

NEW YORK COMMUNITY BANCORP INC

Form 10-K

March 01, 2007

Table of Contents

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

Washington, D.C. 20549

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**FORM 10-K**

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

For the fiscal year ended: December 31, 2006

Commission File Number 1-31565

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**NEW YORK COMMUNITY BANCORP, INC.**

(Exact name of registrant as specified in its charter)

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**Delaware**  
(State or other jurisdiction of

incorporation or organization)

615 Merrick Avenue, Westbury, New York 11590

(Address of principal executive offices) (Zip code)

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

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

Common Stock, \$0.01 par value

New York Stock Exchange

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and

**Bifurcated Option Note Unit Securities<sup>SM</sup>**  
(Title of Class)

(Name of exchange on which registered)

**Haven Capital Trust II 10.25% Capital Securities**  
(Title of Class)

**NASDAQ Global Market**  
(Name of exchange on which registered)

**Securities registered pursuant to Section 12(g) of the Act: None**

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Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

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

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

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

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

Large Accelerated Filer  Accelerated Filer  Non-Accelerated Filer

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

As of June 30, 2006, the aggregate market value of the shares of common stock outstanding of the registrant was \$4.5 billion, excluding 20.0 million shares held by all directors and executive officers of the registrant. This figure is based on the closing price of the registrant's common stock on June 30, 2006, \$16.51, as reported by the New York Stock Exchange.

The number of shares of the registrant's common stock outstanding as of February 22, 2007 was 295,694,813 shares.

Documents Incorporated by Reference

Portions of the definitive Proxy Statement for the Annual Meeting of Shareholders to be held on May 30, 2007 are incorporated herein by reference Part III.

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**Table of Contents**

**CROSS REFERENCE INDEX**

<u>Forward-looking Statements and Associated Risk Factors</u>	<b>Page</b> 1
<u>Glossary</u>	3
<u>Reconciliation of Stockholders' Equity and Tangible Stockholders' Equity, Total Assets and Tangible Assets, and the Related Measures</u>	6

**PART I**

Item 1. <u>Business</u>	7
Item 1A. <u>Risk Factors</u>	26
Item 1B. <u>Unresolved Staff Comments</u>	32
Item 2. <u>Properties</u>	32
Item 3. <u>Legal Proceedings</u>	32
Item 4. <u>Submission of Matters to a Vote of Security Holders</u>	32

**PART II**

Item 5. <u>Market for Registrant's Common Equity, Related Stockholder Matters, and Issuer Purchases of Equity Securities</u>	33
Item 6. <u>Selected Financial Data</u>	36
Item 7. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	37
Item 7A. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	75
Item 8. <u>Financial Statements and Supplementary Data</u>	80
Item 9. <u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	131
Item 9A. <u>Controls and Procedures</u>	131
Item 9B. <u>Other Information</u>	132

**PART III**

Item 10. <u>Directors, Executive Officers, and Corporate Governance of the Registrant</u>	133
Item 11. <u>Executive Compensation</u>	133
Item 12. <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	133
Item 13. <u>Certain Relationships and Related Transactions, and Director Independence</u>	134
Item 14. <u>Principal Accounting Fees and Services</u>	134

**PART IV**

Item 15. <u>Exhibits and Financial Statement Schedules</u>	135
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<u>Signatures</u>	138
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Certifications

## **Table of Contents**

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

## **FORWARD-LOOKING STATEMENTS AND ASSOCIATED RISK FACTORS**

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

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

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

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

Conditions in the securities markets or the banking industry;

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

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

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

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

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

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

Changes in our customer base;

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

Our ability to retain key members of management;

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

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

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

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

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

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

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

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

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

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

**Table of Contents**

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

War or terrorist activities; and

Other economic, competitive, governmental, regulatory, and geopolitical factors affecting our operations, pricing, and services. On November 2, 2006, the Company announced that it had entered into a definitive agreement to acquire PennFed Financial Services, Inc. ( PennFed ), the holding company for Penn Federal Savings Bank. The following factors, among others, could cause the actual results of the proposed acquisition to differ materially from the expectations stated in this filing: the ability of PennFed to obtain the required shareholder approval and the ability of both companies to obtain the required regulatory approvals; the ability of the two companies to consummate the transaction; a materially adverse change in the financial condition or results of operations of either company; the ability of the Company to successfully integrate the assets, liabilities, customers, systems, and any personnel we may acquire into our operations pursuant to the transaction; and our ability to realize the related revenue synergies and cost savings within the expected time frames.

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

In addition, it should be noted that we routinely evaluate opportunities to expand through acquisition and frequently conduct due diligence activities in connection with such opportunities. As a result, acquisition discussions and, in some cases, negotiations, may take place in the future, and acquisitions involving cash, debt, or equity securities may occur.

Please see Risk Factors on page 26 of this filing for a further discussion of factors that could affect the actual outcome of future events.

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

**Table of Contents****GLOSSARY****BASIS POINT**

Throughout this filing, the year-over-year or linked-quarter changes that occur in certain financial measures are reported in terms of basis points. Each basis point is equal to one hundredth of a percentage point, or 0.01%. For example, the ratio of non-performing assets to total assets improved by three basis points year-over-year, to 0.08% from 0.11%.

**BOOK VALUE PER SHARE**

As we define it, book value per share refers to the amount of stockholders' equity attributable to each outstanding share of common stock, after the unallocated shares held by our Employee Stock Ownership Plan ( ESOP ) have been subtracted from the total number of shares outstanding. Book value per share is determined by dividing total stockholders' equity at the end of a period by the adjusted number of shares at the same date. The following table indicates the number of shares outstanding both before and after the total number of unallocated ESOP shares have been subtracted at December 31,

	2006	2005	2004	2003	2002
Shares outstanding	295,350,936	269,776,791	265,190,635	256,649,073	187,847,937
Less: Unallocated ESOP shares	(1,460,564)	(2,182,398)	(4,656,851)	(5,068,648)	(6,409,993)
Shares used for book value per share computation	293,890,372	267,594,393	260,533,784	251,580,425	181,437,944

**CHARGE-OFFS**

Refers to loan balances that have been written off against the allowance for loan losses.

**CORE DEPOSIT INTANGIBLES**

Refers to the intangible asset related to the value of core deposit accounts acquired in a merger or acquisition.

**CORE DEPOSITS**

All deposits other than certificates of deposit are collectively referred to as core deposits.

**COST OF FUNDS**

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

**DIVIDEND YIELD**

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

**DIVIDEND PAYOUT RATIO**

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

**EFFICIENCY RATIO**

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

**GAAP**

This abbreviation is used to refer to U.S. generally accepted accounting principles, on the basis of which financial statements are prepared and presented.

**GOODWILL**

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



## **Table of Contents**

### **INTEREST RATE SENSITIVITY**

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

### **INTEREST RATE SPREAD**

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

### **LOAN-TO-VALUE RATIO**

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

### **MULTI-FAMILY LOAN**

A mortgage loan made on a rental apartment building with more than four units, or to an association that owns an apartment building structured as a cooperative corporation.

### **NET INTEREST INCOME**

The difference between the interest and dividends earned on interest-earning assets and the interest paid or payable on interest-bearing liabilities.

### **NET INTEREST MARGIN**

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

### **NON-ACCRUAL LOAN**

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

### **NON-PERFORMING ASSETS**

Consists of non-accrual loans, loans 90 days or more delinquent and still accruing interest, and other real estate owned.

### **RENT-CONTROLLED/RENT-STABILIZED BUILDINGS**

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

### **REPURCHASE AGREEMENTS**

Repurchase agreements are contracts for the sale of securities owned or borrowed by the Banks with an agreement to repurchase those securities at an agreed-upon price and date. The Banks' repurchase agreements are collateralized by U.S. Government agency obligations and mortgage-related securities, and are made with either the Federal Home Loan Bank of New York (the FHLB-NY) or brokerage firms.

### **RETURN ON AVERAGE ASSETS**

A measure of profitability determined by dividing net income by average assets.

**RETURN ON AVERAGE STOCKHOLDERS EQUITY**

A measure of profitability determined by dividing net income by average stockholders equity.

**Table of Contents**

**WHOLESALE BORROWINGS**

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

**YIELD**

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

**YIELD CURVE**

Considered a key economic indicator, the yield curve is a graph that illustrates the difference between long-term and short-term interest rates over a period of time. The greater the difference, the steeper the yield curve; the lesser the difference, the flatter the yield curve. When short-term interest rates exceed long-term interest rates, the result is an inverted yield curve.

**Table of Contents**

**RECONCILIATION 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 after-tax net unrealized losses on securities. We also calculate our ratio of tangible stockholders' equity to tangible assets excluding our after-tax net unrealized losses on securities, as such losses are impacted by changes in market interest rates and therefore tend to change from day to day. This ratio is referred to below and 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 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 measures at December 31, 2006 and 2005 follow:

<i>(dollars in thousands)</i>	<b>December 31,</b>	
	<b>2006</b>	<b>2005</b>
Total stockholders' equity	\$ 3,689,837	\$ 3,324,877
Less: Goodwill	(2,148,108)	(1,980,689)
Core deposit intangibles	(106,381)	(86,533)
Tangible stockholders' equity	\$ 1,435,348	\$ 1,257,655
Total assets	\$ 28,482,370	\$ 26,283,705
Less: Goodwill	(2,148,108)	(1,980,689)
Core deposit intangibles	(106,381)	(86,533)
Tangible assets	\$ 26,227,881	\$ 24,216,483
Stockholders' equity to total assets	12.95%	12.65%
Tangible stockholders' equity to tangible assets	5.47%	5.19%
Tangible stockholders' equity	\$ 1,435,348	\$ 1,257,655
Add back: After-tax net unrealized losses on securities	52,125	55,857
Adjusted tangible stockholders' equity	\$ 1,487,473	\$ 1,313,512
Tangible assets	\$ 26,227,881	\$ 24,216,483
Add back: After-tax net unrealized losses on securities	52,125	55,857
Adjusted tangible assets	\$ 26,280,006	\$ 24,272,340

Adjusted tangible stockholders equity to adjusted tangible assets	5.66%	5.41%
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**Table of Contents**

**PART I**

**ITEM 1. BUSINESS**

**General**

With total assets of \$28.5 billion at December 31, 2006, we are the fourth largest publicly traded bank holding company headquartered in the New York metropolitan region, and one of its leading depositories. We currently have 166 banking offices serving customers in all five boroughs of New York City, Suffolk and Nassau Counties on Long Island, Westchester County, and the northern New Jersey counties of Essex, Hudson, and Union.

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

Established in April 1859, the Community Bank is a New York State-chartered savings bank with 137 locations spanning our marketplace. We operate our branches through seven divisions, each one serving a specific county or community. Our three largest divisions are Roslyn Savings Bank, with 59 locations on Long Island, a suburban market east of New York City comprised of Nassau and Suffolk counties; Queens County Savings Bank, with 34 locations in the New York City borough of Queens; and Richmond County Savings Bank, with 23 locations on Staten Island, which is the fastest growing borough of New York City. In the adjacent markets, our franchise includes Roosevelt Savings Bank, with eight branches serving the borough of Brooklyn; CFS Bank, with one branch in the Bronx, one in Manhattan, and four in Westchester County; First Savings Bank of New Jersey, with four branches in Bayonne (Hudson County), New Jersey; and Ironbound Bank, which serves Union and Essex Counties in New Jersey with two branches each. We also operate a single branch in the Bronx under the name New York Community Bank.

We compete for customers by emphasizing convenience and service, and by offering a full range of traditional and non-traditional products and services. All of our Community Bank branches feature weekend hours, including 46 branches that are located inside supermarkets or drugstores. The combination of traditional and in-store branches enables us to offer 70 to 80 hours a week of banking service in the majority of the communities we serve. The Community Bank also offers 24-hour banking at 128 of our 145 ATM locations, as well as 24-hour banking by phone.

On November 2, 2006, we announced the signing of a definitive merger agreement with PennFed Financial Services, Inc. ( PennFed ), the holding company for Penn Federal Savings Bank, a New Jersey State-chartered thrift with assets of \$2.3 billion and deposits of \$1.5 billion at December 31, 2006. Pending approval of PennFed s shareholders and the receipt of customary regulatory approvals, we expect to complete the acquisition of PennFed on or about March 31, 2007. The acquisition will add 24 branches to our Community Bank franchise in New Jersey, expanding our presence in Essex, Hudson, and Union Counties, and extending it into Middlesex, Monmouth, and Ocean Counties in the central/southern portion of the state.

The Commercial Bank is a New York State-chartered commercial bank with 29 branches serving Manhattan, Queens, Brooklyn, Westchester County, and Long Island, and began operations on December 30, 2005 in connection with our acquisition of Long Island Financial Corp. ( Long Island Financial ), the holding company for Long Island Commercial Bank. At the date of the acquisition, Long Island Financial merged with and into the Company, and the twelve branches of Long Island Commercial Bank commenced operations under the name New York Commercial Bank.

On April 28, 2006, pursuant to a Purchase Agreement announced on October 11, 2005, we expanded our commercial banking franchise with the acquisition of Atlantic Bank of New York ( Atlantic Bank ). At the acquisition date, Atlantic Bank had assets of \$2.8 billion, including loans of \$1.2 billion and securities of \$1.1 billion, and deposits of \$1.8 billion, including core deposits of \$1.4 billion. As a result of the transaction, we added 17 branches to our Commercial Bank franchise, which operate through the Atlantic Bank division of the Commercial Bank.

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## **Table of Contents**

To fund the all-cash transaction, we issued 24.5 million shares of our common stock on April 18, 2006, generating net proceeds of \$400.1 million.

The Commercial Bank competes for customers by emphasizing personal service and by addressing the needs of small and mid-size businesses, professional associations, and government agencies with a comprehensive menu of business solutions, including installment loans, revolving lines of credit, and cash management services. In addition to featuring up to 48.5 hours per week of in-branch service, the Commercial Bank offers 24-hour banking at 26 ATM locations and by phone.

We also serve our customers through three web sites: [www.myNYCB.com](http://www.myNYCB.com), [www.NewYorkCommercialBank.com](http://www.NewYorkCommercialBank.com), and [www.nycbfamily.com](http://www.nycbfamily.com). The web sites provide our customers with 24-hour access to their accounts, and the ability to purchase several of our products online. In addition, the web sites provide extensive information about the Company for current and prospective investors. Earnings releases, dividend announcements, and other press releases are typically available at these sites upon issuance. In addition, our filings with the U.S. Securities and Exchange Commission (the "SEC") (including our annual report on Form 10-K; our quarterly reports on Form 10-Q; and our current reports on Form 8-K) and all amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 are available without charge at our web sites, typically within minutes of being filed. The web sites also provide information regarding our corporate governance policies. Information that appears on our web sites should not be considered to be a part of this filing.

## **Overview**

Our financial performance in 2006 was driven by a business strategy with five key components: (1) the origination of multi-family loans, primarily on rent-regulated buildings in New York City; (2) the maintenance of credit standards that have resulted in a solid record of asset quality; (3) the efficient operation of our Company, including our retail branch network; (4) the growth of our franchise through accretive merger transactions; and (5) the strategic post-merger repositioning of our balance sheet.

**Multi-family Lending:** Multi-family loans are our principal asset. We are the leading producer of multi-family loans for portfolio in New York City, with a focus on loans secured by rent-controlled and -stabilized buildings, which represented 52.0% of the City's rental housing market in 2006. The loans we produce are typically based on the cash flows produced by the buildings, and are generally made to long-term property owners with a history of growing cash flows over time. The funds we provide are typically used to make improvements to the buildings and the apartments therein, thus increasing their value and the rents that may be charged. As improvements are made, the building's rent roll increases, prompting the borrower to seek additional funds by refinancing the loan. While our typical loan has a term of ten years, with a fixed rate of interest in years one through five and a rate that adjusts in each year that follows, the majority of our loans tend to refinance within the first five years. Loans that prepay in the first five years generate penalties ranging from five percentage points to one percentage point of the loan balance, depending on the remaining term of the loan. Reflecting the structure of our multi-family credits, the average multi-family loan had an expected weighted average life of 3.8 years at December 31, 2006. In addition, the quality of these assets has been consistently solid: We have not had a loss of principal within this niche for more than twenty-five years.

At December 31, 2006, our portfolio of multi-family loans totaled \$14.5 billion, representing 73.9% of loans outstanding, and a year-over-year increase of \$1.7 billion, or 13.0%.

To diversify our asset mix, we also originate commercial real estate and construction loans, primarily in New York City and on Long Island, and, with the establishment of our commercial bank, have increased our production of commercial and industrial ("C&I") loans to small and mid-size businesses.

**Commercial Real Estate Lending:** Like our multi-family loans, our commercial real estate and construction loans are typically intermediate-term in nature and have a solid record of asset quality, with no charge-offs recorded against the loan loss allowance for more than ten years. Our commercial real estate loans are largely secured by properties in New York City and on Long Island, with Manhattan accounting for the largest share. At December 31, 2006, commercial real estate loans totaled \$3.1 billion and represented 15.8% of loans outstanding, signifying a year-over-year increase of \$226.1 million, or 7.8%.

**Table of Contents**

**Construction Lending:** Our construction loan portfolio largely consists of loans for the construction and development of one-to-four family homes and residential subdivisions, primarily on Long Island, and, to a lesser extent, for the construction and development of commercial real estate and multi-family properties. At December 31, 2006, construction loans totaled \$1.1 billion, signifying a year-over-year increase of \$246.1 million, or 28.7%.

**Commercial & Industrial Lending:** With the establishment and expansion of the Commercial Bank through our Long Island Financial and Atlantic Bank acquisitions, our loan portfolio now includes a small, but growing, balance of C&I loans. A broad range of loans are available to small and mid-size businesses for working capital (including inventory and receivables), business expansion, and for the purchase of equipment and machinery. Reflecting both acquired loans and organic loan production, C&I loans totaled \$643.1 million at December 31, 2006, signifying a \$490.5 million increase from the balance recorded at December 31, 2005.

As a result of the growth in the aforementioned portfolios over the twelve-month period, total loans rose \$2.6 billion, or 15.4%, year-over-year, to \$19.7 billion, representing 69.0% of total assets at December 31, 2006. The growth of our loan portfolio has been fueled by four primary funding sources: cash flows produced by the repayment of loans; cash flows produced by securities sales and repayments; the deposits we've gathered organically or acquired through merger transactions; and the use of wholesale funding sources, primarily in the form of Federal Home Loan Bank of New York ( FHLB-NY ) advances and repurchase agreements with the FHLB-NY and various brokerage firms.

In 2006, loan repayments generated cash flows of \$3.5 billion, while securities sales and repayments provided cash flows of \$2.0 billion. Deposits totaled \$12.6 billion at December 31, 2006, and were up \$514.1 million from the year-earlier balance, primarily reflecting the deposits acquired with Atlantic Bank. Certificates of deposit ( CDs ) represented \$5.9 billion, or 47.1%, of total deposits, with core deposits (defined as NOW and money market accounts, savings accounts, and non-interest-bearing accounts) representing the remaining \$6.7 billion, or 52.9%, at year-end 2006. Wholesale borrowings rose \$1.4 billion year-over-year, to \$11.1 billion, as management took advantage of attractive rates to fund our loan production, particularly in the fourth quarter of the year.

**Asset Quality:** The quality of our assets has long been a hallmark of the Company. In 2006, we extended our record of asset quality by recording a year-over-year reduction of \$6.3 million, or 21.9%, in the balance of non-performing assets, and a \$6.4 million, or 23.1%, reduction in the balance of non-performing loans. At December 31, 2006, non-performing assets represented \$22.5 million, or 0.08%, of total assets and included non-performing loans of \$21.2 million, representing 0.11% of total loans. While the level of charge-offs rose from \$21,000 in 2005 to \$420,000 in 2006, the latter amount represented a modest 0.002% of average loans recorded, and consisted entirely of consumer and unsecured loans acquired in various merger transactions. The quality of our assets reflects the active involvement of our Board of Directors in the loan approval process, the rigorous nature of our credit standards, and the unique character of our multi-family lending niche.

In view of the consistent quality of our assets, and our assessment of the adequacy of our loan loss allowance, we did not record a provision for loan losses in 2006 or 2005. Nonetheless, the allowance for loan losses rose \$5.7 million year-over-year, to \$85.4 million, representing 402.72% of non-performing loans at December 31, 2006. The increase reflects the addition of \$6.1 million through the Atlantic Bank transaction, which more than offset the impact of the charge-offs recorded during the year.

**Efficiency:** Our efficiency has also been a distinguishing Company characteristic. Notwithstanding the impact of adding a commercial bank franchise with 29 branches, we ranked 13th among the nation's most efficient banks and thrifts in 2006, with an efficiency ratio of 39.41%. While several factors contribute to the efficiency of our operation, two are chief among them: our ability to contain the costs involved in processing and servicing our multi-family credits, and the expansion of our retail banking franchise primarily through accretive merger transactions.

**Accretive Merger Transactions:** In addition to organic loan production, our growth has been fueled by merger transactions with other in-market banks. On November 30, 2000, we acquired Haven Bancorp, Inc. ( Haven ), the parent company of CFS Bank, which today accounts for 48 of our Community Bank branches; on July 31, 2001, Richmond County Financial Corp. ( Richmond County ), the parent company of Richmond County Savings Bank, merged with us, providing 26 of our current Community Bank locations, and the second largest deposit franchise on Staten Island. On October 31, 2003, we completed a merger with Roslyn Bancorp, Inc. ( Roslyn ), the parent company of The Roslyn Savings Bank, which added 39 Community Bank locations, including 28 on Long Island, representing our largest deposit base.



## **Table of Contents**

On December 30, 2005, we completed the acquisition of Long Island Financial. While substantially smaller in size than our earlier merger partners, Long Island Financial nonetheless provided us with an established commercial banking platform, augmenting our efforts to attract commercial deposits and originate C&I loans.

On April 28, 2006, we expanded our commercial banking franchise with the acquisition of Atlantic Bank. In addition to providing us with a meaningful presence in the attractive Manhattan market, the acquisition extended our commercial bank franchise into Queens and Westchester Counties while expanding our presence in Brooklyn and Long Island. The acquisition also provided us with an opportunity to reduce our higher-cost funding, not only by providing us with an infusion of lower-cost and non-interest-bearing deposits, but also with cash flows from the sale of securities, as further discussed below.

***Post-Merger Repositioning of the Balance Sheet:*** Subsequent to the completion of each of our merger transactions, we have engaged in a strategic repositioning of our balance sheet. In the last six years, we have sold one-to-four family loans, home equity loans, and securities we have acquired, or have securitized acquired one-to-four family loans. The proceeds from the sale of acquired assets have been deployed into higher-yielding loan production or have been used to reduce our higher-cost wholesale sources of funds.

For example, within weeks of completing the Atlantic Bank acquisition, we sold \$1.2 billion of the securities acquired in that transaction and the acquisition of Long Island Financial, combined. The proceeds from the sale of securities were used to prepay \$886.1 million of higher-cost wholesale borrowings with a weighted average rate of 5.93% and to reduce our balance of brokered deposits by \$260.6 million.

The acquisition of PennFed, which is currently pending the necessary shareholder and regulatory approvals, is expected to provide an additional opportunity to reposition our balance sheet. Upon completion of the transaction, we expect to sell the majority of the one-to-four family loans and a portion of the securities acquired. Depending upon market conditions at the time of the acquisition, we expect to utilize the proceeds from the sale of such assets to originate multi-family loans and other higher-yielding credits, and/or to reduce our balance of higher-cost funds.

Our primary source of income is net interest income, which is the difference between the interest income generated by the loans we produce and the securities we invest in, and the interest expense generated by our interest-bearing deposits and borrowed funds. The level of net interest income we generate is influenced by a variety of factors, some of which are within our control (e.g., our mix of interest-earning assets and interest-bearing liabilities); and some of which are not (e.g., the level of short-term interest rates and market rates of interest, and the degree of competition we face for deposits and loans).

While net interest income is our primary source of income, it is supplemented by the non-interest income we produce in a variety of forms. The fee income we generate on loans and deposits is complemented by revenues from a variety of sources, including the sale of third-party investment products, and the sale of one-to-four family loans to a third-party conduit. We also generate other income through our investment in Bank-owned Life Insurance ( BOLI ) and through our investment advisory firm, Peter B. Cannell & Co., Inc. ( PBC ), which had \$1.6 billion of assets under management at December 31, 2006.

## **Market Area and Competition**

The combined population of our marketplace is 14.0 million, including 4.1 million residents of Nassau, Queens, and Richmond Counties, where 98 of our branches are located and where we enjoy the fourth largest share of deposits among all banks and thrifts, combined.

The drive to compete for deposits is influenced by our need for funding and by the level of interest rates. We generally vie for deposits by emphasizing convenience and service, and by offering our customers access to a multitude of traditional and non-traditional products and services. We have a significant presence in the New York metropolitan region, with 166 branches in total; of this number, 137 are branches of the Community Bank and 29 are branches of the Commercial Bank. We are committed to providing our customers with easy access to their money and to a full range of traditional and non-traditional products and services. In addition to providing banking hours at least six days a week in 151 of our branches, we offer our customers 24-hour banking online, by phone, and through 154 locations featuring 24-hour ATMs.

## **Table of Contents**

The success of our efforts is reflected in our deposit market share. For example, in Richmond County, we have an 18.0% share of deposits; in Nassau and Queens Counties, our share of deposits is 11.2% and 7.6%, respectively. With the acquisition of PennFed on or about March 31, 2007, we expect to expand our presence in three of New Jersey's northern counties and to establish a presence in three additional counties in the central/southern part of the state. In Essex County, we expect to have 15 branches upon completion of the PennFed transaction, and a 6.1% deposit market share.

Service also factors in our ability to compete as a lender. We are recognized as a leading producer of multi-family loans in New York City, and compete on the basis of timely service and the expertise that stems from being a specialist in our field. The majority of our multi-family loans are secured by rent-regulated buildings, a niche that we have focused on for more than 30 years.

With more than 175 banks and thrifts serving our region, we face a significant level of competition for deposits and for loans. In recent years, competition has increased as a result of regulatory actions and legislative changes, which have eased restrictions on interstate banking and the entrance into the financial services market by non-traditional and non-depository providers of financial services. As a result, we not only vie for business with the many banks, thrifts, and credit unions within our local market, but also with mortgage banks, insurance companies, brokerage firms, and investment banks. We also face competition for loans and deposits on a nationwide basis from companies that solicit business over the Internet. Many of the institutions we compete with have greater financial resources and serve a broader market, enabling them to promote their products more extensively.

Our ability to compete has also been affected by industry consolidation. As the acquirer of three in-market thrifts and two in-market commercial banks, we have been an active participant in, and beneficiary of, the trend toward consolidation. Merger transactions have enabled us to expand our branch network, strengthen our management team, and augment our product menu, while enhancing our asset mix and providing us with additional funding to grow our loan portfolio. With the acquisition of Atlantic Bank, we have extended our commercial bank franchise into Manhattan and Queens, and neighboring Westchester County, while expanding our presence in Brooklyn and on Long Island.

In the past few years, we also have faced increased competition as a multi-family lender. While we anticipate that competition for multi-family loans will continue in the future, the level of loans produced in 2006 suggests that we have the capital and human resources to compete effectively. However, no assurances can be made that we will be able to sustain our leadership role in the multi-family lending market, given that loan production may be influenced not only by competition, but also by such other factors as the level of market interest rates, the availability and cost of funding, and the local economy.

Unlike larger financial institutions that serve a broader market, we are focused on serving customers in New York City and on Long Island, with Westchester County and New Jersey currently comprising the remainder of our primary marketplace. Accordingly, our success is substantially tied to the economic health of the New York metropolitan region. Local economic conditions have a significant impact on loan demand, the value of the collateral securing our credits, and the ability of our borrowers to repay their loans.

The strength of the economy within our region is reflected in the number of new jobs created and improvements in the unemployment rate in the past year. In the twelve months ended December 31, 2006, the New York State economy experienced an increase of 58,200 jobs in the private sector, with the number of private-sector positions in New York City and on Long Island rising 45,500 and 1,700, respectively. The unemployment rate in New York State fell to 3.8% from 4.9% over the twelve-month period, while New York City's unemployment rate declined from 5.6% to 4.0%. The unemployment rate on Long Island also improved over the twelve-month period, from 3.9% to 3.2%.

In 2006, the economy in the New York metropolitan region was bolstered by the continued strength of the real estate market, which continues to reflect the comparatively low level of market interest rates. The low level of rates has enabled consumers to refinance their home mortgages, significantly reducing their monthly debt service requirements and increasing their consumption of goods and services. While short-term interest rates have risen significantly since June 30, 2004, the rise in intermediate- and long-term market interest rates has not kept pace. An increase in intermediate-term rates would be expected to impact the volume of multi-family and commercial real estate loan refinancings, as well as the ability of our borrowers to repay their loans.

**Table of Contents****Environmental Issues**

We encounter certain environmental risks in our lending activities. The existence of hazardous materials may make it unattractive for a lender to foreclose on the properties securing its loans. In addition, under certain conditions, under federal and state environmental laws, lenders may become liable for costs of cleaning up hazardous materials found on such properties. We attempt to control such environmental risks by requiring either that a borrower take environmental insurance on a property or that an appropriate environmental site assessment be completed as part of our underwriting review on the initial granting of all commercial real estate and construction loans, regardless of location, and all out-of-state multi-family loans. In addition, we typically maintain ownership of specific commercial real estate properties we acquire through foreclosure in separately incorporated subsidiaries.

**Subsidiary Activities**

The Community Bank has formed, or acquired through merger transactions, 32 active subsidiary corporations, 18 of which are direct subsidiaries of the Community Bank, and 14 of which are subsidiaries of Community Bank-owned entities.

The 18 direct subsidiaries of the Community Bank are:

<b>Name</b>	<b>Jurisdiction of Organization</b>	<b>Purpose</b>
NYCB Community Development Corp.	Delaware	Formed to invest in community development activities
RSB Mt. Sinai Ventures, LLC	Delaware	Holding company for Mt. Sinai Ventures, LLC
RSB RNMC Re, Inc.	Delaware	Holding company for RNMC Re, Inc.
Roslyn National Mortgage Corporation	Delaware	Formerly operated as a mortgage loan originator and servicer and currently holds an interest in its former office space
Woodhaven Investments, Inc.	Delaware	Holding company for Roslyn Real Estate Asset Corp. and Ironbound Investment Company, Inc.
Pacific Urban Renewal, Inc.	New Jersey	Owns a branch building
Somerset Manor Holding Corp.	New Jersey	Holding company for four subsidiaries that owned and operated two assisted-living facilities in New Jersey in 2005
1400 Corp.	New York	Manages properties acquired by foreclosure while they are being marketed for sale
BSR 1400 Corp.	New York	Holds Bank facilities and leases thereon
Bellingham Corp.	New York	A real estate holding company
Blizzard Realty Corp.	New York	A real estate holding company
CFS Investments, Inc.	New York	Sells non-deposit investment products
Main Omni Realty Corp.	New York	Owns foreclosed and investment properties
RCBK Mortgage Corp.	New York	Holds multi-family loans
RCSB Corporation	New York	Owns a branch building
RSB Agency, Inc.	New York	Sells non-deposit investment products
RSB O.B. Ventures, LLC	New York	Holding company for O.B. Ventures, LLC
Richmond Enterprises, Inc.	New York	Holding company for Peter B. Cannell & Co., Inc.

**Table of Contents**

The 14 subsidiaries of Community Bank-owned entities are:

<b>Name</b>	<b>Jurisdiction of Organization</b>	<b>Purpose</b>
Columbia Preferred Capital Corporation	Delaware	A REIT organized for the purpose of investing in mortgage-related assets
Mt. Sinai Ventures, LLC	Delaware	A joint venture partner in the development, construction, and sale of a 177-unit golf course community in Mt. Sinai, New York, all the units of which were sold by December 31, 2006
Peter B. Cannell & Co., Inc.	Delaware	Advises high net worth individuals and institutions on the management of their assets
RNMC Re, Inc.	Delaware	A captive re-insurance company which reinsures mortgage impairment policies underwritten by principal carriers
Roslyn Real Estate Asset Corp.	Delaware	A REIT organized for the purpose of investing in mortgage-related assets
Ironbound Investment Company, Inc.	New Jersey	A REIT organized for the purpose of investing in mortgage-related assets that also is the principal shareholder of Richmond County Capital Corp.
Somerset Manor North Realty Holding Company, LLC	New Jersey	Established to own or operate assisted-living facilities in New Jersey which were sold in 2005
Somerset Manor South Realty Holding Company, LLC	New Jersey	Established to own or operate assisted-living facilities in New Jersey which were sold in 2005
Somerset Manor North Operating Company, LLC	New Jersey	Established to own or operate assisted-living facilities in New Jersey which were sold in 2005
Somerset Manor South Operating Company, LLC	New Jersey	Established to own or operate assisted-living facilities in New Jersey which were sold in 2005
O.B. Ventures, LLC	New York	A joint venture partner in a 370-unit residential community in Plainview, New York, all the units of which were sold by December 31, 2004
Richmond County Capital Corporation	New York	A REIT organized for the purpose of investing in mortgage-related assets that also is the principal shareholder of Columbia Preferred Capital Corp.
The Hamlet at Olde Oyster Bay, LLC	New York	Organized as a joint venture, part-owned by O.B. Ventures, LLC
The Hamlet at Willow Creek, LLC	New York	Organized as a joint venture, part-owned by Mt. Sinai Ventures, LLC

In addition, the Community Bank maintains one inactive corporation, Bayonne Service Corp., which is organized in New Jersey, and the following inactive corporations which are organized in New York: MFO Holding Corp.; Queens County Capital Management, Inc.; Columbia Resources Corp.; CFSB Funding Corporation; Residential Mortgage Banking, Inc.; Old Northern Co. Ltd.; Columbia Insurance Agency; Columbia Travel Services, Inc.; BSR Corp.; and VBF Holding Corporation.

The Commercial Bank has six active subsidiary corporations, two of which are subsidiaries of Commercial Bank-owned entities.

The four direct subsidiaries of the Commercial Bank are:

<b>Name</b>	<b>Jurisdiction of Organization</b>	<b>Purpose</b>
Standard Funding Corp.	New York	Provides insurance premium financing

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Gramercy Leasing Services, Inc.	New York	Provides equipment lease financing
Long Island Commercial Capital Corp.	New York	A REIT organized for the purpose of investing in mortgage-related assets
Beta Investments, Inc.	Delaware	Holding company for Omega Commercial Mortgage Corp.

**Table of Contents**

The two subsidiaries of Commercial Bank-owned entities are:

<b>Name</b>	<b>Jurisdiction of Organization</b>	<b>Purpose</b>
Standard Funding of California, Inc.	California	Provides insurance premium financing
Omega Commercial Mortgage Corp.	Delaware	A REIT organized for the purpose of investing in mortgage-related assets

The Company owns eight active special business trusts that were formed for the purpose of issuing capital and common securities and investing the proceeds thereof in the junior subordinated debentures issued by the Company. Included in this number is NYCB Capital Trust X, which was formed on December 5, 2006 and LIF Statutory Trust I, which was assumed by the Company in connection with the acquisition of Long Island Financial. Please see Note 8 to the Consolidated Financial Statements, Borrowed Funds, within Item 8, Financial Statements and Supplementary Data, for a further discussion of the Company's special business trusts.

The Company also has three non-banking subsidiaries; two were acquired in the Long Island Financial transaction to provide private banking and insurance services and one was established in connection with the acquisition of Atlantic Bank.

**Personnel**

At December 31, 2006, the number of full-time equivalent employees was 2,431, as compared to 2,202 at December 31, 2005. Our employees are not represented by a collective bargaining unit, and we consider our relationship with our employees to be good.

**Federal, State, and Local Taxation**

***Federal Taxation***

*General.* The Company and its subsidiaries (excluding REIT subsidiaries) report their income on a consolidated basis for tax purposes, using a calendar year and the accrual method of accounting, and, with some minor exceptions, are subject to federal income taxation in the same manner as other corporations. The following discussion of tax matters is intended only as a summary and does not purport to be a comprehensive description of the tax rules applicable to the Company, the Community Bank, the Commercial Bank, or other Company affiliates.

*Bad Debt Reserves.* Prior to the enactment of The Small Business Job Protection Act of 1996 (the 1996 Act), for federal income tax purposes, thrift institutions such as the Community Bank were permitted to establish tax reserves for bad debts. The 1996 Act eliminated the Community Bank's ability to make future additions to its tax bad debt reserves and limited the circumstances which could give rise to the recapture of reserve amounts into the Company's consolidated taxable income.

Under the 1996 Act, if the Community Bank makes non-dividend distributions to the Parent Company (i.e., the Company on a stand-alone basis), such distributions will be considered to have been made from the Community Bank's unrecaptured tax bad debt reserves to the extent thereof, and approximately one and one-half times the amount of such distribution (but not in excess of the amount of such reserves) will be included in the Community Bank's taxable income. Non-dividend distributions include distributions in excess of the Community Bank's current and accumulated earnings and profits, as calculated for federal income tax purposes; distributions in redemption of stock; and distributions in partial or complete liquidation. Dividends paid from the Community Bank's current or accumulated earnings and profits will not be so included in the Community Bank's taxable income.

See Regulation and Supervision elsewhere in this report for limits on the payment of dividends by the Community Bank. The Community Bank does not intend to pay dividends that would result in a recapture of any portion of its tax bad debt reserves.

## **Table of Contents**

*Corporate Alternative Minimum Tax.* In addition to the regular income tax, the Internal Revenue Code of 1986, as amended (the Code) imposes an alternative minimum tax (AMT) in an amount equal to 20% of alternative minimum taxable income (AMTI) to the extent that the AMT exceeds the taxpayer's regular income tax. AMTI is regular taxable income as modified by certain adjustments and tax preference items. AMTI includes an amount equal to 75% of the excess of adjusted current earnings over AMTI (determined without regard to this adjustment and prior to reduction for net operating losses). Only 90% of AMTI can be offset by net operating loss carryforwards. The AMT is available as a credit against future regular income tax. The AMT credit can be carried forward indefinitely. The Company does not expect to be subject to the AMT in the foreseeable future.

### ***State and Local Taxation***

*New York State Taxation.* The Company, the Community Bank, the Commercial Bank, and certain of their subsidiaries are subject to the New York State Franchise Tax on banking corporations in an annual amount equal to the greater of (a) 7.5% of entire net income allocable to New York State, or (b) the applicable alternative tax. The alternative tax is generally the greater of (a) .01% of the value of the taxable assets allocable to New York State with certain modifications, (b) 3% of alternative entire net income allocable to New York State, or (c) \$250. Entire net income is similar to federal taxable income, subject to certain modifications, and alternative entire net income is equal to entire net income without certain adjustments. Income is allocated to New York State based upon three factors: receipts, wages, and deposits. The Company, the Community Bank, the Commercial Bank, and certain of their subsidiaries file a New York State combined return.

The New York State tax law on banking corporations was amended in 1997 to allow a deduction for net operating losses sustained in tax years beginning on or after January 1, 2001. The deduction may not exceed the allowable federal net operating loss deduction augmented by the excess of the New York State bad debt deduction over the federal bad debt deduction. No carryback of these losses is allowed. However, the losses may be carried forward for the 20-year period allowed under Code Section 172.

The Company does business within the Metropolitan Transportation Business Tax District (the District). A tax surcharge is imposed on banking corporations and business corporations doing business within the District and has been applied since 1982. The District tax rate is 17% on the franchise tax described above. However, if the franchise tax paid to New York State is based on entire net income, then that District surcharge is equal to 17% of a specially recomputed franchise tax using a 9% rate. The District tax surcharge is scheduled to expire for tax years ending on or after December 31, 2009.

*Bad Debt Reserves.* For purposes of computing its New York State entire net income, the Community Bank and the Commercial Bank are permitted a deduction for an addition to the reserve for loan losses. The New York State tax bad debt reserve of the Community Bank is subject to recapture for non-dividend distributions in a manner similar to the recapture of the federal tax bad debt reserve for such distributions. Also, the New York State tax bad debt reserve is subject to recapture in the event that the Community Bank fails a definitional test which includes maintaining a minimum level of qualifying assets (the 60% Test), which it presently satisfies. Qualifying assets for this test include loans secured by residential, multi-family, and mixed-use properties (where the residential portion exceeds 80% of total use), mortgage-backed securities, cash, and other specified investments which are not significant for the Community Bank. Although there can be no assurance that the Community Bank will satisfy the 60% Test in the future, management believes that the requisite level of qualifying assets will be maintained by the Community Bank.

In January 2007, the Governor of the State of New York released a budget proposal which included a number of tax provisions that, if enacted, might adversely impact the New York State and City tax liabilities of the Company. For additional information regarding the proposed tax provisions, please see the discussion of Critical Accounting Policies Income Taxes in Item 7.

*City of New York Taxation.* The Company, the Community Bank, the Commercial Bank, and certain of their subsidiaries are also subject to a New York City banking corporation tax in an annual amount equal to the greater of (a) 9% of entire net income allocable to New York City, or (b) the applicable alternative tax. The applicable alternative tax is the greater of (a) .01% of the value of taxable assets allocable to New York City with certain modifications, (b) 3% of alternative entire net income allocable to New York City, or (c) \$125. Allocated entire net income and alternative net income are calculated in accordance with rules that are similar to the rules for calculating

## **Table of Contents**

the New York State Franchise Tax, including the allowance of a deduction for an addition to the tax bad debt reserve. The New York City tax law does not permit a deduction for net operating losses. The Company, the Community Bank, the Commercial Bank, and certain of their subsidiaries file a New York City combined return.

*Other State Taxes.* Taxes paid by the Company and its subsidiaries to states other than New York are not material to our consolidated financial condition or results of operations.

## **Regulation and Supervision**

### ***General***

The Community Bank is a New York State-chartered savings bank and its deposit accounts are insured under the Deposit Insurance Fund (the DIF) up to applicable legal limits. The Commercial Bank is a New York State-chartered commercial bank and its deposit accounts also are insured by the DIF up to applicable legal limits. Both the Community Bank and the Commercial Bank are subject to extensive regulation and supervision by the New York State Banking Department (the Banking Department), as their chartering agency, and by the Federal Deposit Insurance Corporation (the FDIC), as their insurer of deposits. Both institutions must file reports with the Banking Department and the FDIC concerning their activities and financial condition, in addition to obtaining regulatory approvals prior to entering into certain transactions such as mergers with, or acquisitions of, other depository institutions. Furthermore, the Banks are periodically examined by the Banking Department and the FDIC to assess compliance with various regulatory requirements, including safety and soundness considerations. This regulation and supervision establishes a comprehensive framework of activities in which a savings bank and a commercial bank can engage, and is intended primarily for the protection of the insurance fund and depositors. The regulatory structure also gives the regulatory authorities extensive discretion in connection with their supervisory and enforcement activities and examination policies, including policies with respect to the classification of assets and the establishment of adequate loan loss allowances for regulatory purposes. Any change in such regulation, whether by the Banking Department, the FDIC, or through legislation, could have a material adverse impact on the Company, the Community Bank, the Commercial Bank, and their operations, and the Company's shareholders. The Company is required to file certain reports under, and otherwise comply with, the rules and regulations of the Federal Reserve Board (the FRB), the FDIC, the Banking Department, and the SEC under federal securities laws. In addition, the FRB periodically examines the Company. Certain of the regulatory requirements applicable to the Community Bank, the Commercial Bank, and the Company are referred to below or elsewhere herein. However, such discussion is not meant to be a complete explanation of all laws and regulations and is qualified in its entirety by reference to the actual laws and regulations.

### ***New York Law***

The Community Bank and the Commercial Bank derive their lending, investment, and other authority primarily from the applicable provisions of New York State Banking Law and the regulations of the Banking Department, as limited by FDIC regulations. Under these laws and regulations, banks, including the Community Bank and the Commercial Bank, may invest in real estate mortgages, consumer and commercial loans, certain types of debt securities (including certain corporate debt securities, and obligations of federal, state, and local governments and agencies), certain types of corporate equity securities, and certain other assets. The lending powers of New York savings banks and commercial banks are not subject to percentage of assets or capital limitations, although there are limits applicable to loans to individual borrowers.

Under the statutory authority for investing in equity securities, a savings bank may directly invest up to 7.5% of its assets in certain corporate stock, and may also invest up to 7.5% of its assets in certain mutual fund securities. Investment in the stock of a single corporation is limited to the lesser of 2% of the issued and outstanding stock of such corporation or 1% of the savings bank's assets, except as set forth below. Such equity securities must meet certain earnings ratios and other tests of financial performance. Commercial banks may invest in certain equity securities up to 2% of the stock of a single issuer and are subject to a general overall limit of the lesser of 2% of the bank's assets or 20% of capital and surplus.

Pursuant to the leeway power, a savings bank may also make investments not otherwise permitted under New York State Banking Law. This power permits a bank to make investments that would otherwise be impermissible. Up to 1% of a bank's assets may be invested in any single such investment, subject to certain



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## **Table of Contents**

restrictions; the aggregate limit for all such investments is 5% of a bank's assets. Additionally, savings banks are authorized to elect to invest under a prudent person standard in a wide range of debt and equity securities in lieu of investing in such securities in accordance with, and reliance upon, the specific investment authority set forth in New York State Banking Law. Although the prudent person standard may expand a savings bank's authority, in the event that a savings bank elects to utilize the prudent person standard, it may be unable to avail itself of the other provisions of New York State Banking Law and regulations which set forth specific investment authority.

New York State savings banks may also invest in subsidiaries under a service corporation power. A savings bank may use this power to invest in corporations that engage in various activities authorized for savings banks, plus any additional activities which may be authorized by the Banking Department. Investment by a savings bank in the stock, capital notes, and debentures of its service corporation is limited to 3% of the savings bank's assets, and such investments, together with the savings bank's loans to its service corporations, may not exceed 10% of the savings bank's assets. Savings banks and commercial banks may invest in operating subsidiaries that engage in activities permissible for the institution directly. Under New York law, the New York State Banking Board has the authority to authorize savings banks to engage in any activity permitted under federal law for federal savings associations and the insurance powers of national banks. Commercial banks may be authorized to engage in any activity permitted under federal law for national banks.

The exercise by an FDIC-insured savings bank or commercial bank of the lending and investment powers under New York State Banking Law is limited by FDIC regulations and other federal laws and regulations. In particular, the applicable provision of New York State Banking Law and regulations governing the investment authority and activities of an FDIC-insured state-chartered savings bank and commercial bank have been effectively limited by the Federal Deposit Insurance Corporation Improvement Act of 1991 ( FDICIA ) and the FDIC regulations issued pursuant thereto.

With certain limited exceptions, a New York State-chartered savings bank may not make loans or extend credit for commercial, corporate, or business purposes (including lease financing) to a single borrower, the aggregate amount of which would be in excess of 15% of the bank's net worth or up to 25% for loans secured by collateral having an ascertainable market value at least equal to the excess of such loans over the bank's net worth. A commercial bank is subject to similar limits on all of its loans. The Community Bank and the Commercial Bank currently comply with all applicable loans-to-one-borrower limitations.

Under New York State Banking Law, a New York State-chartered stock-form savings bank and commercial bank may declare and pay dividends out of its net profits, unless there is an impairment of capital, but approval of the Superintendent of Banks (the Superintendent ) is required if the total of all dividends declared in a calendar year would exceed the total of its net profits for that year combined with its retained net profits for the preceding two years less prior dividends paid.

New York State Banking Law gives the Superintendent authority to issue an order to a New York State-chartered banking institution to appear and explain an apparent violation of law, to discontinue unauthorized or unsafe practices, and to keep prescribed books and accounts. Upon a finding by the Banking Department that any director, trustee, or officer of any banking organization has violated any law, or has continued unauthorized or unsafe practices in conducting the business of the banking organization after having been notified by the Superintendent to discontinue such practices, such director, trustee, or officer may be removed from office after notice and an opportunity to be heard. The Superintendent also has authority to appoint a conservator or a receiver for a savings or commercial bank under certain circumstances.

### ***FDIC Regulations***

*Capital Requirements.* The FDIC has adopted risk-based capital guidelines to which the Community Bank and the Commercial Bank are subject. The guidelines establish a systematic analytical framework that makes regulatory capital requirements sensitive to differences in risk profiles among banking organizations. The Community Bank and the Commercial Bank are required to maintain certain levels of regulatory capital in relation to regulatory risk-weighted assets. The ratio of such regulatory capital to regulatory risk-weighted assets is referred to as a risk-based capital ratio. Risk-based capital ratios are determined by allocating assets and specified off-balance-sheet items to four risk-weighted categories ranging from 0% to 100%, with higher levels of capital being required for the categories perceived as representing greater risk.

## Table of Contents

These guidelines divide an institution's capital into two tiers. The first tier ( Tier I ) includes common equity, retained earnings, certain non-cumulative perpetual preferred stock (excluding auction rate issues) and minority interests in equity accounts of consolidated subsidiaries, less goodwill and other intangible assets (except mortgage servicing rights and purchased credit card relationships subject to certain limitations). Supplementary ( Tier II ) capital includes, among other items, cumulative perpetual and long-term limited-life preferred stock, mandatorily convertible securities, certain hybrid capital instruments, term subordinated debt, and the allowance for loan losses, subject to certain limitations, and up to 45% of pre-tax net unrealized gains on equity securities with readily determinable fair market values, less required deductions. Savings banks and commercial banks are required to maintain a total risk-based capital ratio of 8%, of which at least 4% must be Tier I capital.

In addition, the FDIC has established regulations prescribing a minimum Tier I leverage capital ratio (the ratio of Tier I capital to adjusted average assets as specified in the regulations). These regulations provide for a minimum Tier I leverage capital ratio of 3% for institutions that meet certain specified criteria, including that they have the highest examination rating and are not experiencing or anticipating significant growth. All other institutions are required to maintain a Tier I leverage capital ratio of at least 4%. The FDIC may, however, set higher leverage and risk-based capital requirements on individual institutions when particular circumstances warrant. Institutions experiencing or anticipating significant growth are expected to maintain capital ratios, including tangible capital positions, well above the minimum levels.

As of December 31, 2006, the Community Bank and the Commercial Bank were deemed to be well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, a bank must maintain a minimum Tier I leverage capital ratio of 5%, a minimum Tier I risk-based capital ratio of 6%, and a minimum total risk-based capital ratio of 10%. A summary of the regulatory capital ratios of the Community Bank at December 31, 2006 appears in Note 16 to the Consolidated Financial Statements, Regulatory Matters in Item 8, Financial Statements and Supplementary Data.

The regulatory capital regulations of the FDIC and other federal banking agencies provide that the agencies will take into account the exposure of an institution's capital and economic value to changes in interest rate risk in assessing capital adequacy. According to the agencies, applicable considerations include the quality of the institution's interest rate risk management process, overall financial condition, and the level of other risks at the institution for which capital is needed. Institutions with significant interest rate risk may be required to hold additional capital. The agencies have issued a joint policy statement providing guidance on interest rate risk management, including a discussion of the critical factors affecting the agencies' evaluation of interest rate risk in connection with capital adequacy. Institutions that engage in specified amounts of trading activity may be subject to adjustments in the calculation of the risk-based capital requirement to assure sufficient additional capital to support market risk.

*Standards for Safety and Soundness.* Federal law requires each federal banking agency to prescribe, for the depository institutions under its jurisdiction, standards that relate to, among other things, internal controls; information and audit systems; loan documentation; credit underwriting; the monitoring of interest rate risk; asset growth; compensation; fees and benefits; and such other operational and managerial standards as the agency deems appropriate. The federal banking agencies adopted final regulations and Interagency Guidelines Establishing Standards for Safety and Soundness (the Guidelines ) to implement these safety and soundness standards. The Guidelines set forth the safety and soundness standards that the federal banking agencies use to identify and address problems at insured depository institutions before capital becomes impaired. If the appropriate federal banking agency determines that an institution fails to meet any standard prescribed by the Guidelines, the agency may require the institution to submit to the agency an acceptable plan to achieve compliance with the standard, as required by the Federal Deposit Insurance Act, as amended, (the FDI Act ). The final regulations establish deadlines for the submission and review of such safety and soundness compliance plans.

*Real Estate Lending Standards.* The FDIC and the other federal banking agencies have adopted regulations that prescribe standards for extensions of credit that (i) are secured by real estate, or (ii) are made for the purpose of financing construction or improvements on real estate. The FDIC regulations require each institution to establish and maintain written internal real estate lending standards that are consistent with safe and sound banking practices and appropriate to the size of the institution and the nature and scope of its real estate lending activities. The standards also must be consistent with accompanying FDIC Guidelines, which include loan-to-value limitations for the different types of real estate loans. Institutions are also permitted to make a limited amount of loans that do not

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## **Table of Contents**

conform to the proposed loan-to-value limitations so long as such exceptions are reviewed and justified appropriately. The Guidelines also list a number of lending situations in which exceptions to the loan-to-value standard are justified.

On December 12, 2006, the FDIC, the Office of the Comptroller of the Currency, and the Board of Governors of the Federal Reserve System (collectively, the Agencies ) issued joint guidance entitled Concentrations in Commercial Real Estate Lending, Sound Risk Management Practices (the CRE Guidance ). The CRE Guidance, which addresses land development, construction, and certain multi-family loans, as well as commercial real estate loans, does not establish specific lending limits but, rather, reinforces and enhances the Agencies existing regulations and guidelines for such lending and portfolio management. We do not expect the CRE Guidance to have a material impact on the Company.

*Dividend Limitations.* The FDIC has authority to use its enforcement powers to prohibit a savings bank or commercial bank from paying dividends if, in its opinion, the payment of dividends would constitute an unsafe or unsound practice. Federal law prohibits the payment of dividends that will result in the institution failing to meet applicable capital requirements on a pro forma basis. The Community Bank and the Commercial Bank are also subject to dividend declaration restrictions imposed by New York law as previously discussed under New York Law.

### ***Investment Activities***

Since the enactment of FDICIA, all state-chartered financial institutions, including savings banks, commercial banks, and their subsidiaries, have generally been limited to such activities as principal and equity investments of the type and in the amount authorized for national banks. State law, FDICIA, and FDIC regulations permit certain exceptions to these limitations. For example, certain state-chartered savings banks, such as the Community Bank, may, with FDIC approval, continue to exercise state authority to invest in common or preferred stocks listed on a national securities exchange and in the shares of an investment company registered under the Investment Company Act of 1940, as amended. Such banks may also continue to sell Savings Bank Life Insurance. In addition, the FDIC is authorized to permit institutions to engage in state authorized activities or investments not permitted for national banks (other than non-subsidiary equity investments) for institutions that meet all applicable capital requirements if it is determined that such activities or investments do not pose a significant risk to the insurance fund. The Gramm-Leach-Bliley Act of 1999 and FDIC regulations impose certain quantitative and qualitative restrictions on such activities and on a bank s dealings with a subsidiary that engages in specified activities.

The Community Bank received grandfathering authority from the FDIC in 1993 to invest in listed stock and/or registered shares subject to the maximum permissible investments of 100% of Tier I Capital, as specified by the FDIC s regulations, or the maximum amount permitted by New York State Banking Law, whichever is less. Such grandfathering authority is subject to termination upon the FDIC s determination that such investments pose a safety and soundness risk to the Community Bank or in the event that the Community Bank converts its charter or undergoes a change in control.

### ***Prompt Corrective Regulatory Action***

Federal law requires, among other things, that federal bank regulatory authorities take prompt corrective action with respect to institutions that do not meet minimum capital requirements. For these purposes, the law establishes five capital tiers: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized.

The FDIC has adopted regulations to implement prompt corrective action. Among other things, the regulations define the relevant capital measure for the five capital categories. An institution is deemed to be well capitalized if it has a total risk-based capital ratio of 10% or greater, a Tier I risk-based capital ratio of 6% or greater, and a leverage capital ratio of 5% or greater, and is not subject to a regulatory order, agreement, or directive to meet and maintain a specific capital level for any capital measure. An institution is deemed to be adequately capitalized if it has a total risk-based capital ratio of 8% or greater, a Tier I risk-based capital ratio of 4% or greater, and generally a leverage capital ratio of 4% or greater. An institution is deemed to be undercapitalized if it has a total risk-based capital ratio of less than 8%, a Tier I risk-based capital ratio of less than 4%, or generally a leverage capital ratio of less than 4%. An institution is deemed to be significantly undercapitalized if it has a total risk-based capital ratio of less than 6%, a Tier I risk-based capital ratio of less than 3%, or a leverage capital ratio of less than 3%. An institution is deemed to be critically undercapitalized if it has a ratio of tangible equity (as defined in the regulations) to total assets that is equal to or less than 2%.

Undercapitalized institutions are subject to growth, capital distribution (including dividend), and other limitations and are required to submit a capital restoration plan. An institution s compliance with such plan is required to be guaranteed by any company that controls the undercapitalized institution in an amount equal to the



**Table of Contents**

lesser of 5.0% of the bank's total assets when deemed undercapitalized or the amount necessary to achieve the status of adequately capitalized. If an undercapitalized institution fails to submit an acceptable plan, it is treated as if it is significantly undercapitalized. Significantly undercapitalized institutions are subject to one or more additional restrictions including, but not limited to, an order by the FDIC to sell sufficient voting stock to become adequately capitalized; requirements to reduce total assets, cease receipt of deposits from correspondent banks, or dismiss directors or officers; and restrictions on interest rates paid on deposits, compensation of executive officers, and capital distributions by the parent holding company.

Critically undercapitalized institutions also may not, beginning 60 days after becoming critically undercapitalized, make any payment of principal or interest on certain subordinated debt, or extend credit for a highly leveraged transaction, or enter into any material transaction outside the ordinary course of business. In addition, subject to a narrow exception, the appointment of a receiver is required for a critically undercapitalized institution.

***Transactions with Affiliates***

Under current federal law, transactions between depository institutions and their affiliates are governed by Sections 23A and 23B of the Federal Reserve Act and the FRB's Regulation W promulgated thereunder. An affiliate of a savings bank or commercial bank is any company or entity that controls, is controlled by, or is under common control with the institution, other than a subsidiary. Generally, an institution's subsidiaries are not treated as affiliates unless they are engaged in activities as principal that are not permissible for national banks. In a holding company context, at a minimum, the parent holding company of an institution, and any companies that are controlled by such parent holding company, are affiliates of the institution. Generally, Section 23A limits the extent to which the institution or its subsidiaries may engage in covered transactions with any one affiliate to an amount equal to 10% of the institution's capital stock and surplus, and contains an aggregate limit on all such transactions with all affiliates to an amount equal to 20% of such capital stock and surplus. The term covered transaction includes the making of loans or other extensions of credit to an affiliate; the purchase of assets from an affiliate; the purchase of, or an investment in, the securities of an affiliate; the acceptance of securities of an affiliate as collateral for a loan or extension of credit to any person; or issuance of a guarantee, acceptance, or letter of credit on behalf of an affiliate. Section 23A also establishes specific collateral requirements for loans or extensions of credit to, or guarantees, or acceptances on letters of credit issued on behalf of, an affiliate. Section 23B requires that covered transactions and a broad list of other specified transactions be on terms substantially the same as, or no less favorable to, the institution or its subsidiary as similar transactions with non-affiliates.

The Sarbanes-Oxley Act of 2002 generally prohibits loans by the Company to its executive officers and directors. However, the Sarbanes-Oxley Act contains a specific exemption for loans by an institution to its executive officers and directors in compliance with federal banking laws. Section 22(h) of the Federal Reserve Act, and FRB Regulation O adopted thereunder, governs loans by a savings bank or commercial bank to directors, executive officers, and principal shareholders. Under Section 22(h), loans to directors, executive officers, and shareholders who control, directly or indirectly, 10% or more of voting securities of an institution, and certain related interests of any of the foregoing, may not exceed, together with all other outstanding loans to such persons and affiliated entities, the institution's total capital and surplus. Section 22(h) also prohibits loans above amounts prescribed by the appropriate federal banking agency to directors, executive officers, and shareholders who control 10% or more of the voting securities of an institution, and their respective related interests, unless such loan is approved in advance by a majority of the board of the institution's directors. Any interested director may not participate in the voting. The loan amount (which includes all other outstanding loans to such person) as to which such prior board of director approval is required, is the greater of \$25,000 or 5% of capital and surplus or any loans aggregating over \$500,000. Further, pursuant to Section 22(h), loans to directors, executive officers, and principal shareholders must be made on terms substantially the same as those offered in comparable transactions to other persons. There is an exception for loans made pursuant to a benefit or compensation program that is widely available to all employees of the institution and does not give preference to executive officers over other employees. Section 22(g) of the Federal Reserve Act places additional limitations on loans to executive officers.

***Enforcement***

The FDIC has extensive enforcement authority over insured banks, including the Community Bank and the Commercial Bank. This enforcement authority includes, among other things, the ability to assess civil money penalties, to issue cease and desist orders, and to remove directors and officers. In general, these enforcement actions may be initiated in response to violations of laws and regulations and unsafe or unsound practices.

## **Table of Contents**

The FDIC has authority under federal law to appoint a conservator or receiver for an insured institution under certain circumstances. The FDIC is required, with certain exceptions, to appoint a receiver or conservator for an insured institution if that institution was critically undercapitalized on average during the calendar quarter beginning 270 days after the date on which the institution became critically undercapitalized. For this purpose, critically undercapitalized means having a ratio of tangible equity to total assets of less than 2%. See Prompt Corrective Regulatory Action.

The FDIC may also appoint a conservator or receiver for an insured institution on the basis of the institution's financial condition or upon the occurrence of certain events, including (i) insolvency (whereby the assets of the bank are less than its liabilities to depositors and others); (ii) substantial dissipation of assets or earnings through violations of law or unsafe or unsound practices; (iii) existence of an unsafe or unsound condition to transact business; (iv) likelihood that the bank will be unable to meet the demands of its depositors or to pay its obligations in the normal course of business; and (v) insufficient capital, or the incurrence or likely incurrence of losses that will deplete substantially all of the institution's capital with no reasonable prospect of replenishment of capital without federal assistance.

### ***Insurance of Deposit Accounts***

The deposits of the Community Bank and the Commercial Bank are insured up to applicable limits by the DIF. The DIF is the successor to the Bank Insurance Fund and the Savings Association Insurance Fund, which were merged in 2006. The FDIC recently amended its risk-based assessment system for 2007 to implement authority granted by the Federal Deposit Insurance Reform Act of 2005 (the Reform Act). Under the revised system, insured institutions are assigned to one of four risk categories based on supervisory evaluations, regulatory capital levels and certain other factors. An institution's assessment rate depends upon the category to which it is assigned. Risk Category I, which contains the least risky depository institutions, is expected to include more than 90% of all institutions. Unlike the other categories, Risk Category I contains further risk differentiation based on the FDIC's analysis of financial ratios, examination component ratings and other information. Assessment rates are determined semi-annually by the FDIC and currently range from five to seven basis points for the healthiest institutions (Risk Category I) to 43 basis points of assessable deposits for the riskiest (Risk Category IV). The FDIC may adjust rates uniformly from one quarter to the next, except that no single adjustment can exceed three basis points.

The Reform Act also provided for a one-time credit for eligible institutions based on their assessment base as of December 31, 1996. Subject to certain limitations with respect to institutions that are exhibiting weaknesses, credits can be used to offset assessments until exhausted. The Community Bank's and the Commercial Bank's one-time credits are expected to approximate \$13.3 million and \$1.7 million, respectively, and the 2007 assessments are expected to be fully covered by these amounts. The Reform Act also provided for the possibility that the FDIC may pay dividends to insured institutions once the DIF reserve ratio equals or exceeds 1.35% of estimated insured deposits.

In addition to the assessment for deposit insurance, institutions are required to make payments on bonds issued in the late 1980s by the Financing Corporation to recapitalize a predecessor deposit insurance fund. This payment is established quarterly, and during the calendar year ending December 31, 2006, averaged 1.28 basis points of assessable deposits.

The Reform Act provided the FDIC with authority to adjust the DIF ratio to insured deposits within a range of 1.15% and 1.50%, in contrast to the prior statutorily fixed ratio of 1.25%. The ratio, which is viewed by the FDIC as the level that the fund should achieve, was established by the agency at 1.25% for 2007.

The FDIC has authority to increase insurance assessments. A significant increase in insurance premiums would likely have an adverse effect on the operating expenses and results of operations of the Community Bank and the Commercial Bank. Management cannot predict what insurance assessment rates will be in the future.

Insurance of deposits may be terminated by the FDIC upon a finding that the institution has engaged in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC. The management of the Bank does not know of any practice, condition or violation that might lead to termination of deposit insurance.

## **Table of Contents**

### ***Community Reinvestment Act***

***Federal Regulation.*** Under the Community Reinvestment Act (the CRA), as implemented by FDIC regulations, an institution has a continuing and affirmative obligation consistent with its safe and sound operation to help meet the credit needs of its entire community, including low and moderate income neighborhoods. The CRA does not establish specific lending requirements or programs for financial institutions nor does it limit an institution's discretion to develop the types of products and services that it believes are best suited to its particular community, consistent with the CRA. The CRA requires the FDIC, in connection with its examinations, to assess the institution's record of meeting the credit needs of its community and to take such record into account in its evaluation of certain applications by such institution. The CRA requires public disclosure of an institution's CRA rating and further requires the FDIC to provide a written evaluation of an institution's CRA performance utilizing a four-tiered descriptive rating system. The Community Bank's latest CRA rating, received from the FDIC for the period ended July 5, 2005, was outstanding. The Commercial Bank's latest CRA rating, received prior to its acquisition by the Company, was satisfactory.

***New York Regulation.*** The Community Bank and the Commercial Bank are also subject to provisions of the New York State Banking Law which impose continuing and affirmative obligations upon a banking institution organized in New York to serve the credit needs of its local community (the NYCRA). Such obligations are substantially similar to those imposed by the CRA. The NYCRA requires the Banking Department to make a periodic written assessment of an institution's compliance with the NYCRA, utilizing a four-tiered rating system, and to make such assessment available to the public. The NYCRA also requires the Superintendent to consider the NYCRA rating when reviewing an application to engage in certain transactions, including mergers, asset purchases, and the establishment of branch offices or ATMs, and provides that such assessment may serve as a basis for the denial of any such application. The Community Bank's latest NYCRA rating, received from the Banking Department for the period ended December 31, 2004, was outstanding. The Commercial Bank's latest NYCRA rating, received prior to its acquisition by the Company, was satisfactory.

### ***Federal Reserve System***

Under FRB regulations, the Community Bank and the Commercial Bank are required to maintain non-interest-earning reserves against their transaction accounts (primarily NOW and regular checking accounts). The FRB regulations generally require that reserves be maintained against aggregate transaction accounts as follows: for that portion of transaction accounts aggregating \$45.8 million or less (subject to adjustment by the FRB), the reserve requirement is 3%; for amounts greater than \$45.8 million, the reserve requirement is 10% (subject to adjustment by the FRB between 8% and 14%). The first \$8.5 million of otherwise reservable balances (subject to adjustments by the FRB) are exempted from the reserve requirements. The Community Bank and the Commercial Bank are in compliance with the foregoing requirements. Because required reserves must be maintained in the form of vault cash, in a non-interest-bearing account at a Federal Reserve Bank, or in a pass-through account as defined by the FRB, the effect of this reserve requirement is a limitation on an institution's ability to grow its interest-earning assets.

### ***Federal Home Loan Bank System***

The Community Bank and the Commercial Bank are members of the Federal Home Loan Bank (the FHLB) System, which consists of 12 regional FHLBs. The FHLB provides a central credit facility primarily for member institutions. As members of the FHLB-NY, the Community Bank and the Commercial Bank are required to acquire and hold shares of capital stock. Pursuant to this requirement, the Community Bank and the Commercial Bank held FHLB-NY stock of \$393.5 million and \$10.8 million, respectively, at December 31, 2006.

The FHLBs are required to provide funds to cover certain obligations on bonds issued to fund the resolution of insolvent thrifts and to contribute funds for affordable housing programs. These requirements could reduce the amount of dividends that the FHLBs pay to their members and could also result in the FHLBs imposing a higher rate of interest on advances to their members. For the fiscal years ended December 31, 2006 and 2005, dividends from the FHLB-NY to the Community Bank amounted to \$20.8 million and \$15.4 million, respectively. For the fiscal

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## **Table of Contents**

year ended December 31, 2006 dividends from the FHLB-NY to the Commercial Bank amounted to \$602,000. A reduction in FHLB-NY dividends or an increase in the interest on future FHLB-NY advances would adversely impact the Company's net interest income. FHLB System members are also authorized to borrow from the Federal Reserve Bank's discount window, but regulations require institutions to exhaust all FHLB sources before borrowing from a Federal Reserve Bank.

### ***Interstate Branching***

Federal law allows the FDIC, and New York State Banking Law allows the Superintendent, to approve an application by a state banking institution to acquire interstate branches by merger, unless, in the case of the FDIC, the state of the target institution has opted out of interstate branching. New York State Banking Law authorizes savings banks and commercial banks to open and occupy de novo branches outside the state of New York, and the FDIC is authorized to approve a state bank's establishment of a de novo interstate branch, if the intended host state has opted into interstate de novo branching. The Community Bank currently maintains eight branches in New Jersey in addition to its branches in New York State and is in the process of acquiring additional New Jersey branches through its acquisition of Penn Federal Savings Bank.

### ***Holding Company Regulation***

*Federal Regulation.* The Company is currently subject to examination, regulation, and periodic reporting under the Bank Holding Company Act of 1956, as amended (the "BHCA"), as administered by the FRB.

The Company is required to obtain the prior approval of the FRB to acquire all, or substantially all, of the assets of any bank or bank holding company. Prior FRB approval would be required for the Company to acquire direct or indirect ownership or control of any voting securities of any bank or bank holding company if, after giving effect to such acquisition, it would, directly or indirectly, own or control more than 5% of any class of voting shares of such bank or bank holding company. In addition to the approval of the FRB, before any bank acquisition can be completed, prior approval thereof may also be required to be obtained from other agencies having supervisory jurisdiction over the bank to be acquired, including the Banking Department.

A bank holding company is generally prohibited from engaging in, or acquiring, direct or indirect control of more than 5% of the voting securities of any company engaged in non-banking activities. One of the principal exceptions to this prohibition is for activities found by the FRB to be so closely related to banking or managing or controlling banks as to be a proper incident thereto. Some of the principal activities that the FRB has determined by regulation to be so closely related to banking are: (i) making or servicing loans; (ii) performing certain data processing services; (iii) providing discount brokerage services; (iv) acting as fiduciary, investment, or financial advisor; (v) leasing personal or real property; (vi) making investments in corporations or projects designed primarily to promote community welfare; and (vii) acquiring a savings and loan association.

The Gramm-Leach-Bliley Act of 1999 authorizes a bank holding company that meets specified conditions, including being well capitalized and well managed, to opt to become a financial holding company and thereby engage in a broader array of financial activities than previously permitted. Such activities can include insurance underwriting and investment banking.

The FRB has adopted capital adequacy guidelines for bank holding companies (on a consolidated basis) substantially similar to those of the FDIC for the Community Bank and the Commercial Bank. (Please see "Capital Requirements" earlier in this report.) At December 31, 2006, the Company's consolidated Total and Tier I capital exceeded these requirements.

Bank holding companies are generally required to give the FRB prior written notice of any purchase or redemption of its outstanding equity securities if the gross consideration for the purchase or redemption, when combined with the net consideration paid for all such purchases or redemptions during the preceding 12 months, is equal to 10% or more of the Company's consolidated net worth. The FRB may disapprove such a purchase or redemption if it determines that the proposal would constitute an unsafe and unsound practice, or would violate any law, regulation, FRB order or directive, or any condition imposed by, or written agreement with, the FRB. The FRB has adopted an exception to this approval requirement for well-capitalized bank holding companies that meet certain other conditions.



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## **Table of Contents**

The FRB has issued a policy statement regarding the payment of dividends by bank holding companies. In general, the FRB's policies provide that dividends should be paid only out of current earnings and only if the prospective rate of earnings retention by the bank holding company appears consistent with the organization's capital needs, asset quality, and overall financial condition. The FRB's policies also require that a bank holding company serve as a source of financial strength to its subsidiary banks by standing ready to use available resources to provide adequate capital funds to those banks during periods of financial stress or adversity and by maintaining the financial flexibility and capital-raising capacity to obtain additional resources for assisting its subsidiary banks where necessary. Under the prompt corrective action laws, the ability of a bank holding company to pay dividends may be restricted if a subsidiary bank becomes undercapitalized. These regulatory policies could affect the ability of the Company to pay dividends or otherwise engage in capital distributions.

Under the FDI Act, depository institutions are liable to the FDIC for losses suffered or anticipated by the FDIC in connection with the default of a commonly controlled depository institution or any assistance provided by the FDIC to such an institution in danger of default. The Community Bank and the Commercial Bank are commonly controlled within the meaning of that law.

The Company, the Community Bank, and the Commercial Bank will be affected by the monetary and fiscal policies of various agencies of the United States Government, including the Federal Reserve System. In view of changing conditions in the national economy and in the money markets, it is impossible for management to accurately predict future changes in monetary policy or the effect of such changes on the business or financial condition of the Company, the Community Bank, or the Commercial Bank.

The status of the Company as a registered bank holding company under the BHCA does not exempt it from certain federal and state laws and regulations applicable to corporations generally, including, without limitation, certain provisions of the federal securities laws.

*New York Holding Company Regulation.* With the addition of the Commercial Bank, the Company became subject to regulation as a multi-bank holding company under New York law since it controls two banking institutions. Among other requirements, this means that the Company must receive the prior approval of the New York State Banking Board prior to the acquisition of 10% or more of the voting stock of another banking institution or to otherwise acquire a banking institution by merger or purchase.

### ***Acquisition of the Holding Company***

*Federal Restrictions.* Under the Federal Change in Bank Control Act (the CIBCA), a notice must be submitted to the FRB if any person (including a company), or group acting in concert, seeks to acquire 10% or more of the Company's shares of outstanding common stock, unless the FRB has found that the acquisition will not result in a change in control of the Company. Under the CIBCA, the FRB generally has 60 days within which to act on such notices, taking into consideration certain factors, including the financial and managerial resources of the acquirer, the convenience and needs of the communities served by the Company, the Community Bank, and the Commercial Bank, and the anti-trust effects of the acquisition. Under the BHCA, any company would be required to obtain prior approval from the FRB before it may obtain control of the Company within the meaning of the BHCA. Control generally is defined to mean the ownership or power to vote 25% or more of any class of voting securities of the Company or the ability to control in any manner the election of a majority of the Company's directors. An existing bank holding company would be required to obtain the FRB's prior approval under the BHCA before acquiring more than 5% of the Company's voting stock. See *Holding Company Regulation* earlier in this report.

*New York Change in Control Restrictions.* In addition to the CIBCA and the BHCA, New York State Banking Law generally requires prior approval of the New York Banking Board before any action is taken that causes any company to acquire direct or indirect control of a banking institution which is organized in New York.

### ***Federal Securities Law***

The Company's common stock is registered with the SEC under the Securities Exchange Act of 1934, as amended (the Exchange Act). The Company is subject to the information and proxy solicitation requirements, insider trading restrictions, and other requirements under the Exchange Act.

**Table of Contents**

Registration of the shares of the common stock that were issued in the Community Bank's conversion from mutual to stock form under the Securities Act of 1933, as amended (the Securities Act), does not cover the resale of such shares. Shares of the common stock purchased by persons who are not affiliates of the Company may be resold without registration. Shares purchased by an affiliate of the Company will be subject to the resale restrictions of Rule 144 under the Securities Act. If the Company meets the current public information requirements of Rule 144 under the Securities Act, each affiliate of the Company who complies with the other conditions of Rule 144 (including those that require the affiliate's sale to be aggregated with those of certain other persons) would be able to sell in the public market, without registration, a number of shares not to exceed in any three-month period the greater of (i) 1% of the outstanding shares of the Company, or (ii) the average weekly volume of trading in such shares during the preceding four calendar weeks. Provision may be made by the Company in the future to permit affiliates to have their shares registered for sale under the Securities Act under certain circumstances.

## **Table of Contents**

### **ITEM 1A. RISK FACTORS**

There are various risks and uncertainties that are inherent in our business. Following is a discussion of the material risks and uncertainties that could have a material adverse impact on our financial condition and results of operations, and that could cause the value of our common stock to decline significantly, were they to transpire. Additional risks that are not currently known to us, or that we currently believe to be immaterial, may also have a material effect on our financial condition and results of operations. This report is qualified in its entirety by these risk factors.

#### **We are subject to interest rate risk.**

Our primary source of income is net interest income, which is the difference between the interest income generated by our interest-earning assets (consisting primarily of loans and, to a lesser extent, securities) and the interest expense generated by our interest-bearing liabilities (consisting primarily of deposits and wholesale borrowings).

The level of net interest income is primarily 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 both the pricing and mix of our interest-earning assets and our interest-bearing liabilities which, in turn, are impacted by such external factors as the local economy, competition for loans and deposits, the monetary policy of the Federal Open Market Committee of the Federal Reserve Board of Governors (the FOMC), and market interest rates.

The cost of our deposits and short-term wholesale borrowings is largely based on short-term interest rates, the level of which is driven by the FOMC. However, the yields generated by our loans and securities are typically driven by intermediate-term (i.e., five-year) interest rates, which are set by the market and generally vary from day to day. The level of net interest income is therefore influenced by movements in such interest rates, and the pace at which such movements occur. If the interest rates on our interest-bearing liabilities increase at a faster pace than the interest rates on our interest-earning assets, the result could be a reduction in net interest income and with it, a reduction in the earnings of the Company. Our net interest income and earnings would be similarly impacted were the interest rates on our interest-earning assets to decline more quickly than the interest rates on our interest-bearing liabilities.

In addition, such changes in interest rates could have an effect on our ability to originate loans and attract and retain deposits; the fair value of our financial assets and liabilities; and the average life of our loan and securities portfolios.

Changes in interest rates could also have an effect on the level of loan refinancing activity which, in turn, would impact the level of prepayment penalties we receive on our multi-family and commercial real estate loans. As prepayment penalties are recorded as interest income, the extent to which they increase or decrease during any given period could have a significant impact on the level of net interest income and net income generated by the Company during that time.

In 2006, the inversion of the yield curve was exacerbated by the discrepancy between movements in short- and intermediate-term interest rates, as the level of short-term interest rates exceeded the level of intermediate-term interest rates. The result was a reduction in our net interest income and a reduction in our net income. Should the inverted yield curve continue or become more pronounced, our net interest income could experience further contraction, which could have a material adverse effect on our net income, cash flows, and the value of our assets.

Please see Net Interest Income and Asset and Liability Management and the Impact of Interest Rate Risk in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, for information regarding the actions we have been taking to mitigate our exposure to interest rate risk.

## **Table of Contents**

### **We are subject to credit risk.**

#### ***Risks stemming from our lending activities:***

Our business strategy emphasizes the origination of multi-family loans and, to a lesser extent, commercial real estate, construction, and commercial & industrial ( C&I ) loans, all of which are generally larger, and have higher risk-adjusted returns and shorter maturities than one-to-four family mortgage loans. At December 31, 2006, our multi-family, commercial real estate, construction, and C&I loan portfolios totaled \$19.4 billion and represented 98.7% of total loans. Our credit risk would ordinarily be expected to increase with the growth of these loan portfolios.

While our record of asset quality has historically been solid, multi-family and commercial real estate properties are generally believed to involve a greater degree of credit risk than one-to-four family loans. In addition, payments on multi-family and commercial real estate 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 our borrowers to repay these loans may be impacted by adverse conditions in the local real estate market and the local economy. While we seek to minimize these risks through our underwriting policies, which generally require that such loans be qualified on the basis of the collateral property's cash flows, appraised value, and debt service coverage ratio, among other factors, there can be no assurance that our underwriting policies will protect us from credit-related losses or delinquencies.

Construction financing typically involves a greater degree of credit risk than long-term financing on improved, owner-occupied real estate. Risk of loss on a construction loan depends largely upon the accuracy of the initial estimate of the property's value at completion of construction or development, compared to the estimated costs (including interest) of construction. If the estimate of value proves to be inaccurate, the loan may be under-secured. While we seek to minimize these risks by maintaining consistent lending policies and rigorous underwriting standards, an error in such estimates or a downturn in the local economy or real estate market could have a material adverse effect on the quality of our construction loan portfolio, thereby resulting in material losses or delinquencies.

We seek 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 business' results.

Please see Loans and Asset Quality in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, for a discussion of the policies and procedures we follow in underwriting our multi-family, commercial real estate, construction, C&I, and other loans.

#### ***Risks stemming from our focus on lending in the New York metropolitan region:***

Our business depends significantly on general economic conditions in the New York metropolitan region, where the majority of the buildings and properties securing our loans and the businesses of our customers are located. Unlike larger national or superregional banks that serve a broader and more diverse geographic region, our lending is primarily concentrated in New York City and the surrounding markets of Nassau, Suffolk, and Westchester Counties in New York, and New Jersey.

Accordingly, the ability of our borrowers to repay their loans, and the value of the collateral securing such loans, may be significantly affected by economic conditions in the region or changes in the local real estate market. A significant decline in general economic conditions caused by inflation, recession, unemployment, acts of terrorism, or other factors beyond our control could therefore have an adverse effect on our financial condition and results of operations. In addition, because multi-family and commercial real estate loans represent the majority of our loans outstanding, a decline in tenant occupancy due to such factors or for other reasons could adversely impact the ability of property owners to repay their loans on a timely basis, which could have a negative impact on our results of operations.

## **Table of Contents**

Please see **Loans and Asset Quality** in Item 7, **Management's Discussion and Analysis of Financial Condition and Results of Operations**, for a discussion of the policies and procedures we follow in underwriting our multi-family, commercial real estate, construction, C&I, and other loans.

### **We are subject to certain risks in connection with the level of our allowance for loan losses.**

A variety of factors could cause our borrowers to default on their loan payments and the collateral securing such loans to be insufficient to pay any remaining indebtedness. In such an event, we could experience significant loan losses, which could have a material adverse effect on our financial condition and results of operations.

In the process of originating a loan, we make various assumptions and judgments about the ability of the borrower to repay it, based on the cash flows produced by the building, property, or business; the value of the real estate or other assets serving as collateral; and the creditworthiness of the borrower, among other factors.

We also establish an allowance for loan losses through an assessment of probable losses in each of our loan portfolios. Several factors are considered in this process, including historical and projected default rates and loss severities; internal risk ratings; loan size; economic, industry, and environmental factors; and loan impairment, as defined by the Financial Accounting Standards Board. If our assumptions and judgments regarding such matters prove to be incorrect, our allowance for loan losses might not be sufficient, and additional loan loss provisions might need to be made. Depending on the amount of such loan loss provisions, the adverse impact on our earnings could be material.

In addition, as we continue to grow our loan portfolio, it may be necessary to increase the allowance for loan losses by making additional provisions, which would adversely impact our operating results. Furthermore, bank regulators may require us to make a provision for loan losses or otherwise recognize further loan charge-offs following their periodic review of our loan portfolio, our underwriting procedures, and our loan loss allowance. Any increase in our allowance for loan losses or loan charge-offs as required by such regulatory authorities could have a material adverse effect on our financial condition and results of operations.

Please see **Allowance for Loan Losses** under **Critical Accounting Policies** in Item 7, **Management's Discussion and Analysis of Financial Condition and Results of Operations**, for a discussion of the procedures we follow in establishing our loan loss allowance.

### **We face significant competition for loans and deposits.**

We face significant competition for loans and deposits from other banks and financial institutions, both within and beyond our local marketplace. Within the New York metropolitan region, we compete with commercial banks, savings banks, credit unions, and investment banks for deposits, and with the same financial institutions and others (including mortgage brokers, finance companies, mutual funds, insurance companies, and brokerage houses) for loans. We also compete with companies that solicit loans and deposits over the Internet.

Many of our competitors (including money center, national, and superregional banks) have substantially greater resources and higher lending limits than we do, and may offer certain services that we do not, or cannot, provide. Because our profitability stems from our ability to attract deposits and originate loans, our continued ability to compete for depositors and borrowers is critical to our success.

Our success as a competitor depends on a number of factors, including our ability to develop, maintain, and build upon long-term relationships with our customers by providing them with convenience, in the form of multiple branch locations and extended hours of service; access, in the form of alternative delivery channels, such as online banking, banking by phone, and ATMs; a broad and diverse selection of products and services; interest rates and service fees that compare favorably with those of our competitors; and skilled and knowledgeable personnel to assist our customers with their financial needs. External factors that may impact our ability to compete include changes in local economic conditions and real estate values, changes in interest rates, and the consolidation of banks and thrifts within our marketplace.

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**Table of Contents**

Please see Loans and Funding Sources in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, for a discussion of the actions we have taken to attract and retain our depositors and borrowers.

**We are subject to certain risks in connection with our strategy of growing through mergers and acquisitions.**

Mergers and acquisitions have contributed significantly to our growth in the past six years, and continue to be a key component of our business model. Accordingly, it is possible that we could acquire other financial institutions, financial service providers, or branches of banks in future periods. However, our ability to engage in future transactions depends on our ability to identify suitable partners, our ability to finance and complete such transactions on acceptable terms and at acceptable prices, and our ability to receive the necessary regulatory approvals and, where required, shareholder approvals.

Furthermore, mergers and acquisitions, including the pending acquisition of PennFed, involve a number of risks and challenges, including the diversion of management's attention; the need to integrate acquired operations, internal controls, and regulatory functions; the potential loss of key employees and customers of the acquired companies; and an increase in expenses and working capital requirements.

Any of these factors, among others, could adversely affect our ability to achieve the anticipated benefits of the acquisitions we undertake.

Please see Item 1, Business, earlier in this report and Notes 1 and 3 to the Consolidated Financial Statements in Item 8, Financial Statements and Supplementary Data, for information about the merger transactions we have completed and the pending acquisition of PennFed.

**We may not be able to attract and retain key personnel.**

To a large degree, our success depends on our ability to attract and retain key personnel whose expertise, knowledge of our market, and years of industry experience would make them difficult to replace. Competition for skilled leaders in our industry can be intense, and we may not be able to hire or retain the people we would like to have working for us. The unexpected loss of services of one or more of our key personnel could have a material adverse impact on our business, given the specialized knowledge of such personnel and the difficulty of finding qualified replacements on a timely basis.

To attract and retain personnel with the skills and knowledge to support our business, we offer a variety of benefits which may negatively impact our earnings. Please see Notes 11 and 12 to the Consolidated Financial Statements in Item 8, Financial Statements and Supplementary Data, for a description of our employee and stock-related benefit plans.

**We are subject to environmental liability risk associated with our lending activities.**

A significant portion of our loan portfolio is secured by real property. During the ordinary course of business, we may foreclose on and take title to properties securing certain loans. In doing so, there is a risk that hazardous or toxic substances could be found on these properties. If hazardous or toxic substances are found, we may be liable for remediation costs, as well as for personal injury and property damage. In addition, we own and operate certain properties that may be subject to similar environmental liability risks.

Environmental laws may require us to incur substantial expenses and may materially reduce the affected property's value or limit our ability to use or sell the affected property. In addition, future laws or more stringent interpretations or enforcement policies with respect to existing laws may increase our exposure to environmental liability. Although we have policies and procedures requiring the performance of an environmental site assessment before initiating any foreclosure action on real property, these assessments may not be sufficient to detect all potential environmental hazards. The remediation costs and any other financial liabilities associated with an environmental hazard could have a material adverse effect on our financial condition and results of operations.

Please see Environmental Issues in Item 1, Business, earlier in this report.

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**Table of Contents**

**Our business may be adversely impacted by acts of war or terrorism.**

Acts of war or terrorism could have a significant impact on our ability to conduct our business. Such events could affect the ability of our borrowers to repay their loans, could impair the value of the collateral securing our loans, and could cause significant property damage, thus increasing our expenses and/or reducing our revenues. In addition, such events could affect the ability of our depositors to maintain their deposits with the Banks. Although we have established disaster recovery policies and procedures, the occurrence of any such event could have a material adverse effect on our business which, in turn, could have a material adverse effect on our financial condition and results of operations.

**We are subject to stringent laws and regulations.**

We are subject to regulation, supervision, and examination by the New York State Banking Department, which is the chartering authority for both the Community Bank and the Commercial Bank; by the Federal Deposit Insurance Corporation, as the insurer of our deposits; and by the Board of Governors of the Federal Reserve System.

Such regulation and supervision governs the activities in which a bank holding company and its banking subsidiaries may engage, and is intended primarily for the protection of customers, the Deposit Insurance Fund, and the banking system in general, and not for the benefit of a company's shareholders. These regulatory authorities have extensive discretion in connection with their supervisory and enforcement activities, including with respect to the imposition of restrictions on the operation of a bank or a bank holding company, the imposition of significant fines, the ability to delay or deny merger applications, the classification of assets by a bank, and the adequacy of a bank's allowance for loan losses, among other matters. Any failure to comply with, or any change in such, regulation and supervision, whether in the form of policy, regulations, legislation, rules, orders, enforcement actions, or decisions, could have a material impact on the Company, our subsidiary banks, and our operations.

Our operations are also subject to extensive legislation enacted, and regulation implemented, by other federal, state, and local governmental authorities, and to various laws and judicial and administrative decisions imposing requirements and restrictions on part or all of our operations. While we believe that we are in compliance in all material respects with applicable federal, state, and local laws, rules, and regulations, including those pertaining to banking, lending, and taxes, among other matters, we may be subject to future changes in such laws, rules, and regulations that could have a material impact on our results of operations.

Please see "Regulation and Supervision" in Item 1, "Business," earlier in this report.

**We are subject to litigation risk.**

In the normal course of business, we may become involved in litigation, the outcome of which may have a direct material impact on our financial position and daily operations. Please see "Legal Proceedings" under Note 10, "Commitments and Contingencies," for the current status of existing and threatened litigation.

**We are subject to certain risks in connection with our use of technology.**

***Risks associated with systems failures, interruptions, or breaches of security:***

Communications and information systems are essential to the conduct of our business, as we use such systems to manage our customer relationships, our general ledger, our deposits, and our loans. While we have established policies and procedures to prevent or limit the impact of systems failures, interruptions, and security breaches, there can be no assurance that such events will not occur or that they will be adequately addressed if they do. In addition, any compromise of our security systems could deter customers from using our web site and our online banking service, both of which involve the transmission of confidential information. Although we rely on commonly used security and processing systems to provide the security and authentication necessary to effect the secure transmission of data, these precautions may not protect our systems from compromises or breaches of security.

In addition, we outsource certain of our data processing to certain third-party providers. If our third-party providers encounter difficulties, or if we have difficulty in communicating with them, our ability to adequately

## **Table of Contents**

process and account for customer transactions could be affected, and our business operations could be adversely impacted. Threats to information security also exist in the processing of customer information through various other vendors.

The occurrence of any systems failure, interruption, or breach of security could damage our reputation and result in a loss of customers and business, could subject us to additional regulatory scrutiny, or could expose us to civil litigation and possible financial liability. Any of these occurrences could have a material adverse effect on our financial condition and results of operations.

### ***Risks associated with changes in technology:***

The provision of financial products and services is highly dependent on technology. Our ability to meet the needs of our customers competitively, and in a cost-efficient manner, is dependent on our ability to keep pace with technological advances and to invest in new technology as it becomes available. Many of our competitors have greater resources to invest in technology than we do and may be better equipped to market new technology-driven products and services. The ability to keep pace with technological change is important, and the failure to do so on our part could have a material adverse impact on our business and therefore on our financial condition and results of operations.

### **We rely on the dividends we receive from our subsidiaries.**

Our holding company is a separate and distinct legal entity from our subsidiaries, and a substantial portion of the revenues it receives consists of dividends from our subsidiary banks. These dividends are the primary funding source for the dividends we pay on our common stock and the interest and principal payments on our debt. Various federal and state laws and regulations limit the amount of dividends that a bank may pay to its parent company. In addition, our right to participate in a distribution of assets upon the liquidation or reorganization of a subsidiary may be subject to the prior claims of the subsidiary's creditors. In the event that the Banks are unable to pay dividends to the Parent Company, we may not be able to service our debt, pay our obligations, or pay dividends on our common stock. The inability to receive dividends from the Banks could therefore have a material adverse effect on our business, our financial condition, and our results of operations, as well as our ability to maintain or increase the current level of cash dividends paid to our stockholders.

Please see *Supervision and Regulation* in Item 1, *Business*, and Note 14 to the Consolidated Financial Statements, *Restrictions on Subsidiary Banks*, in Item 8, *Financial Statements and Supplementary Data*, for a further discussion of the restrictions on our ability to pay dividends.

### **Various factors could make a takeover attempt of the Company more difficult to achieve.**

While we no longer have a Shareholder Rights Plan, certain provisions of our certificate of incorporation and bylaws, in addition to certain federal banking laws and regulations, could make it more difficult for a third party to acquire the Company without the consent of the Board of Directors, even if doing so were perceived to be beneficial to the Company's shareholders. These provisions also make it more difficult to remove our current Board of Directors or management or to appoint new directors, and also regulate the timing and content of stockholder proposals and nominations, and qualification for service on the Board of Directors. In addition, the Company has entered into employment agreements with certain executive officers and directors that would require payments to be made to them in the event that their employment was terminated following a change in control of the Company or the Banks. These payments may have the effect of increasing the costs of acquiring the Company. The combination of these provisions could effectively inhibit a non-negotiated merger or other business combination, which could adversely impact the market price of our common stock.

### **Various factors could impact the price and trading activity in our common stock.**

The price of the Company's common stock can fluctuate significantly in response to a variety of factors, including, but not limited to, the following: actual or anticipated variations in the Company's quarterly results of operations; earnings estimates and recommendations of securities analysts; the performance and stock price of other companies that investors and analysts deem comparable to the Company; news reports regarding trends and issues in the financial services industry; actual or anticipated changes in the economy, the real estate market, and interest



**Table of Contents**

rates; speculation regarding the Company's involvement in industry consolidation; the Company's capital markets activities; mergers and acquisitions involving the Company's peers; delays in, or a failure to realize the anticipated benefits of, an acquisition; speculation about, or an actual change in, dividend payments; changes in legislation or regulation impacting the financial services industry in particular, or publicly traded companies in general; regulatory enforcement or other actions against the Company or the Banks or their affiliates; threats of terrorism or military conflicts; and general market fluctuations. Fluctuations in stock price may make it more difficult for you to sell your common stock at an attractive price.

**ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

**ITEM 2. PROPERTIES**

Our executive and administrative offices are located at 615 Merrick Avenue, Westbury, New York. The office building and land had been purchased by CFS Bank in December 1997 and the building is now occupied by the Company under a lease agreement and Payment-in-Lieu-of-Tax ( PILOT ) agreement with the Town of Hempstead Industrial Development Agency (the IDA ), which was assumed by the Company pursuant to the merger with Haven on November 30, 2000. Under the IDA and PILOT agreements, the Company sold the building and land to the IDA, is leasing them for \$1.00 per year for a 10-year period ending December 31, 2007, and will repurchase the building and land for \$1.00 upon expiration of the lease term in exchange for IDA financial assistance.

We currently own 55 and lease 120 of our branch offices and other bank business facilities under various lease and license agreements expiring at various times through 2025. (Please see Note 10 to the Consolidated Financial Statements, Commitments and Contingencies: Lease and License Commitments in Item 8, Financial Statements and Supplementary Data. ) We believe that our facilities are adequate to meet our present and immediately foreseeable needs.

**ITEM 3. LEGAL PROCEEDINGS**

In the normal course of our business, there are various outstanding legal proceedings. Although no assurances can be given, management currently believes that the ultimate resolution of these matters will not have a material adverse effect on the Company's financial condition or results of operations. Please see Note 10 to the Consolidated Financial Statements, Commitments and Contingencies: Legal Proceedings in Item 8, Financial Statements and Supplementary Data, for a discussion of certain legal proceedings that are outstanding at the present time.

**ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

None.

**Table of Contents****PART II.****ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS, AND ISSUER PURCHASES OF EQUITY SECURITIES**

The common stock of the Company is traded on the New York Stock Exchange (the "NYSE") under the symbol "NYB".

At December 31, 2006, the number of outstanding shares was 295,350,936 and the number of registered owners was approximately 14,000. The latter figure does not include those investors whose shares were held for them by a bank or broker at that date.

**Dividends Declared per Common Share and Market Price of Common Stock**

The following table sets forth the dividends declared per common share, and the intra-day high/low price range and closing prices for the Company's common stock, as reported by the NYSE, in each of the four quarters of 2006 and 2005:

	Dividends Declared per Common Share	Market Price		
		High	Low	Close
<b>2006</b>				
1 <sup>st</sup> Quarter	\$ 0.25	\$ 18.23	\$ 16.33	\$ 17.52
2 <sup>nd</sup> Quarter	0.25	17.70	15.70	16.51
3 <sup>rd</sup> Quarter	0.25	16.85	16.06	16.38
4 <sup>th</sup> Quarter	0.25	16.86	15.70	16.10
<b>2005</b>				
1 <sup>st</sup> Quarter	\$ 0.25	\$ 20.63	\$ 17.10	\$ 18.16
2 <sup>nd</sup> Quarter	0.25	18.64	17.19	18.12
3 <sup>rd</sup> Quarter	0.25	19.04	15.85	16.40
4 <sup>th</sup> Quarter	0.25	17.29	15.69	16.52

Please see the discussion of "Liquidity" in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," for information regarding restrictions on our ability to pay dividends.

On July 6, 2006, our Chairman, President, and Chief Executive Officer, Joseph R. Ficalora, submitted to the NYSE his Annual CEO certification confirming our compliance with the NYSE's corporate governance listing standards, as required by Section 3031A.12(a) of the NYSE Listed Company Manual.

**Table of Contents****Share Repurchase Program**

From time to time, we repurchase shares of our common stock on the open market or through privately negotiated transactions, and hold such shares in our Treasury account. Repurchased shares may be utilized for various corporate purposes, including, but not limited to, the exercise of stock options and merger transactions.

During the three months ended December 31, 2006, we allocated \$63,000 toward share repurchases, as outlined in the following table:

Period	(a) Total Number of Shares (or Units) Purchased <sup>(1)</sup>	(b) Average Price Paid per Share (or Unit)	(c)	(d)
			Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs <sup>(2)</sup>
Month #1: October 1, 2006 through October 31, 2006				1,479,043
Month #2: November 1, 2006 through November 30, 2006				1,479,043
Month #3: December 1, 2006 through December 31, 2006	3,911	\$ 16.09	3,911	1,475,132
Total	3,911	\$ 16.09	3,911	

(1) All shares were purchased in privately negotiated transactions.

(2) On February 26, 2004, the Board of Directors authorized the repurchase of five million shares. On April 20, 2004, with 44,816 shares remaining under such authorization, the Board authorized the repurchase of up to an additional five million shares. At December 31, 2006, 1,475,132 shares were still available for repurchase under the April 20, 2004 authorization. Under said authorization, shares may be repurchased on the open market or in privately negotiated transactions until completion or the Board's earlier termination of the repurchase authorization.

**Stock Performance Graph**

Notwithstanding anything to the contrary set forth in any of the Company's previous filings under the Securities Act of 1933 or the Securities Exchange Act of 1934 that might incorporate future filings, including this Form 10-K, in whole or in part, the following stock performance graph shall not be incorporated by reference into any such filings.

The following graph provides a comparison of total shareholder returns on the Company's Common Stock since December 31, 2001 with the cumulative total returns of a broad market index and a peer group index. The S&P Mid-Cap 400 index was chosen as the broad market index in connection with the Company's trading activity on the New York stock Exchange, beginning on December 20, 2002. The peer group index chosen was the SNL Bank and Thrift Index, which is comprised of bank and thrift institutions and includes the Company. The data for the indices included below were provided by Hemscott, Inc.

**Table of Contents**

	12/31/2001	12/31/2002	12/31/2003	12/31/2004	12/31/2005	12/31/2006
New York Community Bancorp, Inc.	\$ 100.00	\$ 129.65	\$ 235.00	\$ 176.96	\$ 150.42	\$ 155.74
S&P Mid-Cap 400 Index	\$ 100.00	\$ 85.49	\$ 115.94	\$ 135.05	\$ 152.00	\$ 167.69
SNL Bank and Thrift Index	\$ 100.00	\$ 93.96	\$ 127.39	\$ 142.66	\$ 144.89	\$ 169.30

**Table of Contents****ITEM 6. SELECTED FINANCIAL DATA**

<i>(dollars in thousands, except share data)</i>	At or For the Years Ended December 31,				
	2006 <sup>(1)</sup>	2005 <sup>(2)</sup>	2004	2003 <sup>(3)</sup>	2002
<b>EARNINGS SUMMARY:</b>					
Net interest income <sup>(4)</sup>	\$ 561,566	\$ 595,367	\$ 799,343	\$ 532,671	\$ 384,444
Non-interest income (loss) <sup>(4)</sup>	88,990	97,701	(62,303)	136,291	90,632
Non-interest expense:					
Operating expenses	256,362	236,621	193,632	169,373	133,062
Prepayment of borrowings	26,477				
Termination of interest rate swaps	1,132				
Amortization of core deposit intangibles	17,871	11,733	11,440	6,907	6,000
Income tax expense	116,129	152,629	176,882	169,311	106,784
Net income <sup>(5)</sup>	232,585	292,085	355,086	323,371	229,230
Basic earnings per share <sup>(5)(6)</sup>	\$ 0.82	\$ 1.12	\$ 1.37	\$ 1.70	\$ 1.27
Diluted earnings per share <sup>(5)(6)</sup>	0.81	1.11	1.33	1.65	1.25
Dividends per share <sup>(6)</sup>	1.00	1.00	0.96	0.66	0.43
<b>SELECTED RATIOS:</b>					
Return on average assets <sup>(5)</sup>	0.83%	1.17%	1.42%	2.26%	2.29%
Return on average stockholders' equity <sup>(5)</sup>	6.57	9.15	11.24	20.74	19.95
Operating expenses to average assets	0.91	0.95	0.78	1.18	1.33
Average stockholders' equity to average assets	12.60	12.83	12.65	10.90	11.47
Efficiency ratio <sup>(5)</sup>	39.41	34.14	26.27	25.32	25.32
Interest rate spread <sup>(4)</sup>	2.04	2.61	3.63	4.04	4.25
Net interest margin <sup>(4)</sup>	2.27	2.74	3.70	4.15	4.44
Dividend payout ratio	123.46	90.09	72.18	39.89	34.23
<b>BALANCE SHEET SUMMARY:</b>					
Total assets	\$ 28,482,370	\$ 26,283,705	\$ 24,037,826	\$ 23,441,337	\$ 11,313,092
Loans, net of allowance for loan losses	19,567,502	16,948,697	13,317,987	10,422,078	5,443,572
Allowance for loan losses	85,389	79,705	78,057	78,293	40,500
Securities held to maturity	2,985,197	3,258,038	3,972,614	3,222,898	549,532
Securities available for sale	1,940,787	2,379,214	3,108,109	6,277,034	3,952,130
Deposits	12,619,004	12,104,899	10,402,117	10,329,106	5,256,042
Borrowed funds	11,880,008	10,528,658	10,142,541	9,931,013	4,592,069
Stockholders' equity	3,689,837	3,324,877	3,186,414	2,868,657	1,323,512
Common shares outstanding <sup>(6)</sup>	295,350,936	269,776,791	265,190,635	256,649,073	187,847,937
Book value per share <sup>(6)(7)</sup>	\$ 12.56	\$ 12.43	\$ 12.23	\$ 11.40	\$ 7.29
Stockholders' equity to total assets	12.95%	12.65%	13.26%	12.24%	11.70%
<b>ASSET QUALITY RATIOS:</b>					
Non-performing loans to total loans	0.11%	0.16%	0.21%	0.33%	0.30%
Non-performing assets to total assets	0.08	0.11	0.12	0.15	0.15
Allowance for loan losses to non-performing loans	402.72	289.17	277.31	228.01	247.83
Allowance for loan losses to total loans	0.43	0.47	0.58	0.75	0.74

(1) The Company acquired Atlantic Bank of New York on April 28, 2006. Accordingly, the Company's 2006 earnings reflect eight months of combined operations.

(2) The Company acquired Long Island Financial Corp. on December 30, 2005, the last business day of the year. Accordingly, its contribution to the Company's earnings began on January 1, 2006.

(3) The Company merged with Roslyn Bancorp, Inc. on October 31, 2003. Accordingly, the Company's 2003 earnings reflect two months of combined operations.

(4) The 2005, 2004, 2003, and 2003 amounts reflect the impact of reclassifying prepayment penalties totaling \$23.4 million, \$18.1 million, \$27.7 million, and \$11.2 million, respectively, as interest income, rather than as non-interest income, as previously reported.

(5)

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The 2006 amount includes the following charges, which totaled \$44.4 million on a pre-tax basis and \$31.0 million, or \$0.11 per diluted share, after-tax: a \$6.1 million loss on the mark-to-market of interest rate swaps and a \$1.9 million loss on debt redemption, both of which were recorded in non-interest income and resulted in a combined after-tax charge of \$4.8 million, or \$0.01 per diluted share; a \$26.5 million charge for the prepayment of wholesale borrowings and a \$1.1 million charge for the termination of interest rate swaps, both of which were recorded in non-interest expense and resulted in a combined after-tax charge of \$18.8 million, or \$0.07 per diluted share; and a merger-related charge of \$5.7 million and a \$3.1 million charge for the retirement of a director and senior lending consultant, both of which were recorded in operating expenses, and resulted in a combined after-tax charge of \$7.4 million, or \$0.03 per diluted share. The 2005 amount includes a merger-related charge of \$36.6 million, recorded in operating expenses, which resulted in an after-tax charge of \$34.0 million, or \$0.13 per diluted share. The 2004 amount includes a \$157.2 million loss on the sale of securities in connection with the repositioning of the balance sheet in the second quarter, and an \$8.2 million charge for the other-than-temporary impairment of certain perpetual preferred FNMA securities in the fourth quarter of the year, both of which were recorded in non-interest (loss) and resulted in a combined after-tax loss of \$99.9 million, or \$0.37 per diluted share. The 2003 amount includes a \$37.6 million gain on the sale of the Company's South Jersey Bank Division, recorded in non-interest income, and a merger-related charge of \$20.4 million, recorded in operating expenses, which resulted in a net gain of \$3.7 million, or \$0.02 per diluted share, after-tax. The 2001 amount includes a \$1.5 million gain on the sale of bank-owned property, recorded in non-interest income; a merger-related charge of \$22.8 million, recorded in operating expenses; and a \$3.0 million charge, recorded in income tax expense, which resulted in an after-tax net charge of \$16.8 million, or \$0.12 per diluted share.

- (6) Amounts have been adjusted to reflect 4-for-3 stock splits on February 17, 2004 and May 21, 2003.
- (7) Excludes unallocated Employee Stock Ownership Plan ( ESOP ) shares from the number of shares outstanding. Please see book value per share in the Glossary earlier in this report.

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**Table of Contents**

**ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

*For the purpose of this discussion and analysis, 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.*

**Executive Summary**

With total assets of \$28.5 billion at December 31, 2006, we are the fourth largest publicly traded bank holding company headquartered in the New York metropolitan region, and one of its leading depositories. We currently have 166 banking offices serving customers in all five boroughs of New York City, Suffolk and Nassau Counties on Long Island, Westchester County, and the northern New Jersey counties of Essex, Hudson, and Union.

Our two primary subsidiaries are New York Community Bank, a New York State-chartered savings bank with 137 locations that span our entire market, and New York Commercial Bank, a New York State-chartered commercial bank with 29 locations serving customers in Manhattan, Queens, and Brooklyn, Westchester County, and Long Island. For the purpose of the discussion and analysis that follow, New York Community Bank and New York Commercial Bank are referred to collectively as the Banks and respectively as the Community Bank and the Commercial Bank.

As noted in the Overview earlier in this report, our 2006 financial performance was driven by a business model with five key components: the origination of multi-family mortgage loans, primarily on rent-regulated buildings in New York City; the maintenance of credit standards that have resulted in a solid record of asset quality; the efficient operation of our Company, including our retail branch network; the growth of our franchise through accretive merger transactions; and the strategic post-merger repositioning of our balance sheet.

Our focus on this model resulted in the following achievements over the course of the year:

Multi-family loans totaled \$14.5 billion at the end of December, signifying a \$1.7 billion, or 13.0%, increase from the year-earlier amount. While the acquisition of Atlantic Bank contributed \$440.7 million of multi-family loans at the date of acquisition, the increase was largely due to organic loan production, with originations totaling \$2.8 billion in 2006. Multi-family loans represented 73.9% of total loans at the end of December and 56.4% of loans produced over the course of the year.

Our solid record of asset quality was extended over the course of the year, with non-performing assets representing \$22.5 million, or 0.08%, of total assets at the end of December, an improvement from \$28.9 million, or 0.11% of total assets, at December 31, 2005. Included in the December 31, 2006 amount were non-performing loans of \$21.2 million, representing 0.11% of total loans at that date.

Notwithstanding the establishment of a commercial banking franchise and the related addition of 29 branches, we maintained a strong level of efficiency. According to SNL Financial, we ranked 13th among the most efficient publicly traded banks and thrifts in the nation, with an efficiency ratio of 39.41% in 2006.

We commenced operations of our commercial bank subsidiary with the acquisition of Long Island Financial Corp. ( Long Island Financial ) on December 30, 2005, and expanded the Commercial Bank with the acquisition of Atlantic Bank of New York ( Atlantic Bank ) on April 28, 2006. The acquisitions diversified our balance sheet, expanded our franchise, and enhanced our ability to compete for loans and deposit market share.

The Long Island Financial transaction provided us with assets of \$588.7 million, including loans of \$253.0 million and securities of \$234.6 million, and deposits of \$425.9 million, including \$347.2 million of lower-cost and non-interest-bearing deposits. The Atlantic Bank transaction provided us with assets of \$2.8 billion, including loans of \$1.2 billion and securities of \$1.1 billion, and deposits of \$1.8 billion, including \$1.4 billion of core deposits (defined as NOW and money market accounts, savings accounts, and non-interest-bearing accounts).

## Table of Contents

In addition, the Atlantic Bank transaction strengthened our presence in the attractive Manhattan market, where the majority of the properties securing our multi-family loans are located, and enhanced our ability to meet our borrowers' and other local businesses' needs by expanding our menu of cash management services.

Furthermore, the commercial bank acquisitions provided us with an opportunity to reduce our higher-cost funding sources, as we engaged in a post-merger repositioning of our balance sheet, as further discussed below.

In November 2006, we successfully completed an upgrade of the Commercial Bank's core data processing systems, enabling customers at the twelve branches acquired in the Long Island Financial transaction and customers at the 17 branches acquired in the Atlantic Bank transaction to conduct their banking businesses at all 29 branches of our commercial bank subsidiary.

On November 2, 2006, we announced plans to acquire PennFed Financial Services, Inc. ( PennFed ), the holding company for Penn Federal Savings Bank, a New Jersey-based savings institution with assets of \$2.3 billion, deposits of \$1.5 billion, and 24 branch offices as of December 31, 2006. Pending the approval of PennFed's shareholders and the receipt of customary regulatory approvals, we currently expect to complete the acquisition on or about March 31, 2007.

On February 15, 2007, the merger of Penn Federal Savings Bank with and into the Community Bank received FDIC approval; the merger is expected to take place immediately following the acquisition of PennFed by the Company.

While the establishment of the Commercial Bank had a favorable impact on our 2006 performance, the benefits were overshadowed by the adverse impact of the challenging interest rate environment. The inversion of the yield curve at the end of 2005 became more acute in the twelve months that followed, as short-term interest rates rose at a faster pace than intermediate-term interest rates.

In addition, the comparatively low level of market interest rates inhibited loan refinancing activity until late in the fourth quarter, reducing the volume of prepayment penalties we received over the course of the year. Prepayment penalties totaled \$29.5 million in 2006, as compared to \$33.0 million in 2005.

Competition for product placed additional pressure on our earnings, as new competitors offered multi-family loans at loan-to-value ratios that exceeded our maximum measures, leading to our decision to pass on loans we might otherwise have refinanced or added to our portfolio. At the same time, competition for deposits was exacerbated by the continuing rise in short-term interest rates, which contributed to an increase in our funding costs.

To temper the impact of these adverse market conditions, and to position ourselves for 2007, we took the following strategic actions in 2006:

With the acquisition of Atlantic Bank at the end of April, we boosted our deposits by \$1.8 billion. Of this amount, \$1.4 billion, or 77.9%, consisted of low-cost or non-interest-bearing deposits.

Within weeks of completing the Atlantic Bank acquisition, we sold \$1.2 billion of securities acquired in that transaction and in the acquisition of Long Island Financial, combined.

During the second quarter, we utilized the proceeds of these securities sales to repay \$886.1 million of wholesale borrowings with an average cost of 5.93%, and also reduced our balance of brokered deposits by \$260.6 million.

In the fourth quarter of 2006, we utilized the cash flows produced through an increase in loan repayments to reduce our brokered deposits by \$916.3 million.





## Table of Contents

In the fourth quarter of 2006, we redeemed \$125.0 million of junior subordinated debentures featuring a floating rate of interest equal to the three- and six-month London Interbank Offered Rate ( LIBOR ) plus a range of 3.60% to 3.75%.

To fund the redemptions, we issued \$123.7 million of junior subordinated debentures featuring a floating rate of interest equal to the three-month LIBOR plus 1.60%.

The benefits of these actions are reflected in the following year-over-year improvements in our balance sheet at December 31, 2006:

Reflecting the assets acquired with Atlantic Bank and organic loan production, we recorded total assets of \$28.5 billion, signifying a \$2.2 billion, or 8.4%, increase from the balance recorded at year-end 2005.

Loans represented \$19.7 billion, or 69.0%, of total assets at the end of December, signifying a year-over-year increase of \$2.6 billion, or 15.4%.

While the Atlantic Bank transaction contributed \$1.2 billion to the loan portfolio at the date of acquisition, the year-over-year increase in loans was primarily fueled by the loans we ourselves produced. Originations totaled \$5.0 billion in 2006, and included \$2.8 billion of loans secured by multi-family buildings, as well as \$413.7 million and \$984.8 million, respectively, of commercial real estate and construction loans.

Largely reflecting the benefit of the Atlantic Bank transaction, commercial and industrial ( C&I ) loans rose \$490.5 million to \$643.1 million. While C&I loans represented a modest 3.3% of outstanding loans at December 31st, they represented \$675.9 million, or 13.6%, of the year's originations, with much of the volume occurring in the fourth quarter of 2006.

Consistent with our use of securities as a source of cash flows, the portfolio of securities declined \$711.3 million, or 12.6%, year-over-year, to \$4.9 billion, representing 17.3% of total assets at December 31, 2006.

Loan growth was partly fueled by loan repayments totaling \$3.5 billion and by the cash flows from securities sales and repayments. In 2006, the cash flows from securities sales totaled \$1.2 billion, with repayments totaling \$795.6 million over the course of the year.

Deposits totaled \$12.6 billion at year-end 2006, and included certificates of deposit ( CDs ) of \$5.9 billion and core deposits of \$6.7 billion. Included in total deposits were brokered deposits of \$943.8 million, signifying a \$609.2 million, or 39.2%, reduction from the year-end 2005 amount.

Stockholders' equity rose \$365.0 million year-over-year to \$3.7 billion, and was equivalent to 12.95% of total assets and a book value of \$12.56 per share, based on 293,890,372 shares.

Tangible stockholders' equity rose \$177.7 million year-over-year to \$1.4 billion and equaled 5.47% of tangible assets, an increase from 5.19% at December 31, 2005. The increase reflects total contributions to capital of \$264.8 million over the twelve-month period and the issuance of 24.5 million shares of common stock in a secondary offering to fund the acquisition of Atlantic Bank.

Reflecting the strength of our tangible capital, we maintained our quarterly cash dividend at \$0.25 per share throughout the year.

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While our balance sheet reflects the benefits of our strategic actions, our 2006 income statement largely reflects the adverse impact of the inverted yield curve on our net interest income, and the impact of several charges that were recorded during the year in non-interest income and non-interest expense:

Net interest income declined \$33.8 million in 2006 to \$561.6 million, while our net interest margin declined 47 basis points to 2.27% for the year. While interest income rose \$229.7 million year-over-year

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**Table of Contents**

to \$1.4 billion, the increase was exceeded by a \$263.5 million rise in interest expense to \$847.1 million. The rise in interest income was attributable to a \$3.0 billion increase in the average balance of interest-earning assets to \$24.7 billion and a 26-basis point increase in the average yield to 5.69%. The rise in interest expense was attributable to a \$2.5 billion increase in the average balance of interest-bearing liabilities to \$23.2 billion and an 83-basis point increase in the average cost of funds to 3.65%.

While our net interest margin declined year-over-year, a comparison of our margin from quarter to quarter reflects a more positive trend. As the year progressed, our margin remained fairly stable, the result of our efforts to reduce our higher-cost funding sources and the replenishment of our interest-earning asset mix with multi-family and other higher-yielding loans.

Non-interest income contributed \$89.0 million to our 2006 earnings, with fee income accounting for \$38.7 million, BOLI income accounting for \$23.6 million, and other income accounting for \$31.9 million. While the level of non-interest income recorded in 2006 declined \$8.7 million from the year-earlier level, the reduction was largely due to a \$6.1 million pre-tax mark-to-market loss on interest rate swaps recorded in the first quarter and a \$1.9 million pre-tax loss recorded in connection with the redemption of trust preferred securities in the fourth quarter of the year. On an after-tax basis, these charges were equivalent to \$4.8 million, or \$0.01 per diluted share.

The revenues produced by net interest income and non-interest income in 2006 were partly offset by non-interest expense totaling \$301.8 million, including operating expenses of \$256.4 million, core deposit intangible ( CDI ) amortization of \$17.9 million, and a pre-tax post-merger repositioning charge of \$27.6 million, which was equivalent on an after-tax basis to \$18.8 million, or \$0.07 per diluted share.

Operating expenses rose \$19.7 million year-over-year, largely reflecting the establishment of our Commercial Bank and the related expansion of our staff and branch network. Also included in 2006 operating expenses were a \$5.7 million charge for the allocation of Employee Stock Ownership Plan ( ESOP ) shares in connection with the Atlantic Bank transaction, and a \$3.1 million charge recorded in connection with the retirements of our chairman and our senior lending consultant in the fourth quarter of the year. Together, these charges were equivalent on an after-tax basis to \$7.4 million, or \$0.03 per diluted share.

CDI amortization rose \$6.1 million in 2006, reflecting the CDI stemming from the acquisitions of Long Island Financial and Atlantic Bank.

Income tax expense declined \$36.5 million to \$116.1 million, a function of the reduction in pre-tax income and a reduction in the effective tax rate to 33.3% from 34.3%.

The combined impact of the charges recorded in non-interest income and non-interest expense, on an after-tax basis, was \$31.0 million, or \$0.11 per diluted share. Reflecting the decline in net interest income and the combined impact of these charges, we recorded 2006 earnings of \$232.6 million, or \$0.81 per diluted share.

***Looking Forward***

The actions we took in 2006 have positioned us well for 2007, as reflected in the enhancements to our balance sheet at the end of December, and the stabilization of our net interest margin over the course of the year. In addition, our fourth quarter 2006 results reflected several encouraging trends, including an increase in prepayment penalties as refinancing activity increased, which contributed to a modest linked-quarter improvement in both our margin and interest rate spread. The pending acquisition of PennFed will provide new opportunities to enhance our margin and our earnings, as we plan to reposition the post-merger balance sheet.

Upon completion of the transaction, we expect to sell or securitize the majority of PennFed's one-to-four family loans and to sell a portion of its securities. The proceeds generated by such actions will be utilized to originate multi-family loans and other higher-yielding credits, and/or to reduce the balance of our higher-cost sources of funds. Furthermore, with the addition of PennFed's 24 branches, we will have 190 locations serving the New York metropolitan region, and the opportunity to grow not only our customer base, but also our revenues.

## **Table of Contents**

### **Recent Events**

#### ***Redemption of Trust Preferred Securities***

On February 8, 2007, we announced that two of our subsidiaries, Haven Capital Trust I ( Haven Trust I ) and Roslyn Preferred Trust I ( Roslyn Trust I ), will redeem all of their respective trust preferred securities. Haven Trust I will redeem all \$17.4 million of its fixed-rate trust preferred securities on April 1, 2007 and Roslyn Trust I will redeem all \$63.0 million of its floating rate trust preferred securities on the same date. We expect to fund the redemptions with the proceeds of a new issue of trust preferred securities in April 2007.

#### ***Pending Acquisition of PennFed Financial Services, Inc.***

As previously stated, the Company entered into a definitive agreement to acquire PennFed, the holding company for Penn Federal Savings Bank, on November 2, 2006. Pending the approval of PennFed's shareholders and the receipt of customary regulatory approvals, the acquisition is currently expected to be completed on or about March 31, 2007. On February 15, 2007, the merger of Penn Federal Savings Bank with and into the Community Bank received FDIC approval. The merger is expected to take place immediately following the acquisition of PennFed by the Company. A special meeting of PennFed's shareholders to consider and approve the merger is scheduled for March 13, 2007.

### **Critical Accounting Policies**

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

#### ***Allowance for Loan Losses***

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

Management establishes the allowances for loan losses through an assessment of probable losses in each of the respective loan portfolios. Several factors are considered in this process, including historical and projected default rates and loss severities; internal risk ratings; loan size; economic, industry, and environmental factors; and loan impairment, as defined under Statement of Financial Accounting Standards ( SFAS ) No. 114, Accounting by Creditors for Impairment of a Loan, as amended by SFAS No. 118, Accounting by Creditors for Impairment of a Loan/Income Recognition and Disclosures. Under SFAS Nos. 114 and 118, a loan is classified as impaired when, based on current information and events, it is probable that a creditor will be unable to collect all amounts due under the contractual terms of the loan. We apply SFAS Nos. 114 and 118 to all loans except smaller balance homogenous loans and loans carried at fair value or the lower of cost or fair value.

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

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

The assessments take into consideration loans that have been adversely rated, primarily through the valuation of the collateral supporting each loan. Adversely rated loans are loans that are either non-performing or that exhibit certain weaknesses that could jeopardize payment in accordance with the original terms. Larger loans are

## **Table of Contents**

assigned risk ratings based upon a routine review of the credit files, while smaller loans exceeding 90 days in arrears are assigned risk ratings based upon an aging schedule. Quantified risk factors are assigned for each risk-rating category to provide an allocation to the overall loan loss allowance.

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

In order to determine their overall adequacy, each of the respective loan loss allowances is reviewed quarterly by management and by the Mortgage and Real Estate Committee of the Community Bank's Board of Directors or the Credit Committee of the Board of Directors of the Commercial Bank, as applicable. Each of the independent directors who serve on these committees has had more than 30 years of complementary experience.

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

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

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

## ***Investment Securities***

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

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

***Goodwill Impairment***

Goodwill is presumed to have an indefinite useful life and is tested for impairment, rather than amortized, at the reporting unit level, at least once a year. Impairment exists when the carrying amount of goodwill exceeds its implied fair value. If the fair value of a reporting unit exceeds its carrying amount at the time of testing, the goodwill

## **Table of Contents**

of the reporting unit is not considered impaired. According to SFAS No. 142, Goodwill and Other Intangible Assets, quoted market prices in active markets are the best evidence of fair value and are to be used as the basis for measurement, when available. Other acceptable valuation methods include present-value measurements based on multiples of earnings or revenues, or similar performance measures. Differences in the identification of reporting units and in valuation techniques could result in materially different evaluations of impairment.

For the purpose of goodwill impairment testing, we have identified one reporting unit. We performed our annual goodwill impairment test as of January 1, 2006, and determined that the fair value of the reporting unit was in excess of its carrying value, using the quoted market price of our common stock on the impairment testing date as the basis for determining fair value. As of the annual impairment test date, there was no indication of goodwill impairment. In addition, we found no indication of goodwill impairment when we performed our annual goodwill impairment test as of January 1, 2007.

## ***Income Taxes***

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

In January 2007, the Governor of the State of New York released a budget proposal which included a number of tax provisions that, if enacted, might adversely impact the New York State and City tax liabilities of the Company. The proposals include (i) elimination of a favorable adjustment in the wage component of the New York apportionment formula determining the income attributable to New York; (ii) elimination of the reserve method for determining deductions for bad debts and a recapture tax on certain bad debt adjustments recorded over the past five years; (iii) elimination of a favorable adjustment used in the computation of certain income from subsidiary capital; and (iv) disallowance of certain deductions attributable to untaxed income from subsidiary capital. The legislative process is ongoing and some or all of these proposals may be adopted, altered, or abandoned. We believe that the provisions currently contained in the budget proposal, if enacted, would not have a material adverse impact on our 2007 tax expense.

## **Balance Sheet Summary**

### ***Loans***

Loans are, and have historically been, the Company's principal asset, with multi-family loans long representing our primary lending niche. We are the leading producer of multi-family loans for portfolio in New York City, with an emphasis on loans secured by buildings that are rent-controlled or stabilized. According to the NYC Rent Guidelines Board 2006 Housing Supply Report, 52.0% of the city's rental housing market in 2006 consisted of rent-regulated units, a modest increase from the 51.5% reported for 2005.

To diversify our lending mix, we also originate commercial real estate and construction loans on properties throughout the New York metropolitan region, but primarily in New York City and Nassau and Suffolk Counties on Long Island. While we also originate one-to-four family loans, we do so on a pass-through basis only, selling such loans to a third-party conduit shortly after the loans are closed.

The establishment of the Commercial Bank through the Long Island Financial and Atlantic Bank acquisitions has enabled us to further diversify our loan portfolio. In addition to adding C&I loans to our mix of assets, the transactions provided us with a team of seasoned lenders with commercial lending expertise. As a result, we now have an expanded menu of loans and revolving lines of credit to address the needs of the region's small and mid-size businesses.



**Table of Contents**

At December 31, 2006, our loan portfolio totaled \$19.7 billion, signifying a \$2.6 billion, or 15.4%, increase from the balance recorded at December 31, 2005. While Atlantic Bank had total loans of \$1.2 billion at the time of the acquisition, the year-over-year growth of our loan portfolio was primarily fueled by organic loan production, with 2006 originations totaling \$5.0 billion. Reflecting our focus on maintaining our credit standards in the face of what we believe to have been irrational pricing and financing in a highly competitive market, the latter amount reflects a \$1.4 billion decline from the volume of loans produced in 2005.

Multi-family loan originations accounted for 56.4% of loans produced over the current twelve-month period, with commercial real estate and construction loans accounting for 8.3% and 19.8%, respectively. Reflecting the establishment of the Commercial Bank, C&I loan originations totaled \$675.9 million and represented 13.6% of loans produced in 2006.

The growth of the loan portfolio was partly tempered by repayments totaling \$3.5 billion and sales of one-to-four family loans totaling \$59.0 million to our third-party conduit. Primarily reflecting the manner in which the vast majority of our multi-family, commercial real estate, and construction loans are structured, 85% of our outstanding loans consisted of adjustable-rate credits, with fixed-rate loans accounting for the remaining 15%.

The following table summarizes our loan production for the years ended December 31, 2006 and 2005:

**Loan Origination Analysis**

<i>(dollars in thousands)</i>	For the Years Ended December 31, 2006		2005	
	Amount	Percent of Total	Amount	Percent of Total
Mortgage Loan Originations:				
Multi-family	\$ 2,801,991	56.37%	\$ 4,651,040	73.45%
Commercial real estate	413,710	8.32	840,063	13.27
Construction	984,838	19.81	653,322	10.32
1-4 family	60,152	1.21	96,219	1.52
Total mortgage loan originations	\$ 4,260,691	85.71%	\$ 6,240,644	98.56%
Other loan originations <sup>(1)</sup>	710,005	14.29	91,000	1.44
Total loan originations	\$ 4,970,696	100.00%	\$ 6,331,644	100.00%

(1) Includes C&I loan originations.

**Table of Contents**

The following table summarizes the composition of our loan portfolio at each year-end for the five years ended December 31, 2006:

**Loan Portfolio Analysis**

	2006		2005		At December 31, 2004		2003		2002	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total
<i>(dollars in thousands)</i>										
<b>Mortgage Loans:</b>										
Multi-family	\$ 14,529,097	73.93%	\$ 12,854,188	75.49%	\$ 9,839,263	73.45%	\$ 7,368,155	70.18%	\$ 4,494,332	81.88%
Commercial real estate	3,114,440	15.85	2,888,294	16.96	2,140,770	15.98	1,445,048	13.76	533,327	9.71
Construction	1,102,732	5.61	856,651	5.03	807,107	6.03	643,548	6.13	117,013	2.13
1-4 family	230,508	1.17	254,510	1.49	506,116	3.78	730,963	6.96	265,724	4.84
<b>Total mortgage loans</b>	<b>18,976,777</b>	<b>96.56</b>	<b>16,853,643</b>	<b>98.97</b>	<b>13,293,256</b>	<b>99.24</b>	<b>10,187,714</b>	<b>97.03</b>	<b>5,410,396</b>	<b>98.56</b>
Other loans <sup>(1)</sup>	676,793	3.44	175,493	1.03	102,455	0.76	311,634	2.97	78,787	1.44
<b>Total mortgage and other loans</b>	<b>19,653,570</b>	<b>100.00%</b>	<b>17,029,136</b>	<b>100.00%</b>	<b>13,395,711</b>	<b>100.00%</b>	<b>10,499,348</b>	<b>100.00%</b>	<b>5,489,183</b>	<b>100.00%</b>
Unearned discounts									19	
Net deferred loan origination (fees) costs	(679)		(734)		333		1,023		(5,130)	
Allowance for loan losses	(85,389)		(79,705)		(78,057)		(78,293)		(40,500)	
<b>Loans, net</b>	<b>\$ 19,567,502</b>		<b>\$ 16,948,697</b>		<b>\$ 13,317,987</b>		<b>\$ 10,422,078</b>		<b>\$ 5,443,572</b>	

(1) Includes C&I loans.

**Table of Contents**

The following table presents a geographic analysis of the Company's multi-family, commercial real estate, and construction loan portfolios at December 31, 2006:

**Geographic Analysis of the Loan Portfolio**

<i>(dollars in thousands)</i>	At December 31, 2006					
	Multi-Family		Commercial Real Estate		Construction	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total
Manhattan	\$ 4,956,456	34.11%	\$ 1,194,489	38.35%	\$ 220,270	19.98%
Brooklyn	2,361,260	16.25	323,398	10.38	219,828	19.93
Bronx	1,747,231	12.03	136,178	4.37	22,577	2.05
Queens	1,502,934	10.34	362,559	11.64	148,306	13.45
Staten Island	100,226	0.69	35,393	1.14	63,414	5.75
Long Island	355,481	2.45	679,797	21.83	215,044	19.50
Other New York State & New Jersey	1,811,042	12.47	242,110	7.77	78,893	7.15
Pennsylvania	852,882	5.87	34,733	1.12		
All other states	841,585	5.79	105,783	3.40	134,400	12.19
Total	\$ 14,529,097	100.00%	\$ 3,114,440	100.00%	\$ 1,102,732	100.00%

*Multi-family Loans*

Multi-family loans totaled \$14.5 billion at December 31, 2006, representing 73.9% of loans outstanding, up from \$12.9 billion, representing 75.5% of total loans, at December 31, 2005. While the acquisition of Atlantic Bank contributed \$440.7 million to the portfolio at the date of acquisition, the year-over-year increase in multi-family loans was primarily fueled by organic loan production, with originations totaling \$2.8 billion over the course of the year. Although the volume of loans produced declined in 2006 from the year-earlier volume of \$4.7 billion, the decrease was strategic in nature and indicative of our decision not to originate product at the excessive loan-to-value ratios that were prevalent in our market in the second half of the year.

At December 31, 2006, \$13.5 billion, or 92.9%, of our multi-family loans were secured by rental apartment buildings and \$1.0 billion, or 7.1%, were secured by underlying mortgages on cooperative apartment buildings. In addition, 73.4% of our multi-family loans were secured by buildings in New York City, with Manhattan accounting for the largest percentage, 34.1%. Another 14.9% of multi-family loans were secured by buildings on Long Island and in other parts of New York State and New Jersey, with the remaining 11.7% secured by buildings outside our immediate market, many of which are owned by borrowers we have made loans to successfully within our local marketplace.

We primarily base the amount of the multi-family loans we originate on the current cash flows produced by the building, utilizing the income method of appraising the properties, rather than the sales method, which is subject to fluctuations in real estate market conditions and the general economy. We also consider a variety of other factors, including the value and 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 amount of a multi-family loan generally may represent no more than 80% of the lower of the appraised value or the sales price of the underlying property, with an amortization period of up to 30 years. We also require a minimum debt service coverage ratio of 120% on multi-family buildings, a security interest in the personal property at the premises, and an assignment of rents. At December 31, 2006, the average multi-family loan had a balance of \$3.6 million, unchanged from the year-earlier average, and the portfolio had an average loan-to-value ratio of 64.0%, as compared to 61.1% in the prior year.

In addition to qualifying a multi-family loan on the basis of the building's income and condition, we consider the borrower's credit history, profitability, and building management expertise. Because of our longevity in the multi-family market and the tendency of borrowers to refinance, we also are able, in many cases, to consider our own prior experience with the owner of the property. Borrowers are required to present evidence of the ability to repay the loan from the building's rent rolls, and a history of making mortgage payments in accordance with the terms of prior and existing loans. In assessing the creditworthiness of the borrower, we also generally review his or her financial statements and related documents.



## Table of Contents

Multi-family loans are typically made to long-term property owners who utilize the funds they borrow to make improvements to the building and the apartments therein. Our multi-family loans generally 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 the five-year Constant Maturity Treasury rate (the five-year CMT ) plus a margin of 150 basis points; during years six through ten, the borrower has the option of selecting a monthly adjustable rate that is currently 250 basis points above the prime rate of interest, as reported in *The New York Times*, or a fixed rate that is currently 275 basis points above the five-year CMT. The latter option also requires the payment of an amount equal to one percentage point of the then-outstanding loan amount. The minimum rate at repricing is equivalent to the rate in the initial five-year term.

As improvements are made to the collateral property, the regulations permit an increase in the rents on the apartments, thus creating more cash flows for the owner to borrow against. As the rent roll increases, the property owner typically opts to refinance the loan, even in a rising interest rate environment. This cycle has repeated itself over the course of many decades, with property values increasing, and borrowers typically refinancing before the loan reaches its sixth year. Accordingly, the expected weighted average life of the multi-family loan portfolio was 3.8 years at December 31, 2006.

Multi-family loans that refinance within the first five years are subject to an established prepayment penalty schedule. Depending on the remaining term of the loan at the time of prepayment, the penalties normally range from five percentage points to one percentage point of the loan balance. Because a portion of the loans in the portfolio tend to refinance with us, the potential for future portfolio growth is enhanced with every new loan we originate.

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 loans is the consistent quality of these assets: We have not had a loss of principal on a multi-family loan in our niche for more than twenty-five years. We generally consider multi-family loans to involve a modest degree of credit risk as compared to other types of credits, since the loans we produce are typically collateralized by rent-regulated buildings which tend to be stable and fully occupied. Because the buildings securing the loans are generally well maintained, and because the rents are typically below market, occupancy levels remain more or less constant, even during times of economic adversity.

The approval process for multi-family loans is also highly efficient, typically taking a period of four to eight weeks. We have been originating multi-family loans for several decades and were one of the few banks in the region to continue producing such loans during the last downturn in the credit cycle. Our success in this lending niche reflects the solid relationships we have developed during this time with the market's leading mortgage brokers, who are familiar with our lending practices, our underwriting standards, and our long-standing practice of lending on the cash flows produced by the buildings collateralizing these loans. Because the multi-family market is largely broker-driven, the process of producing such loans is significantly expedited and the related expenses substantially reduced.

### *Commercial Real Estate Loans*

Commercial real estate loans totaled \$3.1 billion at December 31, 2006, representing 15.8% of total loans outstanding and a \$226.1 million, or 7.8%, increase from the balance recorded at December 31, 2005. In addition to the commercial real estate loans acquired in the Atlantic Bank transaction, which totaled \$237.4 million at the date of acquisition, the increase reflects twelve-month originations totaling \$413.7 million, down \$426.4 million from the year-earlier amount.

At December 31, 2006, 65.9% of our commercial real estate loans were secured by properties in New York City, with properties on Long Island accounting for another 21.8%.

We structure our commercial real estate loans along the same lines as our multi-family credits, i.e., with a fixed rate of interest for the first five years of the loan that is generally tied to the five-year CMT plus a margin of 165 to 175 basis points. For years six through ten, the borrower generally has the option of selecting a monthly adjustable rate that is currently 250 basis points above the prime rate of interest, or a fixed rate that is currently 300

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## **Table of Contents**

basis points above the five-year CMT. The latter option also requires the payment of one percentage point of the then-outstanding loan amount. The minimum rate at repricing is equivalent to the rate featured in the initial five-year term.

Prepayment penalties also apply, with five percentage points generally being charged on loans that refinance in the first year, scaling down to one percentage point on loans that refinance in year five. Our commercial real estate loans also tend to refinance within five years of origination, and the expected weighted average life of the portfolio was 3.5 years at December 31, 2006.

The repayment of loans secured by commercial real estate is often dependent on the successful operation and management of the properties. In addition, a decline in real estate values or in economic conditions could have a greater impact on the ability of a borrower to repay a commercial real estate loan than a residential mortgage loan. To minimize the risk involved, we originate commercial real estate loans in adherence with stringent underwriting standards, and require that such loans qualify on the basis of the property's income stream and debt service coverage ratio. Accordingly, the amount of each loan is based upon the net operating income produced by the collateral property, and generally may not exceed 75% of the appraised value thereof. The approval of a loan also depends on the borrower's credit history, profitability, and expertise in property management, and a debt service coverage ratio of at least 120% is typically required. At December 31, 2006, the average commercial real estate loan had a principal balance of \$2.3 million and the portfolio had an average loan-to-value ratio of 57.1%. At the prior year-end, the respective measures were \$2.8 million and 57.8%. The origination of commercial real estate loans generally requires a security interest in the personal property and/or an assignment of the rents and/or leases.

### *Construction Loans*

The construction loan portfolio totaled \$1.1 billion at December 31, 2006, representing 5.6% of total loans outstanding and a \$246.1 million, or 28.7%, increase from the year-end 2005 amount. In addition to loans acquired in the Atlantic Bank transaction, which totaled \$62.1 million at the date of acquisition, the increase reflects organic loan production. Originations totaled \$984.8 million in the current twelve-month period, a \$331.5 million increase from the prior-year amount. The increase in construction loans reflects the relationships we have developed with several of the leading developers and builders in our region, or that were developed by our merger partners prior to their joining the Company. At December 31, 2006, 19.5% of our construction loans were for construction and development on Long Island, with the five boroughs of New York City accounting for 61.1%, combined.

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

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

Because construction loans are generally considered to have a higher degree of credit risk than loans on multi-family buildings, borrowers are required to provide a personal guarantee during construction and evidence of a permanent loan commitment being in place. The risk of loss on a construction loan is largely dependent upon the accuracy of the initial estimate of the property's value upon completion of construction, as compared to the estimated cost of construction, including interest, and upon the estimated time to sell or lease such properties. If the estimate of value proves to be inaccurate, or the length of time to sell or lease it is greater than anticipated, the property could have a value upon completion that is insufficient to assure full repayment of the loan.

When applicable, 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.

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## **Table of Contents**

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

We originate one-to-four family loans on a pass-through basis only. Applications are taken and processed by a third-party conduit, and the loans are sold to the conduit or its affiliates, without recourse, servicing-released, shortly after they close.

In connection with this practice, we have entered into a private-label program for the origination of one-to-four family and home equity loans under a mortgage origination assistance agreement with a nationally recognized third-party mortgage originator (the conduit), based on defined underwriting criteria that we have approved. Under this program, dedicated loan representatives are available to meet with our customers in any of our branches or, if they prefer, at their home or office. The loans are marketed through our branch network and our Community Bank web site, and are intended to serve our existing customers and attract new ones, as well. We fund the loans directly and, under a separate loan and servicing rights purchase and sale agreement with the conduit, have the option of retaining the loans for portfolio, selling the loans to a third-party investor, or delivering the loans to the conduit at an agreed-upon price. The conduit pays us a fee at the time a loan is delivered, which exceeds the fee we pay to the conduit for processing the loan. The fee income produced by each transaction is recorded as other non-interest income. In 2006, we originated one-to-four family and home equity loans totaling \$60.2 million, all of which were subsequently sold to the conduit. In the prior year, the total of one-to-four family and home equity loans originated and sold in this way totaled \$96.2 million.

At December 31, 2006, our one-to-four family loan portfolio totaled \$230.5 million, representing a \$24.0 million, or 9.4%, decline from the year-earlier amount. While the Atlantic Bank transaction added \$31.8 million of one-to-four family loans to our portfolio at the time of the acquisition, the increase was offset by the level of repayments and the impact of our conduit policy. Our portfolio of one-to-four family loans thus consists of seasoned loans that were acquired in our various merger transactions or were originated before the adoption of the conduit policy.

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: reducing our exposure to interest rate and credit risk, and promoting our efficiency.

While the pending acquisition of PennFed is expected to provide us with a one-to-four family loan portfolio of approximately \$1.3 billion, it is currently our intention to sell or securitize the majority of acquired one-to-four family loans. The proceeds are expected to be utilized to grow our portfolio of higher-yielding credits and/or to reduce our higher-cost funding sources, depending on market conditions at the time.

### *Other Loans*

While mortgage loans represent the vast majority of our loans outstanding, we also offer a variety of other loans. Other loans rose \$501.3 million, or 285.7%, year-over-year to \$676.8 million, primarily reflecting the Atlantic Bank transaction, which added \$436.8 million of other loans to our portfolio at the acquisition date. C&I loans accounted for \$408.8 million, or 33.8%, of the loans acquired in the Atlantic Bank transaction and for \$643.1 million, or 95.0%, of the other loan balance at December 31, 2006. While C&I loans totaled \$152.6 million at December 31, 2005, representing 0.9% of loans outstanding, the year-end 2006 amount represented 3.3% of total loans.

Included in the year-end 2006 balance of C&I loans are loans originated by Standard Funding Corp. (Standard Funding), which was acquired in the Atlantic Bank transaction and provides insurance premium financing to businesses and professionals for commercial lines of coverage. Ranked among the top ten premium insurance financiers in the nation, Standard Funding accounted for \$126.2 million of outstanding C&I loans at December 31, 2006.

With the acquisition of Atlantic Bank, we enhanced our ability to provide a variety of commercial loan products, including term loans, demand loans, revolving lines of credit, letters of credit, equipment leasing, and

## **Table of Contents**

loans that are partly guaranteed by the Small Business Administration. A broad range of commercial loans, both collateralized and uncollateralized, are made available to businesses for working capital (including inventory and receivables), business expansion, and for the purchase of machinery and equipment. The purpose of the loan is considered in determining its term and structure; the pricing is tied to the prime rate of interest.

The remainder of the portfolio of other loans consists of home equity loans and lines of credit, as well as a variety of consumer loans, most of which were originated by our merger partners prior to their joining the Company.

### *Lending Authority*

The loans we originate are subject to federal and state laws and regulations, and are underwritten in accordance with loan underwriting policies and procedures approved by the Mortgage and Real Estate Committee of the Board of Directors of the Community Bank (the Mortgage Committee), the Credit Committee of the Board of Directors of the Commercial Bank (the Credit Committee), and the respective Boards of Directors as a whole. In addition to the loans that we ourselves have originated, the portfolio consists of loans acquired in our merger transactions. We generally do not purchase whole mortgage loans.

In accordance with the Banks' policies, all loans of \$10.0 million or more must be reported to the Board of Directors. In 2006, 67 of such loans were originated by the Banks, with an aggregate loan balance of \$1.5 billion at origination. In 2005, 102 of such loans were originated by the Community Bank, with an aggregate loan balance at origination of \$3.3 billion.

We also place a limit on the amount of loans that may be made to one borrower. At December 31, 2006, the largest concentration of loans to one borrower consisted of a financing package provided by the Community Bank to Riverbay Corporation Co-op City, a residential community with 15,372 units in the Bronx, New York, which was created under New York State's Mitchell-Lama Housing Program in the late 1960s to provide affordable housing for middle-income residents of the State. At the time of origination, September 30, 2004, the financing consisted of a multi-family loan in the amount of \$240.0 million and a construction loan of the same amount. At December 31, 2006, \$145.9 million of the construction loan had been advanced, bringing the outstanding loan amount to \$385.9 million, representing the largest loan in our portfolio at year-end 2006.

The multi-family loan was originated for a term of 20 years, with a rate of interest of 5.20% in years one through five; 6.20% in years six through ten; 6.70% in years 11 through 15; and a floor of 6.70% in years 16 through 20. The construction loan features a floating rate of interest equal to 150 basis points above prime. On each anniversary of the original loan, the funds advanced under the construction component during the prior twelve-month period are to be combined with the multi-family loan. Accordingly, \$131.6 million of construction loan advances were combined with the multi-family loan at December 31, 2006. The multi-family loan thus amounted to \$371.7 million and the construction loan amounted to \$14.2 million outstanding at year-end. Construction advances are made as various stages of construction are completed, as certified by a consulting engineer engaged by the Community Bank.

The combined credit of \$385.9 million is within the Community Bank's loans-to-one-borrower limitation, and both components of the financing package were performing in accordance with their terms at December 31, 2006.



**Table of Contents***Loan Maturity and Repricing*

The following table sets forth the maturity or period to repricing of our loan portfolio at December 31, 2006. Loans that have adjustable rates are shown as being due in the period during which the interest rates are next subject to change. The table does not include prepayments or scheduled principal amortization. Prepayments and scheduled principal amortization totaled \$3.5 billion in 2006.

<i>(in thousands)</i>	<b>Mortgage and Other Loans at</b>					
	<b>December 31, 2006</b>					
	<b>Multi- Family</b>	<b>Commercial Real Estate</b>	<b>Construction</b>	<b>One-to-Four</b>		<b>Total Loans</b>
Amount due:						
Within one year	\$ 1,867,562	\$ 379,794	\$ 929,129	\$ 50,700	\$ 566,259	\$ 3,793,444
After one year:						
One to five years	9,884,582	1,896,852	157,507	75,244	57,748	12,071,933
Over five years	2,776,953	837,794	16,096	104,564	52,786	3,788,193
Total due or repricing after one year	12,661,535	2,734,646	173,603	179,808	110,534	15,860,126
Total amounts due or repricing, gross	\$ 14,529,097	\$ 3,114,440	\$ 1,102,732	\$ 230,508	\$ 676,793	\$ 19,653,570

The following table sets forth, as of December 31, 2006, the dollar amount of all loans due after December 31, 2007, and indicates whether such loans have fixed or adjustable rates of interest.

<i>(in thousands)</i>	<b>Due after December 31, 2007</b>		
	<b>Fixed</b>	<b>Adjustable</b>	<b>Total</b>
Mortgage Loans:			
Multi-family	\$ 1,643,029	\$ 11,018,506	\$ 12,661,535
Commercial real estate	749,284	1,985,362	2,734,646
Construction	158,652	14,951	173,603
1-4 family	130,110	49,698	179,808
Total mortgage loans	2,681,075	13,068,517	15,749,592
Other loans	94,423	16,111	110,534
Total loans	\$ 2,775,498	\$ 13,084,628	\$ 15,860,126

*Outstanding Loan Commitments*

At December 31, 2006, we had outstanding loan commitments of \$1.2 billion, including commitments to originate \$367.9 million of multi-family loans; \$24.6 million of commercial real estate loans; \$543.8 million of construction loans; \$18.3 million of one-to-four family loans; and \$222.5 million of other loans.

In addition to our commitments to originate loans, we had commitments to issue financial stand-by, performance, and commercial letters of credit of \$30.5 million, \$17.4 million, and \$31.2 million, featuring terms ranging from one to three years. Financial stand-by letters of credit obligate us to guarantee payment of a specific financial obligation on behalf of certain borrowers, while performance stand-by letters of credit obligate us to make payments in the event that a specified third party fails to perform under certain non-financial contractual obligations. Commercial letters of credit act as a means of ensuring payment to a seller upon shipment of goods to a buyer. Although commercial letters of credit are used to effect payment for domestic transactions, the majority are used to settle payments in international trade. Typically, such letters of credit require presentation of documents which describe the commercial transaction, evidence shipment, and transfer title.

## Edgar Filing: NEW YORK COMMUNITY BANCORP INC - Form 10-K

The fees we collect in connection with the issuance of letters of credit are included in fee income in the Consolidated Statements of Income and Comprehensive Income. Please see Contractual Obligations and Off-balance-sheet Commitments later in this report for a further discussion of financial stand-by, performance, and commercial letters of credit.

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## **Table of Contents**

The volume of loans produced in 2007 will depend on several factors, including the level and direction of market interest rates and their impact on refinancing activity; the availability and cost of funds; competition from other banks and non-financial institutions for loans and deposits; and the level of loan demand.

### *Asset Quality*

In 2006, we extended our strong record of asset quality, with non-performing assets declining \$6.3 million, or 21.9%, from the year-end 2005 balance to \$22.5 million at December 31, 2006. The latter balance was equivalent to 0.08% of total assets, and represented an improvement from 0.11% at the prior year-end.

The improvement in asset quality was driven by a 23.1% reduction in non-performing loans to \$21.2 million, representing 0.11% of total loans at December 31, 2006. At the prior year-end, non-performing loans totaled \$27.6 million and represented 0.16% of total loans.

Included in non-performing loans at December 31, 2006 were non-accrual mortgage loans of \$18.1 million and non-accrual other loans of \$3.1 million. A loan generally is classified as a non-accrual loan when it is 90 days past due and management has determined that the collectibility of the entire loan is doubtful. 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. Outside counsel with experience in foreclosure proceedings are retained to institute such action with regard to borrowers who are delinquent in paying their loans.

Properties that are acquired through foreclosure are classified as other real estate owned, and recorded at the lower of the unpaid principal balance or fair value at the date of acquisition, less the estimated cost of selling the property at that time. At December 31, 2006, other real estate owned consisted of five properties totaling \$1.3 million, signifying a \$47,000 increase from the prior year-end total, which consisted of four properties.

It is our policy to require an appraisal of such properties shortly 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 condition of the property. We are currently in the process of marketing the properties acquired by foreclosure at prices that exceed their respective carrying values, and therefore do not expect to incur a loss of principal when such properties are sold. Other real estate owned is generally titled in the name of a wholly-owned bank subsidiary.

While the levels of non-performing assets and loans declined over the course of the year, the level of net charge-offs rose from \$21,000 in 2005 to \$420,000, representing 0.002% of average loans in 2006. In both years, our charge-offs consisted entirely of consumer and unsecured loans that had been acquired in merger transactions. While the quality of the loan portfolio is partly due to the relative strength of our local economy and real estate market, it also is indicative of the strength of our credit standards and the consistency with which we have adhered to these standards while growing our loan portfolio.

In the case of multi-family and commercial real estate loans, we look first at the consistency of the cash flows being generated to determine the property's 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 being the value more typically used.

The condition of the collateral property is another critical factor. Multi-family buildings and commercial real estate properties are inspected from rooftop to basement as a prerequisite to approval by executive management and the Mortgage or Credit Committee, as applicable. In addition, a member of the Mortgage Committee participates in inspections on multi-family loans in excess of \$3.0 million that are originated by the Community Bank. Similarly, a member of the Mortgage or Credit Committee participates in inspections on commercial real estate loans in excess of \$2.0 million. Furthermore, independent appraisers, whose appraisals are carefully reviewed by our experienced in-house appraisal officers, perform appraisals on multi-family buildings and commercial real estate properties.

## **Table of Contents**

In addition, we work with a select group of mortgage brokers who are familiar with our credit standards and have an established track record with our lending officers over the course of ten or more years.

To further minimize 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%. Although we typically will lend up to 80% of the appraised value on multi-family buildings and up to 75% on commercial properties, the average loan-to-value ratio of such credits at December 31, 2006 was considerably lower, amounting to 64.0% and 57.1%, respectively. Exceptions to these loan-to-value limitations may be made on a case-by-case basis, and require the approval of the Mortgage or Credit Committee, as applicable.

The quality of the construction loan portfolio also reflects Board involvement, with a member of the pertinent committee participating in inspections on loans exceeding \$2.0 million, and construction loans requiring the approval of the Mortgage or Credit Committee, as applicable. The loans in this portfolio have been stringently underwritten, and are primarily made to well-established builders who have worked with us or our merger partners in the past. We typically will lend up to 75% of the estimated market value, and up to 80% in the case of home construction loans to individuals. With respect to commercial construction loans, which are not our primary focus, we typically will lend up to 65% of the estimated market value of the property.

Credit risk is also reduced 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 inventory, equipment, accounts receivable, and other assets. 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 loans may depreciate over time, may not be conducive to appraisal, and may fluctuate in value, based upon the business' results. Accordingly, personal guarantees are also a normal requirement for C&I loans.

Our loan portfolio has been deliberately structured to reduce 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 commercial real estate loans typically repaying or refinancing within three to five years of origination, and the duration of construction loans ranging up to 36 months, with 18 to 24 months more the norm. All three types of mortgage loans have had a solid performance record, with no losses on principal recorded for more than 25 years in the case of our multi-family credits and more than ten years in the case of our commercial real estate and residential subdivision construction loans. Furthermore, our multi-family loans are largely secured by rent-regulated buildings, which tend to maintain a high level of occupancy, even in a weak economy.

Historically, our portfolios of multi-family, commercial real estate, and construction loans have outperformed our one-to-four family credits; accordingly, we have been originating one-to-four family loans on a pass-through basis, selling them to a third-party conduit shortly after closing, without recourse.

The procedures we follow with respect to delinquent loans are consistent across all categories, with a late charge being assessed after fifteen days of delinquency and a notice mailed the same day. We then 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 also work out a repayment schedule to avoid taking such action.

While we strive to originate loans that will perform fully, the absence of delinquencies or losses cannot be guaranteed. The ability of a borrower to fulfill his or her obligations may be impacted by various factors, including a change in personal circumstances, a downturn in local real estate values, or a decline in the economy. To minimize the impact of credit risk, we maintain coverage through an allowance for loan losses which may be increased through the provision for loan losses charged to operations, or reduced through charge-offs or reversals.

**Table of Contents**

At December 31, 2006, our consolidated allowance for loan losses totaled \$85.4 million, as compared to \$79.7 million at December 31, 2005. The year-over-year increase reflects the addition of \$6.1 million as a result of the Atlantic Bank transaction, which exceeded the \$420,000 of charge-offs recorded over the course of the year. At December 31, 2006 and 2005, our consolidated allowance for loan losses represented 0.43% and 0.47%, respectively, of total loans and 402.72% and 289.17%, respectively, of non-performing loans.

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. 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.

The following table presents information regarding the consolidated allowance for loan losses and non-performing assets at each year-end in the five years ended December 31, 2006:

**Asset Quality Analysis**

<i>(dollars in thousands)</i>	At December 31,				
	2006	2005	2004	2003	2002
<b>Allowance for Loan Losses:</b>					
Balance at beginning of year	\$ 79,705	\$ 78,057	\$ 78,293	\$ 40,500	\$ 40,500
Allowance acquired in merger transactions	6,104	1,669		37,793	
Charge-offs	(420)	(21)	(236)		
<b>Balance at end of year</b>	<b>\$ 85,389</b>	<b>\$ 79,705</b>	<b>\$ 78,057</b>	<b>\$ 78,293</b>	<b>\$ 40,500</b>
<b>Non-performing Assets:</b>					
Non-accrual mortgage loans	\$ 18,072	\$ 15,551	\$ 23,567	\$ 32,344	\$ 11,915
Other non-accrual loans	3,131	1,338	4,581	1,994	
Loans 90 days or more delinquent and still accruing interest		10,674			4,427
<b>Total non-performing loans</b>	<b>21,203</b>	<b>27,563</b>	<b>28,148</b>	<b>34,338</b>	<b>16,342</b>
Other real estate owned	1,341	1,294	566	92	175
<b>Total non-performing assets</b>	<b>\$ 22,544</b>	<b>\$ 28,857</b>	<b>\$ 28,714</b>	<b>\$ 34,430</b>	<b>\$ 16,517</b>
<b>Ratios:</b>					
Non-performing loans to total loans	0.11%	0.16%	0.21%	0.33%	0.30%
Non-performing assets to total assets	0.08	0.11	0.12	0.15	0.15
Allowance for loan losses to non-performing loans	402.72	289.17	277.31	228.01	247.83
Allowance for loan losses to total loans	0.43	0.47	0.58	0.75	0.74

We had no troubled debt restructurings, as defined in SFAS No. 15, Accounting by Debtors and Creditors for Troubled Debt Restructurings, at any of the dates presented in the preceding table.

Based upon all relevant and presently available information, management believes that the current allowance for loan losses is adequate.

**Table of Contents**

The following table sets forth the allocation of the consolidated allowance for loan losses at each year-end in the five years ended December 31, 2006:

**Summary of the Allowance for Loan Losses**

<i>(dollars in thousands)</i>	2006		2005		2004		2003		2002	
	Amount	Percent of Loans in Each Category to Total Loans	Amount	Percent of Loans in Each Category to Total Loans	Amount	Percent of Loans in Each Category to Total Loans	Amount	Percent of Loans in Each Category to Total Loans	Amount	Percent of Loans in Each Category to Total Loans
Mortgage Loans:										
Multi-family	\$ 46,525	73.93%	\$ 44,336	75.49%	\$ 41,717	73.45%	\$ 32,130	70.18%	\$ 25,433	81.88%
Commercial real estate	23,313	15.85	23,379	16.96	20,434	15.98	18,859	13.76	7,016	9.71
Construction	9,089	5.61	8,281	5.03	9,770	6.03	11,903	6.13	2,104	2.13
1-4 family	1,048	1.17	1,304	1.49	2,954	3.78	5,462	6.96	2,763	4.84
Other loans	5,414	3.44	2,405	1.03	3,182	0.76	9,939	2.97	3,184	1.44
Total loans	\$ 85,389	100.00%	\$ 79,705	100.00%	\$ 78,057	100.00%	\$ 78,293	100.00%	\$ 40,500	100.00%

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## **Table of Contents**

The preceding allocation is based upon an estimate of various factors, as discussed in Critical Accounting Policies earlier in this report. A different allocation methodology may be deemed to be more appropriate in the future.

### ***Securities***

At December 31, 2006, securities totaled \$4.9 billion and represented 17.3% of total assets, as compared to \$5.6 billion, representing 21.4% of total assets, at December 31, 2005. The \$711.3 million, or 12.6%, decline was indicative of our strategy of utilizing the cash flows from securities sales and repayments to fund our loan production and/or to reduce our balance of higher-cost sources of funds.

During 2006, we sold securities totaling \$1.2 billion, primarily consisting of securities that were acquired in the Atlantic Bank transaction and, to a lesser extent, securities that were acquired in the Long Island Financial transaction at the end of 2005. In 2006, cash flows from securities totaled \$2.0 billion, including repayments of \$795.6 million and the proceeds from the aforementioned sales.

The investment policies of the Company and the Banks are established by the respective Boards of Directors and implemented by their respective Investment Committees, in concert with the respective Asset and Liability Management Committees. The Investment Committees generally meet quarterly or on an as-needed basis to review the portfolios and specific capital market transactions. In addition, the securities portfolios are reviewed monthly by the Boards of Directors as a whole. Furthermore, the policies guiding the Company's and the Banks' investments are reviewed at least annually by the respective Investment Committees, as well as by the respective Boards. While the policies permit investment in various types of liquid assets, neither the Company nor the Banks currently maintain a trading portfolio.

The investment policies of the Company and the Banks permit investments in mortgage-related securities, i.e., securities issued and backed by Fannie Mae ( FNMA ), the Federal Home Loan Mortgage Corporation ( FHLMC ), and Ginnie Mae ( GNMA ) and collateralized mortgage obligations ( CMOs ); and other securities, consisting of U.S. Government agency obligations, municipal bonds, corporate debt obligations, capital trust notes, and corporate equities.

Depending on management's intent at the time of purchase, securities are classified as available for sale or as held to maturity. While available-for-sale securities are intended to generate earnings, they also represent a significant source of cash flows and liquidity for future loan production, the reduction of higher-cost funding, and general operating activities. Held-to-maturity securities also serve as a source of earnings and generate cash flows, although they are less liquid than available-for-sale securities.

Available-for-sale securities represented \$1.9 billion, or 39.4%, of total securities at December 31, 2006, and were down \$438.4 million, or 18.4%, from the year-earlier amount. Mortgage-related securities accounted for \$1.7 billion and \$2.0 billion, respectively, of the year-end 2006 and 2005 totals, while other securities represented the remaining \$276.5 million and \$411.4 million, respectively. The after-tax net unrealized loss on securities available for sale equaled \$42.8 million at December 31, 2006, as compared to \$43.4 million at December 31, 2005. These amounts were recorded as a component of stockholders' equity at the respective year-ends.

Held-to-maturity securities declined \$272.8 million, or 8.4%, year-over-year, to \$3.0 billion, and represented 60.6% of total securities at December 31, 2006. Mortgage-related securities accounted for \$1.4 billion and \$1.6 billion of the year-end 2006 and 2005 totals, while other securities accounted for \$1.6 billion and \$1.7 billion, respectively. Included in each of the latter amounts were U.S. Government agency obligations of \$1.2 billion; the remainder of the respective balances consisted, respectively, of capital trust notes and corporate bonds.

At December 31, 2006, the estimated weighted average life of the available-for-sale securities portfolio was 4.7 years; the estimated weighted average life of the held-to-maturity securities portfolio was 6.0 years at that date. The mortgage-related securities in the two portfolios, combined, had an estimated weighted average life of 5.0 years and a market value of approximately \$2.9 billion.

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## **Table of Contents**

With the pending acquisition of PennFed, we expect to acquire a securities portfolio of approximately \$498 million. Consistent with our practice of repositioning our balance sheet upon completion of a merger transaction, and depending upon market conditions, we currently anticipate selling a portion of PennFed's securities and utilizing the cash flows to produce higher-yielding assets and/or to reduce our higher-cost sources of funds.

### ***Other Investments***

#### ***Bank-owned Life Insurance ( BOLI )***

At December 31, 2006, the Company had a \$585.0 million investment in BOLI, as compared to \$525.0 million at December 31, 2005. The increase reflects \$50.0 million of BOLI acquired in the Atlantic Bank acquisition, in addition to an increase in the cash surrender value of the underlying policies. The BOLI policies were purchased to mitigate the effect of future employee benefit costs. BOLI is reported at the total cash surrender value of the policies in the Consolidated Statements of Condition, and the income generated by the increase in the cash surrender value is included in non-interest income in the Consolidated Statements of Income and Comprehensive Income. Please see the discussion of EITF Issue Nos. 06-4 and 06-5 under Impact of Recent Accounting Pronouncements in Note 2, Summary of Significant Accounting Policies, in Item 8, Financial Statements and Supplementary Data.

#### ***Real Estate Joint Venture***

In connection with our merger with Roslyn Bancorp, Inc. ( Roslyn ), we acquired an investment in a real estate joint venture for the development of a 177-unit residential golf course community in Mount Sinai, New York. An initial investment of \$25.0 million was made in 2002 (i.e., prior to the merger), and additional investments were made during 2005 and 2006. These investments, which were made by a Community Bank subsidiary, Mt. Sinai Ventures, LLC, and have been returned, were classified as other assets in the Consolidated Statements of Condition. Both the original and subsequent investment earned a preferred return of 1.0% over the prime rate of interest, while also providing a 50% share of the residual profits. We began to recognize joint venture income in January 2004, when the first of the units were delivered. As all 177 of the units had been delivered by December 31, 2006, no further income is expected to be recognized. For the years ended December 31, 2006, 2005, and 2004, our real estate joint venture produced revenues of \$3.5 million, \$3.5 million, and \$5.9 million, respectively.

### ***Goodwill and Core Deposit Intangibles***

At December 31, 2006, we recorded goodwill of \$2.1 billion, representing a \$167.4 million increase from the balance recorded at December 31, 2005. In addition to the \$166.3 million of goodwill contributed by the Atlantic Bank transaction, the year-end 2006 amount reflects purchase accounting adjustments of \$1.2 million relating to previous merger transactions.

The Atlantic Bank acquisition also generated CDI of \$38.3 million, to be amortized over a period of ten years on an accelerated basis, beginning in the second quarter of 2006. Reflecting the CDI stemming from Atlantic Bank, as well as from our mergers with Long Island Financial, Roslyn, and Richmond County Financial Corp. ( Richmond County ), CDI totaled \$106.4 million at December 31, 2006, signifying a \$19.8 million increase from the balance recorded at year-end 2005.

### ***Sources of Funds***

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

On a consolidated basis, the Company's funding primarily stems from the cash flows generated through the repayment of loans; the cash flows generated through securities sales and repayments; the deposits we gather through our branch network or acquire in merger transactions; and the use of wholesale funding.

In 2006, loan repayments totaled \$3.5 billion, as compared to \$2.7 billion in the prior year. Additional funding stemmed from prepayment penalties totaling \$29.5 million, as compared to \$33.0 million in 2005. Securities generated cash flows of \$2.0 billion over the course of the year, as previously stated, and included \$795.6 million from repayments and \$1.2 billion from sales.





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**Table of Contents**

*Deposits*

As previously indicated, we are a leading depository in the New York Metropolitan region, and enjoy a significant share of deposits in each of the three counties where our branch network is most significant.

At December 31, 2006, we recorded total deposits of \$12.6 billion, signifying a \$514.1 million, or 4.2%, increase from the balance recorded at year-end 2005. In addition to the \$1.8 billion of deposits acquired in the Atlantic Bank transaction, the increase reflects deposits that have been gathered organically through our expanded branch network, and to a lesser extent, through our online banking service, [www.mybankingdirect.com](http://www.mybankingdirect.com). The growth of deposits was partly offset by a strategic reduction in higher-cost brokered deposits. At December 31, 2006, such deposits totaled \$943.8 million, signifying a year-over-year reduction of \$609.2 million, or 39.2%.

CDs represented \$5.9 billion of total deposits at December 31, 2006, signifying a \$697.6 million, or 13.3%, increase from the year-earlier balance. While the Atlantic Bank transaction provided \$396.5 million of CDs at the date of acquisition, the increase also reflects our efforts to attract and retain such deposits, and their growing popularity during a year of rising short-term interest rates. In addition, the year-over-year rise in CDs reflects our use of brokered CDs. Depending on market conditions and the attractiveness of other funding sources, we accept such deposits to fund the production of loans as well as for other liquidity needs. At December 31, 2006, brokered CDs accounted for \$279.1 million of total brokered deposits, and were up \$174.5 million from the year-earlier amount.

Core deposits represented the remaining \$6.7 billion of total deposits, and were down \$183.5 million, or 2.7%, from the balance recorded at December 31, 2005. Included in the year-end 2006 amount were \$3.2 billion of NOW and money market accounts, signifying a year-over-year decrease of \$420.0 million, and \$2.4 billion of savings accounts, down \$40.8 million from the balance recorded at December 31, 2005. The decline in NOW and money market accounts largely reflects the deployment of funds produced through the repayment of loans in the fourth quarter to reduce the balance of higher-cost brokered deposits. Reflecting this action, we reduced the balance of brokered NOW and money market accounts by \$783.6 million over the course of the year to \$664.7 million at December 31, 2006. The declines in NOW and money market accounts and savings accounts were partly offset by the Atlantic Bank transaction, which added \$479.6 million and \$424.3 million, respectively, of such funds at the acquisition date. Non-interest-bearing accounts, meanwhile, rose \$277.4 million, or 32.8%, to \$1.1 billion, primarily reflecting the benefit of the Atlantic Bank transaction. At the date of the acquisition, Atlantic Bank had non-interest-bearing accounts of \$496.3 million.

Our ability to attract and retain deposits depends on various factors, including competition, industry consolidation, and the level of short-term interest rates. We vie for deposits and customers by placing an emphasis on convenience and service, with 137 Community Bank locations, 29 Commercial Bank locations, and 232 ATMs. Our customers also have 24-hour access to their accounts through our bank-by-phone service, and through our web sites, [www.myNYCB.com](http://www.myNYCB.com), [www.NewYorkCommercialBank.com](http://www.NewYorkCommercialBank.com), and [www.nycbfamily.com](http://www.nycbfamily.com).

In addition to 88 traditional branches and three customer service centers, our Community Bank currently has 46 in-store branches that are primarily located in supermarkets. Our in-store branches represent the largest supermarket banking franchise in the New York metropolitan region, and one of the largest in the Northeast. Because of their proximity to our traditional Community Bank branches, our in-store branches enable us to offer 70 to 80 hours of service a week in many of the communities we serve. This service model is a key component of our efforts to attract and maintain deposits in a highly competitive marketplace.

We also compete by complementing our broad selection of traditional banking products with an extensive menu of alternative financial services, including insurance, annuities, and mutual funds of various third-party service providers. In addition, our practice of originating loans through a third-party mortgage originator enables us to offer our customers a multitude of one-to-four family mortgage and home equity loans.

As a result of these factors, as well as the benefit of our significant community involvement, the Community Bank is currently the largest thrift depository in Nassau County, and the second largest in the New York City boroughs of

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**Table of Contents**

Richmond and Queens, with market shares of 11.20%, 17.99%, and 7.59%, respectively. The Community Bank also enjoys a significant share of deposits in several other densely populated markets, including 13.76% of deposits in Bayonne, New Jersey. (Market share information was provided by SNL Financial and is based on deposits held at June 30, 2006.)

With the establishment of the Commercial Bank at the end of 2005, we have expanded our product menu and our customer base. In addition to checking and savings accounts, Individual Retirement Accounts, and CDs for both businesses and consumers, the Commercial Bank offers a variety of cash management products to address the needs of small and mid-size businesses and government institutions throughout our marketplace.

CDs in excess of \$100,000 are accepted by both the Community Bank and the Commercial Bank, and typically feature preferential rates of interest. In addition, while the Community Bank currently accepts brokered deposits, the Commercial Bank currently does not.

With the pending acquisition of PennFed, we expect to boost our share of deposits in Essex, Hudson, and Union counties in New Jersey, and to establish a presence in Middlesex, Monmouth, and Ocean counties in the central/southern part of the state. In Essex County, where we now have two branches and PennFed has 13, we expect our share of deposits to grow from under 1% to over 6%.

*Borrowed Funds*

At December 31, 2006, we had total borrowed funds of \$11.9 billion, as compared to \$10.5 billion at December 31, 2005. Wholesale borrowings, defined as Federal Home Loan Bank of New York ( FHLB-NY ) advances; repurchase agreements; and federal funds purchased, represented \$11.1 billion and \$9.7 billion of the respective totals, with junior subordinated debentures, senior debt, and preferred stock of subsidiaries comprising the remainder of the respective year-end amounts.

The year-over-year increase in wholesale borrowings largely occurred over the course of the fourth quarter, when the pricing of such funds was more attractive than the pricing of certain retail sources of funds. In addition, the Atlantic Bank transaction added \$516.7 million to wholesale borrowings at the acquisition date. We utilize wholesale borrowings occasionally to fund our loan production, and when doing so is consistent with our focus on managing our interest rate risk.

While wholesale borrowings rose year-over-year, the increase was partly tempered by the second quarter prepayment of FHLB-NY advances and repurchase agreements totaling \$886.1 million, utilizing the proceeds from the sale of securities acquired in the transactions with Long Island Financial and Atlantic Bank. The pending acquisition of PennFed is expected to provide a comparable opportunity to reduce our higher-cost funding sources. At December 31, 2006, PennFed had securities and one-to-four family loans totaling \$1.8 billion. Upon completion of the transaction, we expect to sell or securitize the majority of the one-to-four family loans we acquire, and to sell a portion of the acquired securities. Depending on market conditions, the proceeds will be used to reduce our wholesale funding and/or to originate multi-family and other higher-yielding loans.

FHLB-NY advances represented \$7.2 billion and \$5.4 billion of wholesale borrowings at December 31, 2006 and 2005, respectively, while repurchase agreements represented \$3.8 billion and \$4.3 billion, respectively. A significant portion of our wholesale borrowings at year-end consisted of callable advances, featuring a ten-year maturity and a non-call period of up to two years.

The Community Bank and the Commercial Bank are both members of, and have lines of credit with, the FHLB-NY. Pursuant to a blanket collateral agreement, our FHLB-NY advances and overnight line-of-credit borrowings are secured by a pledge of certain eligible collateral, including loans, securities, and equity shares in certain of our subsidiaries.

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 collateralized by U.S. Government agency obligations and mortgage-related securities, and may be entered into with the FHLB-NY or with a select number of brokerage firms. The brokerage firms we utilize are subject to an ongoing financial review, which is performed internally, 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.

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**Table of Contents**

At December 31, 2006 and 2005, our junior subordinated debentures totaled \$455.7 million and \$454.2 million, while our other borrowings amounted to \$354.0 million and \$357.1 million, respectively. Included in junior subordinated debentures at year-end 2006 were \$123.7 million of floating rate junior subordinated debentures featuring an annual interest rate equal to the three-month LIBOR plus 1.60% that were issued on December 14, 2006. These securities were issued for the purpose of funding the redemption of three previously issued junior subordinated debentures totaling \$125.0 million that featured higher floating rates of interest equal to the three- and six-month LIBOR plus a range of 3.60% to 3.75%. Please see Note 8 to the Consolidated Financial Statements, Borrowed Funds, in Item 8, Financial Statements and Supplementary Data, for a further discussion of these borrowings.

***Liquidity, Contractual Obligations and Off-balance-sheet 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 erratic loan and deposit demand.

As discussed under Sources of Funds, the loans we produce are funded through four primary sources: cash flows from the repayment of loans; cash flows from securities sales and repayments; the deposits we gather organically through our extensive branch network or acquire through merger transactions; and borrowed funds, primarily in the form of wholesale borrowings.

While borrowed funds and the scheduled amortization of securities and loans are generally more predictable funding sources, deposit flows and loan and securities prepayments are less predictable in nature, as they are subject to external factors beyond management's control. Among these are changes in the economy and local real estate values, competition from other financial institutions, and changes in short- and intermediate-term interest rates.

Our principal investing activity is multi-family lending, which is supplemented by the production of commercial real estate, construction, and, to a lesser extent, C&I loans. In 2006, we produced \$5.0 billion of loans, including \$2.8 billion of loans secured by multi-family buildings. As previously stated, the growth of our loan portfolio has been funded, in part, by loan repayments, and by the sale and repayment of securities. As a result, the net cash provided by investing activities in 2006 totaled \$30.7 million, with loan repayments generating proceeds of \$3.5 billion and securities sales and repayments generating proceeds of \$2.0 billion.

In 2006, the net cash used in financing activities totaled \$322.4 million, primarily reflecting an \$834.6 million net increase in borrowed funds, a \$1.3 billion net decrease in cash flows from deposits, and the use of \$286.8 million for the payment of cash dividends. Our investing and financing activities were supported by the net cash provided by our operating activities, which totaled \$290.7 million in 2006.

We monitor our liquidity on a daily basis to ensure that sufficient funds are available to meet our financial obligations, including withdrawals from depository accounts, outstanding loan commitments, operating leases, and the payment of long-term debt. Our most liquid assets are cash and cash equivalents, which totaled \$230.8 million at December 31, 2006. Additional liquidity stems from our portfolio of available-for-sale securities, which totaled \$1.9 billion at the end of December, and from the Banks' approved lines of credit with the FHLB-NY.

CDs due to mature in one year or less from December 31, 2006 totaled \$5.1 billion, representing 85.0% 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 types of products we offer, and the competitiveness of our interest rates. In addition, we may choose not to compete from time to time for such deposits, depending on market conditions, loan demand, and the availability of lower-cost sources of funds.

**Table of Contents**

In 2006, the primary sources of funds for the Company on an unconsolidated basis (i.e., the Parent Company) included dividend payments from the Community Bank and sales and maturities of investment securities. The ability of the Community Bank and the Commercial Bank to pay dividends and other capital distributions to the Parent Company is generally limited by New York State banking law and regulations, and by regulations of the FDIC. In addition, the New York State Superintendent of Banks (the Superintendent), the FDIC, and the Federal Reserve Bank, for reasons of safety and soundness, may prohibit the payment of dividends that are otherwise permissible by regulation.

Under New York State Banking Law, a New York State-chartered stock-form savings bank or commercial bank may declare and pay dividends out of its net profits, unless there is an impairment of capital. However, the approval of the Superintendent is required if the total of all dividends declared in a calendar year would exceed the total of a bank's net profits for that year, combined with its retained net profits for the preceding two years. In 2006, the Community Bank paid dividends totaling \$560.0 million to the Parent Company, including \$325.0 million in the fourth quarter. As a result, the capacity of the Community Bank to pay additional dividends to the Parent Company in 2007 was reduced. At December 31, 2006, the Commercial Bank had \$23.4 million it could dividend to the Parent Company without regulatory approval. In addition, the Parent Company had \$17.7 million of securities available for sale and \$312.8 million in cash and cash equivalents at that date. Were either of the Banks to apply to the Superintendent for a dividend or capital distribution in excess of the dividend amounts permitted under the regulations, no assurances could be made that such an application would be approved by the regulatory authorities.

*Contractual Obligations and Off-balance-sheet Commitments*

In the normal course of business, we enter into a variety of contractual obligations in order to manage our assets and liabilities, fund loan growth, operate our branch network, and address our capital needs.

To fund the growth of our loan portfolio, we offer CDs to our customers under contract, and borrow funds under contract from the FHLB-NY and various brokerage firms. These contractual obligations are reflected in the Consolidated Statements of Financial Condition under deposits and borrowed funds, respectively. At December 31, 2006, we recorded CDs of \$5.9 billion and had total long-term debt of \$11.8 billion.

We also are obligated under a number of non-cancelable operating leases on the buildings and land we use in operating our branch network and our back-office functions. These obligations are not included in the Consolidated Statements of Condition and totaled \$108.1 million at December 31, 2006.

The following table sets forth the maturity profile of the aforementioned contractual obligations:

**Contractual Obligations**

<i>(in thousands)</i>	<b>Certificates of Deposit</b>	<b>Long-term Debt <sup>(1)</sup></b>	<b>Operating Leases</b>	<b>Total</b>
Under one year	\$ 5,052,608	\$ 751,364	\$ 15,068	\$ 5,819,040
One to three years	705,735	759,838	25,812	1,491,385
Three to five years	106,397	1,430,500	20,346	1,557,243
More than five years	79,845	8,903,140	46,906	9,029,891
<b>Total</b>	<b>\$ 5,944,585</b>	<b>\$ 11,844,842</b>	<b>\$ 108,132</b>	<b>\$ 17,897,559</b>

(1) Includes FHLB advances, repurchase agreements, junior subordinated debentures, preferred stock of subsidiaries, and senior debt. At December 31, 2006, we had no contractual obligations to purchase loans and a commitment to purchase \$100,000 of securities.

In addition to our contractual obligations, we have significant commitments to extend credit in the form of mortgage and other loan originations. These off-balance-sheet commitments consist of agreements to extend credit, as long as there is no violation of any condition established in the contract under which the loan is made. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee.

**Table of Contents**

At December 31, 2006, commitments to originate mortgage loans amounted to \$954.5 million, with commitments to originate other loans amounting to \$222.5 million, by comparison. All of our loan commitments were expected to be funded within 90 days of that date.

At December 31, 2006, we also had off-balance-sheet commitments to issue commercial, performance, and financial stand-by letters of credit of \$31.2 million, \$17.4 million, and \$30.5 million, respectively. Commercial letters of credit act as a means of ensuring payment to a seller upon shipment of goods to a buyer. Although commercial letters of credit are used to effect payment for domestic transactions, the majority of the transactions executed by the Company are used to settle payments in international trade. Typically, such letters of credit require presentation of documents which describe the commercial transaction, evidence shipment, and transfer title.

Performance letters of credit are primarily issued for the benefit of local municipalities on behalf of certain of our borrowers. These borrowers are mainly developers of residential subdivisions with whom we currently have a lending relationship. Performance letters of credit obligate us to make payments in the event that a specified third party fails to perform under non-financial contractual obligations. Financial stand-by letters of credit primarily are issued for the benefit of other financial institutions or municipalities, on behalf of certain of our current borrowers, and obligate us to guarantee payment of a specified financial obligation.

The following table sets forth our off-balance-sheet commitments relating to outstanding loan commitments and letters of credit at December 31, 2006:

<i>(in thousands)</i>	
Mortgage Loan Commitments:	
Multi-family loans	\$ 367,860
Commercial real estate loans	24,553
Construction loans	543,837
1-4 family loans	18,278
Total mortgage loan commitments	954,528
Other loan commitments	222,516
Total loan commitments	1,177,044
Commercial, performance, and financial stand-by letters of credit	79,121
Total commitments	\$ 1,256,165

Based upon the strength of our liquidity position, we expect that our funding will be sufficient to fulfill these obligations and commitments when they are due.

*Capital Position*

We manage our capital to enhance shareholder value and to enable management to act opportunistically in a changing marketplace. To this end, we distributed dividends totaling \$286.8 million in 2006, reflecting the declaration of a \$0.25 per share dividend in all four quarters, and issued 24.5 million shares of Company common stock, generating net proceeds of \$400.1 million, to fund the acquisition of Atlantic Bank in the second quarter of the year.

Stockholders' equity totaled \$3.7 billion at December 31, 2006, signifying a \$365.0 million increase from the year-earlier balance, and was equivalent to 12.95% of total assets and a book value of \$12.56 per share, based on 293,890,372 shares. The year-end 2005 amount was equivalent to 12.65% of total assets, and a book value of \$12.43 per share based on 267,594,393 shares.

We calculate book value per share by subtracting the number of unallocated ESOP shares at the end of the period from the number of shares outstanding at the same date, and then divide our total stockholders' equity by the resultant number of shares. Largely reflecting the issuance of shares to fund the Atlantic Bank transaction, the number of shares outstanding rose to 295,350,936 at December 31, 2006 from 269,776,791 at December 31, 2005. Included in the respective year-end amounts were unallocated ESOP shares of 1,460,564 and 2,182,398. (Please see the definition of book value that appears in the Glossary.)



**Table of Contents**

In addition to the aforementioned dividends and common stock offering proceeds, the balance of stockholders' equity was impacted by our adoption of SFAS No. 158, which requires balance sheet recognition of the over- or under-funded status of pension and other post-retirement benefit plans. The adoption of SFAS No. 158 increased the Company's accumulated other comprehensive loss by \$15.9 million at December 31, 2006. In addition, the balance of stockholders' equity reflects the allocation of \$2.4 million for share repurchases during the year.

Excluding goodwill and CDI from total stockholders' equity, tangible stockholders' equity equaled \$1.4 billion at December 31, 2006, signifying a \$177.7 million increase from the balance at December 31, 2005. The year-end 2006 amount represented 5.47% of tangible assets, while the year-end 2005 amount represented 5.19%. Excluding net unrealized losses on securities of \$52.1 million and \$55.9 million, the ratio of adjusted tangible stockholders' equity to adjusted tangible assets equaled 5.66% and 5.41%, respectively, at December 31, 2006 and 2005. The increase in tangible stockholders' equity primarily reflects the proceeds from the aforementioned common stock offering, net of the goodwill recorded in the Atlantic Bank transaction, and 2006 net income of \$232.6 million, which served to offset the funds expended for dividend distributions. (Please see the reconciliations of stockholders' equity and tangible stockholders' equity, total assets and tangible assets, and the related measures that appear earlier in this report.)

Consistent with our longstanding record of capital strength, the level of stockholders' equity at December 31, 2006 was more than sufficient to exceed the minimum federal requirements for a bank holding company. The following table sets forth our total risk-based, Tier 1 risk-based, and leverage capital amounts and ratios at December 31, 2006 and 2005, and the respective minimum regulatory requirements, which are considered on a consolidated basis:

**Regulatory Capital Analysis**

At December 31, 2006 (dollars in thousands)	Actual		Minimum
	Amount	Ratio	Requirement Ratio
Total risk-based capital	\$ 2,247,054	12.31%	8.00%
Tier 1 risk-based capital	2,146,665	11.76	4.00
Leverage capital	2,146,665	8.14	4.00

At December 31, 2005 (dollars in thousands)	Actual		Minimum
	Amount	Ratio	Requirement Ratio
Total risk-based capital	\$ 2,074,611	15.23%	8.00%
Tier 1 risk-based capital	1,941,906	14.26	4.00
Leverage capital	1,941,906	8.34	4.00

On March 1, 2005, the Federal Reserve Board adopted a final rule allowing bank holding companies to continue, on a limited basis, the inclusion of trust preferred securities in Tier 1 capital. Under this rule, trust preferred securities and other elements of restricted core capital are subject to stricter quantitative limits. It is currently management's expectation that our regulatory capital ratios will continue to exceed the minimum levels required, despite the stricter quantitative limits applied under the final rule.

The capital strength of the Company is paralleled by the solid capital position of the Banks. At December 31, 2006, the capital ratios for the Community Bank and the Commercial Bank continued to exceed the minimum levels required for classification as a well capitalized institution under the Federal Deposit Insurance Corporation Improvement Act of 1991, as further discussed in Note 16 to the Consolidated Financial Statements, Regulatory Matters, in Item 8, Financial Statements and Supplementary Data.



**Table of Contents****RESULTS OF OPERATIONS: 2006 AND 2005 COMPARISON****Earnings Summary**

In 2006, we recorded earnings of \$232.6 million, or \$0.81 per diluted share, as compared to \$292.1 million, or \$1.11 per diluted share, in 2005. While the reduction was partly attributable to the adverse impact of the inverted yield curve on the level of net interest income, it also reflects the following after-tax charges, which totaled \$31.0 million and were equivalent to \$0.11 per diluted share:

a \$5.4 million charge for the allocation of ESOP shares recorded in the fourth quarter, in connection with the acquisition of Atlantic Bank;

a \$2.0 million retirement charge recorded in connection with the retirements of the Company's chairman and senior lending consultant, also in the fourth quarter of the year;

a \$1.2 million loss recorded in connection with the write-off of unamortized issuance costs stemming from the redemption of certain trust preferred securities in the fourth quarter;

a \$3.6 million loss on the mark-to-market of certain interest rate swaps recorded in the second quarter in connection with the post-merger repositioning of the balance sheet; and

charges of \$18.0 million and \$769,000 for the prepayment of borrowings and the termination of our interest rate swap agreements, which were recorded in connection with the repositioning of our balance sheet following the acquisition of Atlantic Bank in the second quarter of the year.

By comparison, our 2005 earnings were reduced by an after-tax charge of \$34.0 million, or \$0.13 per diluted share, recorded in the fourth quarter, for the post-merger allocation of ESOP shares in connection with the acquisition of Long Island Financial.

Our 2006 earnings also reflect the twelve-month benefit of the Long Island Financial acquisition, the eight-month benefit of the acquisition of Atlantic Bank, and the classification of all prepayment penalties on loans as interest income, consistent with current industry practice. Prior to the third quarter of 2006, it was our policy to classify prepayment penalties as interest income when a loan refinanced with us and as non-interest income when a loan refinanced with another bank. In 2006, prepayment penalties totaled \$29.5 million, as compared to \$33.0 million and \$34.7 million, respectively, in 2005 and 2004.

The following table reflects the impact of classifying all prepayment penalties as interest income on the Company's net interest income, non-interest income, interest rate spread, and net interest margin for the years ended December 31, 2005 and 2004:

	For the Years Ended December 31,			
	2005		2004	
	Before Reclassification	After Reclassification	Before Reclassification	After Reclassification
<i>(dollars in thousands)</i>				
Net interest income	\$ 572,003	\$ 595,367	\$ 781,257	\$ 799,343
Non-interest income (loss)	121,065	97,701	(44,217)	(62,303)
Interest rate spread	2.51%	2.61%	3.55%	3.63%
Net interest margin	2.64	2.74	3.61	3.70

All prior-period amounts in the following discussion of net interest income and non-interest income have been adjusted to reflect the reclassification of prepayment penalties.

***Net Interest Income***

Net interest income is the difference between the interest income we generate on the loans we produce and the securities we invest in (i.e., our interest-earning assets), and the interest expense generated by our deposits and borrowed funds (i.e., our interest-bearing liabilities).

The level of net interest income is 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 both the pricing and mix of our interest-earning assets and our interest-bearing liabilities which, in turn, are impacted by various external factors, including the local economy, competition for loans and deposits, the monetary policy of the Federal Open Market Committee of the Federal Reserve Board of Governors (the FOMC), and market interest rates.

The cost of our deposits and borrowed funds is largely based on short-term rates of interest, the level of which is driven by the FOMC. The FOMC reduces, maintains, or increases the target federal funds rate (the rate at which banks borrow from one another), as it deems necessary, based on its perception of economic trends. In the first six months of 2006, the FOMC raised the fed funds rate four times in 25-basis point increments to its current level of 5.25%. In 2005, the fed funds rate rose eight times in 25-basis point increments, from 2.25% to 4.25%.

## Table of Contents

While our cost of funds is largely driven by the FOMC's actions, the yields generated by our loans and other interest-earning assets are typically driven by intermediate-term interest rates, which are set by the market and generally vary from day to day. In 2006, the increase in intermediate-term rates failed to keep pace with the increase in short-term rates of interest. Reflecting the disparity between the movements in short- and intermediate-term interest rates over the twelve-month period, the yield curve continued to invert during 2006.

As a result of the inversion, our net interest income declined to \$561.6 million from \$595.4 million, the year-earlier level, as a \$229.7 million rise in interest income was exceeded by a \$263.5 million rise in interest expense. The decline in net interest income also reflects a \$3.5 million decline in prepayment penalties to \$29.5 million and the mark-to-market adjustments on the interest-earning assets and interest-bearing liabilities acquired in our various merger transactions.

The negative impact of the inverted yield curve was partly offset by the twelve-month benefit of the Long Island Financial transaction and the eight-month benefit of the acquisition of Atlantic Bank. As a result of these transactions, we increased the concentration of lower-cost and non-interest-bearing deposits within our mix of funding sources, and utilized the cash flows from the sale of acquired assets to reduce our balance of higher-cost wholesale funds, as previously discussed. While the transactions also contributed to the growth of interest-earning assets, the increase was primarily fueled by organic loan production, with \$5.0 billion of loans produced over the course of the year.

### *Interest Income*

Interest income rose 19.5% year-over-year, to \$1.4 billion, driven by a \$3.0 billion, or 14.0%, increase in the average balance of interest-earning assets to \$24.7 billion and a 26-basis point increase in the average yield on such assets to 5.69%. The growth of the loan portfolio accounted for most of the increase in the average balance, while the higher yield was largely due to the replenishment of the loan portfolio with higher-yielding credits, reflecting the aforementioned rise in intermediate-term interest rates.

Average loans rose \$3.7 billion, or 24.4%, year-over-year to \$18.9 billion, accompanied by a 27-basis point rise in the average yield to 5.92%. As a result, the interest income produced by loans rose \$260.9 million in 2006, to \$1.1 billion, offsetting a \$31.8 million reduction in the interest income produced by securities. In 2006, securities generated interest income of \$289.0 million, the net effect of a \$656.5 million, or 10.1%, reduction in the average balance to \$5.8 billion, and a two-basis point rise in the average yield to 4.96%. The decline in average securities was consistent with management's emphasis on lending and the strategic use of cash flows from securities sales and repayments to fund the growth of the loan portfolio.

### *Interest Expense*

Interest expense rose 45.1% year-over-year, to \$847.1 million, reflecting a \$2.5 billion, or 12.3%, rise in the average balance of interest-bearing liabilities to \$23.2 billion and an 83-basis point rise in the average cost of funds to 3.65%. The higher balance was primarily due to our increased use of borrowed funds over the twelve-month period, the growing popularity of CDs as short-term interest rates increased, and the deposits acquired in the acquisition of Atlantic Bank. The higher cost reflects the aforementioned increase in short-term rates of interest, as the fed funds rate rose 100 basis points in the first six months of 2006.

Borrowed funds generated 2006 interest expense of \$463.8 million, an \$82.9 million increase from the year-earlier amount. The increase was the result of an \$834.0 million, or 8.1%, rise in the average balance to \$11.1 billion and a 47-basis point rise in the average cost of such funds to 4.17%.

CDs produced 2006 interest expense of \$249.3 million, an increase of \$133.1 million, as the average balance rose \$1.7 billion to \$5.9 billion and the average cost rose 147 basis points to 4.20%. CDs thus accounted for the bulk of the interest expense produced by interest-bearing deposits, which rose \$180.6 million to \$383.4 million in 2006. The latter increase was attributable to a \$1.7 billion, or 16.5%, rise in the average balance of interest-bearing deposits to \$12.1 billion, together with a 121-basis point rise in the average cost of such funds to 3.17%.

Core deposits generated 2006 interest expense of \$133.9 million, signifying a year-over-year increase of \$47.5 million, or 55.0%. The increase was the result of a \$370.9 million rise in the average balance to \$7.1 billion and a

**Table of Contents**

165-basis point rise in the average cost of such funds to 2.93%. While the average balance of savings accounts fell \$144.0 million to \$2.5 billion, the reduction was largely tempered by a \$142.6 million rise in the average balance of NOW and money market accounts to \$3.5 billion. Largely reflecting the benefit of our commercial bank acquisitions, the average balance of non-interest-bearing deposits rose \$372.4 million, or 50.5%, to \$1.1 billion in the twelve months ended December 31, 2006.

*Interest Rate Spread and Net Interest Margin*

The same factors that contributed to the decline in our 2006 net interest income contributed to a reduction in our interest rate spread and net interest margin during the year. At 2.04%, our interest rate spread was 57 basis points narrower than the 2005 measure, and at 2.27%, our net interest margin was down 47 basis points year-over-year.

**Net Interest Income Analysis**

The following table sets forth certain information regarding our average balance sheet for the years 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 year are derived from average balances that are calculated daily. The average yields and costs include fees and premiums and discounts (including mark-to-market adjustments from acquisitions) that are considered adjustments to such average yields and costs.

**Table of Contents**

	For the Years Ended December 31,								
	2006			2005			2004		
	Average	Average	Average	Average	Average	Average	Average	Average	Average
	Balance	Interest	Yield/ Cost	Balance	Interest	Yield/ Cost	Balance	Interest	Yield/ Cost
<i>(dollars in thousands)</i>									
<b>ASSETS:</b>									
Interest-earning assets:									
Mortgage and other loans, net <sup>(1)</sup>	\$ 18,882,661	\$ 1,118,467	5.92%	\$ 15,183,973	\$ 857,537	5.65%	\$ 11,652,470	\$ 675,897	5.80%
Securities <sup>(2)(3)</sup>	5,831,048	288,979	4.96	6,487,566	320,777	4.94	9,954,060	513,906	5.16
Money market investments	27,740	1,254	4.52	25,620	704	2.75	21,949	442	2.01
Total interest-earning assets	24,741,449	1,408,700	5.69	21,697,159	1,179,018	5.43	21,628,479	1,190,245	5.50
Non-interest-earning assets	3,371,195			3,200,970			3,344,517		
Total assets	\$ 28,112,644			\$ 24,898,129			\$ 24,972,996		
<b>LIABILITIES AND STOCKHOLDERS EQUITY:</b>									
Interest-bearing liabilities:									
NOW and money market accounts	\$ 3,519,471	\$ 116,055	3.30%	\$ 3,376,893	\$ 73,052	2.16%	\$ 2,498,668	\$ 26,471	1.06%
Savings accounts	2,493,592	17,856	0.72	2,637,639	13,349	0.51	2,962,231	16,718	0.56
Certificates of deposit	5,939,897	249,286	4.20	4,250,386	116,173	2.73	3,868,806	46,967	1.21
Mortgagors escrow	128,591	176	0.14	108,971	249	0.23	84,448	233	0.28
Total interest-bearing deposits	12,081,551	383,373	3.17	10,373,889	202,823	1.96	9,414,153	90,389	0.96
Borrowed funds	11,126,640	463,761	4.17	10,292,641	380,828	3.70	11,453,148	300,513	2.62
Total interest-bearing liabilities	23,208,191	847,134	3.65	20,666,530	583,651	2.82	20,867,301	390,902	1.87
Non-interest-bearing deposits	1,110,486			738,075			710,082		
Other liabilities	251,596			300,130			235,648		
Total liabilities	24,570,273			21,704,735			21,813,031		
Stockholders equity	3,542,371			3,193,394			3,159,965		
Total liabilities and stockholders equity	\$ 28,112,644			\$ 24,898,129			\$ 24,972,996		
Net interest income/interest rate spread									
		\$ 561,566	2.04%		\$ 595,367	2.61%		\$ 799,343	3.63%
Net interest-earning assets/net interest	\$ 1,533,258		2.27%	\$ 1,030,629		2.74%	\$ 761,178		3.70%

margin

Ratio of interest-earning assets to interest-bearing liabilities	1.07x	1.05x	1.04x
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- (1) Amounts are net of net deferred loan origination costs / (fees) and the allowance for loan losses and include loans held for sale and non-performing loans.
  - (2) Amounts are at amortized cost.
  - (3) Includes FHLB-NY stock.

**Table of Contents****Rate/Volume Analysis**

The following table presents the extent to which changes in interest rates and changes in the volume of interest-earning assets and interest-bearing liabilities have affected our interest income and interest expense during the periods indicated. Information is provided in each category with respect to (i) the changes attributable to changes in volume (changes in volume multiplied by prior rate), (ii) the changes attributable to changes in rate (changes in rate multiplied by prior volume), and (iii) the net change. The changes attributable to the combined impact of volume and rate have been allocated proportionately to the changes due to volume and the changes due to rate.

<i>(in thousands)</i>	Year Ended			Year Ended		
	December 31, 2006			December 31, 2005		
	Compared to Year Ended			Compared to Year Ended		
	December 31, 2005			December 31, 2004		
	Increase/(Decrease) Due to			Increase/(Decrease) Due to		
	Volume	Rate	Net	Volume	Rate	Net
<b>INTEREST-EARNING ASSETS:</b>						
Mortgage and other loans, net	\$ 217,707	\$ 43,223	\$ 260,930	\$ 198,933	\$ (17,293)	\$ 181,640
Securities	(32,840)	1,042	(31,798)	(163,313)	(29,816)	(193,129)
Money market investments	63	487	550	82	180	262
<b>Total</b>	<b>184,930</b>	<b>44,752</b>	<b>229,682</b>	<b>35,702</b>	<b>(46,929)</b>	<b>(11,227)</b>
<b>INTEREST-BEARING LIABILITIES:</b>						
NOW and money market accounts	3,192	39,811	43,003	11,749	34,832	46,581
Savings accounts	(704)	5,211	4,507	(1,734)	(1,635)	(3,369)
Certificates of deposit	56,603	76,510	133,113	5,056	64,150	69,206
Borrowed funds	32,382	50,551	82,933	(26,352)	106,667	80,315
Mortgagors escrow	58	(131)	(73)	39	(23)	16
<b>Total</b>	<b>91,531</b>	<b>171,952</b>	<b>263,483</b>	<b>(11,242)</b>	<b>203,991</b>	<b>192,749</b>
<b>Change in net interest income</b>	<b>\$ 93,399</b>	<b>\$ (127,200)</b>	<b>\$ (33,801)</b>	<b>\$ 46,944</b>	<b>\$ (250,920)</b>	<b>\$ (203,976)</b>

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**Table of Contents**

***Provision for Loan Losses***

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

Reflecting this assessment, no provision for loan losses was recorded during the twelve months ended December 31, 2006 or 2005. Reflecting a \$6.4 million reduction in non-performing loans to \$21.2 million, the ratio of non-performing loans to total loans improved from 0.16% at December 31, 2005 to 0.11% at December 31, 2006. While the level of charge-offs rose from \$21,000 to \$420,000 during this time, all of the charge-offs recorded consisted of consumer loans and other unsecured credits that were acquired in our various merger transactions.

Notwithstanding the absence of any provisions, the allowance for loans losses rose \$5.7 million year-over-year to \$85.4 million, the net effect of the aforementioned charge-offs and the \$6.1 million loan loss allowance acquired in the transaction with Atlantic Bank. At December 31, 2006 and 2005, the allowance for loan losses represented 0.43% and 0.47% of total loans and 402.72% and 289.17% of non-performing loans, respectively.

Please see *Critical Accounting Policies* and *Asset Quality* earlier in this report for a detailed discussion of the factors considered by management in determining the allowance for loan losses, and the quality of our loan portfolio.

***Non-interest Income***

The non-interest income we produce stems from several sources, including *fee income* in the form of retail deposit fees and charges on loans; income from our investment in BOLI; and *other income* derived from such varied sources as the sale of third-party investment products; the sale of one-to-four family loans on a conduit basis; and our wholly-owned subsidiary, Peter B. Cannell & Co., Inc. ( *PBC* ). Also included in non-interest income are the net gains or losses produced through the sale of securities.

In 2006, we recorded non-interest income of \$89.0 million, as compared to \$97.7 million in 2005. The 2006 amount was reduced by a \$1.9 million loss recorded in connection with the write-off of unamortized issuance costs stemming from the redemption of certain trust preferred securities, and by a \$6.1 million loss on the mark-to-market of interest rate swaps. In addition, we recorded a \$313,000 loss on the other-than-temporary impairment of securities. These reductions were partly offset by a \$6.0 million rise in fee income to \$38.7 million and a \$1.1 million rise in BOLI income to \$23.6 million, which also tempered the impact of a \$1.6 million decline in other income to \$31.9 million. While revenues from PBC rose \$2.5 million year-over-year, to \$13.6 million, the increase was offset by reductions in income from the sale of third-party investment products and one-to-four family loans. Included in other income in each of 2005 and 2006 was \$3.5 million produced by our real estate joint venture. As the sale of the units was completed in the fourth quarter of 2006, no further income is expected to be realized from this source.



**Table of Contents**

The following table summarizes our sources of non-interest income and the year-over-year changes in the revenues they respectively generated in the years ended December 31, 2006, 2005, and 2004:

**Non-interest Income Analysis**

<i>(dollars in thousands)</i>	For the Year Ended Dec. 31, 2006	% Change 2005 to 2006	For the Year Ended Dec. 31, 2005	% Change 2004 to 2005	For the Year Ended Dec. 31, 2004
Fee income	\$ 38,662	18.54%	\$ 32,614	(18.80)%	\$ 40,166
BOLI	23,627	4.84	22,536	6.44	21,172
Net securities gains (losses)	3,033	1.13	2,999	102.05	(146,375)
Loss on debt redemption	(1,859)				
Loss on mark-to-market of interest rate swaps	(6,071)				
Loss on other-than-temporary impairment of securities	(313)			100.00	(8,209)
Net gain on sale of bank-owned properties		(100.00)	6,040		
Other income:					
Peter B. Cannell	13,581	22.41	11,095	21.59	9,125
Third-party product sales	7,200	(10.07)	8,006	(21.29)	10,171
Gain on sale of 1-4 family and other loans	693	(80.40)	3,536	178.43	1,270
Joint venture income	3,506	(1.13)	3,546	(39.39)	5,851
Other	6,931	(5.43)	7,329	61.93	4,526
Total other income	31,911	(4.78)	33,512	8.30	30,943
Total non-interest income (loss)	\$ 88,990	(8.92)%	\$ 97,701	256.82%	\$ (62,303)

**Non-interest Expense**

Non-interest expense consists of operating expenses, which include compensation and benefits, occupancy and equipment, general and administrative ( G&A ), and other expenses; and the amortization of the CDI stemming from our merger transactions with Richmond County in 2001, Roslyn in 2003, Long Island Financial in 2005, and Atlantic Bank in 2006.

Non-interest expense totaled \$301.8 million and \$248.4 million in 2006 and 2005, respectively. Included in the 2006 amount were operating expenses of \$256.4 million, including a \$3.1 million charge recorded in connection with the retirements of our chairman and senior lending consultant and a \$5.7 million charge recorded for the allocation of ESOP shares pursuant to the acquisition of Atlantic Bank, both of which were included in fourth quarter 2006 compensation and benefits expense. Included in 2005 non-interest expense were operating expenses of \$236.6 million, including a \$36.6 million pre-tax charge recorded for the allocation of ESOP shares pursuant to the acquisition of Long Island Financial, which was included in fourth quarter 2005 compensation and benefits expense.

The level of non-interest expense recorded in 2006 was boosted by a \$26.5 million charge for the prepayment of wholesale borrowings and a \$1.1 million charge for the termination of our interest rate swap agreements in connection with the repositioning of our balance sheet following the acquisition of Atlantic Bank. In addition, the year-over-year increase in non-interest expense reflects the twelve-month impact of the Long Island Financial transaction and the eight-month impact of the acquisition of Atlantic Bank. The related increases in staff and the addition of 29 branch locations accounted for a significant portion of the increase in operating expenses, while the CDI acquired in the two transactions resulted in a \$6.1 million increase in CDI amortization to \$17.9 million.

**Table of Contents**

The following table summarizes the components of non-interest expense, and the year-over-year change in the respective totals, for the years ended December 31, 2006, 2005, and 2004:

**Non-interest Expense Analysis**

	For the Year		For the Year		For the Year
	Ended Dec. 31	% Change	Ended Dec. 31,	% Change	Ended Dec. 31,
<i>(dollars in thousands)</i>	2006	2005 to 2006	2005	2004 to 2005	2004
Operating Expenses:					
Compensation and benefits	\$ 138,705	0.43%	\$ 138,114	41.19%	\$ 97,818
Occupancy and equipment	56,735	27.84	44,380	9.39	40,569
General and administrative	54,159	13.28	47,810	(0.30)	47,956
Other	6,763	7.06	6,317	(13.34)	7,289
Total operating expenses	256,362	8.34	236,621	22.20	193,632
Prepayment of borrowings	26,477				
Termination of interest rate swaps	1,132				
Amortization of core deposit intangibles	17,871	52.31	11,733	2.56	11,440
Total non-interest expense	\$ 301,842	21.54%	\$ 248,354	21.11%	\$ 205,072

***Income Tax Expense***

Income tax expense includes federal, New York State, and New York City income taxes, as well as non-material income taxes from other jurisdictions.

In 2006, we recorded income tax expense of \$116.1 million, signifying a \$36.5 million reduction from the year-earlier amount. The reduction in income-tax expense was attributable to a \$96.0 million decline in pre-tax income to \$348.7 million and a decline in the effective tax rate from 34.32% to 33.30%. The higher effective tax rate in 2005 was largely attributable to the non-deductibility of the merger-related charge recorded for the allocation of ESOP shares in connection with the acquisition of Long Island Financial, which exceeded the merger-related ESOP charge recorded in connection with the acquisition of Atlantic Bank by \$30.8 million.

**RESULTS OF OPERATIONS: 2005 AND 2004 COMPARISON****Earnings Summary**

In 2005, we generated earnings of \$292.1 million, or \$1.11 per diluted share, as compared to earnings of \$355.1 million, or \$1.33 per diluted share, in 2004. As discussed in the comparison of 2006 and 2005 earnings, the after-tax merger-related charge recorded in connection with the acquisition of Long Island Financial accounted for \$34.0 million of the reduction in our 2005 earnings, and for \$0.13 of the reduction in our diluted earnings per share.

The earnings recorded in 2004 reflect the impact of a balance sheet repositioning charge recorded in the second quarter and an impairment charge recorded in the fourth quarter of that year. To reduce our exposure to interest rate and market risk at the end of the second quarter, we reduced our securities portfolio by selling \$5.1 billion of available-for-sale securities, and utilized the proceeds to reduce our balance of wholesale borrowings by a like amount. At the same time, we extended \$2.4 billion of short-term borrowings to an average three-year maturity and reclassified \$1.0 billion of available-for-sale securities as held-to-maturity. While the securities were sold at a net loss of \$94.9 million, or \$0.35 per diluted share, on an after-tax basis (the repositioning charge), the sacrifice to earnings was offset by the improvement in our market and interest rate risk profile at a time of significant and increasing interest rate volatility.

In the fourth quarter of 2004, we recorded a pre-tax loss of \$8.2 million on the other-than-temporary impairment of certain perpetual preferred FNMA securities. This impairment charge was equivalent to \$5.0 million, or \$0.02 per diluted share, after-tax.



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## **Table of Contents**

The year-over-year reduction in our 2005 earnings also reflected a decline in net interest income, which was partly offset by the non-interest income recorded, in contrast to a non-interest loss in the prior year.

While the assets and liabilities acquired in the Long Island Financial transaction were reflected in our Consolidated Statement of Condition at December 31, 2005, the contribution of Long Island Financial to our earnings was not reflected in our 2005 Consolidated Statement of Income and Comprehensive Income because the transaction was completed on the last business day of the year. Accordingly, the contribution to earnings of the Long Island Financial transaction did not commence until January 2006.

### ***Net Interest Income***

Reflecting the movement of short- and intermediate-term interest rates, and the resultant flattening of the yield curve, we recorded 2005 net interest income of \$595.4 million, a \$204.0 million reduction from the level recorded in 2004. The reduction was the combined result of an \$11.2 million decline in interest income and a \$192.7 million rise in interest expense, as described below.

### ***Interest Income***

In 2005, we recorded interest income of \$1.2 billion, a modest decline from the prior-year amount. In addition to the low level of market interest rates, which limited the yields on new loan originations, the level of interest income reflected a \$1.7 million decline in prepayment penalties, to \$33.0 million, as the level of market interest rates contributed to a decline in multi-family and commercial real estate loan refinancing activity. The level of interest income in 2005 also reflected the declining benefit of the mark-to-market adjustments stemming from the Roslyn merger, and the continued shift in our mix of assets, with the cash flows stemming from the strategic decline in securities funding the growth in loans.

As a result of these factors, the average balance of interest-earning assets rose \$68.7 million year-over-year, to \$21.7 billion, while the average yield declined seven basis points to 5.43%. Reflecting the record volume of loans produced, the average balance of loans rose \$3.5 billion to \$15.2 billion, offsetting a \$3.5 billion decline in the average balance of securities to \$6.5 billion. The interest income produced by loans rose \$181.6 million year-over-year to \$857.5 million, the net effect of the 30.3% rise in the average balance and a 15-basis point decline in the average yield to 5.65%. The interest income produced by securities, meanwhile, declined \$193.1 million to \$320.8 million, as the decline in the average balance combined with a 22-basis point decline in the average yield to 4.94%.

### ***Interest Expense***

Interest expense totaled \$583.7 million in 2005, signifying a \$192.7 million, or 49.3%, increase from the level recorded in 2004. While the increase was attributable to a combination of factors, primary among them was the steady rise in short-term interest rates. At 2.82%, our cost of funds in 2005 was 95 basis points higher than the cost of funds recorded in the prior year. The increase in the cost of funds was partly offset by a \$200.8 million decline in the average balance of interest-bearing liabilities to \$20.7 billion, reflecting the strategic shift in our funding mix. In connection with our drive to expand and diversify our funding sources, we engaged in a year-long campaign to increase our longer-term retail deposits, while also accepting brokered deposits to fund the growth of our loan portfolio. As a result, the average balance of interest-bearing deposits rose \$959.7 million year-over-year to \$10.4 billion, while the average balance of borrowed funds declined \$1.2 billion to \$10.3 billion.

Reflecting a 100-basis point rise in the average cost of such funds, as well as the higher average balance, interest-bearing deposits generated 2005 interest expense of \$202.8 million, signifying a \$112.4 million increase from the year-earlier amount. During the year, we focused on locking in longer-term funds at prevailing rates of interest, and opened a significant number of CD accounts, both in-branch and online. As a result, the interest expense produced by CDs rose \$69.2 million year-over-year to \$116.2 million, reflecting a \$381.6 million rise in the average balance to \$4.3 billion and a 152-basis point rise in the average cost of such funds, to 2.73%.

**Table of Contents**

Core deposits generated 2005 interest expense of \$86.4 million, signifying a year-over-year increase of \$43.2 million, the result of a \$581.6 million rise in the average balance to \$6.8 billion and a 58-basis point rise in the average cost of such funds to 1.28%. While the average balance and cost of savings accounts declined \$324.6 million and five basis points, respectively, from the prior-year levels, these reductions were offset by a \$28.0 million increase in the average balance of non-interest-bearing deposits to \$738.1 million, and an increase in both the average balance and cost of NOW and money market accounts. NOW and money market accounts contributed \$73.1 million to total interest expense, an increase of \$46.6 million, the result of an \$878.2 million rise in the average balance to \$3.4 billion and a 110-basis point rise in the average cost of such funds to 2.16%. The higher average balance partly reflects our use of brokered deposits, particularly in the fourth quarter of the year.

Borrowed funds produced interest expense of \$380.8 million in 2005, representing an \$80.3 million increase, the net effect of a 10.1% decline in the average balance and a 108-basis point rise in the average cost of such funds to 3.70%.

*Interest Rate Spread and Net Interest Margin*

The same combination of factors that contributed to the decline in net interest income contributed to the contraction of our interest rate spread and net interest margin in 2005. At 2.61%, our spread was 102 basis points narrower than the 2004 measure; our margin narrowed 96 basis points to 2.74% during this time.

*Provision for Loan Losses*

Reflecting management's assessment of the Community Bank's loan loss allowance, no provision for loan losses was recorded in 2005 or 2004. We recorded total charge-offs of \$21,000 and \$236,000 during the respective twelve-month periods, and recorded no net charge-offs from the fourth quarter of 1994 through the third quarter of 2004. All of the loans charged off in 2005 and 2004 were consumer and unsecured loans that were acquired in our merger transactions.

In addition to the \$215,000 reduction in charge-offs, we recorded a \$585,000 reduction in the balance of non-performing loans. At December 31, 2005 and 2004, non-performing loans totaled \$27.6 million and \$28.1 million, and were equivalent to 0.16% and 0.21% of total loans, respectively.

Reflecting the \$1.7 million loan loss allowance acquired in the Long Island Financial transaction, which significantly offset the modest level of charge-offs recorded, the consolidated loan loss allowance rose to \$79.7 million at December 31, 2005, representing 289.17% of non-performing loans and 0.47% of total loans.

*Non-interest Income (Loss)*

We recorded non-interest income of \$97.7 million in 2005, in contrast to a non-interest loss of \$62.3 million in 2004. In addition to fee income of \$32.6 million, BOLI income of \$22.5 million, and other income of \$33.5 million, the 2005 amount included net securities gains of \$3.0 million and a pre-tax gain of \$6.0 million on the sale of certain bank-owned properties.

In addition to fee income of \$40.2 million, BOLI income of \$21.2 million, and other income of \$30.9 million, the 2004 amount reflected the impact of a pre-tax net loss of \$157.2 million on the sale of securities in connection with the repositioning of our balance sheet in the second quarter (which was slightly tempered by net securities gains of \$10.8 million in the remaining three quarters), and a pre-tax loss of \$8.2 million on the other-than-temporary impairment of certain perpetual preferred FNMA securities in the fourth quarter of the year.

While fee income thus fell \$7.6 million year-over-year, reflecting a decline in retail deposit fees, BOLI income and other income rose \$1.3 million and \$2.6 million, respectively, in 2005, offsetting the decline. The increase in BOLI income reflects the BOLI acquired in the Long Island Financial transaction, an increase in the cash surrender value of the policies, and the rise in market interest rates. The increase in other income was largely attributable to a \$2.0 million rise in revenues from PBC to \$11.1 million and a \$2.3 million increase in the gain on the sale of one-to-four family and other loans. Reflected in the latter amount was a gain of \$2.7 million on the bulk sale of one-to-four family loans in the second quarter of the year.

## **Table of Contents**

These increases served to offset a \$2.3 million decline in joint venture income, together with a \$2.2 million decline in the revenues produced through the sale of third-party investment products, and a \$424,000 reduction in the revenues produced through the sale of conduit loans. Our real estate joint venture generated income of \$3.5 million in 2005, as compared to \$5.9 million in 2004, reflecting a decline in the number of residential units delivered, consistent with our expectations, from 79 to 61. All but 37 of the 177 units had been delivered at December 31, 2005. While the sale of third-party investment products generated revenues of \$8.0 million in 2005, the decline from the prior-year level was attributable to both the interest rate environment and the success of our campaign to attract CDs. With short-term rates rising steadily to the highest levels to date in the decade, more of our customers chose to invest in CDs than in annuities. At the same time, the modest rise in long-term interest rates inhibited refinancing activity in the one-to-four family lending market, reducing conduit loan revenues to \$846,000.

### ***Non-interest Expense***

We recorded non-interest expense of \$248.4 million in 2005, signifying a \$43.3 million increase from the amount recorded in 2004. The increase was largely attributable to the aforementioned pre-tax merger-related charge of \$36.6 million, which reflected the allocation of ESOP shares in connection with the Long Island Financial transaction, and was recorded in fourth quarter 2005 compensation and benefits expense.

Reflecting the merger-related charge, we recorded total operating expenses of \$236.6 million, as compared to \$193.6 million in the year-earlier twelve months. Compensation and benefits accounted for \$138.1 million of total operating expenses in 2005, as compared to \$97.8 million in 2004. Aside from the merger-related charge, the year-over-year increase in compensation and benefits expense was primarily due to normal salary increases and the expansion of our branch and back-office staff.

The increase in operating expenses also reflects a \$3.8 million rise in occupancy and equipment expense to \$44.4 million, as one new in-store branch was opened and three others were closed or sold. The increase in occupancy and equipment expense also reflects improvements made during the year to the physical plant of several branches and upgrades to our information technology. The increase in occupancy and equipment expense was partly offset by a \$146,000 decline in G&A expense to \$47.8 million and a \$972,000 decline in other expenses to \$6.3 million.

CDI amortization totaled \$11.7 million in 2005, a \$293,000 increase from the level recorded in 2004. The year-over-year increase reflects the accelerated amortization stemming from the sale of certain branches that had been acquired in the Richmond County merger.

Reflecting the levels of operating expenses, net interest income, and non-interest income recorded, our efficiency ratio equaled 34.14% and 26.27%, respectively, in 2005 and 2004. The year-over-year increase was largely attributable to the decline in net interest income and to the aforementioned merger-related charge, which accounted for most of the increase in operating expenses.

### ***Income Tax Expense***

We recorded income tax expense of \$152.6 million in 2005, down \$24.3 million from the 2004 amount. The reduction reflected an \$87.3 million decline in pre-tax income to \$444.7 million, which was tempered by a rise in the effective tax rate to 34.3% from 33.3%. The latter increase was primarily due to the non-deductibility of the merger-related charge stemming from the Long Island Financial acquisition, and was partially offset by the benefit of a New Markets Tax Credit allocation that was granted by the U.S. Treasury in the second quarter of the year. The New Markets Tax Credit entitles us to recognize \$16.4 million in tax credits over a seven-year period, including \$2.1 million in 2005.

**Table of Contents****QUARTERLY FINANCIAL DATA**

The following table sets forth selected unaudited quarterly financial data for the years ended December 31, 2006 and 2005:

<i>(in thousands, except per share data)</i>	2006				2005			
	4th <sup>(1)</sup>	3rd	2nd <sup>(2)</sup>	1st <sup>(3)</sup>	4th <sup>(4)</sup>	3rd	2nd	1st
Net interest income	\$ 140,805	\$ 139,847	\$ 144,016	\$ 136,898	\$ 133,086	\$ 146,825	\$ 152,220	\$ 163,237
Provision for loan losses								
Non-interest income	22,688	23,467	23,659	19,176	21,699	21,677	26,797	27,527
Non-interest expense	78,548	71,477	93,192	58,625	89,362	53,170	52,246	53,576
Income before income taxes	84,945	91,837	74,483	97,449	65,423	115,332	126,771	137,188
Income tax expense	31,824	29,360	23,871	31,074	28,507	37,717	40,299	46,106
Net income	\$ 53,121	\$ 62,477	\$ 50,612	\$ 66,375	\$ 36,916	\$ 77,615	\$ 86,472	\$ 91,082
Basic earnings per share	\$ 0.18	\$ 0.21	\$ 0.18	\$ 0.25	\$ 0.14	\$ 0.30	\$ 0.33	\$ 0.35
Diluted earnings per share	\$ 0.18	\$ 0.21	\$ 0.18	\$ 0.25	\$ 0.14	\$ 0.30	\$ 0.33	\$ 0.35

- (1) Includes a pre-tax merger-related charge of \$5.7 million and a pre-tax retirement charge of \$3.1 million, both recorded in non-interest expense, and a \$1.9 million pre-tax loss on debt redemption recorded in non-interest income, which were collectively equivalent to an after-tax charge of \$8.6 million, or \$0.03 per diluted share.
- (2) Includes a pre-tax charge of \$27.6 million for the prepayment of borrowings and the termination of interest rate swaps, recorded in non-interest expense, which was equivalent to an after-tax charge of \$18.8 million, or \$0.07 per diluted share.
- (3) Includes a \$6.1 million pre-tax loss on the mark-to-market of interest rate swaps, recorded in non-interest income, which was equivalent to an after-tax loss of \$3.6 million, or \$0.01 per diluted share.
- (4) Includes a pre-tax merger-related charge of \$36.6 million, recorded in non-interest expense, which was equivalent to an after-tax charge of \$34.0 million, or \$0.13 per diluted share.

**IMPACT OF INFLATION**

The Consolidated Financial Statements and notes thereto presented in this report have been prepared in accordance with GAAP, which require that we measure our financial condition and operating results in terms of historical dollars, without considering changes in the relative purchasing power of money over time due to inflation. The impact of inflation is reflected in the increased cost of our operations. Unlike industrial companies, nearly all of a bank's assets and liabilities are monetary in nature. As a result, interest rates have a greater impact on our performance than do the effects of general levels of inflation. Interest rates do not necessarily move in the same direction, or to the same extent, as the prices of goods and services.

**IMPACT OF ACCOUNTING PRONOUNCEMENTS**

Please refer to Note 2 to the Consolidated Financial Statements, Summary of Significant Accounting Policies, in Item 8, Financial Statements and Supplementary Data, for a discussion of the impact of recent accounting pronouncements on our financial condition and results of operations.

**ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET 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.

**Market Risk**

As a financial institution, we are focused on managing our exposure to interest rate volatility, which represents our primary market risk. Changes in market interest rates represent the greatest challenge to our financial



**Table of Contents**

performance, as such changes can have a significant impact on the level of income and expense recorded on a large portion of our interest-earning assets and interest-bearing liabilities, and on the market value of all interest-earning assets, other than those possessing a short term to maturity. To reduce our exposure to changing rates, our Boards of Directors and management monitor our interest rate sensitivity on a monthly or as needed basis so that adjustments in the asset and liability mix can be made when deemed appropriate.

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

The continued inversion of the yield curve in 2006 posed a significant challenge for financial institutions, including the Company. To manage our interest rate risk during a difficult year, we continued to pursue certain strategies that have been at the heart of our business model, and adopted additional strategies to respond to the specific challenges posed by the slope of the curve. We continued to place an emphasis on the origination and retention of intermediate-term assets, primarily in the form of multi-family, commercial real estate, and construction loans; and continued to originate one-to-four family loans on a pass-through basis, selling such loans to a third-party conduit without recourse. We continued to utilize the cash flows from securities sales and repayments to fund the production of higher-yielding assets and also used such funds to reduce our higher-cost sources of funds. We utilized borrowed funds and brokered deposits when such funding sources represented an attractive alternative to retail funding, and repositioned or repaid our higher-cost wholesale borrowings to reduce the interest rate. We acquired our second commercial bank and used the proceeds from the sale of its assets to reduce our higher-cost funding sources, while benefiting from the infusion of its lower-cost and non-interest-bearing deposits. In addition, we utilized the proceeds from loan prepayments to reduce our higher-cost brokered deposits at a time when market conditions made it less appealing for us to lend.

***Interest Rate Sensitivity Gap***

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.

At December 31, 2006, our one-year gap was a negative 11.66%, as compared to a negative 10.19% at December 31, 2005. The year-over-year increase was primarily due to an increase in the percentage of borrowed funds due to mature in one year or less to 49.9% from 29.2%, and an increase in the percentage of CDs maturing in one year or less to 85.0% from 76.4%.

The following table sets forth the amounts of interest-earning assets and interest-bearing liabilities outstanding at December 31, 2006 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 December 31, 2006 on the basis of contractual maturities; scheduled rate adjustments; and anticipated prepayments, including callable provisions, within a three-month period and subsequent selected time intervals. For loans and mortgage-related securities, prepayment rates were assumed to range up to 20% annually. Savings accounts, Super NOW accounts, and NOW accounts were assumed to decay at an annual rate of 5% for the first five years and 15% for the years thereafter. Money market accounts, with the exception of accounts with specified repricing dates, were assumed to decay at an annual rate of 20% for the first five years and 50% in the years thereafter.

**Table of Contents**

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

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

	At December 31, 2006						Total
	Three	Four to	More Than	More Than	More Than		
	Months	Twelve	One Year to	Three Years	Five Years	More Than	
(dollars in thousands)	or Less	Months	Three Years	to Five Years	to 10 Years	10 Years	
<b>INTEREST-EARNING ASSETS:</b>							
Mortgage and other loans <sup>(1)</sup>	\$ 3,110,827	\$ 4,242,927	\$ 7,490,710	\$ 3,962,608	\$ 790,293	\$ 34,323	\$ 19,631,688
Mortgage-related securities <sup>(2)</sup>	123,482	337,747	769,375	616,813	842,484	362,253	3,052,154
Other securities <sup>(2)</sup>	622,830	71,987	169,715	967,422	371,450	74,737	2,278,141
Money market investments	13,063						13,063
Total interest-earning assets	3,870,202	4,652,661	8,429,800	5,546,843	2,004,227	471,313	24,975,046
<b>INTEREST-BEARING LIABILITIES:</b>							
Savings accounts	29,927	89,780	221,758	200,136	1,030,560	821,984	2,394,145
NOW and Super NOW accounts	8,326	24,979	61,699	55,684	286,731	228,701	666,120
Money market accounts	374,758	334,123	641,516	410,570	707,093	22,808	2,490,868
Certificates of deposit	2,579,725	2,472,884	705,735	106,397	79,844		5,944,585
Borrowed funds	2,304,731	3,624,633	4,075,981	1,380,555	215,566	278,542	11,880,008
Total interest-bearing liabilities	5,297,467	6,546,399	5,706,689	2,153,342	2,319,794	1,352,035	23,375,726
Interest rate sensitivity gap per period <sup>(4)</sup>	\$ (1,427,265)	\$ (1,893,738)	\$ 2,723,111	\$ 3,393,501	\$ (315,567)	\$ (880,722)	\$ 1,599,320
Cumulative interest sensitivity gap	\$ (1,427,265)	\$ (3,321,003)	\$ (597,892)	\$ 2,795,609	\$ 2,480,042	\$ 1,599,320	
Cumulative interest sensitivity gap as a percentage of total assets	(5.01)%	(11.66)%	(2.10)%	9.82%	8.71%	5.62%	
Cumulative net interest-earning assets as a percentage of net interest-bearing liabilities	73.06	71.96	96.59	114.19	111.26	106.84	

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

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

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

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

**Table of Contents**

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

**Net Portfolio Value**

Interest rate sensitivity is also monitored 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 NPV ratio, under any interest rate scenario, is defined as the NPV in that scenario divided by the market value of assets in the same scenario. The model assumes estimated loan prepayment rates, reinvestment rates, and deposit decay rates similar to those utilized in formulating the preceding Interest Rate Sensitivity Analysis.

The following table sets forth our NPV as of December 31, 2006:

(dollars in thousands)

Change in Interest Rates (in basis points)	Market Value of Assets	Market Value of Liabilities	Net Portfolio Value	Net Change	Portfolio Market Value Projected % Change to Base
-200	\$ 29,603,155	\$ 25,728,015	\$ 3,875,140	\$ (22,726)	(0.58)%
-100	29,148,054	25,130,750	4,017,304	119,438	3.06
	28,668,271	24,770,405	3,897,866		
+100	28,107,741	24,491,036	3,616,705	(281,161)	(7.21)
+200	27,561,761	24,291,627	3,270,134	(627,732)	(16.10)

The net changes in NPV presented in the preceding table are within the parameters approved by the Boards of Directors of the Company and the Banks.

As with the Interest Rate Sensitivity Analysis, certain shortcomings are inherent in the methodology used in the preceding interest rate risk measurements. Modeling changes in NPV requires that certain assumptions be made which may or may not reflect the manner in which actual yields and costs respond to changes in market interest rates. In this regard, the NPV Analysis presented above assumes that the composition of our interest rate sensitive assets and liabilities existing at the beginning of a period remains constant over the period being measured, and also assumes that a particular change in interest rates is reflected uniformly across the yield curve, regardless of the duration to maturity or repricing of specific assets and liabilities. Furthermore, the model does not take into account the anticipated benefit of the pending PennFed transaction or other strategic actions we are taking to further reduce our exposure to interest rate risk. Accordingly, 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.

**Net Interest Income Simulation**

In addition to the analyses of gap and NPV, we 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 this simulation are inherently uncertain. Actual results may differ significantly from those presented in the table that follows, due to several factors, including the frequency, timing, and magnitude of changes in interest rates; changes in spreads between maturity and repricing categories; and prepayments, coupled with any actions taken to counter the effects of any such changes.

**Table of Contents**

Based on the information and assumptions in effect at December 31, 2006, the following table sets forth the estimated percentage change in future net interest income for the next twelve months, assuming a gradual increase or decrease in interest rates during such time:

<u>Change in Interest Rates (in basis points) <sup>(1)</sup></u>	<b>Estimated Percentage Change in Future Net Interest Income</b>
+200 over one year	(9.28)%
+100 over one year	(4.06)
-100 over one year	3.13
-200 over one year	5.03

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

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

**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

Our consolidated financial statements and notes thereto and other supplementary data begin on page 81.

**Table of Contents**

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors and Stockholders

New York Community Bancorp, Inc.:

We have audited the accompanying consolidated statements of condition of New York Community Bancorp, Inc. and subsidiaries (the Company ) as of December 31, 2006 and 2005, and the related consolidated statements of income and comprehensive income, changes in stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2006. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of New York Community Bancorp, Inc. and subsidiaries as of December 31, 2006 and 2005, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2006, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of December 31, 2006, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 28, 2007 expressed an unqualified opinion on management's assessment of, and the effective operation of, internal control over financial reporting.

/s/ KPMG LLP

New York, New York

February 28, 2007

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**Table of Contents**

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors and Stockholders

New York Community Bancorp, Inc.:

We have audited management's assessment, included in the accompanying Management's Report on Internal Control over Financial Reporting, that New York Community Bancorp, Inc. and subsidiaries (the Company) maintained effective internal control over financial reporting as of December 31, 2006, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that New York Community Bancorp, Inc. maintained effective internal control over financial reporting as of December 31, 2006, is fairly stated, in all material respects, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Also, in our opinion, New York Community Bancorp, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated statements of condition of New York Community Bancorp, Inc. and subsidiaries as of December 31, 2006 and 2005, and the related consolidated statements of income and comprehensive income, changes in stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2006, and our report dated February 28, 2007 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

New York, New York

February 28, 2007

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

<i>(in thousands, except share data)</i>	<b>December 31,</b>	
	<b>2006</b>	<b>2005</b>
<b>ASSETS:</b>		
Cash and cash equivalents	\$ 230,759	\$ 231,803
Securities available for sale:		
Mortgage-related securities (\$1,592,064 and \$1,908,761 pledged, respectively)	1,664,337	1,967,770
Other securities (\$102,067 and \$220,700 pledged, respectively)	276,450	411,444
Securities held to maturity:		
Mortgage-related securities (\$1,374,806 and \$1,310,829 pledged, respectively) (fair value of \$1,272,546 and \$1,510,387, respectively)	1,387,817	1,606,468
Other securities (\$1,155,070 and \$1,189,797 pledged, respectively) (fair value of \$1,593,023 and \$1,659,670, respectively)	1,597,380	1,651,570
Total securities	4,925,984	5,637,252
Loans, net of deferred loan fees and costs	19,652,891	17,028,402
Less: Allowance for loan losses	(85,389)	(79,705)
Loans, net	19,567,502	16,948,697
Federal Home Loan Bank of New York stock, at cost	404,311	330,212
Premises and equipment, net	196,084	140,279
Goodwill	2,148,108	1,980,689
Core deposit intangibles	106,381	86,533
Bank-owned Life Insurance	585,013	524,992
Other assets	318,228	403,248
Total assets	\$ 28,482,370	\$ 26,283,705
<b>LIABILITIES AND STOCKHOLDERS EQUITY:</b>		
Deposits:		
NOW and money market accounts	\$ 3,156,988	\$ 3,576,983
Savings accounts	2,394,145	2,434,990
Certificates of deposit	5,944,585	5,247,029
Non-interest-bearing accounts	1,123,286	845,897
Total deposits	12,619,004	12,104,899
Official checks outstanding	20,158	43,438
Borrowed funds:		
Federal Home Loan Bank of New York advances	7,240,684	5,409,458
Repurchase agreements	3,767,649	4,307,934
Federal funds purchased	62,000	
Junior subordinated debentures	455,659	454,197
Other borrowings	354,016	357,069
Total borrowed funds	11,880,008	10,528,658
Mortgagors escrow	74,736	63,051
Other liabilities	198,627	218,782



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Total liabilities	24,792,533	22,958,828
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; 295,350,936 and 273,396,452 shares issued; 295,350,936 and 269,776,791 shares outstanding, respectively)	2,954	2,734
Paid-in capital in excess of par	3,341,340	3,012,655
Retained earnings (partially restricted)	421,313	475,501
Less: Treasury stock (0 and 3,619,661 shares, respectively)		(100,169)
Unallocated common stock held by Employee Stock Ownership Plan ( ESOP )	(4,604)	(6,874)
Common stock held by Supplemental Executive Retirement Plan ( SERP )	(3,113)	(3,113)
Accumulated other comprehensive loss, net of tax	(68,053)	(55,857)
Total stockholders' equity	3,689,837	3,324,877
Commitments and contingencies		
Total liabilities and stockholders' equity	\$ 28,482,370	\$ 26,283,705

See accompanying notes to the consolidated financial statements.

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

<i>(in thousands, except per share data)</i>	Years Ended December 31,		
	2006	2005	2004
<b>INTEREST INCOME:</b>			
Mortgage and other loans	\$ 1,118,467	\$ 857,537	\$ 675,897
Securities	288,979	320,777	513,906
Money market investments	1,254	704	442
<b>Total interest income</b>	<b>1,408,700</b>	<b>1,179,018</b>	<b>1,190,245</b>
<b>INTEREST EXPENSE:</b>			
NOW and money market accounts	116,055	73,052	26,471
Savings accounts	17,856	13,349	16,718
Certificates of deposit	249,286	116,173	46,967
Borrowed funds	463,761	380,828	300,513
Mortgagors escrow	176	249	233
<b>Total interest expense</b>	<b>847,134</b>	<b>583,651</b>	<b>390,902</b>
<b>Net interest income</b>	<b>561,566</b>	<b>595,367</b>	<b>799,343</b>
Provision for loan losses			
<b>Net interest income after provision for loan losses</b>	<b>561,566</b>	<b>595,367</b>	<b>799,343</b>
<b>NON-INTEREST INCOME (LOSS):</b>			
Fee income	38,662	32,614	40,166
Bank-owned Life Insurance	23,627	22,536	21,172
Net securities gains (losses)	3,033	2,999	(146,375)
Loss on mark-to-market of interest rate swaps	(6,071)		
Loss on debt redemption	(1,859)		
Loss on other-than-temporary impairment of securities	(313)		(8,209)
Net gain on sale of bank-owned properties		6,040	
Other	31,911	33,512	30,943
<b>Total non-interest income (loss)</b>	<b>88,990</b>	<b>97,701</b>	<b>(62,303)</b>
<b>NON-INTEREST EXPENSE:</b>			
<b>Operating expenses:</b>			
Compensation and benefits	138,705	138,114	97,818
Occupancy and equipment	56,735	44,380	40,569
General and administrative	54,159	47,810	47,956
Other	6,763	6,317	7,289
<b>Total operating expenses</b>	<b>256,362</b>	<b>236,621</b>	<b>193,632</b>
Prepayment of borrowings	26,477		
Termination of interest rate swaps	1,132		
Amortization of core deposit intangibles	17,871	11,733	11,440
<b>Total non-interest expense</b>	<b>301,842</b>	<b>248,354</b>	<b>205,072</b>

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Income before income taxes	348,714	444,714	531,968
Income tax expense	116,129	152,629	176,882
Net income	\$ 232,585	\$ 292,085	\$ 355,086
Other comprehensive income, net of tax:			
Change in unrealized depreciation of securities, net of tax	3,732	(15,160)	(6,057)
Total comprehensive income, net of tax	\$ 236,317	\$ 276,925	\$ 349,029
Basic earnings per share	\$ 0.82	\$ 1.12	\$ 1.37
Diluted earnings per share	\$ 0.81	\$ 1.11	\$ 1.33

*See accompanying notes to the consolidated financial statements.*

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

<i>(in thousands, except share data)</i>	Years Ended December 31,		
	2006	2005	2004
<b>COMMON STOCK (Par Value: \$0.01):</b>			
Balance at beginning of year	\$ 2,734	\$ 2,734	\$ 1,949
Shares issued (21,954,484; 0; and 13,500,000, respectively)	220		101
Cash in-lieu of fractional shares			684
<b>Balance at end of year</b>	<b>2,954</b>	<b>2,734</b>	<b>2,734</b>
<b>PAID-IN CAPITAL IN EXCESS OF PAR:</b>			
Balance at beginning of year	3,012,655	3,013,241	2,565,620
Shares issued in secondary offering	314,093		399,394
Allocation of ESOP shares	9,739	35,872	8,317
Exercise of stock options (192,982)	4,705		
Tax effect of stock plans	105	2,044	30,266
Restricted stock activity	43		10,922
Shares issued		(38,502)	
Shares issued and cash in lieu of fractional shares related to stock splits			(1,278)
<b>Balance at end of year</b>	<b>3,341,340</b>	<b>3,012,655</b>	<b>3,013,241</b>
<b>RETAINED EARNINGS (partially restricted):</b>			
Balance at beginning of year	475,501	452,134	434,577
Net income	232,585	292,085	355,086
Dividends paid on common stock (\$1.00, \$1.00, and \$0.96 per share, respectively)	(286,773)	(261,063)	(250,731)
Exercise of stock options		(7,655)	(86,798)
<b>Balance at end of year</b>	<b>421,313</b>	<b>475,501</b>	<b>452,134</b>
<b>TREASURY STOCK:</b>			
Balance at beginning of year	(100,169)	(223,230)	(79,745)
Purchase of common stock (143,592; 63,203; and 9,282,614 shares, respectively)	(2,415)	(1,158)	(274,906)
Shares issued in secondary offering (2,786,498)	85,806		
Shares issued to effect merger transaction (3,600,752)		104,599	
Exercise of stock options (976,755; 1,048,607; and 4,343,233 shares, respectively)	16,780	19,620	131,421
Cash-in-lieu of fractional shares	(2)		