 | $ 2,465,956 | $ 91,979 | $ 6,327 | $ 2,551,608 |
| Other Securities: | | | | | |
| GSE debentures | $ 1,489,488 | $ 1,489,488 | $ 564 | $ 24,505 | $ 1,465,547 |
| Corporate bonds | 101,084 | 101,084 | 4,363 | 1,578 | 103,869 |
| Capital trust notes | 176,784 | 167,069 | 2,054 | 40,485 | 128,638 |
| Total other securities | $ 1,767,356 | $ 1,757,641 | $ 6,981 | $ 66,568 | $ 1,698,054 |
| Total securities held to maturity | $ 4,233,312 | $ 4,223,597 | $ 98,960 | $ 72,895 | $ 4,249,662 |

**NEW YORK COMMUNITY BANCORP, INC.**

**NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The following table presents a roll-forward of the credit loss component of OTTI on debt securities for which a non-credit component of OTTI was recognized in AOCL. The beginning balance represents the credit loss component for debt securities for which OTTI occurred prior to January 1, 2010. OTTI recognized in earnings after that date for credit-impaired debt securities is presented as an addition in two components, based upon whether the current period is the first time a debt security was credit-impaired (initial credit impairment) or is not the first time a debt security was credit impaired (subsequent credit impairment). Changes in the credit loss component of credit-impaired debt securities were as follows:

| (in thousands) | For the Three Months Ended March 31, 2010 |
|---|---|
| Beginning credit loss amount as of December 31, 2009 | $ 199,883 |
| Add: Initial other-than-temporary credit losses | 331 |
| Subsequent other-than-temporary credit losses | 392 |
| Less: Realized losses for securities sold | |
| Securities intended or required to be sold | |
| Increases in expected cash flows on debt securities | |
| Ending credit loss amount as of March 31, 2010 | $ 200,606 |

OTTI losses on securities totaled $13.2 million in the three months ended March 31, 2010 and consisted entirely of trust preferred securities. Included in this amount was OTTI of $12.5 million that was recorded subsequent to the issuance of the Company s first quarter 2010 earnings release. The OTTI losses that were related to credit and, therefore, recognized in earnings totaled $723,000 during this period, and were determined through a present-value analysis of expected cash flows on the securities. Of the $723,000 that was recognized in earnings, $331,000 was recognized subsequent to the issuance of the Company s first quarter 2010 earnings release. The significant inputs that the Company used to determine these expected cash flows were the anticipated magnitude and timing of interest payment deferrals, if any, and the underlying creditworthiness of the individual issuers whose debt acts as collateral for these trust preferred securities. The discount rate used to estimate the fair value was determined by considering the weighted average of certain market credit spreads, as well as credit spreads interpolated using other market factors. The discount rate used in determining the credit portion of OTTI, if any, is the yield on the position at the time of purchase.

Table of Contents

**NEW YORK COMMUNITY BANCORP, INC.**

**NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

| **At March 31, 2010** | **Less than Twelve Months** | | **Twelve Months or Longer** | | **Total** | |
|---|---|---|---|---|---|---|
| **(in thousands)** | **Fair Value** | **Unrealized Loss** | **Fair Value** | **Unrealized Loss** | **Fair Value** | **Unrealized Loss** |
| Temporarily Impaired Held-to-Maturity Debt Securities: | | | | | | |
| GSE debentures | $ 666,680 | $ 798 | $ 495,526 | $ 2,011 | $ 1,162,206 | $ 2,809 |
| GSE CMOs | 247,937 | 2,209 | 102,859 | 4,419 | 350,796 | 6,628 |
| Corporate bonds | 19,966 | 61 | 8,947 | 56 | 28,913 | 117 |
| Capital trust notes | 4,048 | 27 | 69,193 | 25,077 | 73,241 | 25,104 |
| Total temporarily impaired held-to-maturity debt securities | $ 938,631 | $ 3,095 | $ 676,525 | $ 31,563 | $ 1,615,156 | $ 34,658 |
| Temporarily Impaired Available-for-Sale Securities: | | | | | | |
| Debt Securities: | | | | | | |
| U.S. Treasury obligations | $ 78,779 | $ 210 | $ | $ | $ 78,779 | $ 210 |
| GSE certificates | 70,648 | 433 | | | 70,648 | 433 |
| Private label CMOs | 42,706 | 3,749 | 35,666 | 204 | 78,372 | 3,953 |
| Corporate bonds | | | 3,982 | 802 | 3,982 | 802 |
| State, county, and municipal | 525 | 21 | 4,787 | 193 | 5,312 | 214 |
| Capital trust notes | 1,033 | | 9,299 | 5,321 | 10,332 | 5,321 |
| Total temporarily impaired available-for-sale debt securities | $ 193,691 | $ 4,413 | $ 53,734 | $ 6,520 | $ 247,425 | $ 10,933 |
| Equity securities | | | 32,036 | 17,436 | 32,036 | 17,436 |
| Total temporarily impaired available-for-sale securities | $ 193,691 | $ 4,413 | $ 85,770 | $ 23,956 | $ 279,461 | $ 28,369 |

16

**NEW YORK COMMUNITY BANCORP, INC.**

**NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The following table presents held-to-maturity and available-for-sale securities having a continuous unrealized loss position for less than twelve months or for twelve months or longer as of December 31, 2009:

| **At December 31, 2009** | **Less than Twelve Months** | | **Twelve Months or Longer** | | **Total** | |
|---|---|---|---|---|---|---|
| **(in thousands)** | **Fair Value** | **Unrealized Loss** | **Fair Value** | **Unrealized Loss** | **Fair Value** | **Unrealized Loss** |
| Temporarily Impaired Held-to-Maturity Debt Securities: | | | | | | |
| GSE debentures | $ 1,403,687 | $ 24,505 | $ | $ | $ 1,403,687 | $ 24,505 |
| GSE CMOs | 59,147 | 1,115 | 102,067 | 5,212 | 161,214 | 6,327 |
| Corporate bonds | 27,710 | 1,256 | 14,317 | 322 | 42,027 | 1,578 |
| Capital trust notes | 34,830 | 429 | 71,016 | 40,056 | 105,846 | 40,485 |
| Total temporarily impaired held-to-maturity debt securities | $ 1,525,374 | $ 27,305 | $ 187,400 | $ 45,590 | $ 1,712,774 | $ 72,895 |
| Temporarily Impaired Available-for-Sale Securities: | | | | | | |
| Debt Securities: | | | | | | |
| U.S. Treasury obligations | $ 185,928 | $ 592 | $ | $ | $ 185,928 | $ 592 |
| GSE certificates | 81,981 | 702 | | | 81,981 | 702 |
| Private label CMOs | 43,849 | 5,452 | 41,765 | 546 | 85,614 | 5,998 |
| Corporate bonds | | | 3,855 | 919 | 3,855 | 919 |
| State, county, and municipal | 524 | 22 | 4,723 | 259 | 5,247 | 281 |
| Capital trust notes | 3,983 | 44 | 9,224 | 5,394 | 13,207 | 5,438 |
| Total temporarily impaired available-for-sale debt securities | $ 316,265 | $ 6,812 | $ 59,567 | $ 7,118 | $ 375,832 | $ 13,930 |
| Equity securities | | | 30,498 | 18,914 | 30,498 | 18,914 |
| Total temporarily impaired available-for-sale securities | $ 316,265 | $ 6,812 | $ 90,065 | $ 26,032 | $ 406,330 | $ 32,844 |

**NEW YORK COMMUNITY BANCORP, INC.**

**NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

In April 2009, the Financial Accounting Standards Board (the FASB ) amended the OTTI accounting model for debt securities. The OTTI accounting model for equity securities was not affected. Under this guidance, an OTTI loss on impaired securities must be fully recognized in earnings if an investor has the intent to sell the debt security or if it is more likely than not that the investor will be required to sell the debt security before recovery of its amortized cost. However, even if an investor does not expect to sell a debt security, it must evaluate the expected cash flows to be received and determine if a credit loss has occurred. In the event that a credit loss has occurred, only the amount of impairment associated with the credit loss is recognized in earnings. Amounts relating to factors other than credit losses are recorded in AOCL. The guidance also requires additional disclosures regarding the calculation of credit losses as well as factors considered by the investor in reaching a conclusion that an investment is not other-than-temporarily impaired. The Company adopted this guidance effective April 1, 2009 and recorded a $967,000 pre-tax transition adjustment for the non-credit portion of the OTTI on securities held at April 1, 2009 that were previously considered other-than-temporarily impaired.

Available-for-sale securities in unrealized loss positions are analyzed as part of the Company s ongoing assessment of OTTI. When the Company intends to sell such available-for-sale securities, the Company recognizes an impairment loss equal to the full difference between the amortized cost basis and the fair value of those securities. When the Company does not intend to sell available-for-sale equity or debt securities in an unrealized loss position, potential OTTI is considered based on a variety of factors, including the length of time and extent to which the fair value has been less than cost; adverse conditions specifically related to the industry, the geographic area, or financial condition of the issuer or the underlying collateral of a security; the payment structure of the security; changes to the rating of the security by a rating agency; the volatility of the fair value changes; and changes in fair value of the security after the balance sheet date. For debt securities, the Company estimates cash flows over the remaining lives of the underlying collateral to assess whether credit losses exist and, where applicable, to determine if any adverse changes in cash flows have occurred. The Company s cash flow estimates take into account expectations of relevant market and economic data as of the end of the reporting period. As of March 31, 2010, the Company did not intend to sell the securities with an unrealized loss position in AOCL, and it was more likely than not that the Company would be required to sell these securities before recovery of their amortized cost basis. The Company believes that the securities with an unrealized loss in AOCL were not other-than-temporarily impaired as of March 31, 2010.

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

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

The unrealized losses on the Company s GSE debentures and GSE CMOs at March 31, 2010 were primarily caused by movements in market interest rates and spread volatility, rather than credit risk. The Company purchased these investments either at par or at a discount relative to their face amount, and the contractual cash flows of these investments are guaranteed by the GSEs. Accordingly, it is expected that these securities would not be settled at a price that is less than the amortized cost of the Company s investment. Because the Company does not have the intent to sell the investments and it is not more likely than not that the Company will be required to sell the investments before anticipated recovery of fair value, which may be at maturity, the Company did not consider these investments to be other-than-temporarily impaired at March 31, 2010.

**NEW YORK COMMUNITY BANCORP, INC.**

**NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The Company reviews quarterly financial information related to its investments in capital securities as well as other information that is released by each financial institution to determine the continued creditworthiness of the securities they issued. The contractual terms of these investments do not permit settling the securities at prices that are less than the amortized costs of the investments; therefore, the Company expects that these investments would not be settled at prices that are less than their amortized costs. The Company continues to monitor these investments and currently estimates that the present value of expected cash flows is not less than the amortized cost of the securities. Because the Company does not have the intent to sell the investments and it is not more likely than not that the Company will be required to sell the investments before anticipated recovery of fair value, which may be at maturity, it did not consider these investments to be other-than-temporarily impaired at March 31, 2010. It is possible that these securities will perform worse than is currently expected, which could lead to adverse changes in cash flows on these securities and potential OTTI losses in the future. Events that may occur in the future at the financial institutions that issued these securities could trigger material unrecoverable declines in fair values for the Company s investments and therefore could result in future potential OTTI losses. Such events include, but are not limited to, government intervention, deteriorating asset quality and credit metrics, significantly higher levels of default and loan loss provisions, losses in value on the underlying collateral, deteriorating credit enhancement, net operating losses, and further illiquidity in the financial markets.

The unrealized losses on the Company s private label CMOs at March 31, 2010 were primarily attributable to market interest rate volatility and a significant widening of interest rate spreads from the acquisition dates across market sectors relating to the continued illiquidity and uncertainty in the financial markets, rather than to credit risk. Current characteristics of each security owned, such as delinquency and foreclosure levels, credit enhancement, and projected losses and coverage, are reviewed periodically by management. Accordingly, it is expected that the securities would not be settled at a price less than the amortized cost of the Company s investment. Because the Company does not have the intent to sell the investments and it is not more likely than not that the Company will be required to sell the investments before anticipated recovery of fair value, which may be at maturity, the Company did not consider these investments to be other than temporarily impaired at March 31, 2010. It is possible that the underlying loan collateral of these securities will perform worse than is currently expected, which could lead to adverse changes in cash flows on these securities and future OTTI losses. Events that could trigger material unrecoverable declines in fair values, and therefore potential OTTI losses for these securities in the future, include, but are not limited to, deterioration of credit metrics, significantly higher levels of default, loss in value on the underlying collateral, deteriorating credit enhancement, and further illiquidity in the financial markets.

At March 31, 2010, the Company s equity securities portfolio consisted of perpetual preferred and common stock, and mutual funds. In analyzing its investments in perpetual preferred stock for OTTI, the Company uses an impairment model that is applied to debt securities, consistent with guidance provided by the SEC, provided that there has been no evidence of deterioration in the creditworthiness of the issuer. If deterioration occurs, an equity security impairment model is used. The unrealized losses on the Company s equity securities were primarily caused by market volatility. In addition, perpetual preferred stock was impacted by widening interest rate spreads across market sectors related to the continued illiquidity and uncertainty in the marketplace. The Company evaluated the near-term prospects of a recovery of fair value for each security in the portfolio, together with the severity and duration of impairment to date. Based on this evaluation, and the Company s ability and intent to hold these investments for a reasonable period of time sufficient to realize a near-term forecasted recovery of fair value, the Company did not consider these investments to be other-than-temporarily impaired at March 31, 2010. Nonetheless, it is possible that these equity securities will perform worse than currently expected, which could lead to adverse changes in their fair values or the failure of the securities to fully recover in value as presently forecasted by management, causing the Company to record OTTI losses in future periods. Events that could trigger material declines in the fair values of these securities include, but are not limited to, deterioration in the equity markets; a decline in the quality of the loan portfolios of the issuers in which the Company has invested; and the recording of higher loan loss provisions and net operating losses by such issuers. The Company considers a decline in fair value of available-for-sale equity securities to be other than temporary if the Company does not expect to recover the entire amortized cost basis of the security.

**Table of Contents**

**NEW YORK COMMUNITY BANCORP, INC.**

**NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The following tables summarize the carrying amount and estimated fair value of held-to-maturity debt securities and the amortized cost and estimated fair value of available-for-sale debt securities at March 31, 2010 by contractual maturity. Mortgage-related securities held to maturity and available for sale, all of which have prepayment provisions, are distributed to a maturity category based on the end of the estimated average life of such securities. Principal and amortization prepayments are not shown in maturity categories as they occur, but are considered in the determination of estimated average life.

| | Carrying Amount | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| (dollars in thousands) | Mortgage-Related Securities | Average Yield | U.S. Treasury and GSE Obligations | Average Yield | State, County, and Municipal | Average Yield(1) | Other Debt Securities(2) | Average Yield | Fair Value |
| Held-to-Maturity Debt Securities: | | | | | | | | | |
| Due within one year | $ | % | $ | % | $ | % | $ 4,003 | 8.04% | $ 3,997 |
| Due from one to five years | | | | | | | 32,757 | 6.34 | 33,421 |
| Due from five to ten years | 10,082 | 6.24 | 1,846,268 | 4.41 | | | 23,027 | 5.20 | 1,882,449 |
| Due after ten years | 2,177,455 | 5.10 | 155,984 | 4.50 | | | 195,604 | 7.47 | 2,590,841 |
| Total debt securities held to maturity | $ 2,187,537 | 5.10% | $ 2,002,252 | 4.42% | $ | % | $ 255,391 | 7.13% | $ 4,510,708 |

| | Amortized Cost | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| (dollars in thousands) | Mortgage-Related Securities | Average Yield | U.S. Treasury and GSE Obligations | Average Yield | State, County, and Municipal | Average Yield(1) | Other Debt Securities(2) | Average Yield | Fair Value |
| Available-for-Sale Debt Securities:(3) | | | | | | | | | |
| Due within one year | $ 225 | 6.55% | $ 248,666 | 0.25% | $ 125 | 5.12% | $ 1,026 | 5.60% | $ 250,117 |
| Due from one to five years | 1,183 | 5.07 | 62,993 | 1.24 | 492 | 5.75 | 4,784 | 5.80 | 68,530 |
| Due from five to ten years | 14,229 | 6.86 | | | 2,315 | 6.50 | | | 16,727 |
| Due after ten years | 647,361 | 4.82 | 621 | 5.26 | 3,471 | 6.67 | 38,754 | 4.88 | 708,827 |
| Total debt securities available for sale | $ 662,998 | 4.86% | $ 312,280 | 0.46% | $ 6,403 | 6.51% | $ 44,564 | 4.99% | $ 1,044,201 |

(1) Not presented on a tax-equivalent basis.
(2) Includes corporate bonds and capital trust notes. Included in capital trust notes are $16.0 million and $625,000 of pooled trust preferred securities available for sale and held to maturity, respectively, all of which are due after ten years. The remaining capital trust notes consist of single-issue trust preferred securities.
(3) As equity securities have no contractual maturity, they have been excluded from this table.

Table of Contents

**NEW YORK COMMUNITY BANCORP, INC.**

**NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Note 5. Loans, net**

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

| | March 31, 2010 | | December 31, 2009 | |
|---|---|---|---|---|
| (dollars in thousands) | Amount | Percent of Non-Covered Loans | Amount | Percent of Non-Covered Loans |
| Non-Covered Loans: | | | | |
| Mortgage Loans: | | | | |
| Multi-family | $ 16,777,137 | 69.36% | $ 16,737,721 | 71.59% |
| Commercial real estate | 5,066,793 | 20.95 | 4,988,649 | 21.34 |
| Acquisition, development, and construction | 648,068 | 2.68 | 666,440 | 2.85 |
| One- to four-family | 200,940 | 0.83 | 216,078 | 0.92 |
| Loans held for sale | 764,358 | 3.16 | | |
| Total mortgage loans | $ 23,457,296 | 96.98 | $ 22,608,888 | 96.70 |
| Other Loans: | | | | |
| Commercial and industrial | 623,556 | 2.58 | 653,159 | 2.79 |
| Other loans | 107,001 | 0.44 | 118,445 | 0.51 |
| Total other loans | 730,557 | 3.02 | 771,604 | 3.30 |
| Total non-covered loans | $ 24,187,853 | 100.00% | $ 23,380,492 | 100.00% |
| Net deferred loan origination fees | (5,739) | | (3,893) | |
| Allowance for loan losses | (137,443) | | (127,491) | |
| Total non-covered loans, net | 24,044,671 | | 23,249,108 | |
| Total Covered Loans | 4,759,139 | | 5,016,100 | |
| Loans, net | $ 28,803,810 | | $ 28,265,208 | |

Covered loans refer to the loans acquired from the FDIC in the AmTrust and Desert Hills acquisitions, all of which are subject to the previously mentioned loss sharing agreements. At December 31, 2009, the balance of covered loans included loans held for sale of $351.3 million. Non-covered loans refer to all loans in the Company s loan portfolio excluding covered loans.

**Non-Covered Loans**

***Loans Originated for Portfolio***

The Company is primarily a multi-family mortgage lender, with a significant portion of its loan portfolio collateralized by non-luxury apartment buildings in New York City that are largely rent-controlled and/or rent-stabilized.

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

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

ADC loans typically involve a higher degree of credit risk than financing on improved, owner-occupied real estate. The risk of loss on an ADC loan is largely dependent upon the accuracy of the initial appraisal of the

21

NEW YORK COMMUNITY BANCORP, INC.

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

property s value upon completion of construction or development; the estimated cost of construction, including interest; and the estimated time to complete and/or sell or lease such property. The Company seeks to minimize these risks by maintaining consistent lending policies and rigorous underwriting standards. However, if the estimate of value proves to be inaccurate, the cost of completion is greater than expected, the length of time to complete and/or sell or lease the collateral property is greater than anticipated, or if there is a downturn in the local economy or real estate market, the property could have a value upon completion that is insufficient to assure full repayment of the loan. This would have a material adverse effect on the quality of the ADC loan portfolio, and result in material losses or delinquencies.

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

Since 2008, the markets served by the Company have been impacted by widespread economic decline and rising unemployment, which have contributed to a rise in charge-offs and non-performing assets. The ability of the Company s borrowers to repay their loans, and the value of the collateral securing such loans, could be further adversely impacted by continued or more significant economic weakness in its local markets as a result of increased unemployment, declining real estate values, or increased residential and office vacancies. This not only could result in the Company experiencing a further increase in charge-offs and/or non-performing assets, but also could necessitate an increase in the provision for loan losses. These events would have an adverse impact on the Company s results of operations and capital, if they were to occur.

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

The origination of one- to four-family loans occurs on two distinctly different platforms. Since December 1, 2000, the Company has originated such loans as a customer service in its local markets through a third-party conduit. The loans are originated at its branches and on its web sites, and are sold to the third-party conduit shortly after they close, servicing released.

In connection with the AmTrust acquisition, the Company acquired its mortgage banking operation, which aggregates agency-conforming one- to four-family loans on a nationwide platform and sells these loans to Fannie Mae and Freddie Mac.

*Asset Quality*

At March 31, 2010 and December 31, 2009, the Company had $734.7 million and $578.1 million, respectively, of non-accrual non-covered loans. In addition, at March 31, 2010, the Company had covered loans of $172.5 million that were over 90 days past due but are considered to be performing due to the application of the yield accretion method under Codification Topic 310-30. Codification Topic 310-30 allows the Company to aggregate credit-impaired loans acquired in the same fiscal quarter into one or more pools, provided that the loans have common risk characteristics. A pool is then accounted for as a single asset with a single composite interest rate and an aggregate expectation of cash flows. Accordingly, loans that may have been classified as non-performing loans by AmTrust or Desert Hills are no longer classified as non-performing because, at acquisition, the Company believed that it would fully collect the new carrying value of these loans. The new carrying value represents the contractual balance, reduced by the portion expected to be uncollectible (referred to as the non-accretable difference ) and by an accretable yield (discount) that is recognized as interest income. It is important to note that management s judgment is required in reclassifying loans subject to Codification Topic 310-30 as performing loans, and is dependent on having a reasonable expectation about the timing and amount of the cash flows to be collected, even if the loan is contractually past due.

NEW YORK COMMUNITY BANCORP, INC.

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table presents information regarding the Company s non-performing loans at March 31, 2010 and December 31, 2009 (excluding covered loans):

| (in thousands) | March 31, 2010 | December 31, 2009 |
|---|---|---|
| Non-Performing Loans: | | |
| Non-accrual mortgage loans: | | |
| Multi-family | $ 481,954 | $ 393,113 |
| Commercial real estate | 97,128 | 70,618 |
| Acquisition, development, and construction | 110,071 | 79,228 |
| One- to four-family | 15,645 | 14,171 |
| Total non-accrual mortgage loans | 704,798 | 557,130 |
| Other non-accrual loans | 29,890 | 20,938 |
| Loans 90 days or more past due and still accruing interest | | |
| Total non-performing loans | $ 734,688 | $ 578,068 |

In accordance with GAAP, the Company is required to account for certain loan modifications or restructurings as troubled debt restructurings. In general, a modification or restructuring of a loan constitutes a troubled debt restructuring if the Company grants a concession to a borrower experiencing financial difficulty. Loans modified in a troubled debt restructuring are placed on non-accrual status until the Company determines that future collection of principal and interest is reasonably assured, which generally requires that the borrower demonstrate performance according to the restructured terms for a period of at least six months. At March 31, 2010, loans modified in a troubled debt restructuring totaled $225.2 million, all of which was included in non-accrual loans at that date. At December 31, 2009, loans modified in a troubled debt restructuring totaled $184.8 million; of this amount, $167.3 million was included in non-accrual loans and $17.5 million was under 90 days past due.

At March 31, 2010, non-covered loans included $764.4 million of loans held for sale, most of which were originated by AmTrust s mortgage banking operation for sale to Fannie Mae and Freddie Mac. In the first three months of 2010, the Company recorded aggregate net gains of $28.4 million in connection with the sale of loans totaling $896.5 million.

The following table provides a summary of activity in the allowance for loan losses at the dates indicated:

| (in thousands) | At or For the Three Months Ended March 31, 2010 | At or For the Year Ended December 31, 2009 |
|---|---|---|
| Balance at beginning of period | $ 127,491 | $ 94,368 |
| Provision for loan losses | 20,000 | 63,000 |
| Charge-offs | (10,054) | (29,931) |
| Recoveries | 6 | 54 |
| Balance at end of period | $ 137,443 | $ 127,491 |

**Covered Loans**

The following table presents the balances of the loans acquired in the Desert Hills acquisition as of March 26, 2010 (the acquisition date):

| **(dollars in thousands)** | **Amount** | **Percent of Covered Loans** |
|---|---|---|
| Loan Category: | | |
| Mortgage loans | $ 158,193 | 60.2% |
| Commercial and industrial and other loans | 104,628 | 39.8 |
| Total loans | $ 262,821 | 100.0% |
| Total discount resulting from acquisition date fair value adjustment | (63,355) | |
| Net loans acquired | $ 199,466 | |

23

**NEW YORK COMMUNITY BANCORP, INC.**

**NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The Company refers to the loans acquired in the Desert Hills acquisition as covered loans because the Company will be reimbursed for a substantial portion of any future losses on these loans under the terms of the FDIC loss sharing agreements. Covered loans are accounted for under Codification Topic 310-30, and initially measured at fair value, which includes estimated future credit losses expected to be incurred over the lives of the loans.

At the acquisition date, we estimated the fair values of the Desert Hills loan portfolio at $199.5 million, which represents the expected cash flows from the portfolio discounted at market-based rates. In estimating such fair value, we (a) calculated the contractual amount and timing of undiscounted principal and interest payments (the undiscounted contractual cash flows ); and (b) estimated the amount and timing of undiscounted expected principal and interest payments (the undiscounted expected cash flows ). The amount by which the undiscounted expected cash flows exceed the estimated fair value (the accretable yield ) is accreted into interest income over the lives of the loans. The difference between the undiscounted contractual cash flows and the undiscounted expected cash flows is referred to as the non-accretable difference. The non-accretable difference represents an estimate of the credit risk in the Desert Hills loan portfolio at the acquisition date. On the acquisition date, the preliminary estimate of the contractual principal and interest payments for covered loans acquired in the Desert Hills acquisition was $277.7 million. At the acquisition date, the accretable yield was $38.0 million and the non-accretable difference was $40.2 million.

In connection with the Desert Hills acquisition, the Company also acquired $44.6 million of OREO, which is covered under an FDIC loss sharing agreement. Covered OREO was initially recorded at its estimated fair value on the acquisition date based on independent appraisals less estimated selling costs. Any subsequent write downs due to declines in fair value will be charged to non-interest expense with a partially offsetting non-interest income item for the loss reimbursement under the FDIC loss sharing agreement. Any recoveries of previous write downs are credited to non-interest expense with a corresponding charge to non-interest income for the portion of the recovery that is due to the FDIC.

At March 31, 2010, the outstanding balance (representing amounts owed to the Company) for loans acquired in the AmTrust acquisition was $5.5 billion. The carrying value of such loans was $4.6 billion and $5.0 billion at March 31, 2010 and December 31, 2009, respectively.

Changes in the accretable yield for acquired loans were as follows for the three months ended March 31, 2010:

| (dollars in thousands) | Accretable Yield |
|---|---|
| Balance at beginning of period[1] | $ 2,081,765 |
| Additions | 37,968 |
| Accretion | (69,410) |
| Balance at end of period | $ 2,050,323 |

(1) Excludes loans held for sale

Covered loans under the loss sharing agreements with the FDIC are reported exclusive of the FDIC loss share receivable. The covered loans acquired in the AmTrust and Desert Hills acquisitions are, and will continue to be, reviewed for collectability, based on the expectations of cash flows on these loans. As a result, if there is a decrease in expected cash flows due to an increase in estimated credit losses compared to the estimate made at the acquisition date, the decrease in the present value of expected cash flows will be recorded as a provision for covered loan losses charged to earnings, and an allowance for covered loan losses will be established. A related credit to income and an increase in the FDIC loss share receivable will be recognized at the same time, and will be measured based on the loss share percentages described earlier in this report.

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

NEW YORK COMMUNITY BANCORP, INC.

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Under Codification Topic 310-30, purchasers are permitted to aggregate acquired loans into one or more pools, provided that the loans have common risk characteristics. A pool is then accounted for as a single asset with a single composite interest rate and an aggregate expectation of cash flows. Through March 31, 2010, there was no indication that the accretable difference should be modified.

**Note 6. Mortgage Servicing Rights**

The Company had mortgage servicing rights ( MSRs ) of $19.8 million and $10.6 million at March 31, 2010 and December 31, 2009, respectively. MSRs are included in other assets in the Consolidated Statements of Condition. The Company has two classes of MSRs for which it separately manages the economic risk: residential MSRs and securitized MSRs. Residential MSRs are carried at fair value, with changes in fair value recorded as a component of non-interest income in each period. The Company uses various derivative instruments to mitigate the income statement-effect of changes in fair value due to changes in valuation inputs and assumptions of its residential MSRs. MSRs do not trade in an active, open market with readily observable prices. Accordingly, the Company utilizes a valuation model that calculates the present value of estimated future cash flows. The model incorporates various assumptions, including estimates of prepayment speeds, discount rates, refinance rates, servicing costs, and ancillary income. The Company reassesses and periodically adjusts the underlying inputs and assumptions in the model to reflect market conditions and assumptions that a market participant would consider in valuing the MSR asset. The value of MSRs is significantly affected by mortgage interest rates available in the marketplace, which influence mortgage loan prepayment speeds. In general, during periods of declining interest rates, the value of MSRs declines due to increasing prepayments attributable to increased mortgage refinancing activity. Conversely, during periods of rising interest rates, the value of MSRs generally increases due to reduced mortgage refinancing activity.

Securitized MSRs are carried at the lower of the initial carrying value, adjusted for amortization, or fair value and are amortized in proportion to, and over the period of, estimated net servicing income. Such MSRs are periodically evaluated for impairment based on the difference between the carrying amount and current fair value. If it is determined that impairment exists, the resultant loss is charged against earnings.

The following table sets forth the changes in residential and securitized MSRs for the three months March 31, 2010 and the year ended December 31, 2009:

| | For the Three Months Ended March 31, 2010 | | For the Year Ended December 31, 2009 | |
|---|---|---|---|---|
| **(in thousands)** | **Residential** | **Securitized** | **Residential** | **Securitized** |
| Carrying value, beginning of year | $ 8,617 | $ 1,965 | $ | $ 3,568 |
| Additions | 9,353 | | | |
| Increase in fair value | 41 | | | |
| Amortization | | (193) | | (1,603) |
| Additions recorded at fair value in the AmTrust acquisition | | | 8,617 | |
| Carrying value, end of period | $ 18,011 | $ 1,772 | $ 8,617 | $ 1,965 |

Table of Contents

**NEW YORK COMMUNITY BANCORP, INC.**

**NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Note 7. Borrowed Funds**

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

| (in thousands) | March 31, 2010 | December 31, 2009 |
|---|---|---|
| Wholesale borrowings: | | |
| FHLB advances | $ 8,670,024 | $ 8,955,769 |
| Repurchase agreements | 4,125,000 | 4,125,000 |
| Total wholesale borrowings | 12,795,024 | 13,080,769 |
| Junior subordinated debentures | 427,251 | 427,371 |
| Senior debt | 601,775 | 601,746 |
| Preferred stock of subsidiaries | 51,800 | 54,800 |
| Total borrowed funds | $ 13,875,850 | $ 14,164,686 |

At March 31, 2010, the Company had $427.3 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 capital securities qualified as Tier 1 capital of the Company at that date. The Trusts are accounted for as unconsolidated subsidiaries in accordance with GAAP. The proceeds of each issuance were invested in a series of junior subordinated debentures of the Company and the underlying assets of each statutory business trust are the relevant debentures. 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 March 31, 2010:

| Issuer | Interest Rate of Capital Securities and Debentures[1] | Junior Subordinated Debenture Carrying Amount | Capital Securities Amount Outstanding | Date of Original Issue | Stated Maturity | First Optional Redemption Date |
|---|---|---|---|---|---|---|
| | | (dollars in thousands) | | | | |
| Haven Capital Trust II | 10.250% | $ 23,333 | $ 22,550 | May 26, 1999 | June 30, 2029 | June 30, 2009[2] |
| 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 | 143,504 | 137,153 | November 4, 2002 | November 1, 2051 | November 4, 2007[3] |
| New York Community Capital Trust X | 1.857 | 123,712 | 120,000 | December 14, 2006 | December 15, 2036 | December 15, 2011 |
| LIF Statutory Trust I | 10.600 | 7,732 | 7,500 | September 7, 2000 | September 7, 2030 | September 7, 2010 |
| PennFed Capital Trust II | 10.180 | 12,983 | 12,611 | March 28, 2001 | June 8, 2031 | June 8, 2011 |

| | | | | | | |
|---|---|---|---|---|---|---|
| PennFed Capital Trust III | 3.507 | 30,928 | 30,000 | June 2, 2003 | June 15, 2033 | June 15, 2008[2] |
| New York Community Capital Trust XI | 1.939 | 59,286 | 57,500 | April 16, 2007 | June 30, 2037 | June 30, 2012 |
| | | $ 427,251 | $ 412,314 | | | |

(1) Excludes the effect of purchase accounting adjustments.
(2) Callable at any time subsequent to this date.
(3) Callable subject to certain conditions as described in the prospectus filed with the SEC on November 4, 2002.

NEW YORK COMMUNITY BANCORP, INC.

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

**Note 8. Pension and Other Post-Retirement Benefits**

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

| | For the Three Months Ended March 31, | | | |
|---|---|---|---|---|
| | 2010 | | 2009 | |
| (in thousands) | Pension Benefits | Post-Retirement Benefits | Pension Benefits | Post-Retirement Benefits |
| Components of net periodic (credit) expense: | | | | |
| Interest cost | $ 1,515 | $ 198 | $ 1,611 | $ 228 |
| Service cost | | 1 | | |
| Expected return on plan assets | (2,866) | | (2,576) | |
| Unrecognized past service liability | 49 | (62) | 50 | (62) |
| Amortization of unrecognized loss | 1,286 | 78 | 1,746 | 76 |
| Net periodic (credit) expense | $ (16) | $ 215 | $ 831 | $ 242 |

As discussed in the notes to the consolidated financial statements presented in the Company s 2009 Annual Report on Form 10-K, the Company expects to contribute $1.7 million to its post-retirement plan to pay premiums and claims for the fiscal year ending December 31, 2010. The Company does not expect to contribute to its pension plan in 2010.

**Note 9. Computation of Earnings per Share**

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

| | Three Months Ended March 31, | |
|---|---|---|
| (in thousands, except share and per share data) | 2010 | 2009 |
| Net income | $ 124,149 | $ 88,689 |
| Less: Dividends paid on and earnings allocated to participating securities | (748) | (482) |
| Earnings applicable to common stock | $ 123,401 | $ 88,207 |
| Weighted average common shares outstanding | 432,131,304 | 343,323,162 |
| Basic earnings per common share | $0.29 | $0.26 |
| Earnings applicable to common stock | $ 123,401 | $ 88,207 |
| Weighted average common shares outstanding | 432,131,304 | 343,323,162 |
| Potential dilutive common shares[(1)] | 315,370 | 77,847 |
| Total shares for diluted earnings per share computation | 432,446,674 | 343,401,009 |
| Diluted earnings per common share and common share equivalents | $0.29 | $0.26 |

(1) Options to purchase 5,310,729 shares and 13,127,433 shares of the Company s common stock that were outstanding as of March 31, 2010 and 2009, at respective weighted average exercise prices of $17.72 and $15.73, were not included in the respective computations of diluted earnings per share because their inclusion would have had an antidilutive effect.

**Note 10. Fair Value Measurement**

In 2008, the FASB issued a standard that, among other things, defined fair value, established a consistent framework for measuring fair value, and expanded disclosure for each major asset and liability category measured at fair value on either a recurring or non-recurring basis. The standard clarified that fair value is an exit price, representing the amount that would be received when selling an asset, or paid when transferring a liability, in an orderly transaction between market participants. Fair value is thus a market-based measurement that should be

**NEW YORK COMMUNITY BANCORP, INC.**

**NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, the standard established a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

Level 1 Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3 Inputs to the valuation methodology are significant unobservable inputs that reflect a company s own assumptions about the assumptions that market participants use in pricing an asset or liability.

A financial instrument s categorization within this valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The following tables present assets and liabilities that were measured at fair value on a recurring basis as of March 31, 2010 and December 31, 2009, and that were included in the Company s Consolidated Statement of Condition at those dates:

| | Fair Value Measurements at March 31, 2010 Using | | | | |
|---|---|---|---|---|---|
| **(in thousands)** | **Quoted Prices in Active Markets for Identical Assets (Level 1)** | **Significant Other Observable Inputs (Level 2)** | **Significant Unobservable Inputs (Level 3)** | **Netting Adjustments(1)** | **Total Fair Value** |
| Mortgage-Related Securities Available for Sale: | | | | | |
| GSE certificates | $ | $ 350,954 | $ | $ | $ 350,954 |
| GSE CMOs | | 250,586 | | | 250,586 |
| Private label CMOs | | 78,372 | | | 78,372 |
| Total mortgage-related securities | $ | $ 679,912 | $ | $ | $ 679,912 |
| Other Securities Available for Sale: | | | | | |
| GSE debentures | $ | $ 19,715 | $ | $ | $ 19,715 |
| Corporate bonds | | 5,016 | | | 5,016 |
| U. S. Treasury obligations | 292,421 | | | | 292,421 |
| State, county, and municipal | | 6,222 | | | 6,222 |
| Capital trust notes | | 15,418 | 25,497 | | 40,915 |
| Preferred stock | | 13,401 | 7,972 | | 21,373 |
| Common stock | 38,722 | | | | 38,722 |
| Total other securities | $ 331,143 | $ 59,772 | $ 33,469 | $ | $ 424,384 |
| Total securities available for sale | $ 331,143 | $ 739,684 | $ 33,469 | $ | $ 1,104,296 |

| | | | | | |
|---|---|---|---|---|---|
| Other Assets: | | | | | |
| Loans held for sale | $ | $ 760,252 | $ | $ | $ 760,252 |
| Mortgage servicing rights | | | 18,011 | | 18,011 |
| Derivative assets | 215 | 5,882 | 1,596 | (1,181) | 6,512 |
| Liabilities: | | | | | |
| Derivative liabilities | $ (433) | $ | $ | $ | $ (433) |

(1) Amounts represent the impact of legally enforceable master netting agreements that allow the Company to settle positive and negative positions with the same counterparties.

28

**NEW YORK COMMUNITY BANCORP, INC.**

**NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

| | Fair Value Measurements at December 31, 2009 Using | | | | |
|---|---|---|---|---|---|
| (in thousands) | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Netting Adjustments(1) | Total Fair Value |
| Mortgage-Related Securities Available for Sale: | | | | | |
| GSE certificates | $ | $ 271,808 | $ | $ | $ 271,808 |
| GSE CMOs | | 416,783 | | | 416,783 |
| Private label CMOs | | 85,614 | | | 85,614 |
| Total mortgage-related securities | $ | $ 774,205 | $ | $ | $ 774,205 |
| Other Securities Available for Sale: | | | | | |
| GSE debentures | $ | $ 30,190 | $ | $ | $ 30,190 |
| Corporate bonds | | 4,901 | | | 4,901 |
| U. S. Treasury obligations | 606,451 | | | | 606,451 |
| State, county, and municipal | | 6,159 | | | 6,159 |
| Capital trust notes | | 15,273 | 23,565 | | 38,838 |
| Preferred stock | | 13,567 | 7,667 | | 21,234 |
| Common stock | 36,668 | | | | 36,668 |
| Total other securities | $ 643,119 | $ 70,090 | $ 31,232 | $ | $ 744,441 |
| Total securities available for sale | $ 643,119 | $ 844,295 | $ 31,232 | $ | $ 1,518,646 |
| Other Assets: | | | | | |
| Loans held for sale | $ | $ 351,322 | $ | $ | $ 351,322 |
| Mortgage servicing rights | | | 8,617 | | 8,617 |
| Derivative assets | 48 | 20,416 | 32 | (2,243) | 18,253 |
| Liabilities: | | | | | |
| Derivative liabilities | $ (344) | $ | $ | $ 83 | $ (261) |

(1) Amounts represent the impact of legally enforceable master netting agreements that allow the Company to settle positive and negative positions with the same counterparties.

The Company reviews and updates the fair value hierarchy classifications for its assets on a quarterly basis. Changes from one quarter to the next that are related to the observability of inputs to a fair value measurement may result in a reclassification from one hierarchy level to another.

A description of the methods and significant assumptions utilized in estimating the fair value of available-for-sale securities follows:

Where quoted prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include highly liquid government securities and exchange-traded securities.

If quoted market prices are not available for the specific security, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows. These pricing models primarily use market-based or independently sourced market parameters as inputs, including, but not limited to, yield curves, interest rates, equity or debt prices, and credit spreads. In addition to observable market information, models incorporate transaction details such as maturity and cash flow assumptions. Securities valued in this manner would generally be classified within Level 2 of the valuation hierarchy and primarily include such instruments as mortgage-related securities and corporate debt.

In certain cases where there is limited activity or less transparency around inputs to the valuation, securities are classified within Level 3 of the valuation hierarchy. In valuing collateralized debt obligations ( CDOs ) (which include pooled trust preferred securities and income notes) and certain single-issue capital trust notes, both of which are classified within Level 3, the determination of fair value may require benchmarking to similar instruments or analyzing default and recovery rates. Therefore, CDOs and certain single-issue capital trust notes are valued using a model based on the specific collateral composition and cash flow structure of the securities. Key inputs to the model consist of market spread data for each credit rating, collateral type, and other relevant contractual features. In instances where quoted price information is available, that price is considered when arriving at the security s fair value. Where there is limited activity or less transparency around the inputs to the valuation of preferred stock, the valuation is based on a discounted cash flow model.

Table of Contents

**NEW YORK COMMUNITY BANCORP, INC.**

**NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

MSRs do not trade in an active open market with readily observable prices. Accordingly, the Company utilizes a valuation model that calculates the present value of estimated future cash flows. The model incorporates various assumptions, including estimates of prepayment speeds, discount rates, refinance rates, servicing costs, and ancillary income. The Company reassesses and periodically adjusts the underlying inputs and assumptions in the model to reflect market conditions and assumptions that a market participant would consider in valuing the MSR asset. MSR fair value measurements use significant unobservable inputs and, accordingly, are classified as Level 3.

For interest rate lock commitments for residential mortgage loans that the Company intends to sell, the fair value is based on internally developed models. The key model inputs primarily include the sum of the value of the forward commitment based on the loans expected settlement dates, the value of MSRs arrived at by an independent MSR broker, government agency price adjustment factors, and historical interest rate lock commitment fall-out factors. Such derivatives are classified as Level 3.

While the Company believes its valuation methods are appropriate and consistent with those of other market participants, the use of different methodologies or assumptions to determine the fair values of certain financial instruments could result in different estimates of fair values at the reporting date.

The Company had no transfers in or out of Level 1 or 2 during the three months ended March 31, 2010.

**NEW YORK COMMUNITY BANCORP, INC.**

**NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**Changes in Level 3 Fair Value Measurements**

The following tables include a roll-forward of the balance sheet amounts for the three months ended March 31, 2010 and 2009 (including the change in fair value) for financial instruments classified in Level 3 of the valuation hierarchy:

| | | Total Realized/Unrealized Gains/(Losses) Recorded in | | | | | |
|---|---|---|---|---|---|---|---|
| (in thousands) | Fair Value January 1, 2010 | Income | Comprehensive Income | Purchases, Issuances, and Settlements, Net | Transfers in/out of Level 3 | Fair Value March 31, 2010 | Change in Unrealized Gains and (Losses) Related to Instruments Held at March 31, 2010 |
| Available-for-Sale Debt Securities: | | | | | | | |
| Capital securities and preferred stock | $ 31,232 | $ (398) | $ 2,635 | $ | $ | $ 33,469 | $ 2,237 |
| Mortgage servicing rights | 8,617 | 41 | | 9,353 | | 18,011 | 41 |
| Derivatives, net | 32 | 1,564 | | | | 1,596 | 1,564 |

| | | Total Realized/Unrealized Gains/(Losses) Recorded in | | | | | |
|---|---|---|---|---|---|---|---|
| (in thousands) | Fair Value January 1, 2009 | Income | Comprehensive Income | Purchases, Issuances, and Settlements, Net | Transfers in/out of Level 3 | Fair Value March 31, 2009 | Change in Unrealized Gains and (Losses) Related to Instruments Held at March 31, 2009 |
| Available-for-Sale Debt Securities: | | | | | | | |
| Capital securities | $ 14,590 | $ | $ 2,358 | $ | $ | $ 16,948 | $ 2,358 |

Table of Contents

**NEW YORK COMMUNITY BANCORP, INC.**

**NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

***Assets Measured at Fair Value on a Non-Recurring Basis***

Certain assets are measured at fair value on a non-recurring basis. Such instruments are subject to fair value adjustments under certain circumstances (e.g., when there is evidence of impairment). The following tables present assets and liabilities that were measured at fair value on a non-recurring basis as of March 31, 2010 and December 31, 2009, and that were included in the Company s Consolidated Statements of Condition at those dates:

| | Fair Value Measurements at March 31, 2010 Using | | | |
|---|---|---|---|---|
| **(in thousands)** | **Quoted Prices in Active Markets for Identical Assets (Level 1)** | **Significant Other Observable Inputs (Level 2)** | **Significant Unobservable Inputs (Level 3)** | **Total Fair Value** |
| Loans held for sale | $ | $ 4,106 | $ | $ 4,106 |
| Certain impaired loans | | | 154,608 | 154,608 |
| Total | $ | $ 4,106 | $ 154,608 | $ 158,714 |

| | Fair Value Measurements at December 31, 2009 Using | | | |
|---|---|---|---|---|
| **(in thousands)** | **Quoted Prices in Active Markets for Identical Assets (Level 1)** | **Significant Other Observable Inputs (Level 2)** | **Significant Unobservable Inputs (Level 3)** | **Total Fair Value** |
| Loans held for sale | $ | $ 4,729 | $ | $ 4,729 |
| Certain impaired loans | | | 139,848 | 139,848 |
| Total | $ | $ 4,729 | $ 139,848 | $ 144,577 |

The fair values of collateral-dependent impaired loans are determined using various valuation techniques, including consideration of appraised values and other pertinent real estate market data.

***Other Fair Value Disclosures***

Certain FASB guidance requires the disclosure of fair value information about the Company s on- and off-balance-sheet financial instruments. Quoted market prices, when available, are used as the measure of fair value. In cases where quoted market prices are not available, fair values are based on present-value estimates or other valuation techniques. Such fair values are significantly affected by the assumptions used, the timing of future cash flows, and the discount rate.

Because assumptions are inherently subjective in nature, estimated fair values cannot be substantiated by comparison to independent market quotes. Furthermore, in many cases, the estimated fair values provided would not necessarily be realized in an immediate sale or settlement of such instruments.

The following table summarizes the carrying values and estimated fair values of the Company s financial instruments at March 31, 2010 and December 31, 2009:

| (in thousands) | March 31, 2010 Carrying Value | March 31, 2010 Estimated Fair Value | December 31, 2009 Carrying Value | December 31, 2009 Estimated Fair Value |
|---|---|---|---|---|
| Financial Assets: | | | | |
| Cash and cash equivalents | $ 2,547,889 | $ 2,547,889 | $ 2,670,857 | $ 2,670,857 |
| Securities held to maturity | 4,445,180 | 4,510,708 | 4,223,597 | 4,249,662 |
| Securities available for sale | 1,104,296 | 1,104,296 | 1,518,646 | 1,518,646 |
| FHLB stock | 444,118 | 444,118 | 496,742 | 496,742 |
| Loans, net | 28,803,810 | 28,693,798 | 28,265,208 | 28,302,882 |
| Mortgage servicing rights | 18,011 | 18,011 | 10,582 | 10,582 |
| Derivatives | 6,512 | 6,512 | 18,253 | 18,253 |
| Financial Liabilities: | | | | |
| Deposits | $ 22,731,221 | $ 22,802,957 | $ 22,316,411 | $ 22,373,559 |
| Borrowed funds | 13,875,850 | 15,074,650 | 14,164,686 | 15,271,668 |
| Derivatives | 433 | 433 | 261 | 261 |

**NEW YORK COMMUNITY BANCORP, INC.**

**NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The methods and significant assumptions used to estimate fair values for the Company s financial instruments are as follows:

***Cash and Cash Equivalents***

Cash and cash equivalents include cash and due from banks and federal funds sold. The estimated fair values of cash and cash equivalents are assumed to equal their carrying values, as these financial instruments are either due on demand or have short-term maturities.

***Securities Held to Maturity and Available for Sale***

If quoted market prices are not available for a specific security, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows. These pricing models primarily use market-based or independently sourced market parameters as inputs, including, but not limited to, yield curves, interest rates, equity or debt prices, and credit spreads. In addition to observable market information, pricing models also incorporate transaction details such as maturity and cash flow assumptions.

***FHLB Stock***

The fair value of FHLB stock approximates the carrying amount, which is at cost.

***Loans***

The loan portfolio is segregated into various components for valuation purposes in order to group loans based on their significant financial characteristics, such as loan type (mortgages or other) and payment status (performing or non-performing). The estimated fair values of mortgage and other loans are computed by discounting the anticipated cash flows from the respective portfolios. The discount rates reflect current market rates for loans with similar terms to borrowers of similar credit quality. The estimated fair values of non-performing mortgage and other loans are based on recent collateral appraisals.

The methods used to estimate the fair value of loans are extremely sensitive to the assumptions and estimates used. While management has attempted to use assumptions and estimates that best reflect the Company s loan portfolio and current market conditions, a greater degree of subjectivity is inherent in these values than in those determined in active markets. Accordingly, readers are cautioned in using this information for purposes of evaluating the financial condition and/or value of the Company in and of itself or in comparison with any other company.

In addition, these methods of estimating fair value do not incorporate the exit-price concept of fair value prescribed by Codification Topic 820-10, Fair Value Measurements and Disclosures.

***Loans Held for Sale***

Fair value is based on independent quoted market prices, where available, and adjusted as necessary for such items as servicing value, guaranty fee premiums, and credit spread adjustments.

***Mortgage Servicing Rights ( MSRs )***

MSRs do not trade in an active market with readily observable prices. Accordingly, the Company utilizes a valuation model that calculates the present value of estimated future cash flows. The model incorporates various assumptions, including estimates of prepayment speeds, discount rates, refinance rates, servicing costs, and ancillary income. The Company reassesses and periodically adjusts the underlying inputs and assumptions in the model to reflect market conditions and assumptions that a market participant would consider in valuing the MSR asset.

***Derivative Financial Instruments***

For exchange-traded futures and exchange-traded options, the fair value is based on observable quoted market prices in an active market. For forward commitments to buy and sell loans and mortgage-backed securities, the fair value is based on observable market prices for similar securities in an active market. For interest rate lock

**NEW YORK COMMUNITY BANCORP, INC.**

**NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

commitments for residential mortgage loans that the Company intends to sell, the fair value is based on internally developed models. The key model inputs primarily include the sum of the value of the forward commitment based on the loans expected settlement dates, the value of MSRs arrived at by an independent MSR broker, government agency price adjustment factors, and historical interest rate lock commitment fall-out factors.

***Deposits***

The fair values of deposit liabilities with no stated maturity (i.e., NOW and money market accounts, savings accounts, and non-interest-bearing accounts) are equal to the carrying amounts payable on demand. The fair values of CDs represent contractual cash flows, discounted using interest rates currently offered on deposits with similar characteristics and remaining maturities. These estimated fair values do not include the intangible value of core deposit relationships, which comprise a significant portion of the Company s deposit base.

***Borrowed Funds***

The estimated fair value of borrowed funds is based either on bid quotations received from securities dealers or the discounted value of contractual cash flows with interest rates currently in effect for borrowed funds with similar maturities and structures.

***Off-Balance-Sheet Financial Instruments***

The fair values of commitments to extend credit and unadvanced lines of credit are estimated based on an analysis of the interest rates and fees currently charged to enter into similar transactions, considering the remaining terms of the commitments and the creditworthiness of the potential borrowers. The estimated fair values of such off-balance-sheet financial instruments were insignificant at March 31, 2010 and December 31, 2009.

**Note 11: Derivative Financial Instruments**

The Company s derivative financial instruments consist of financial forward and futures contracts, interest rate lock commitments, swaps, and options. These derivatives relate to mortgage banking operations, MSRs, and other risk management activities, and seek to mitigate or reduce the Company s exposure to losses from adverse changes in interest rates. These activities will vary in scope based on the level and volatility of interest rates, the type of assets held, and other changing market conditions.

The Company held derivatives not designated as hedges with a notional amount of $2.4 billion at March 31, 2010. Changes in the fair value of these derivatives are reflected in current-period earnings.

The following table sets forth information concerning the Company s derivative financial instruments at March 31, 2010:

| | March 31, 2010 | | |
|---|---|---|---|
| | Notional | Fair Value[1] | |
| **(in thousands)** | **Amount** | **Gain** | **Loss** |
| Derivatives Not Designated as Hedges: | | | |
| Mortgage banking: | | | |
| Treasury options | $ 55,000 | $ 215 | $ |
| Eurodollar futures | 300,000 | | 433 |
| Forward commitments to sell loans/mortgage-backed securities | 1,257,000 | 5,045 | |
| Forward commitments to buy loans/mortgage-backed securities | 50,000 | | 344 |
| Interest rate lock commitments | 751,913 | 1,596 | |

| | | | |
|---|---|---|---|
| Total derivatives | $ 2,413,913 | $ 6,856 | $ 777 |

(1) Derivatives in a net gain position are recorded as other assets and derivatives in a net loss position are recorded as other liabilities in the Consolidated Statements of Condition.

**NEW YORK COMMUNITY BANCORP, INC.**

**NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The Company uses various financial instruments, including derivatives, in connection with its strategies to reduce price risk resulting from changes in interest rates. Derivative instruments may include interest rate lock commitments entered into with borrowers or correspondents/brokers to acquire conforming fixed and adjustable rate residential mortgage loans that will be held for sale. Other derivative instruments include Treasury options and Eurodollar futures. Gains or losses due to changes in the fair value of derivatives are recognized currently in earnings.

The Company enters into forward contracts to sell fixed rate mortgage-backed securities to protect against changes in the prices of conforming fixed rate loans held for sale. Forward contracts are entered into with securities dealers in an amount related to the portion of interest rate lock commitments that are expected to close. The value of these forward sales contracts moves inversely with the value of the loans in response to changes in interest rates.

To manage the price risk associated with fixed rate non-conforming mortgage loans, the Company generally enters into forward contracts on mortgage-backed securities or forward commitments to sell loans to approved investors. Short positions in Eurodollar futures contracts are used to manage price risk on adjustable rate mortgage loans held for sale.

The Company also purchases put and call options to manage the risk associated with variations in the amount of interest rate lock commitments that ultimately close.

In addition, the Company manages a portion of the risk associated with changes in the value of MSRs. The general strategy for hedging the value of servicing assets is to purchase hedge instruments that gain value when interest rates fall, thereby offsetting the corresponding decline in the value of the MSRs. The Company purchases call options on Treasury futures and enters into forward contracts to purchase fixed rate mortgage-backed securities to offset the risk of declines in the value of MSRs.

The following table sets forth the effect of derivative instruments on the Consolidated Statements of Income for the three months ended March 31, 2010 and for the period from December 4, 2009 (the date of the AmTrust acquisition) through December 31, 2009:

| | Gain (Loss) Recognized in Non-Interest Income | |
|---|---|---|
| **(in thousands)** | **For the Three Months Ended March 31, 2010** | **For the Year Ended December 31, 2009** |
| Mortgage Banking: | | |
| Treasury options | $ (222) | $ (77) |
| Eurodollar futures | (551) | 186 |
| Forward commitments to buy/sell loans/mortgage-backed securities | (2,329) | 16,224 |
| Other Management Activities: | | |
| Interest rate swaps | | 1,221 |
| Total (loss) gain | $ (3,102) | $ 17,554 |

**Note 12. Impact of Recent Accounting Pronouncements**

In January 2010, the FASB issued a standard that requires more robust disclosures about (1) the different classes of assets and liabilities measured at fair value, (2) the valuation techniques and inputs used, (3) the activity in Level 3 fair value measurements, and (4) the transfers between Levels 1, 2, and 3. The new disclosures and clarifications of existing disclosures are effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the roll-forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years.

In July 2009, the FASB released the Codification as the single source of authoritative non-governmental GAAP. The Codification is effective for interim and annual periods ended after September 15, 2009. All previously existing accounting standards documents are superseded. All other accounting literature not included in the Codification is non-authoritative.

**NEW YORK COMMUNITY BANCORP, INC.**

**NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Rules and interpretive releases of the SEC under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. The Codification supersedes all existing non-SEC accounting and reporting standards. All other non-grandfathered, non-SEC accounting literature not included in the Codification has become non-authoritative.

Following the Codification, the FASB will not issue new standards in the form of Statements of Financial Accounting Standards, FASB Staff Positions, Emerging Issues Task Force Abstracts, or other types of pronouncements previously used. Instead, it will issue Accounting Standards Updates ( ASUs ), which will serve to update the Codification, provide background information about the guidance, and provide the basis for conclusions on changes to the Codification.

GAAP is not intended to be changed as a result of the Codification, but the Codification will change the way the guidance is organized and presented. As a result, these changes will have a significant impact on how companies reference GAAP in their financial statements and in their accounting policies for financial statements issued for interim and annual periods ended after September 15, 2009.

In April 2009, the FASB issued new requirements regarding disclosure of fair value measurements and accounting for the impairment of securities. The requirements address fair value measurements in inactive markets consistent with the principles presented in previously issued standards; increase the frequency of fair value disclosures; and establish new principles with respect to accounting for, and presenting, impairment losses on securities.

These requirements address the determination of fair values when there is no active market or where the price inputs being used represent distressed sales, and reaffirm that the objective of fair value measurement, as set forth in previously issued guidance, is to reflect how much an asset would be sold for in an orderly transaction (the exit price, as opposed to a distressed or forced transaction) at the date of the financial statements and under current market conditions. Furthermore, the FASB specifically reaffirmed the need to use judgment in ascertaining if a formerly active market has become inactive and in determining fair values when markets have become inactive.

Prior to issuing these requirements, fair values for financial instruments held by public companies were disclosed once a year. The new requirements call for quarterly disclosures that provide qualitative and quantitative information about fair value estimates.

New requirements relating to OTTI were issued by the FASB to bring greater consistency to the timing of impairment recognition, and to provide greater clarity to investors about the credit and non-credit components of impaired debt securities that are not intended or expected to be sold. The measure of impairment in comprehensive income remains fair value. The guidance also requires increased and timelier disclosure regarding expected cash flows, credit losses, and the aging of securities with unrealized losses. In accordance with these requirements, the Company recorded a cumulative-effect adjustment at the adoption date of April 1, 2009 with respect to certain previously recognized OTTI.

The FASB requirements issued in April 2009 were effective for interim and annual periods ending after June 15, 2009 and were adopted by the Company on April 1, 2009. The Company s adoption of these requirements did not have a material effect on its consolidated financial statements.

In June 2009, the FASB issued a standard that, among other things, affects the accounting for transfers of financial assets, including securitization transactions, and requires more information when companies have continuing exposure to the risks related to transferred financial assets. The standard eliminated the concept of a qualifying special-purpose entity, changed the requirements for derecognizing financial assets, and required additional disclosures.

Another standard issued by the FASB in June 2009 changes how a company determines when an entity that is insufficiently capitalized or is not controlled through voting or similar rights should be consolidated. The determination of whether a company is required to consolidate an entity is based on, among other things, an entity s purpose and design, and a company s ability to direct the activities of the entity that most significantly impact the entity s economic performance.

Both of these standards were effective as of the beginning of the first annual reporting period that began after November 15, 2009, for interim periods within that first annual reporting period, and for interim and annual reporting periods thereafter. The adoption of these standards on January 1, 2010, did not have an impact on the Company s consolidated financial condition or results of operations.

In June 2009, the FASB also issued a standard regarding subsequent events. This ASU established general standards of accounting for, and disclosing, events that occur after the balance sheet date but before financial statements are issued or are available to be issued. It required the disclosure of the date through which an entity evaluated subsequent events and the basis for that date, i.e., whether that date represented the date the financial statements were issued or were available to be issued. In February 2010, the FASB issued additional guidance regarding the recognition and disclosure requirements for subsequent events. This guidance addresses both the interaction of the requirements of Codification Topic 855, Subsequent Events, with the SEC s reporting requirements, and the intended breadth of the reissuance disclosures provision related to subsequent events. The amendments in this guidance have the potential to change reporting by both private and public entities; however, the nature of the change may vary depending on facts and circumstances. The Company has determined there are no disclosures required under the February 2010 guidance.

**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 o 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 interest rates, which may affect our net income, prepayment penalty income, and other future cash flows, or the market value of our assets, including our investment securities;
- 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;
- changes in our credit ratings or in our ability to access the capital markets;
- changes in our customer base or in the financial or operating performances 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 securities portfolios;

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

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

our use of derivatives to mitigate our interest rate exposure;

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

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

- potential exposure to unknown or contingent liabilities of companies we have acquired or target for acquisition;
- 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;
- 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;
- changes in our estimates of future reserves based upon the periodic review thereof under relevant regulatory and accounting requirements;
- changes in our capital management policies, including those regarding business combinations, dividends, and share repurchases, among others;
- changes in legislation, regulation, policies, or administrative practices, whether by judicial, governmental, or legislative action, including, but not limited to, those pertaining to banking, securities, taxation, rent regulation and housing, environmental protection, and insurance; and the ability to comply with such changes in a timely manner;
- additional FDIC special assessments or required assessment prepayments;
- changes in accounting principles, policies, practices or guidelines;
- 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. Department of the Treasury and the Board of Governors of the Federal Reserve System;
- war or terrorist activities; and
- other economic, competitive, governmental, regulatory and geopolitical factors affecting our operations, pricing and services.

It should be noted that 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 at any time, and acquisitions involving cash or our debt or equity securities may occur.

Additionally, 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 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.

Table of Contents

**Reconciliations of Stockholders Equity and Tangible Stockholders Equity, Total Assets and Tangible Assets, and the Related 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 ), our 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 an amount for accumulated other comprehensive loss, net of tax ( AOCL ). AOCL consists of after-tax net unrealized losses on securities; certain other-than-temporary impairment ( OTTI ) losses on securities; and pension and post-retirement obligations, and is recorded in our Consolidated Statements of Condition. We also calculate our ratio of tangible stockholders equity to tangible assets excluding AOCL, as its components are impacted by changes in market conditions, including interest rates, which fluctuate. This ratio is referred to below and later in this report as the ratio of adjusted tangible stockholders equity to adjusted tangible assets.

Neither tangible stockholders equity, adjusted tangible stockholders equity, tangible assets, adjusted tangible assets, nor the related tangible and adjusted 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.

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 March 31, 2010 and December 31, 2009 follow:

| (in thousands) | March 31, 2010 | December 31, 2009 |
|---|---|---|
| **Total Stockholders Equity** | $ 5,413,461 | $ 5,366,902 |
| Less: Goodwill | (2,436,401) | (2,436,401) |
| Core deposit intangibles | (101,108) | (105,764) |
| **Tangible stockholders equity** | $ 2,875,952 | $ 2,824,737 |
| **Total Assets** | $ 42,430,737 | $ 42,153,869 |
| Less: Goodwill | (2,436,401) | (2,436,401) |
| Core deposit intangibles | (101,108) | (105,764) |
| **Tangible assets** | $ 39,893,228 | $ 39,611,704 |
| **Total stockholders equity to total assets** | 12.76% | 12.73% |
| **Tangible stockholders equity to tangible assets** | 7.21% | 7.13% |
| **Tangible Stockholders Equity** | $ 2,875,952 | $ 2,824,737 |
| Add back: Accumulated other comprehensive loss, net of tax | 53,852 | 49,903 |
| **Adjusted tangible stockholders equity** | $ 2,929,804 | $ 2,874,640 |
| **Tangible Assets** | $ 39,893,228 | $ 39,611,704 |
| Add back: Accumulated other comprehensive loss, net of tax | 53,852 | 49,903 |
| **Adjusted tangible assets** | $ 39,947,080 | $ 39,661,607 |
| **Adjusted stockholders equity to adjusted tangible assets** | 7.33% | 7.25% |

**Critical Accounting Policies**

We consider certain accounting policies to be critically important to the portrayal of our financial condition and results of operations, 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.

We have identified the following to be critical accounting policies: the determination of the allowance for loan losses; the determination of whether an impairment of securities is other than temporary; the determination of the amount, if any, of goodwill impairment; and the valuation allowance for deferred tax assets.

The judgments used by management in applying these critical accounting policies may be influenced by a further and prolonged deterioration in the economic environment, which may result in changes to future financial results. In addition, the current economic environment has increased the degree of uncertainty inherent in our judgments, estimates, and assumptions.

***Allowance for Loan Losses***

The allowance for loan losses is increased by provisions for loan losses that are charged against earnings, and is reduced by net charge-offs and/or reversals, if any, that are credited to earnings. Loans are held by either the Community Bank or the Commercial Bank, and a separate loan loss allowance is established for each. In addition, except as otherwise noted below, the process for establishing the allowance for loan losses is the same for each of the Community Bank and the Commercial Bank. In determining the respective allowances for loan losses, management considers the Community Bank s and the Commercial Bank s current business strategies and credit processes, including compliance with conservative guidelines established by the respective Boards of Directors with regard to credit limitations, loan approvals, underwriting criteria, and loan workout procedures.

The allowances for loan losses are established based on our evaluation of the probable inherent losses in our portfolio in accordance with GAAP. The allowances for loan losses are comprised of both specific valuation allowances and general valuation allowances which are determined in accordance with Financial Accounting Standards Board ( FASB ) accounting standards.

Specific valuation allowances are established based on our analyses of individual loans that are considered impaired. If a loan is deemed to be impaired, management measures the extent of the impairment and establishes a specific valuation allowance for that amount. A loan is classified as impaired when, based on current information and events, it is probable that we will be unable to collect both the principal and interest due under the contractual terms of the loan agreement. We apply this classification as necessary to loans individually evaluated for impairment in our portfolios of multi-family; commercial real estate; acquisition, development, and construction; and commercial and industrial loans. Smaller balance homogenous loans and loans carried at the lower of cost or fair value are evaluated for impairment on a collective rather than an individual basis. We generally measure impairment on an individual loan and the extent to which a specific valuation allowance is necessary by comparing the loan s outstanding balance to either the fair value of the collateral, less the estimated cost to sell; or the present value of expected cash flows, discounted at the loan s effective interest rate. A specific valuation allowance is established when the fair value of the collateral, net of estimated costs, or the present value of the expected cash flows, is less than the recorded investment in the loan.

We also follow a process to assign general valuation allowances to loan categories. General valuation allowances are established by applying our loan loss provisioning methodology, and reflect the inherent risk in loans outstanding. Our loan loss provisioning methodology considers various factors in determining the appropriate quantified risk factors to use to determine the general valuation allowances. The factors assessed begin with the historical loan loss experience for each of the major loan categories we maintain. Our historical loan loss experience is then adjusted by considering qualitative or environmental factors that are likely to cause estimated credit losses associated with the existing portfolio to differ from historical loss experience, including, but not limited to, the following:

- Changes in lending policies and procedures, including changes in underwriting standards and collection, charge-off, and recovery practices;

Table of Contents

Changes in international, national, regional, and local economic and business conditions and developments that affect the collectability of the portfolio, including the condition of various market segments;

Changes in the nature and volume of the portfolio and in the terms of loans;

Changes in the volume and severity of past due loans, the volume of non-accrual loans, and the volume and severity of adversely classified or graded loans;

Changes in the quality of our loan review system;

Changes in the value of the underlying collateral for collateral-dependent loans;

The existence and effect of any concentrations of credit, and changes in the level of such concentrations;

Changes in the experience, ability, and depth of lending management and other relevant staff; and

The effect of other external factors, such as competition and legal and regulatory requirements, on the level of estimated credit losses in the existing portfolio.

By considering the factors discussed above, we determine quantified risk factors that are applied to each non-impaired loan or loan type in the loan portfolio to determine the general valuation allowances.

In recognition of recent macroeconomic and real estate market conditions, the time periods considered for historical loss experience are the last three years and the current period. We also evaluate the sufficiency of the overall allocations used for the loan loss allowance by considering the loss experience in the current calendar year.

The process of establishing the loan loss allowances also involves:

Periodic inspections of the loan collateral by qualified in-house property appraisers/inspectors, as applicable;

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;

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 loan losses; and

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.

In establishing the loan loss allowances, management also considers the Banks   current business strategies and credit processes, including compliance with guidelines established by the respective Boards of Directors.

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.

We charge off loans, or portions of loans, in the period that such loans, or portions thereof, are deemed uncollectible. The collectability of individual loans is determined through an estimate of the fair value of the underlying collateral and/or an assessment of the financial condition and repayment capacity of the borrower.

The level of future additions to the respective loan loss allowances is based on many factors, including certain factors that are beyond management s control, such as changes in economic and local market conditions, including declines in real estate values, and increases in vacancy rates and unemployment. Management uses the best available information to recognize losses on loans or to make additions to the loan loss allowances; however, the Community Bank and/or the Commercial Bank may be required to take certain charge-offs and/or recognize further additions to their loan loss allowances, based on the judgment of regulatory agencies with regard to information provided to them during their examinations of the Banks.

Table of Contents

***Investment Securities***

The securities portfolio primarily consists of mortgage-related securities and, to a lesser extent, debt and equity (  other  ) securities. Securities that are classified as  available for sale  are carried at their 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 intent and ability to hold to maturity are classified as  held to maturity  and carried at amortized cost, less the non-credit portion of OTTI recorded in AOCL.

The fair values of our securities  and particularly our fixed-rate securities  are affected by changes in market interest rates and credit spreads. In general, as interest rates rise and/or credit spreads widen, the fair value of fixed-rate securities will decline; as interest rates fall and/or credit spreads tighten, the fair value of fixed-rate securities will increase. We regularly conduct a review and evaluation of the securities portfolio to determine if the decline in the fair value of any security below its carrying amount is other than temporary. If we deem any decline in value to be other than temporary, the security is written down to its current fair value, creating a new cost basis, and the resultant loss (other than OTTI on debt securities attributable to non-credit factors) is charged against earnings and recorded in non-interest income. Our assessment of a decline in fair value includes judgment as to the financial positions and future prospects of the entity that issued the investment security, as well as a review of the security s underlying collateral. Broad changes in the overall market or interest rate environment generally will not lead to a write-down.

Prior to April 1, 2009, when the decline in fair value below an investment s carrying amount was deemed to be other than temporary, the investment was written down to fair value and the amount of the write-down was charged to earnings. A decline in fair value of an investment was deemed to be other than temporary if we did not have the intent and ability to hold the investment to its anticipated recovery. Effective April 1, 2009, with the adoption of revised OTTI accounting guidance, unless we have the intent to sell, or it is more likely than not that we may be required to sell a security, an OTTI is recognized as a realized loss on the income statement to the extent that the decline in fair value is credit-related. If there is a decline in fair value of a security below its carrying amount and we have the intent to sell it, or it is more likely than not that we may be required to sell the security, the entire amount of the decline in fair value will be charged to earnings.

At March 31, 2010, we had net unrealized gains on available-for-sale securities of $3.2 million and net unrealized gains on held-to-maturity securities of $65.5 million.

***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. The goodwill impairment analysis is a two-step test. The first step (  Step 1  ) is used to identify potential impairment, and involves comparing each reporting unit s estimated fair value to its carrying amount, including goodwill. If the estimated fair value of a reporting unit exceeds its carrying amount, goodwill is considered not to be impaired. If the carrying amount exceeds the estimated fair value, there is an indication of potential impairment and the second step (  Step 2  ) is performed to measure the amount.

Step 2 involves calculating an implied fair value of goodwill for each reporting unit for which impairment was indicated in Step 1. The implied fair value of goodwill is determined in a manner similar to the amount of goodwill calculated in a business combination, i.e., by measuring the excess of the estimated fair value of the reporting unit, as determined in Step 1, over the aggregate estimated fair values of the individual assets, liabilities, and identifiable intangibles, as if the reporting unit was being acquired in a business combination at the impairment test date. If the implied fair value of goodwill exceeds the carrying amount of goodwill assigned to the reporting unit, there is no impairment. If the carrying amount of goodwill assigned to a reporting unit exceeds the implied fair value of the goodwill, an impairment charge is recorded for the excess. An impairment loss cannot exceed the carrying amount of goodwill assigned to a reporting unit, and the loss establishes a new basis in the goodwill. Subsequent reversal of goodwill impairment losses is not permitted.

Quoted market prices in active markets are the best evidence of fair value and are 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, management has determined that the Company has one reporting unit. We performed our annual goodwill impairment test as of January 1, 2010 and found no indication of goodwill impairment.

***Income Taxes***

In estimating income taxes, management assesses the relative merits and risks of the 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 the best 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 or transaction-specific tax position.

We recognize deferred tax assets and liabilities for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, and the carryforward of certain tax attributes such as net operating losses. A valuation allowance is maintained for deferred tax assets that we estimate are more likely than not to be unrealizable, based on available evidence at the time the estimate is made. In assessing the need for a valuation allowance, we estimate future taxable income, considering the feasibility of tax planning strategies and the realizability of tax loss carryforwards. Valuation allowances related to deferred tax assets can be affected by changes to tax laws, statutory tax rates, and future taxable income levels. In the event that we were to determine that we would not be able to realize all or a portion of our net deferred tax assets in the future, we would reduce such amounts through a charge to income tax expense in the period in which that determination was made. Conversely, if we were to determine that we would be able to realize our deferred tax assets in the future in excess of the net carrying amounts, we would decrease the recorded valuation allowance through a decrease in income tax expense in the period in which that determination was made. Subsequently recognized tax benefits associated with valuation allowances recorded in a business combination would be recorded as an adjustment to goodwill.

In July 2009, new tax laws were enacted that were effective for the determination of our New York City income tax liability for calendar year 2009. In general, these laws conformed the New York City tax rules to those of New York State. Included in these new tax laws is a provision which requires the inclusion of income earned by a subsidiary taxed as a real estate investment trust ( REIT ) for federal tax purposes, regardless of the location in which the REIT subsidiary conducts its business or the timing of its distribution of earnings. As a result of certain earlier business combinations, we currently have six REIT subsidiaries. The inclusion of such income is phased in with full inclusion of income starting in 2011. Absent any change in the manner in which we conduct our business, the new tax law is expected to add approximately $1.3 million to our 2010 income tax expense, with a larger increase starting in 2011.

**Recent Events**

***Registration Statement on SEC Form S-3***

On April 15, 2010, we filed a Registration Statement on Form S-3 with the SEC to register 20.0 million shares of our common stock, par value $0.01. The shares are to be offered for sale, from time to time, in accordance with the terms and conditions set forth in our 2010 Dividend Reinvestment and Stock Purchase Plan ( DRP ).

***Dividend Payment***

On April 20, 2010, the Board of Directors declared a quarterly cash dividend of $0.25 per share, payable on May 18, 2010 to shareholders of record at the close of business on May 5, 2010.

**The Economic Environment**

Although unemployment rates rose year-over-year in the five states that constitute our footprint, two of those states New York and New Jersey experienced modest three-month declines. The respective unemployment rates in those states were 8.9% and 10.0% in December and declined to 8.6% and 9.8%, respectively, in March. In Ohio, Florida, and Arizona, unemployment rose from 10.8%, 11.7%, and 9.2% in December to 11.0%, 12.3%, and 9.6%, respectively, in March. While the national unemployment rate fell from 10.0% to 9.7% on a linked-quarter basis, unemployment remains at a level not seen since 1983. In fact, both the number of unemployed persons and the unemployment rate have nearly doubled since the recession began in December 2007.

In New York City, where the vast majority of the properties securing our loans are located, unemployment dropped from 10.5% in December to 10.0% in March 2010. In Manhattan, where 68.5% of the properties securing our multi-family and commercial real estate loan portfolios are located, the office vacancy rate improved to 12.7% from 13.1% over the course of the quarter, but remained 80 basis points higher than the comparable rate in March 2009.

Through February 2010, home prices fell 4.1% year-over-year in the New York Metropolitan region, 4.4% in greater Miami, and 1.6% in greater Phoenix, but rose 3.2% in greater Cleveland and 0.6% nationally.

Against this backdrop, and despite recording a $20.0 million loan loss provision in the quarter, we increased our earnings and our capital in the three months ended March 31, 2010.

**Executive Summary**

Our first quarter 2010 performance confirmed the highly accretive nature of our AmTrust Bank ( AmTrust ) acquisition in early December, as our earnings rose $35.5 million, or 40.0%, year-over-year to $124.1 million and our diluted earnings per share rose $0.03, or 11.5%, to $0.29 per share.

Reflecting the benefit of three months' combined operations with AmTrust:

- Our net interest income rose from $206.9 million to $294.6 million year-over-year, a 42.4% increase;

- Our net interest margin grew from 2.89% to 3.41% year-over-year, a 52-basis point increase; and

- Our non-interest income rose from $22.2 million to $55.0 million, a year-over-year increase of 148.2%.

***Margin Expansion and Net Interest Income Growth***

Interest-earning assets rose $6.0 billion year-over-year to $34.3 billion, exceeding the impact of a four-basis point drop in the average yield to 5.62%. In addition to the organic and acquisition-driven growth of our interest-earning assets, the growth of our net interest income and net interest margin reflect the maintenance of the federal funds rate at an historically low level, and the acquisition-driven enhancement of our funding mix. Reflecting the AmTrust deposits assumed, and organic growth in the current first quarter, the average balance of interest-bearing deposits rose $8.5 billion to $21.2 billion year-over-year. During this time, the average cost of such funds declined to 1.14%, a 93-basis point reduction. The average balance of borrowed funds declined $132.5 million year-over-year, to $13.9 billion, exceeding the impact of a two-basis point rise in the average cost of such funds to 3.73%.

***Non-Interest Income Growth***

The growth of our non-interest income was almost entirely due to the AmTrust acquisition. In addition to a $4.7 million increase in fee income to $14.0 million, we recorded mortgage banking income of $27.5 million in the first quarter of 2010. The mortgage banking income recorded in the current first quarter includes fees and net gains generated by AmTrust's mortgage banking operation through the aggregation and sale of agency-conforming one- to four-family loans to Fannie Mae and Freddie Mac.

***Asset Quality***

The benefit of the revenue growth we achieved in the current first quarter was tempered by a $20.0 million provision for loan losses, exceeding the year-earlier first quarter provision by $14.0 million. Among other factors, discussed in greater detail later in this report, the year-over-year increase in the provision reflects our assessment of the impact of the adverse credit cycle on the quality of our assets, including our net charge-offs, our non-performing loans, and the volume of loans 30 to 89 days past due. Although our ratio of non-performing loans to total loans rose from 2.04% to 2.61% over the course of the quarter, net charge-offs represented 0.04% of average loans in both the first quarter of 2010 and the fourth quarter of 2009. In addition, loans 30 to 89 days past due declined $55.1 million on a linked-quarter basis to $217.9 million at March 31, 2010.

Reflecting the first quarter loan loss provision, and first quarter net charge-offs of $10.0 million, the allowance for loan losses rose $10.0 million from the year-end 2009 balance to $137.4 million at March 31, 2010. This balance exceeded our first quarter net charge-offs by $127.4 million and was equivalent to 18.71% of non-performing loans and 0.49% of total loans at quarter-end.

We believe that the modest level of net charge-offs we ve recorded since the start of the adverse credit cycle is attributable to our primary lending niche (i.e., rental apartment buildings in New York City that feature below-market rents), our conservative underwriting standards, and our ability to resolve our troubled loans.

***Operating Efficiency***

The significant revenue growth we achieved in the current first quarter was somewhat offset by a $47.1 million increase in non-interest expense. In addition to a $6.3 million, or 102.7%, rise in FDIC deposit insurance premiums, the increase in non-interest expense reflects the AmTrust-related expansion of our branch network as well as our branch and back office staffs. Despite an increase in operating expenses reflecting our expansion, our efficiency ratio was 36.85% in the current first quarter, comparable to 36.63% in the first quarter of 2009.

***An Opportunistic Bolt-On Acquisition***

Another first quarter highlight was our acquisition of certain assets and our assumption of certain liabilities of Desert Hills Bank ( Desert Hills ) in an FDIC-assisted transaction on March 26, 2010. The Desert Hills acquisition provided us with assets of approximately $450 million, deposits of approximately $400 million, and six branches in Arizona, bringing our franchise in the state from 12 branches to 18 at that date.

Included in the assets acquired were loans and other real estate owned ( OREO ) of $244.1 million, which are covered by loss sharing agreements with the FDIC. Although the FDIC has been reducing its share of losses in its more recent transactions, the loss sharing agreements we have with the FDIC regarding Desert Hills assets call for 80% reimbursement of losses up to $101.4 million and 95% of losses beyond that amount.

***Deposit Growth***

In the first quarter of 2010, we continued to enhance our funding model by placing a greater emphasis on retail deposit growth. In addition to the deposits assumed in the Desert Hills acquisition, we grew our deposits organically throughout our branch network, including in our new markets of Ohio, Florida, and Arizona. As a result, deposits totaled $22.7 billion at the end of the quarter, and represented 53.6% of total assets, as compared to $22.3 billion, or 52.9% of total assets, at December 31st.

*Multi-Family Loan Production*

Multi-family loan originations totaled $442.8 million in the first quarter, and the portfolio grew $39.4 million to $16.8 billion at March 31, 2010. The modest volume of loans produced is attributable to real estate market conditions and continued economic weakness in the markets where we lend. Owners of multi-family and commercial real estate properties have generally refrained from refinancing and from expanding their real estate holdings, based on their expectation that real estate values have not yet fully declined. The liquidity provided by our recent acquisitions and organic deposit growth has positioned us to produce more loans in the future, when market conditions stabilize.

*Tangible Capital Strength*

At a time when the federal government is engaged in overhauling the regulation of financial institutions, the ability to maintain strong capital measures is an essential trait. In the first quarter of 2010, we increased our stockholders equity to $5.4 billion, representing 12.76% of total assets, and increased our tangible stockholders equity to $2.9 billion, representing 7.21% of tangible assets. In addition to the contribution of our first quarter 2010 earnings, the linked-quarter increase reflects our issuance of 1.8 million shares with a value of $28.9 million through the direct stock purchase feature of our DRP. (Please see the reconciliations of our stockholders equity and tangible stockholders equity, our total assets and tangible assets, and the related capital measures earlier in this report.)

The strength of our capital position is also reflected in our regulatory capital measures. At March 31, 2010, the Community Bank had a Tier 1 leverage capital ratio of 8.29% and the Commercial Bank had a Tier 1 leverage capital ratio of 11.87%, exceeding the current requirements for well capitalized classification by 329 and 687 basis points, respectively.

**Summary of Financial Condition at March 31, 2010**

Assets totaled $42.4 billion at the end of March, comparable to the December 31, 2009 balance of $42.2 billion.

**Loans**

At March 31, 2010, loans, net represented $28.8 billion, or 67.9%, of total assets, as compared to $28.3 billion, or 67.1% of total assets, at December 31, 2009. Included in the March 31, 2010 amount were $4.8 billion of loans acquired in the AmTrust and Desert Hills acquisitions, all of which are subject to (i.e., covered by) our loss sharing agreements with the FDIC. These loans are referred to as covered loans on our Consolidated Statements of Condition. The remainder of the loan portfolio consists of non-covered loans that we ourselves originated or, in some cases, were acquired in our merger transactions prior to 2009.

Originations totaled $2.1 billion in the first quarter of 2010, representing a $1.4 billion increase from the year-earlier amount. Included in the first quarter 2010 amount were loans originated for portfolio of $747.3 million, as compared to $648.4 million in the year-earlier quarter, and originations of one- to four-family loans held for sale of $1.3 billion, versus $17.7 million in the first quarter of 2009. Prior to the AmTrust acquisition in December 2009, we originated one- to four-family loans through our branches on a pass-through basis and sold the loans to a third-party conduit shortly after they closed. In the AmTrust transaction, we acquired a mortgage banking operation that aggregates agency-conforming one- to four-family loans on a nationwide platform for sale to Fannie Mae and Freddie Mac. The bulk of the year-over-year increase in one- to four-family loan originations is attributable to the loans aggregated by the mortgage banking group.

*Covered Loans*

At March 31, 2010, covered loans totaled $4.8 billion, and consisted of one- to four-family loans of $4.3 billion and other loans of $490.1 million. Covered one- to four-family loans include both fixed and adjustable rate loans that were made to subprime, Alt-A, and prime borrowers. Covered other loans consist of commercial real estate ( CRE ) loans; acquisition, development, and construction ( ADC ) loans; multi-family loans; commercial and industrial ( C&I ) loans; home equity lines of credit ( HELOCs ) and consumer loans.

Table of Contents

We also had covered OREO of $44.6 million at the close of the current first quarter, which was acquired in the Desert Hills transaction on March 26, 2010. Covered loans and covered OREO are collectively referred to as covered assets in this report.

The AmTrust loss sharing agreements require the FDIC to reimburse us for 80% of losses up to $907.0 million and for 95% of losses beyond that amount with respect to the covered loans we acquired. The Desert Hills loss sharing agreements require the FDIC to reimburse us for 80% of losses up to $101.4 million, and for 95% of losses beyond that amount with respect to the covered assets we acquired.

***Non-Covered Loans***

*Multi-Family Loans*

Multi-family loans are our principal asset, and non-luxury residential apartment buildings with below-market rents in the New York Metropolitan region constitute our primary lending niche. Consistent with our emphasis on multi-family lending, multi-family loan originations represented 59.3% of the loans we produced for portfolio in the current first quarter and 69.4% of non-covered loans outstanding at March 31, 2010. Reflecting first quarter originations of $442.8 million, multi-family loans rose $39.4 million from the December 31, 2009 balance to $16.8 billion at March 31, 2010. The average multi-family loan had a principal balance of $4.0 million at the end of the first quarter and the portfolio had an average loan-to-value ( LTV ) ratio at origination of 60.9%.

During 2009 and continuing into 2010, loan production was largely constrained by the decline in real estate values and by continued economic uncertainty. We would expect to see a return to more normal loan production levels when the market becomes more stable and when an increase in market interest rates appears likely to occur.

Our multi-family loans are typically made to long-term owners of buildings with apartments that are subject to certain rent-control and rent-stabilization laws. Our borrowers typically use the funds we provide to make improvements to certain apartments, as a result of which they are able to increase the rents their tenants pay. In doing so, the borrower creates more cash flows that he or she may borrow against in future years. To a lesser extent, we make loans to building owners seeking to expand their real estate holdings with the purchase of additional properties.

In addition to underwriting our multi-family loans on the basis of the buildings income and condition, we consider the borrowers credit history, profitability, and building management expertise. Borrowers are required to present evidence of their ability to repay the loan from the building s current rent rolls, their financial statements, and related documents.

Our multi-family loans typically feature a term of ten years, with a fixed rate of interest for the first five years of the loan, and an alternative rate of interest in years six through ten. The rate charged in the first five years is generally based on intermediate-term interest rates plus a spread. During years six through ten, the loan resets to an annually adjustable rate that is tied to the prime rate of interest, as reported in *The New York Times*, plus a spread. Alternatively, the borrower may opt for a fixed rate that, until January 2009, was tied to the five-year Constant Maturity Treasury rate (the five-year CMT ). For loans originated since that date, the fixed rate in years six through ten has been tied to the fixed advance rate of the Federal Home Loan Bank of New York (the FHLB-NY ), plus a spread. The fixed-rate option also requires the payment of an amount equal to one percentage point of the then-outstanding loan balance. In either case, the minimum rate at repricing is equivalent to the rate in the initial five-year term.

As the rent roll increases, the typical property owner seeks to refinance the mortgage, and generally does so before the loan reprices in year six. While this cycle had repeated itself over the course of many decades, regardless of market interest rates and conditions, refinancing activity has been increasingly constrained by the uncertainty in the real estate market over the past two years, and is likely to remain constrained while such uncertainty remains. Accordingly, the expected weighted average life of the multi-family loan portfolio was 4.2 years at the close of the current first quarter, as compared to 3.7 years at March 31, 2009.

Multi-family loans that refinance within the first five years are typically 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 then-current loan balance. If a loan extends past the fifth year and the borrower selects the fixed rate option, the prepayment penalties typically reset to a range of five points to one point over years six through ten.

Prepayment penalties are recorded as interest income and are therefore reflected in the average yields on our loans and assets, our interest rate spread and net interest margin, and the level of net interest income we record.

Our success in our primary lending niche partly reflects the solid relationships we have developed with the market s leading mortgage brokers, who are familiar with our lending practices, our underwriting standards, and our long-standing practice of basing our loans on the cash flows produced by the properties. Because the multi-family market is largely broker-driven, the process of producing such loans is significantly expedited, with loans taking four to six weeks to process, and the related expenses being substantially reduced.

Our emphasis on multi-family loans is driven by several factors, including their structure, which reduces our exposure to interest rate volatility to some degree. Another factor driving our focus on multi-family lending has been the comparative quality of the loans in our specific niche. Notwithstanding an increase in non-performing multi-family loans in the current credit cycle, the amount of charged-off multi-family loans has, to date, been limited and has largely consisted of out-of-market non-niche loans. We attribute the difference between the amount of non-performing loans we record and the actual losses we take to our underwriting standards and the generally conservative LTV ratios on the multi-family loans we produce.

We primarily underwrite our multi-family loans based on the current cash flows produced by the building, with a reliance on the income approach to appraising the properties, rather than the sales approach. The sales approach is subject to fluctuations in the real estate market, as well as general economic conditions, and is therefore liable to be more risky in the event of a downward credit cycle. We also consider a variety of other factors, including the physical condition of the underlying property; the net operating income of the mortgaged premises prior to debt service and depreciation; the debt service coverage ratio, which is the ratio of the property s net operating income to its debt service; and the ratio of the loan amount to the appraised value of the property. The multi-family loans we are originating today generally represent no more than 75% of the lower of the appraised value or the sales price of the underlying property, and typically feature an amortization period of up to 30 years. In addition to requiring a minimum debt service coverage ratio of 120% on multi-family buildings, we obtain a security interest in the personal property located on the premises, and an assignment of rents and leases.

Accordingly, while our multi-family lending niche has not been immune to the downturn of the credit cycle, we continue to believe that the multi-family loans we produce involve less credit risk than certain other types of loans. In general, buildings that are subject to rent regulation have tended to be stable, with occupancy levels remaining more or less constant over time. Because the rents are typically below market and the buildings securing our loans are generally maintained in good condition, we believe that they are reasonably likely to retain their tenants in adverse economic times.

*Commercial Real Estate ( CRE ) Loans*

CRE loans represented $131.3 million, or 17.6%, of loans produced for portfolio in the current first quarter, as compared to $135.3 million, or 20.3%, of the loans produced for portfolio in the year-earlier three months. In addition, CRE loans accounted for $5.1 billion, or 21.0%, of non-covered loans at the end of the quarter, and were up $78.1 million from the balance recorded at December 31, 2009. At March 31, 2010 the average CRE loan had a principal balance of $2.8 million and the portfolio had an average LTV ratio at origination of 53.9%.

The CRE loans we originate are secured by income-producing properties such as office buildings, retail centers, mixed-use buildings, and multi-tenanted light industrial properties, primarily in the Metropolitan New York region.

The pricing of our CRE loans is structured 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 based on intermediate-term interest rates plus a spread. During years six through ten, the loan resets to an annually adjustable rate that is tied to the prime rate of interest, as reported in *The New York Times*, plus a spread. Alternatively, the borrower may opt for a fixed rate that, until January 2009, was tied to the five-year CMT. For loans originated since that date, the fixed rate in years six through ten has been tied to the fixed advance rate of the FHLB-NY plus a spread. The fixed-rate option also requires the payment of an amount equal to one percentage point of the then-outstanding loan balance. In either case, the minimum rate at repricing is equivalent to the rate in the initial five-year term.

Prepayment penalties also apply, with five percentage points of the then-current balance generally being charged on loans that refinance in the first year, scaling down to one percentage point of the then-current balance on loans that refinance in year five. Our CRE loans tend to refinance within five years of origination. Accordingly, the expected weighted average life of the portfolio was 4.0 years at March 31, 2010. If a loan remains outstanding in the sixth year, and the borrower selects the fixed-rate option, a schedule of prepayment penalties ranging from five points to one point begins again in year six.

The repayment of loans secured by commercial real estate is often dependent on the successful operation and management of the underlying properties. To minimize our credit risk, we originate CRE loans in adherence with conservative underwriting standards, and require that such loans qualify on the basis of the property s current income stream and debt service coverage ratio. The approval of a loan also depends on the borrower s credit history, profitability, and expertise in property management, and generally requires a minimum debt service coverage ratio of 130% and a maximum LTV ratio of 65%. In addition, the origination of CRE loans typically requires a security interest in the personal property of the borrower and/or an assignment of the rents and/or leases.

*Acquisition, Development, and Construction ( ADC ) Loans*

The growth of our loan portfolio has been driven by multi-family and CRE lending and tempered by a reduction in ADC loans. In the interest of reducing our exposure to credit risk at a time when real estate values started declining, we began to limit our production of ADC loans in the second half of 2007, primarily to advances that were committed prior to the onset of the credit cycle turn. As a result, ADC loans represented $648.1 million, or 2.7%, of total non-covered loans at March 31, 2010, representing a 2.8% reduction from $666.4 million at December 31, 2009. Originations rose a modest $8.1 million from the year-earlier volume to $29.8 million in the first quarter of 2010.

At March 31st, 90.5% of our ADC loans were secured by properties in the New York Metropolitan region. In addition, 61.2% of our ADC loans were for land acquisition and development, with the remaining 38.8% consisting of loans that were provided for the construction of owner-occupied homes and commercial properties. ADC loans are typically originated for terms of 18 to 24 months, and feature a floating rate of interest tied to prime, and a floor. They also generate origination fees that are recorded as interest income and amortized over the lives of the loans.

Because ADC loans are generally considered to have a higher degree of credit risk, especially during a downturn in the credit cycle, borrowers are required to provide a personal guarantee of repayment and completion during construction. The risk of loss on an ADC loan is largely dependent upon the accuracy of the initial appraisal of the property s value upon completion of construction; the estimated cost of construction, including interest; and the estimated time to complete and/or sell or lease such property. If the appraised value proves to be inaccurate, the cost of completion is greater than expected, or the length of time to complete and/or sell or lease the collateral property is greater than anticipated, the property could have a value upon completion that is insufficient to assure full repayment of the loan. At March 31, 2010, 17.0% of the loans in our ADC loan portfolio were non-performing, an indication of the downturn in the real estate market and the length of time it is taking certain borrowers to sell or lease the properties underlying their loans in an adverse credit cycle.

When applicable, as a condition to closing a construction loan, it is our practice to require that residential properties be pre-sold or that borrowers secure permanent financing commitments from a recognized lender for an amount equal to, or greater than, the amount of our loan. In some cases, we ourselves may provide permanent financing. We typically require pre-leasing for loans on commercial properties.

*One- to Four-Family Loans*

Although we offer one- to four-family loans, it has long been our policy to produce such loans on a pass-through basis only, and to sell the loans we originate to a third-party conduit shortly after they close. Reflecting this practice, as well as repayments of seasoned loans that were produced before the adoption of this policy, or that were acquired in our pre-AmTrust and Desert Hills transactions, non-covered one- to four-family loans declined $15.1 million from the December 31, 2009 balance to $200.9 million and represented less than 1% of total non-covered loans at March 31, 2010.

In connection with our conduit practice, we participate in a private-label program with a nationally recognized third-party mortgage originator (the conduit ), based on defined underwriting criteria. The loans are marketed through our branches, including the branches acquired in the AmTrust and Desert Hills acquisitions, as well as on our web sites. The loans that we originate through the conduit program generate fees that are recorded as other non-interest income in our Consolidated Statements of Income and Comprehensive Income.

In addition to ensuring that our customers are provided with an extensive range of one- to four-family products, the conduit arrangement supports two of our primary objectives: managing our exposure to interest rate risk and maintaining our efficiency.

With the addition of AmTrust s mortgage banking operation, we now originate a greater quantity of one- to four-family loans than we did before the acquisition, specifically consisting of agency-conforming loans for sale to Fannie Mae and Freddie Mac. The loans originated through the mortgage banking unit are made to borrowers on a nationwide platform, and are reflected on the Consolidated Statement of Condition, together with the loans originated through our conduit program, as loans held for sale.

*Other Loans*

Our portfolio of other loans declined by $41.0 million over the course of the first quarter to $730.6 million at March 31, 2010. C&I loans accounted for the bulk of the other loan balance, at $623.6 million, and were down $29.6 million from the balance at December 31, 2009. In the first three months of 2010, C&I loan originations totaled $141.3 million, as compared to $167.9 million in the first three months of 2009.

C&I loans are tailored to meet the specific needs of our borrowers, and include term loans, demand loans, revolving lines of credit, letters of credit, and loans that are partly guaranteed by the Small Business Administration. A broad range of C&I loans, both collateralized and unsecured, are made available to businesses for working capital (including inventory and accounts receivable), business expansion, the purchase of machinery and equipment, and other general corporate needs. In determining the tenor and structure of a C&I loan, several factors are considered, including its purpose, the collateral, and the anticipated sources of repayment. C&I loans are typically secured by business assets and personal guarantees of the borrower, and include financial covenants to monitor the borrower s financial stability.

The interest rates on C&I loans can be fixed or floating, with floating rate loans being tied to prime or some other market index, plus an applicable spread. Depending on the profitability of our relationship with the borrower, our floating rate loans may or may not feature a floor rate of interest.

A benefit of C&I lending is the opportunity to establish full-scale banking relationships with our C&I customers. As a result, many of our borrowers provide us with deposits, and many take advantage of our cash management, investment, and trade finance services.

The remainder of the portfolio of other loans consists primarily of home equity loans and lines of credit, as well as a variety of consumer loans, most of which were originated by our pre-2009 merger partners prior to their joining the Company. We currently do not offer home equity loans or lines of credit.

*Mortgage Banking*

With the AmTrust acquisition, we acquired a mortgage banking operation that aggregates agency-conforming one- to four-family loans on a nationwide platform for sale to Fannie Mae and Freddie Mac. In connection with this mortgage banking operation, we have certain interest rate lock commitments to fund loans and other derivative financial instruments that obligate us to sell loans at specific dates in the future at specified prices. These commitments are considered derivatives, and are carried at fair value.

Most forward commitments to sell are entered into with primary dealers. Entering into commitments to sell loans can pose a risk if we are not able to deliver the loans on the appropriate delivery date. If we are unable to meet our obligation, we may be required to pay a fee to the counterparty.

We may retain the servicing on loans that we sell, in which case we would recognize a mortgage servicing right ( MSR ) asset. We estimate prepayment rates based on current interest rate levels, other economic conditions, and market forecasts, as well as relevant characteristics of the servicing portfolio. Generally, when market interest rates decline, prepayments increase as customers refinance their existing mortgages under more favorable interest rate terms. When a mortgage prepays, or when loans are expected to prepay earlier than originally expected, the anticipated cash flows associated with servicing these loans are terminated or reduced, resulting in a reduction to the fair value of the capitalized MSRs and a reduction in earnings. MSRs are recorded at fair value, with changes in fair value recorded as a component of non-interest income in each period.

The one- to four-family loans originated for sale by AmTrust s mortgage banking group are underwritten to Fannie Mae and Freddie Mac standards. At the time of sale, certain representations and warranties with regard to the underwriting and documentation of these loans are made. We may be required to repurchase the loans from Fannie Mae and Freddie Mac if it is found that a breach of the representations and warranties was made at the time of sale. Policies and procedures are in place to guide the underwriting and documentation of the one- to four-family loans originated for sale to Fannie Mae and Freddie Mac in order to materially reduce our exposure to put-back risk.

**Asset Quality**

The following discussion refers to our non-covered loans and non-covered OREO only, as the covered assets we acquired in the AmTrust and Desert Hills acquisitions are subject to loss sharing agreements with the FDIC.

At $10.0 million, net charge-offs represented 0.04% of average loans in the current first quarter, as compared to $9.2 million, representing 0.04% of average loans, in the trailing quarter and to $5.1 million, or 0.02% of average loans, in the first quarter of 2009. Multi-family loans accounted for $6.1 million of first quarter 2010 net charge-offs, with ADC loans, C&I loans, and other loans accounting for $1.5 million, $2.3 million, and $195,000, respectively. We had no CRE charge-offs during this time.

Non-performing loans rose to $734.7 million at March 31, 2010 from the year-end 2009 balance of $578.1 million, and represented 2.61% and 2.04% of total loans at the respective dates. The increase in non-performing loans was attributable to a $147.7 million rise in non-accrual mortgage loans to $704.8 million and a $9.0 million rise in non-accrual other loans to $29.9 million. The increase in non-accrual mortgage loans was largely due to an $88.8 million rise in loans secured by multi-family buildings, most of which were located outside our primary lending niche, as described earlier under Multi-Family Loans. Although the reasons for this increase vary from credit to credit, such loans do not typically result in significant losses, given the value of the cash flows such buildings generate.

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 is generally returned to accrual status when the loan is less than 90 days past due and we have reasonable assurance that the loan will be fully collectible.

Non-performing loans are reviewed regularly by management and reported on a monthly basis to the Mortgage Committee, the Credit Committee, and the Boards of Directors of the Banks. When necessary, non-performing loans are written down to their current appraised values, less certain transaction costs. Workout specialists from our Equity Recovery Group actively pursue borrowers who are delinquent in repaying their loans in an effort to collect payment. In addition, outside counsel with experience in foreclosure proceedings are retained to institute such action with regard to such borrowers.

Properties that are acquired through foreclosure are classified as OREO, and are 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 March 31, 2010, OREO totaled $16.1 million as compared to $15.2 million at December 31, 2009. The March 31, 2010 balance excludes the covered OREO that was acquired in the Desert Hills transaction on March 26th.

It is our policy to require an appraisal and environmental assessment of properties classified as OREO before foreclosure, and to re-appraise the properties on an as-needed basis until they are sold. We dispose of such properties as quickly and prudently as possible, given current market conditions and the property s condition.

Reflecting the increases in non-performing loans and OREO, non-performing assets rose $157.6 million from the December 31, 2009 balance to $750.8 million, representing 1.77% of total assets, at March 31, 2010. At December 31, 2009, the comparable ratio was 1.41%. However, loans 30 to 89 days past due declined by $55.1 million from the December 31st total to $217.9 million at March 31st.

To mitigate the potential for credit risk, we underwrite our loans in accordance with prudent credit standards. In the case of multi-family and CRE loans, we look first at the consistency of the cash flows being generated by the property to determine its economic value, and then at the market value of the property that collateralizes the loan. The amount of the loan is then based on the lower of the two values, with the economic value more typically used.

The condition of the collateral property is another critical factor. Multi-family buildings and CRE properties are inspected from rooftop to basement as a prerequisite to approval by management and the Mortgage or Credit Committee, as applicable. A member of the Mortgage or Credit Committee participates in inspections on multi-family loans originated in excess of $4.0 million. Similarly, a member of the Mortgage or Credit Committee participates in inspections on CRE loans in excess of $2.5 million. Furthermore, independent appraisers, whose appraisals are carefully reviewed by our experienced in-house appraisal officers, perform appraisals on collateral properties.

In addition, we work with a select group of mortgage brokers who are familiar with our credit standards and whose track record with our lending officers is typically greater than ten years. In addition, in New York City, where the majority of the buildings securing our multi-family loans are located, the rents that tenants may be charged on certain apartments is restricted under certain rent-control or rent-stabilization laws. As a result, the rents that tenants pay in such apartments are generally lower than current market rents. Buildings with a preponderance of such rent-regulated apartments are less likely to experience vacancies in times of economic adversity.

To further manage our credit risk, our lending policies limit the amount of credit granted to any one borrower, and typically require a minimum debt service coverage ratio of 120% for multi-family loans and 130% for CRE loans. Although we typically will lend up to 75% of the appraised value on multi-family buildings and up to 65% on commercial properties, the current average LTV ratios of such credits, as previously noted, were well below those amounts at March 31, 2010. Exceptions to these LTV limitations are reviewed on a case-by-case basis, requiring the approval of the Mortgage or Credit Committee, as applicable.

The repayment of loans secured by commercial real estate is often dependent on the successful operation and management of the underlying properties. To minimize our credit risk, we originate CRE loans in adherence with conservative underwriting standards, and require that such loans qualify on the basis of the property s current income stream and debt service coverage ratio. The approval of a loan also depends on the borrower s credit history, profitability, and expertise in property management; in addition, the origination of CRE loans typically requires an assignment of the rents and/or leases.

The Boards of Directors also take part in the ADC lending process, with all ADC loans requiring the approval of the Mortgage or Credit Committee, as applicable. In addition, a member of the pertinent committee participates in inspections when the loan amount exceeds $2.5 million. ADC loans primarily have been made to well-established builders who have worked with us or our merger partners in the past. We typically lend up to 75% of the estimated as-completed market value of multi-family and residential tract projects; however, in the case of home construction loans to individuals, the limit is 80%. With respect to commercial construction loans, which are not our primary focus, we typically lend up to 65% of the estimated as-completed market value of the property.

Credit risk is also managed through the loan disbursement process. Loan proceeds are disbursed periodically in increments as construction progresses, and as warranted by inspection reports provided to us by our own lending officers and/or consulting engineers.

C&I loans are typically underwritten on the basis of the cash flows produced by the borrower s business, and are generally collateralized by various business assets, including, but not limited to, inventory, equipment, and accounts receivable. As a result, the capacity of the borrower to repay is substantially dependent on the degree to which the business is successful. Furthermore, the collateral underlying the loan may depreciate over time, may not be conducive to appraisal, and may fluctuate in value, based upon the operating results of the business. Accordingly, personal guarantees are also a normal requirement for C&I loans.

Our loan portfolio has been structured to manage our exposure to both credit and interest rate risk. The vast majority of the loans in our portfolio are intermediate-term credits, with multi-family and CRE loans typically repaying or refinancing within three to five years of origination, and the duration of ADC loans ranging up to 36 months, with 18 to 24 months more the norm. Furthermore, our multi-family loans are largely secured by buildings with rent-regulated apartments that tend to maintain a high level of occupancy, regardless of economic conditions in our marketplace.

The procedures we follow with respect to delinquent loans are generally consistent across all categories, with late charges assessed, and notices mailed to the borrower, at specified dates. We attempt to reach the borrower by telephone to ascertain the reasons for delinquency and the prospects for repayment. When contact is made with a borrower at any time prior to foreclosure or recovery against collateral property, we attempt to obtain full payment, and will consider a repayment schedule to avoid taking such action. Delinquencies are addressed by our Equity Recovery Group and every effort is made to collect rather than initiate foreclosure proceedings.

While we strive to originate loans that will perform fully, the severity of the credit cycle has resulted in an increase in non-performing loans and assets, as well as net charge-offs. In view of the economy and the increase in non-performing assets and net charge-offs, we continued to increase our allowance for loan losses in the first quarter of 2010. Reflecting net charge-offs of $10.0 million and a loan loss provision of $20.0 million, the allowance for loan losses rose $10.0 million, or 7.8%, from the December 31, 2009 balance to $137.4 million at March 31, 2010. The allowance for loan losses represented 0.49% of total loans and 18.71% of non-performing loans at that date.

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. Such assumptions are based on judgments that are difficult, complex, and subjective regarding various matters of inherent uncertainty. The current economic environment has increased the degree of uncertainty inherent in these judgments. Accordingly, the policies that govern our assessment of the allowance for loan losses are considered Critical Accounting Policies and are discussed under that heading earlier in this report.

Based upon all relevant and available information, management believes that the allowance for loan losses at March 31, 2010 was appropriate at that date.

Historically, our level of charge-offs has been relatively low in adverse credit cycles, even when the volume of non-performing loans has increased. This distinction has largely been due to the nature of our primary lending niche (multi-family loans collateralized by non-luxury residential apartment buildings in the New York Metropolitan region that have a preponderance of apartments with below-market rents); and to our conservative underwriting practices that require, among other things, low LTV ratios.

Table of Contents

Despite the continuing rise in non-performing multi-family loans, we would not expect to see a comparable increase in losses. This is primarily due to the strength of the underlying collateral for these loans and the collateral structure upon which these loans are based. Low LTV ratios provide a greater likelihood of full recovery and reduce the possibility of incurring a severe loss on a credit. Furthermore, in many cases, low LTV ratios result in our having fewer loans with a potential for the borrower to walk away from the property. Although borrowers may default on loan payments, they have a greater incentive to protect their equity in the collateral property and to return the loan to performing status.

Similarly, an increase in CRE loans would not necessarily be expected to result in a corresponding increase in our losses on such credits. At March 31, 2010, CRE loans represented 21.0% of non-covered loans outstanding, a 29-basis point increase from the year-earlier amount. No charge-offs were recorded in the current three-month period, and were a modest $209,000 in the three months ended December 31, 2009. We believe this favorable loan loss experience is due to our historical practice of underwriting CRE loans in accordance with standards similar to those we follow in underwriting our multi-family loans.

We continue to de-emphasize the production of ADC and other loans, as well as one- to four-family loans for portfolio, in order to mitigate credit risk. At March 31, 2010, ADC, other loans, and one- to four-family loans represented 2.2%, 2.5%, and 0.69%, respectively, of loans outstanding, as compared to 2.4%, 2.7%, and 0.76%, respectively, at December 31, 2009. At March 31, 2010, 17.0%, 4.1%, and 7.8% of ADC, other loans, and one- to four-family loans were non-performing, respectively.

In view of these factors, we believe that a significant increase in non-performing loans will not necessarily result in a comparable increase in loan losses and, accordingly, will not necessarily require a significant increase in our loan loss allowance or in the provision for loan losses recorded in any given period. As indicated, while non-performing loans represented 2.61% of total loans at March 31, 2010, the ratio of net charge-offs to average loans for the three months ended at that date was 0.04%.

***Covered Loans and OREO***

Although the AmTrust and Desert Hills acquisitions increased our loan portfolio by $4.8 billion at March 31, 2010, and, in the case of Desert Hills, added $44.6 million of OREO, the credit risk associated with these acquired assets has been substantially mitigated by our loss sharing agreements with the FDIC. Under the terms of the loss sharing agreements, the FDIC will reimburse us for 80% of losses (and share in 80% of any recoveries) up to $907.0 million with respect to the loans acquired in the AmTrust transaction; and will reimburse us for 80% of losses (and share in 80% of any recoveries) up to $101.4 million with respect to the loans and OREO acquired in the Desert Hills transaction. In each case, the FDIC will reimburse us for 95% of any losses (and share in 95% of any recoveries) with respect to the acquired assets beyond these initial amounts. The loss sharing (and reimbursement) agreements applicable to one- to four-family mortgage loans and HELOCs are effective for a ten-year period. The loss sharing agreements applicable to other loans and OREO provide for the FDIC to reimburse us for losses for a five-year period; the period for sharing in recoveries on other loans and OREO extends for a period of eight years.

We consider our covered loans to be performing due to the application of the yield accretion method under Codification Topic 310-30, Loans and Debt Securities Acquired with Deteriorated Credit Quality. Codification Topic 310-30 allows us to aggregate credit-impaired loans acquired in the same fiscal quarter into one or more pools, provided that the loans have common risk characteristics. A pool is then accounted for as a single asset with a single composite interest rate and an aggregate expectation of cash flows. Accordingly, loans that may have been classified as non-performing loans by AmTrust or Desert Hills are no longer classified as non-performing because, at acquisition, we believed that we would fully collect the new carrying value of these loans. The new carrying value represents the contractual balance, reduced by the portion expected to be uncollectible (referred to as the non-accretable difference ) and by an accretable yield (discount) that is recognized as interest income. It is important to note that management s judgment is required in reclassifying loans subject to Codification Topic 310-30 as performing loans, and is dependent on having a reasonable expectation about the timing and amount of the cash flows to be collected, even if a loan is contractually past due.

In connection with the loss sharing agreements, we established FDIC loss share receivables of $740.0 million with regard to AmTrust and $44.0 million with regard to Desert Hills, which were the acquisition date fair values of the respective loss sharing agreements (i.e., the expected reimbursements from the FDIC over the terms of the agreements). The loss share receivables may increase if the losses increase, and may decrease if the losses fall short of the expected amounts. Gains and recoveries on covered assets will offset losses or be paid to the FDIC at the applicable loss share percentage at the time of recovery. The loss share receivables may also increase due to accretion, which was $11.0 million in the three months ended March 31, 2010. In addition, the Company received $1.4 million in reimbursements from the FDIC as of that date, which resulted in a decrease in the balance of the FDIC receivable.

The following table presents information regarding our consolidated allowance for loan losses, non-performing assets, and delinquencies at March 31, 2010 and December 31, 2009. Covered loans are considered to be performing due to the application of the yield accretion method under Codification Topic 310-30. Therefore, covered loans are not reflected in any of the amounts or asset quality measures provided in this table:

| (dollars in thousands) | At or For the Three Months Ended March 31, 2010 | At or For the Year Ended December 31, 2009 |
|---|---|---|
| Allowance for Loan Losses: | | |
| Balance at beginning of period | $ 127,491 | $ 94,368 |
| Provision for loan losses | 20,000 | 63,000 |
| Charge-offs: | | |
| Multi-family | (6,146) | (15,261) |
| Commercial real estate | | (530) |
| Acquisition, development, and construction | (1,451) | (5,990) |
| One- to four-family | | (322) |
| Other loans | (2,457) | (7,828) |
| Total charge-offs | (10,054) | (29,931) |
| Recoveries | 6 | 54 |
| Balance at end of period | $ 137,443 | $ 127,491 |
| Non-Performing Assets: | | |
| Non-accrual mortgage loans: | | |
| Multi-family | $ 481,954 | $ 393,113 |
| Commercial real estate | 97,128 | 70,618 |
| Acquisition, development, and construction | 110,071 | 79,228 |
| One- to four-family | 15,645 | 14,171 |
| Total non-accrual mortgage loans | 704,798 | 557,130 |
| Other non-accrual loans | 29,890 | 20,938 |
| Total non-performing loans | 734,688 | 578,068 |
| Other real estate owned[1] | 16,147 | 15,205 |
| Total non-performing assets | $ 750,835 | $ 593,273 |
| Ratios: | | |
| Non-performing loans to total loans | 2.61% | 2.04% |
| Non-performing assets to total assets[1] | 1.77 | 1.41 |
| Allowance for loan losses to non-performing loans | 18.71 | 22.05 |
| Allowance for loan losses to total loans | 0.49 | 0.45 |
| Net charge-offs to average loans | 0.04 [2] | 0.13 |

| | | |
|---|---|---|
| Loans 30-89 Days Past Due: | | |
| Multi-family | $ 135,769 | $ 155,790 |
| Commercial real estate | 48,435 | 42,324 |
| Acquisition, development, and construction | 6,721 | 48,838 |
| One- to four-family | 9,034 | 5,019 |
| Other loans | 17,932 | 21,036 |
| Total loans 30-89 days past due | $ 217,891 | $ 273,007 |

(1) Excludes covered OREO acquired in the Desert Hills acquisition on March 26, 2010.
(2) Presented on a non-annualized basis.

In accordance with GAAP, we are required to account for certain loan modifications or restructurings as troubled debt restructurings. In general, the modification or restructuring of a loan constitutes a troubled debt restructuring when we grant a concession to a borrower experiencing financial difficulty. Loans modified in a troubled debt restructuring are placed on non-accrual status until we determine that future collection of principal and interest is reasonably assured, which generally requires that the borrower demonstrate performance according to the restructured terms for a period of at least six months. Loans modified in a troubled debt restructuring, all of which had non-accrual status, totaled $225.2 million and $184.8 million at March 31, 2010 and December 31, 2009, respectively.

**Securities**

Securities represented $5.5 billion, or 13.1%, of total assets at March 31, 2010, and were down $192.8 million from the balance recorded at December 31, 2009.

Available-for-sale securities represented $1.1 billion, or 19.9%, of total securities at the end of March, representing a three-month reduction of $414.4 million. Held-to-maturity securities accounted for the remaining $4.4 billion, or 80.1%, of total securities at March 31st and were up $221.6 million from the balance recorded at year-end 2009. In view of the volatility and uncertainty in the financial markets, we have been limiting our securities investments to government-sponsored enterprise ( GSE ) securities for several quarters. Accordingly, approximately 92% of the securities portfolio consisted of GSE obligations at March 31, 2010.

At the end of the quarter, mortgage-related securities represented $679.9 million, or 61.6%, of available-for-sale securities and $2.2 billion, or 49.2%, of securities held to maturity. Other securities accounted for $424.4 million, or 38.4%, of available-for-sale securities at the end of the quarter and for $2.3 billion, or 50.8%, of held-to-maturity securities. At March 31, 2010, the respective fair values of mortgage-related securities and other securities held to maturity were $2.3 billion and $2.2 billion, respectively, representing 103.7% and 99.3% of their respective carrying amounts.

The estimated weighted average life of the available-for-sale securities portfolio was 2.7 years at the close of the current first quarter, as compared to 2.2 years at December 31, 2009. The estimated weighted average life of available-for-sale mortgage-related securities was 2.6 years at March 31, 2010, as compared to 3.1 years at year-end.

**Sources of Funds**

The Parent Company (i.e., the Company on an unconsolidated basis) has four primary funding sources for the payment of dividends, share repurchases, and other corporate uses: capital raised through the issuance of stock; dividends paid to the Company by the Banks; funding raised through the issuance of debt instruments; and repayments of, and income from, investment securities.

On a consolidated basis, our funding primarily stems from the deposits we acquire in our business combinations or gather through our branch network, as well as brokered deposits; the use of borrowed funds, primarily in the form of wholesale borrowings; the cash flows generated through the repayment of loans and securities; and the cash flows generated through the sale of loans and securities.

In the fourth quarter of 2009 and the first quarter of 2010, our liquidity was enhanced by the acquisition-related infusion of cash and cash equivalents. As a result, the Company had $2.5 billion in cash and cash equivalents at March 31, 2010.

Loan repayments generated cash flows of $1.7 billion in the current first quarter, including sales of $896.5 million, primarily consisting of loans sold to Fannie Mae and Freddie Mac by AmTrust s mortgage banking group. Securities generated cash flows of $753.1 million in the quarter. The cash flows from loans and securities were primarily invested in loan production and, to a lesser extent, in GSE obligations.

*Deposits*

Deposits rose to $22.7 billion at March 31, 2010 from $22.3 billion at December 31, 2009, and represented 53.6% and 52.9% of total assets at the respective dates. While the Desert Hills acquisition provided deposits of $374.9 million at the end of the quarter, the March 31st balance also reflected a meaningful level of organic deposit growth.

Deposit growth was somewhat curtailed by a decline in brokered deposits in the three months ended March 31, 2010. Although the vast majority of our deposits, historically, have been acquired through business combinations or gathered through our branch network, our mix of deposits has also included brokered certificates of deposit ( CDs ) and brokered money market accounts. In the first quarter of 2010, we reduced our balance of brokered CDs by $243.6 million to $114.9 million and our balance of brokered money market accounts by $161.4 million to $2.4 billion.

CDs represented $9.2 billion, or 40.4%, of total deposits at the end of the first quarter, and were up $131.9 million, or 1.46%, from the balance at December 31, 2009. At March 31, 2010, CDs due to mature within one year totaled $7.2 billion, representing 78.8% of total CDs at that date.

Core deposits (defined as all deposits other than CDs) rose $282.9 million linked-quarter to $13.5 billion, and represented 59.6% of total deposits at March 31, 2010. The increase was primarily due to a $260.6 million rise in NOW and money market accounts to $8.0 billion and an $85.7 million increase in savings accounts to $3.9 billion. These increases more than offset the impact of a $63.3 million decline in non-interest-bearing deposits to $1.7 billion.

*Borrowed Funds*

Borrowed funds consist primarily of wholesale borrowings (i.e., FHLB advances, repurchase agreements, and federal funds purchased); junior subordinated debentures; and other borrowed funds (consisting primarily of preferred stock of subsidiaries and senior notes).

Wholesale borrowings totaled $12.8 billion at the close of the first quarter, as compared to $13.1 billion at December 31, 2009. The reduction was attributable to a $285.7 million decline in FHLB advances to $8.7 billion over the three-month period. While the bulk of our FHLB advances are with the FHLB-NY, the March 31, 2010 and December 31, 2009 amounts include $1.4 billion of FHLB-Cincinnati advances that were acquired in the AmTrust transaction. The Community Bank and the Commercial Bank are both members of, and have lines of credit with, the FHLB-NY. Pursuant to blanket collateral agreements with the Banks, our FHLB advances and overnight line-of-credit borrowings are secured by a pledge of certain eligible collateral in the form of loans and securities.

Also included in wholesale borrowings at March 31, 2010 were repurchase agreements of $4.1 billion, equivalent to the balance at December 31, 2009. 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. Our repurchase agreements are primarily collateralized by GSE obligations, and may be entered into with the FHLB-NY or certain brokerage firms. The brokerage firms we utilize are subject to our ongoing internal financial review to ensure that we borrow funds only from those dealers whose financial strength will minimize the risk of loss due to default. In addition, a master repurchase agreement must be executed and on file for the brokerage firms we use.

Junior subordinated debentures declined to $427.3 million at March 31, 2010 from $427.4 million at December 31, 2009.

Other borrowings totaled $653.6 million at the close of the first quarter, down $2.9 million from the balance at December 31, 2009. The reduction reflects our repurchase of certain REIT-preferred securities that had been issued by our merger partners in 2001 and 2003. The balance of other borrowings at March 31, 2010 and December 31, 2009 includes $602.0 million of fixed rate senior notes that were issued under the FDIC s Temporary Liquidity Guarantee Program in December 2008.

**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 guidelines approved by the Boards of Directors of the Company, the Community Bank, and the Commercial Bank, as applicable.

***Market Risk***

As a financial institution, we are focused on reducing our exposure to interest rate volatility, which represents a significant market risk. Changes in market interest rates represent the greatest challenge to our financial performance, because 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 and as needed basis so that adjustments in the asset and liability mix of each entity 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 volume 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 continue to pursue the core components of our business model and engaged in a number of specific strategies to reduce our interest rate risk: (1) We continued to place an emphasis on the origination and retention of intermediate-term assets, primarily in the form of multi-family and CRE loans; (2) We utilized our cash flows to fund our loan production, as well as our more limited investments in GSE obligations; (3) We capitalized on the historically low level of the target federal funds rate to reduce our retail funding costs; (4) We reduced our wholesale funding, including brokered deposits; and (5) We improved our funding model by assuming Desert Hills deposits and by growing our retail deposits organically.

As a result of acquiring AmTrust s mortgage banking operation in December, we have certain interest rate lock commitments to fund residential mortgage loans at specified rates and for a specific period of time. These commitments are considered derivative financial instruments, and are carried at fair value. Gains and losses due to changes in the fair value of the derivatives are recognized currently in earnings.

We enter into forward commitments to sell fixed rate mortgage-backed securities to protect against changes in the prices of conforming fixed rate loans held for sale. Most forward commitments to sell are entered into with primary dealers. Entering into commitments to fund loans or mortgage-backed securities can pose a risk if we are not able to deliver the loans or securities on the appropriate delivery date. If this occurs, we may be required to pay a fee to the buyer.

We may retain the servicing on loans that we sell, in which case we would recognize an MSR asset. We estimate prepayment rates based on current interest rate levels, other economic conditions, and market forecasts, as well as relevant characteristics of the servicing portfolio. Generally, when market interest rates decline, prepayments increase as customers refinance their existing mortgages under more favorable interest rate terms. When a mortgage prepays, or when loans are expected to prepay earlier than originally expected, the anticipated cash flows associated with servicing these loans are terminated or reduced, resulting in a reduction to the fair value of the capitalized MSRs. To mitigate the prepayment risk inherent in MSRs, we could sell the servicing of the loans we originate, and thus minimize the potential for earnings volatility.

We also invest in exchange-traded derivative financial instruments which are expected to experience opposite and offsetting changes in fair value as related to the value of the MSRs. MSRs are recorded at fair value, with changes in fair value recorded currently in earnings.

***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. 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 March 31, 2010, our one-year gap was a positive 1.01%, as compared to a negative 1.63% at December 31, 2009.

The following table sets forth the amounts of interest-earning assets and interest-bearing liabilities outstanding at March 31, 2010 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 March 31, 2010 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 25% 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. With the exception of those accounts having specified repricing dates, money market accounts 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 the assumed prepayment and decay rates noted above will approximate actual future loan prepayments and deposit withdrawal activity.

Table of Contents

**Interest Rate Sensitivity Analysis**

| | At March 31, 2010 | | | | | | |
|---|---|---|---|---|---|---|---|
| (dollars in thousands) | 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 | Total |
| INTEREST-EARNING ASSETS: | | | | | | | |
| Mortgage and other loans[1] | $ 3,519,157 | $ 5,348,942 | $ 9,560,404 | $ 6,756,228 | $ 1,586,174 | $ 1,435,660 | $ 28,206,565 |
| Mortgage-related securities[2][3] | 278,142 | 647,824 | 1,069,650 | 494,944 | 320,976 | 55,913 | 2,867,449 |
| Other securities and money market investments[2] | 3,030,270 | 172,156 | 118,080 | 28,137 | 2,061,641 | 44,592 | 5,454,876 |
| Total interest-earning assets | 6,827,569 | 6,168,922 | 10,748,134 | 7,279,309 | 3,968,791 | 1,536,165 | 36,528,890 |
| INTEREST-BEARING LIABILITES: | | | | | | | |
| NOW and Super NOW accounts | 21,961 | 65,882 | 162,729 | 146,863 | 756,239 | 603,182 | 1,756,856 |
| Money market accounts | 2,600,159 | 569,973 | 1,094,349 | 700,383 | 1,206,216 | 38,910 | 6,209,990 |
| Savings accounts | 499,101 | 128,159 | 316,553 | 285,689 | 1,471,095 | 1,173,357 | 3,873,954 |
| Certificates of deposit | 2,507,967 | 4,726,926 | 1,843,255 | 101,180 | 6,434 | | 9,185,762 |
| Borrowed funds | 807,385 | 640,186 | 1,231,257 | 961,704 | 9,888,752 | 346,566 | 13,875,850 |
| Total interest-bearing liabilities | 6,436,573 | 6,131,126 | 4,648,143 | 2,195,819 | 13,328,736 | 2,162,015 | 34,902,412 |
| Interest rate sensitivity gap per period[4] | $ 390,996 | $ 37,796 | $ 6,099,991 | $ 5,083,490 | $ (9,359,945) | $ (625,850) | $ 1,626,478 |
| Cumulative interest sensitivity gap | $ 390,996 | $ 428,792 | $ 6,528,783 | $ 11,612,273 | $ 2,252,328 | $ 1,626,478 | |
| Cumulative interest sensitivity gap as a percentage of total assets | 0.92% | 1.01% | 15.39% | 27.37% | 5.31% | 3.83% | |
| Cumulative net interest-earning assets as a percentage of net interest-bearing liabilities | 106.07% | 103.41% | 137.92% | 159.82% | 106.88% | 104.66% | |

(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 stock, are shown at their respective carrying amounts.
(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.

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 makes assumptions regarding 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 March 31, 2010, the following table reflects the estimated percentage change in our NPV, assuming the changes in interest rates noted:

| **Change in Interest Rates (in basis points)** [(1)] | **Estimated Percentage Change in Net Portfolio Value** |
|---|---|
| +200 | (16.92)% |
| +100 | (8.19) |

(1) The impact of 100- and 200-basis point reductions in interest rates is not presented in view of the current level of the federal funds rate and other short-term interest rates.

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 March 31, 2010, the following table reflects the estimated percentage change in future net interest income for the next twelve months, assuming the changes in interest rates noted:

| **Change in Interest Rates (in basis points)**[(1)(2)] | **Estimated Percentage Change in Future Net Interest Income** |
|---|---|
| +200 over one year | 2.14% |
| +100 over one year | 1.78 |

(1) In general, short- and long-term rates are assumed to increase in parallel fashion across all four quarters and then remain unchanged.
(2) The impact of 100- and 200-basis point reductions in interest rates is not presented in view of the current level of the federal funds rate and other short-term interest rates.

Future changes in our mix of assets and liabilities may result in greater changes to our gap, NPV, and/or net interest income simulation.

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

***Liquidity***

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

We monitor our liquidity daily to ensure that sufficient funds are available to meet our financial obligations. Our most liquid assets are cash and cash equivalents, which totaled $2.5 billion at March 31, 2010 and $2.7 billion at December 31, 2009, primarily reflecting the liquidity provided through our FDIC-assisted transactions. Additional liquidity stems from our portfolio of available-for-sale securities, which totaled $1.1 billion at the end of March.

In the first three months of 2010, our loan and securities portfolios continued to be significant sources of liquidity, with loan sales and repayments generating cash flows of $918.6 million and $1.7 billion, respectively, and the sale and repayment of securities generating cash flows of $660,000 and $752.4 million, respectively, during this time.

Additional liquidity stems from the deposits we acquire or gather through our branches and from our use of wholesale funding sources, including brokered deposits and wholesale borrowings. We also have access to the Banks approved lines of credit with various counterparties, including the FHLB.

Our primary investing activity is loan production, and in the first three months of 2010, the volume of loans originated exceeded the volume of loan repayments received. In the three months ended March 31, 2010, the net cash provided by investing activities totaled $467.0 million. During this time, our financing activities used net cash of $386.9 million and our operating activities used net cash of $203.1 million.

CDs due to mature in one year or less from March 31, 2010 totaled $7.2 billion, representing 78.8% of total CDs at that date. Our ability to retain these CDs and to attract new deposits depends on numerous factors, including customer satisfaction, the rates of interest we pay on our deposits, the types of products we offer, and the attractiveness of their terms. There are times that we may choose not to compete for deposits, depending on the availability of lower-cost funding, the competitiveness of the market and its impact on pricing, and our need for such deposits to fund loan demand.

On a stand-alone basis, the Company is a separate legal entity from each of the Banks and must provide for its own liquidity. In addition to operating expenses and any share repurchases, the Company is responsible for paying any dividends declared to our shareholders. Dividends from the Banks are the Company s primary source of income. The amount of dividends that each Bank may declare and pay to the Company in any calendar year, without the receipt of prior approval from the New York Superintendent of Banks, cannot exceed the total of the respective Bank s net income for that year, combined with its retained profits for the preceding two calendar years, less prior dividends paid.

***Off-Balance-Sheet Arrangements and Contractual Commitments***

At March 31, 2010, we had outstanding loan commitments of $1.5 billion and outstanding letters of credit totaling $50.1 million. In addition, we continue to be obligated under numerous non-cancelable operating lease and license agreements. The amounts involved in our operating lease and license agreements at the close of the current first quarter were comparable to the amounts at December 31, 2009, as disclosed in our 2009 Annual Report on Form 10-K.

In addition, we use various financial instruments, including derivatives, in connection with our strategies to reduce price risk resulting from changes in interest rates. Our derivative financial instruments consist of financial forward and futures contracts, interest rate lock commitments, swaps, and options. These derivatives relate to our mortgage banking operations, MSRs, and other risk management activities, and seek to mitigate or reduce our exposure to losses from adverse changes in interest rates. These activities will vary in scope, based on the level and volatility of interests rates, the types of assets held, and other changes in market conditions. At March 31, 2010, we held derivative financial instruments with a notional value of $2.4 billion.

***Capital Position***

Stockholders equity rose $46.6 million from the balance recorded at December 31, 2009 to $5.4 billion at March 31, 2010. The March 31st balance was equivalent to 12.76% of total assets and a book value of $12.44 per share. By comparison, the December 31, 2009 balance was equivalent to 12.73% of total assets and a book value of $12.40 per share.

62

Table of Contents

We calculate book value per share 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, and then dividing our total stockholders equity by the resultant number of shares. The number of unallocated ESOP shares at March 31, 2010 and December 31, 2009 was 224,436 and 299,248, respectively. We calculate book value per share 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. The number of shares outstanding at the end of March includes 1.8 million shares that were sold through our DRP to capitalize the Desert Hills acquisition.

Excluding goodwill and CDI from stockholders equity, tangible stockholders equity rose $51.2 million from the December 31, 2009 balance to $2.9 billion at March 31, 2010. The latter amount was equivalent to 7.21% of tangible assets and a tangible book value of $6.61 per share; the year-end 2009 amount was equivalent to 7.13% of tangible assets and a tangible book value of $6.53 per share.

Excluding AOCL of $53.9 million and $49.9 million from the respective calculations, the ratio of adjusted tangible stockholders equity to adjusted tangible assets rose from 7.25% at the end of December to 7.33% at March 31st. (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 provided earlier in this report.)

Consistent with our historical performance, our capital levels exceeded the minimum federal requirements for a bank holding company at March 31, 2010. On a consolidated basis, our leverage capital equaled $3.4 billion, representing 8.51% of adjusted average assets, and our Tier 1 and total risk-based capital equaled $3.4 billion and $3.6 billion, representing 14.27% and 14.84%, respectively, of risk-weighted assets. At December 31, 2009, our leverage capital, Tier 1 risk-based capital, and total risk-based capital amounted to $3.4 billion, $3.4 billion, and $3.5 billion, representing 10.03% of adjusted average assets, 14.48% of risk-weighted assets, and 15.03% of risk-weighted assets, respectively.

In addition, as of March 31, 2010, 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 March 31, 2010 for the Company, the Community Bank, and the Commercial Bank, each in comparison with the minimum federal requirements.

**Regulatory Capital Analysis (the Company)**

| | At March 31, 2010 | | | | | |
|---|---|---|---|---|---|---|
| | | | Risk-based Capital | | | |
| | Leverage Capital | | Tier 1 | | Total | |
| **(dollars in thousands)** | **Amount** | **Ratio** | **Amount** | **Ratio** | **Amount** | **Ratio** |
| Total capital | $ 3,423,525 | 8.51% | $ 3,423,525 | 14.27% | $ 3,560,968 | 14.84% |
| Regulatory capital requirement | 1,609,729 | 4.00 | 959,780 | 4.00 | 1,919,560 | 8.00 |
| Excess | $ 1,813,796 | 4.51% | $ 2,463,745 | 10.27% | $ 1,641,408 | 6.84% |

Table of Contents

**Regulatory Capital Analysis (the Community Bank)**

| | At March 31, 2010 | | | | | |
|---|---|---|---|---|---|---|
| | | | Risk-based Capital | | | |
| | Leverage Capital | | Tier 1 | | Total | |
| (dollars in thousands) | Amount | Ratio | Amount | Ratio | Amount | Ratio |
| Total capital | $ 3,126,410 | 8.29% | $ 3,126,410 | 13.96% | $ 3,251,768 | 14.52% |
| Regulatory capital requirement | 1,508,257 | 4.00 | 895,911 | 4.00 | 1,791,823 | 8.00 |
| Excess | $ 1,618,153 | 4.29% | $ 2,230,499 | 9.96% | $ 1,459,945 | 6.52% |

**Regulatory Capital Analysis (the Commercial Bank)**

| | At March 31, 2010 | | | | | |
|---|---|---|---|---|---|---|
| | | | Risk-based Capital | | | |
| | Leverage Capital | | Tier 1 | | Total | |
| (dollars in thousands) | Amount | Ratio | Amount | Ratio | Amount | Ratio |
| Total capital | $ 278,222 | 11.87% | $ 278,222 | 18.37% | $ 290,933 | 19.21% |
| Regulatory capital requirement | 93,721 | 4.00 | 60,595 | 4.00 | 121,189 | 8.00 |
| Excess | $ 184,501 | 7.87% | $ 217,627 | 14.37% | $ 169,744 | 11.21% |

**Earnings Summary for the Three Months Ended March 31, 2010**

In the first quarter of 2010, we generated earnings of $124.1 million, representing a $35.5 million, or 40.0%, increase from the level recorded in the first quarter of 2009. The first quarter 2010 amount was equivalent to $0.29 per diluted share, representing a year-over-year increase of $0.03, or 11.5%.

The year-over-year increase in earnings was attributable to an $87.7 million rise in net interest income and a $32.9 million rise in non-interest income, which more than offset a $14.0 million increase in the provision for loan losses and a $47.1 million increase in non-interest expense. Largely reflecting the resultant increase in pre-tax income, income tax expense rose $23.9 million year-over-year.

Subsequent to the issuance of our first quarter 2010 earnings release, we recorded a pre-tax OTTI loss of $12.8 million on certain trust preferred securities, which was equivalent to $7.8 million after-tax. Of the pre-tax amount, $331,000 was recorded in first quarter 2010 non-interest income and $12.5 million was recorded in AOCL at March 31, 2010.

In the fourth quarter of 2009, our earnings were increased to $154.9 million, or $0.41 per diluted share, by an $84.2 million, or $0.22 per diluted share, after-tax gain on the AmTrust acquisition, together with a $3.1 million, or $0.01 per diluted share, after-tax gain on the repurchase of certain REIT- and trust preferred securities and a $1.9 million after-tax gain on the termination of an AmTrust-related servicing hedge. The benefit of these gains was partly offset by a non-cash after-tax loss of $26.4 million, or $0.07 per diluted share, on the OTTI of certain investment securities and by after-tax acquisition-related costs of $5.5 million, or $0.01 per diluted share, relating to the AmTrust transaction. Other than after-tax acquisition-related costs of $1.7 million relating to the Desert Hills transaction, no comparable gains or losses were recorded in the first quarter of 2010.

**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 Federal Open Market Committee ( FOMC ) of the Federal Reserve Board of Governors.

The cost of our deposits and borrowed funds is largely based on short-term rates of interest, the level of which is partially impacted by the actions of the FOMC. The FOMC reduces, maintains, or increases the target federal funds rate the rate at which banks borrow funds overnight from one another as it deems necessary. In the first quarter of 2010, as in the previous four quarters, the federal funds rate was maintained at a historically low range of zero to 0.25%.

While the federal funds rate generally 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. The average yield on the multi-family and CRE loans originated during the first quarter of 2010 was 5.66%, as compared to 5.82% and 6.14%, respectively, in the trailing and year-earlier three months. The five-year CMT was 2.43%, 2.30%, and 1.76% during the three months ended March 31, 2010, December 31, 2009, and March 31, 2009.

Net interest income is also influenced by the level of prepayment penalty income recorded, primarily in connection with the prepayment of multi-family and CRE loans. Since prepayment penalty income is recorded as interest income, an increase or decrease in its level will also be reflected in the average yields on our loans and interest-earning assets, and therefore, in our interest rate spread and net interest margin. With refinancing activity significantly constrained by market conditions over the past several quarters, prepayment penalty income was a modest $1.3 million in the current first quarter, and $2.0 million and $1.2 million, respectively, in the three months ended December 31 and March 31, 2009. We would not expect to see a meaningful increase in prepayment penalty income until market conditions improve and refinancing activity increases significantly.

Net interest income rose $87.7 million, or 42.4%, year-over-year to $294.6 million, as an $82.3 million increase in interest income to $482.4 million combined with a $5.4 million reduction in interest expense to $187.8 million. In addition to the three-month benefit of the AmTrust acquisition, the year-over-year increase reflects the benefits of organic loan growth and the historically low level of the federal funds rate.

***Year-Over-Year Comparison***

Reflecting the assets acquired in the AmTrust transaction, as well as organic loan production, the average balance of interest-earning assets rose $6.0 billion year-over-year to $34.3 billion, significantly exceeding the impact of a four-basis point decline in the average yield to 5.62%. The higher balance was due to a $6.2 billion increase in average loans to $28.3 billion, which exceeded the impact of a $156.2 million reduction in the average balance of securities and money market investments to $6.0 billion. While the average yield on loans rose two basis points year-over-year to 5.85% in the current first quarter, the benefit of this increase was exceeded by the impact of a 51-basis point decline in the average yield on securities and money market investments to 4.55%. As a result, the interest income produced by loans rose $92.0 million year-over-year, to $413.7 million, more than offsetting the impact of a $9.7 million decline in the interest income produced by securities and money market investments to $68.7 million.

In the first quarter of 2010, the Company s interest expense continued to benefit from the maintenance of the federal funds rate at a historically low level, and from the acquisition-driven infusion of lower-cost funds. Although the average balance of interest-bearing liabilities rose $8.4 billion year-over-year to $35.1 billion, the cost of such liabilities declined 76 basis points during this time to 2.17%. Interest-bearing deposits generated interest expense of $59.7 million in the current first quarter, a $4.8 million reduction from the year-earlier amount. The decrease was the net effect of an $8.5 billion rise in the average balance to $21.2 billion and a 93-basis point reduction in the average cost of such funds to 1.14%. Borrowed funds generated first quarter 2010 interest expense of $128.1 million, modestly below the year-earlier level, the net effect of a $132.5 million decline in the average balance to $13.9 billion and a two-basis point increase in the average cost to 3.73%.

***Linked-Quarter Comparison***

Largely reflecting the three-month benefit of the AmTrust acquisition, net interest income rose $40.1 million, or 15.8%, from the trailing quarter level, the net effect of a $52.5 million increase in interest income and a $12.4 million increase in interest expense.

The linked-quarter rise in interest income was the result of a $3.7 billion increase in the average balance of interest-earning assets and a two-basis point increase in the average yield. During the quarter, the average balance of loans rose $3.6 billion, and the average yield on such assets rose 10 basis points. While the average balance of securities and money market investments rose $85.6 million during this time, the benefit was tempered by a 47-basis point reduction in the average yield. As a result, the interest income produced by loans rose $58.6 million over the course of the quarter, offsetting the impact of a $6.0 million decline in the interest income produced by securities and money market investments.

The linked-quarter increase in interest expense was the net effect of a $5.5 billion increase in the average balance of interest-bearing liabilities and a 19-basis point reduction in the average cost of funds. During the quarter, the average balance of interest-bearing deposits rose $5.4 billion, exceeding the benefit of a two-basis point reduction in the average cost. As a result, the interest expense produced by interest-bearing deposits rose $13.5 million in the current first quarter from the level recorded in the fourth quarter of 2009. However, the interest expense produced by borrowed funds declined by $1.1 million over the course of the quarter, despite a $137.9 million increase in the average balance and a one-basis point increase in the average cost of such funds.

***Interest Rate Spread and Net Interest Margin***

Reflecting the same factors that drove the increase in net interest income, the Company's spread and margin expanded in the first quarter of 2010. At 3.45%, the spread was up 72 basis points year-over-year and 21 basis points linked-quarter, and the margin rose 52 and eight basis points, respectively, to 3.41%.

The following tables set forth certain information regarding our average balance sheets 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)

| | For the Three Months Ended March 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2010 | | | 2009 | | |
| | Average Balance | Interest | Average Yield/ Cost | Average Balance | Interest | Average Yield/ Cost |
| **Assets:** | | | | | | |
| Interest-earning assets: | | | | | | |
| Mortgage and other loans, net | $ 28,289,706 | $ 413,675 | 5.85% | $ 22,108,647 | $ 321,717 | 5.83% |
| Securities and money market investments | 6,044,545 | 68,703 | 4.55 | 6,200,776 | 78,389 | 5.06 |
| Total interest-earning assets | 34,334,251 | 482,378 | 5.62 | 28,309,423 | 400,106 | 5.66 |
| Non-interest-earning assets | 8,178,813 | | | 3,887,498 | | |
| Total assets | $ 42,513,064 | | | $ 32,196,921 | | |
| **Liabilities and Stockholders Equity:** | | | | | | |
| Interest-bearing deposits: | | | | | | |
| NOW and money market accounts | $ 8,363,939 | $ 16,431 | 0.80% | $ 3,662,920 | $ 7,563 | 0.84% |
| Savings accounts | 3,820,433 | 5,745 | 0.61 | 2,602,051 | 4,216 | 0.66 |
| Certificates of deposit | 8,977,527 | 37,553 | 1.70 | 6,390,655 | 52,723 | 3.35 |
| Total interest-bearing deposits | 21,161,899 | 59,729 | 1.14 | 12,655,626 | 64,502 | 2.07 |
| Borrowed funds | 13,909,058 | 128,065 | 3.73 | 14,041,521 | 128,689 | 3.71 |
| Total interest-bearing liabilities | 35,070,957 | 187,794 | 2.17 | 26,697,147 | 193,191 | 2.93 |
| Non-interest-bearing deposits | 1,696,176 | | | 1,143,996 | | |
| Other liabilities | 381,693 | | | 193,567 | | |
| Total liabilities | 37,148,826 | | | 28,034,710 | | |
| Stockholders equity | 5,364,238 | | | 4,162,211 | | |
| Total liabilities and stockholders equity | $ 42,513,064 | | | $ 32,196,921 | | |
| Net interest income/interest rate spread | | $ 294,584 | 3.45% | | $ 206,915 | 2.73% |
| Net interest margin | | | 3.41% | | | 2.89% |
| Ratio of interest-earning assets to interest-bearing liabilities | | | 0.98x | | | 1.06x |

Table of Contents

**Net Interest Income Analysis (Linked-Quarter Comparison)**

(dollars in thousands)

| | For the Three Months Ended | | | | | |
|---|---|---|---|---|---|---|
| | March 31, 2010 | | | December 31, 2009 | | |
| | Average Balance | Interest | Average Yield/ Cost | Average Balance | Interest | Average Yield/ Cost |
| **Assets:** | | | | | | |
| Interest-earning assets: | | | | | | |
| Mortgage and other loans, net | $ 28,289,706 | $ 413,675 | 5.85% | $ 24,705,898 | $ 355,124 | 5.75% |
| Securities and money market investments | 6,044,545 | 68,703 | 4.55 | 5,958,918 | 74,750 | 5.02 |
| Total interest-earning assets | 34,334,251 | 482,378 | 5.62 | 30,664,816 | 429,874 | 5.60 |
| Non-interest-earning assets | 8,178,813 | | | 5,051,203 | | |
| Total assets | $ 42,513,064 | | | $ 35,716,019 | | |
| **Liabilities and Stockholders Equity:** | | | | | | |
| Interest-bearing deposits: | | | | | | |
| NOW and money market accounts | $ 8,363,939 | $ 16,431 | 0.80% | $ 5,928,202 | $ 11,531 | 0.77% |
| Savings accounts | 3,820,433 | 5,745 | 0.61 | 3,198,211 | 4,391 | 0.54 |
| Certificates of deposit | 8,977,527 | 37,553 | 1.70 | 6,645,878 | 30,346 | 1.81 |
| Total interest-bearing deposits | 21,161,899 | 59,729 | 1.14 | 15,772,291 | 46,268 | 1.16 |
| Borrowed funds | 13,909,058 | 128,065 | 3.73 | 13,771,132 | 129,141 | 3.72 |
| Total interest-bearing liabilities | 35,070,957 | 187,794 | 2.17 | 29,543,423 | 175,409 | 2.36 |
| Non-interest-bearing deposits | 1,696,176 | | | 1,394,761 | | |
| Other liabilities | 381,693 | | | 180,365 | | |
| Total liabilities | 37,148,826 | | | 31,118,549 | | |
| Stockholders equity | 5,364,238 | | | 4,597,470 | | |
| Total liabilities and stockholders equity | $ 42,513,064 | | | $ 35,716,019 | | |
| Net interest income/interest rate spread | | $ 294,584 | 3.45% | | $ 254,465 | 3.24% |
| Net interest margin | | | 3.41% | | | 3.33% |
| Ratio of interest-earning assets to interest-bearing liabilities | | | 0.98x | | | 1.04x |

**Provision for Loan Losses**

The provision for loan losses is based on management s assessment of the adequacy of the loan loss allowance which, in turn, is based on its evaluation of inherent losses in the loan portfolio in accordance with GAAP. This evaluation considers several factors, including the current and historical performance of the loan portfolio; its inherent risk characteristics; the level of non-performing loans and charge-offs; delinquency levels and trends; local economic and market conditions; declines in real estate values; and the levels of unemployment and vacancy rates.

In the first quarter of 2010, we recorded a loan loss provision of $20.0 million, as compared to $30.0 million in the trailing quarter and $6.0 million in the first quarter of 2009. Reflecting the first quarter 2010 provision and net charge-offs of $10.0 million, the allowance for loan losses rose $10.0 million from the December 31st balance to $137.4 million at March 31st. The year-over-year increase in the loan loss allowance was

$42.1 million, or 44.2%.

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 the discussion of asset quality that appears in the balance sheet summary.

Table of Contents

**Non-Interest Income**

The Company has three primary components of non-interest income: fee income, income from bank-owned life insurance ( BOLI ), and other income. Included in other income are the revenues provided by our investment advisory subsidiary, Peter B. Cannell & Co., Inc. ( PBC ), the revenues generated through the sale of third-party investment products in our branches; and, since December 2009, mortgage banking income, primarily stemming from AmTrust s mortgage banking operation.

Primarily reflecting the three-month benefit of the AmTrust acquisition, fee income rose $4.7 million, or 50.3%, year-over-year, to $14.0 million in the current first quarter, while other income rose $28.1 million to $34.1 million during this time. Included in the latter amount was mortgage banking income of $27.5 million, which primarily consists of the fees and net gains generated by AmTrust's mortgage banking operation through the aggregation and sale of agency-conforming one- to four-family loans to Fannie Mae and Freddie Mac.

Reflecting these increases, together with a rise in BOLI income and a modest gain on the repurchase of certain REIT-preferred securities, non-interest income rose $32.9 million year-over-year to $55.0 million in the three months ended March 31, 2010. The year-over-year increase was partly offset by a $723,000 OTTI loss on securities.

In the fourth quarter of 2009, non-interest income was increased to $138.1 million by a $139.6 million gain on the AmTrust acquisition and by a $4.3 million gain on the repurchase of certain REIT and trust preferred securities. These gains were somewhat tempered by a $43.5 million OTTI loss on certain securities.

The following table summarizes the components of non-interest income for the three months ended March 31, 2010, December 31, 2009, and March 31, 2009:

| | For the Three Months Ended | | |
|---|---|---|---|
| **(in thousands)** | **March 31, 2010** | **December 31, 2009** | **March 31, 2009** |
| Fee income | $ 13,965 | $ 11,819 | $ 9,291 |
| BOLI income | 7,401 | 6,924 | 6,840 |
| Net (loss) gain on sale of securities | (8) | 338 | |
| Gain on debt repurchase | 293 | 4,337 | |
| Gain on AmTrust acquisition | | 139,607 | |
| Loss on OTTI of securities | (723) | (43,530) | |
| Other income: | | | |
| Mortgage banking income | 27,533 | 12,129 | |
| PBC | 3,180 | 3,036 | 2,226 |
| Third-party investment product sales | 1,857 | 2,018 | 2,761 |
| Other | 1,546 | 1,424 | 1,058 |
| Total other income | 34,116 | 18,607 | 6,045 |
| Total non-interest income | $ 55,044 | $ 138,102 | $ 22,176 |

**Non-Interest Expense**

Non-interest expense generally consists of two primary components: 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.

Largely reflecting the three-month impact of the AmTrust acquisition in December, non-interest expense totaled $136.7 million in the current first quarter, representing a linked-quarter increase of $22.4 million and a year-over-year increase of $47.1 million. Operating expenses accounted for $128.9 million of the first quarter 2010 total, and were up $20.8 million and $44.9 million, respectively, over the three- and twelve-month periods.

69

Table of Contents

Compensation and benefits expense accounted for the bulk of these increases, largely reflecting the addition of AmTrust s branch and back-office staff. At $66.9 million, compensation and benefits expense was up $15.8 million from the trailing-quarter level and $24.5 million year-over-year.

Occupancy and equipment expense rose $2.3 million and $2.9 million, respectively, from the December 31 and March 31, 2009 levels to $21.7 million at March 31, 2010. Both increases reflect the expansion of the branch network from 210 to 276 branches as a result of the AmTrust acquisition on December 4, 2009.

G&A expense rose $17.5 million year-over-year to $40.3 million, and was up $2.7 million linked-quarter, once again reflecting the Company's acquisition-driven growth. Included in the first quarter 2010 and fourth quarter 2009 amounts were acquisition-related costs of $2.7 million and $7.5 million, respectively; there were no comparable G&A expenses in the first quarter of 2009.

The year-over-year increase in G&A expense also reflects a $6.3 million, or 102.7%, rise in FDIC insurance premiums to $12.5 million.

Reflecting the CDI acquired in the AmTrust and Desert Hills transactions, CDI amortization totaled $7.9 million in the current first quarter, as compared to $6.2 million and $5.7 million, respectively, in the three months ended December 31 and March 31, 2009.

**Income Tax Expense**

Income tax expense, which consists of federal, state, and local taxes, totaled $68.7 million in the current first quarter, as compared to $93.3 million in the trailing quarter and to $44.8 million in the first quarter of 2009.

The year-over-year increase was attributable to a $59.4 million rise in pre-tax income to $192.9 million and an increase in the effective tax rate from 33.56% to 35.63%. The level of income tax expense we recorded in the fourth quarter of 2009 was largely due to the impact of the AmTrust acquisition-related gain of $139.6 million on our pre-tax income and our effective tax rate, which were $248.2 million and 37.58%, respectively, in the three months ended December 31, 2009.

For additional information about our income tax expense, please see the discussion entitled Income Taxes under Critical Accounting Policies earlier in this report.

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 86 90 of our 2009 Annual Report on Form 10-K, filed with the U.S. Securities and Exchange Commission (the SEC ) on March 1, 2010. 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***

In connection with the AmTrust acquisition, the Community Bank and the Company adopted certain internal controls and procedures relating to the AmTrust mortgage origination and servicing businesses. The Company considers these internal controls and procedures to be reasonably likely to materially affect its internal control over financial reporting and has extended its Sarbanes-Oxley Act Section 404 compliance program to include such controls and procedures.

Except as disclosed above, 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**
None.

**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, 2009, as such factors could materially affect the Company s business, financial condition, or future results. In the three months ended March 31, 2010, there were no material changes to the risk factors disclosed in the Company s 2009 Annual Report on Form 10-K. The risks described in the 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 March 31, 2010, the Company allocated $1.7 million toward the repurchase of shares of its common stock, as outlined in the following table:

| Period | (a) Total Number of Shares (or Units) Purchased[1] | (b) Average Price Paid per Share (or Unit) | (c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs | (d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs[2] |
|---|---|---|---|---|
| Month #1: January 1, 2010 through January 31, 2010 | 116,066 | $14.70 | 116,066 | 1,119,924 |
| Month #2: February 1, 2010 through February 28, 2010 | | | | 1,119,924 |
| Month #3: March 1, 2010 through March 31, 2010 | | | | 1,119,924 |
| Total | 116,066 | $14.70 | 116,066 | |

(1) All shares were purchased in privately negotiated transactions.
(2) On April 20, 2004, the Board authorized the repurchase of up to an additional five million shares. Of this amount, 1,119,924 shares were still available for repurchase at March 31, 2010. Under said authorization, shares may be repurchased on the open market or in privately negotiated transactions until completion or the Board s earlier termination of the repurchase authorization.

***Use of Proceeds***

In December 2009, we issued 69,000,000 shares in a common stock offering that generated net proceeds of $864.9 million. Of this amount, $827.0 million was contributed to the capital of the Community Bank and was used for its general corporate purposes. The remaining $37.9 million was retained by the Holding Company for general corporate purposes.

**Item 3. Defaults Upon Senior Securities**

Not applicable.

**Item 4. Reserved**

**Item 5. Other Information**

Not applicable.

**Item 6. Exhibits**

| | |
|---|---|
| Exhibit 3.1: | Amended and Restated Certificate of Incorporation (1) |
| Exhibit 3.2: | Certificates of Amendment of Amended and Restated Certificate of Incorporation (2) |
| Exhibit 3.3: | Bylaws, as amended and restated (3) |
| Exhibit 4.1: | Specimen Stock Certificate (4) |
| 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 2.1: | Purchase and Assumption Agreement - Whole Bank; All Deposits, among the Federal Deposit Insurance Corporation, receiver of Desert Hills Bank, Phoenix, Arizona, the Federal Deposit Insurance Corporation, and New York Community Bank, dated as of March 26, 2010 (5) |
| 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 |
| Exhibit 101*: | The following materials from the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2010, formatted in XBRL (Extensible Business Reporting Language): (i) the Consolidated Statements of Condition, (ii) the Consolidated Statements of Income and Comprehensive Income, (iii) the Consolidated Statements of Changes in Stockholders' Equity, (iv) the Consolidated Statements of Cash Flows and (v) the Notes to Consolidated Financial Statements, tagged as blocks of text. |

* Furnished, not filed.

(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).

(5) Incorporated by reference into this document from Exhibits filed with the Company s Form 8-K filed with the Securities and Exchange Commission on March 31, 2010.

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: May 10, 2010 | BY: | /s/ Joseph R. Ficalora<br>**Joseph R. Ficalora**<br>**Chairman, President, and Chief Executive Officer** |
| DATE: May 10, 2010 | BY: | /s/ Thomas R. Cangemi<br>**Thomas R. Cangemi**<br>**Senior Executive Vice President and Chief Financial Officer** |

74