

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2019

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission File Number 1-31565

**NEW YORK COMMUNITY BANCORP, INC.**

(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

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

615 Merrick Avenue, Westbury, New York 11590  
(Address of principal executive offices)

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

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

Title of each class	Trading symbol(s)	Name of each exchange on which registered
Common Stock, \$0.01 par value per share Bifurcated Option Note Unit Securities <sup>SM</sup>	NYCB NYCB PU	New York Stock Exchange New York Stock Exchange
Fixed-to-Floating Rate Series A Noncumulative Perpetual Preferred Stock, \$0.01 par value	NYCB PR A	New York Stock Exchange

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 whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes  No

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

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-Accelerated filer	<input type="checkbox"/>	Smaller Reporting Company	<input type="checkbox"/>
		Emerging Growth Company	<input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

467,362,387  
Number of shares of common stock outstanding at  
August 1, 2019

NEW YORK COMMUNITY BANCORP, INC.

FORM 10-Q

Quarter Ended June 30, 2019

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## GLOSSARY

### **BASIS POINT**

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

### **BOOK VALUE PER COMMON SHARE**

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

### **BROKERED DEPOSITS**

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

### **CHARGE-OFF**

Refers to the amount of a loan balance that has been written off against the allowance for loan losses.

### **COMMERCIAL REAL ESTATE LOAN**

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

### **COST OF FUNDS**

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

### **CRE CONCENTRATION RATIO**

Refers to the sum of multi-family, non-owner occupied CRE, and acquisition, development, and construction ("ADC") loans divided by total risk-based capital.

### **DEBT SERVICE COVERAGE RATIO**

An indication of a borrower's ability to repay a loan, the DSCR generally measures the cash flows available to a borrower over the course of a year as a percentage of the annual interest and principal payments owed during that time.

### **DERIVATIVE**

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

### **DIVIDEND PAYOUT RATIO**

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

### **EFFICIENCY RATIO**

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

## **GOODWILL**

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

## **GOVERNMENT-SPONSORED ENTERPRISES**

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

## **GSE OBLIGATIONS**

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

## **INTEREST RATE 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 balance of a loan as a percentage of the appraised value of the underlying property.

## **MULTI-FAMILY LOAN**

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

## **NET INTEREST INCOME**

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

## **NET INTEREST MARGIN**

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

## **NON-ACCRUAL LOAN**

A loan generally is classified as a "non-accrual" loan when it is 90 days or more past due or when it is deemed to be impaired because we no longer expect to collect all amounts due according to the contractual terms of the loan agreement. When a loan is placed on non-accrual status, we cease the accrual of interest owed, and previously accrued interest is reversed and charged against interest income. A loan generally is returned to accrual status when the loan is current and we have reasonable assurance that the loan will be fully collectible.

## **NON-PERFORMING LOANS AND ASSETS**

Non-performing loans consist of non-accrual loans and loans that are 90 days or more past due and still accruing interest. Non-performing assets consist of non-performing loans, OREO and other repossessed assets.

## **OREO AND OTHER REPOSSESSED ASSETS**

Includes real estate owned by the Company which was acquired either through foreclosure or default. Repossessed assets are similar, except they are not real estate-related assets.

## **RENT-REGULATED APARTMENTS**

In New York City, where the vast majority of the properties securing our multi-family loans are located, the amount of rent that tenants may be charged on the apartments in certain buildings is restricted under rent-stabilization laws. Rent-stabilized apartments are generally located in buildings with six or more units that were built between February 1947 and January 1974. Rent-regulated apartments tend to be more affordable to live in because of the applicable regulations, and buildings with a preponderance of such rent-regulated apartments are therefore less likely to experience vacancies in times of economic adversity.

## **REPURCHASE AGREEMENTS**

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

## **SYSTEMICALLY IMPORTANT FINANCIAL INSTITUTION ("SIFI")**

A bank holding company with total consolidated assets that average more than \$250 billion over the four most recent quarters is designated a "Systemically Important Financial Institution" under the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") of 2010, as amended by the Economic Growth, Regulatory Relief, and Consumer Protection Act of 2018.

## **WHOLESALE BORROWINGS**

Refers to advances drawn by the Bank against its line(s) of credit with the FHLBs, their repurchase agreements with the FHLBs 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.

## LIST OF ABBREVIATIONS AND ACRONYMS

ADC - Acquisition, development, and construction loan	FHLB-NY - Federal Home Loan Bank of New York
ALCO - Asset and Liability Management Committee	FOMC - Federal Open Market Committee
AMT - Alternative minimum tax	FRB - Federal Reserve Board
AmTrust - AmTrust Bank	FRB-NY - Federal Reserve Bank of New York
AOCL - Accumulated other comprehensive loss	Freddie Mac - Federal Home Loan Mortgage Corporation
ASC - Accounting Standards Codification	FTEs - Full-time equivalent employees
ASU - Accounting Standards Update	GAAP - U.S. generally accepted accounting principles
BOLI - Bank-owned life insurance	GLBA - The Gramm Leach Bliley Act
BP - Basis point(s)	GNMA - Government National Mortgage Association
C&I - Commercial and industrial loan	GSEs - Government-sponsored enterprises
CCAR - Comprehensive Capital Analysis and Review	HQLAs - High-quality liquid assets
CDs - Certificates of deposit	LIBOR-London Interbank Offered Rate
CFPB - Consumer Financial Protection Bureau	LSA - Loss Share Agreements
CMOs - Collateralized mortgage obligations	LTV - Loan-to-value ratio
CMT - Constant maturity treasury rate	MBS – Mortgage-backed securities
CPI - Consumer Price Index	MSRs - Mortgage servicing rights
CPR - Constant prepayment rate	NIM - Net interest margin
CRA - Community Reinvestment Act	NOL - Net operating loss
CRE - Commercial real estate loan	NPAs - Non-performing assets
Desert Hills - Desert Hills Bank	NPLs - Non-performing loans
DIF - Deposit Insurance Fund	NPV - Net Portfolio Value
DFA - Dodd-Frank Wall Street Reform and Consumer Protection Act	NYSDFS - New York State Department of Financial Services
DSCR - Debt service coverage ratio	NYSE - New York Stock Exchange
EPS - Earnings per common share	OCC - Office of the Comptroller of the Currency
ERM - Enterprise Risk Management	OFAC - Office of Foreign Assets Control
ESOP - Employee Stock Ownership Plan	OREO - Other real estate owned
Fannie Mae - Federal National Mortgage Association	OTTI - Other-than-temporary impairment
FASB - Financial Accounting Standards Board	ROU – Right of use asset
FDI Act - Federal Deposit Insurance Act	SEC - U.S. Securities and Exchange Commission
FDIC - Federal Deposit Insurance Corporation	SIFI - Systemically Important Financial Institution
FHLB - Federal Home Loan Bank	TDRs - Troubled debt restructurings

**PART I. FINANCIAL INFORMATION**

**Item 1. Financial Statements**

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

(in thousands, except share data)

	<b>June 30, 2019</b>	<b>December 31, 2018</b>
	(unaudited)	
<b>Assets:</b>		
Cash and cash equivalents	\$ 1,228,295	\$ 1,474,955
Securities:		
Debt securities available-for-sale (\$1,632,038 and \$1,228,702 pledged, respectively)	5,738,146	5,613,520
Equity investments with readily determinable fair values, at fair value	<u>32,585</u>	<u>30,551</u>
Total securities	<u>5,770,731</u>	<u>5,644,071</u>
Loans and leases, net of deferred loan fees and costs	40,876,701	40,165,908
Less: Allowance for loan losses	<u>(151,112)</u>	<u>(159,820)</u>
Total loans and leases, net	40,725,589	40,006,088
Federal Home Loan Bank stock, at cost	582,348	644,590
Premises and equipment, net	327,788	346,179
Operating lease right-of-use assets	308,412	--
Goodwill	2,426,379	2,436,131
Bank-owned life insurance	987,528	977,627
Other real estate owned and other repossessed assets	11,691	10,794
Other assets	407,492	358,941
Total assets	<u><u>\$ 52,776,253</u></u>	<u><u>\$ 51,899,376</u></u>
<b>Liabilities and Stockholders' Equity:</b>		
Deposits:		
Interest-bearing checking and money market accounts	\$ 10,770,360	\$ 11,530,049
Savings accounts	4,800,023	4,643,260
Certificates of deposit	14,286,286	12,194,322
Non-interest-bearing accounts	<u>2,475,857</u>	<u>2,396,799</u>
Total deposits	<u>32,332,526</u>	<u>30,764,430</u>
Borrowed funds:		
Wholesale borrowings:		
Federal Home Loan Bank advances	11,627,661	13,053,661
Repurchase agreements	<u>800,000</u>	<u>500,000</u>
Total wholesale borrowings	12,427,661	13,553,661
Junior subordinated debentures	359,683	359,508
Subordinated notes	<u>294,794</u>	<u>294,697</u>
Total borrowed funds	<u>13,082,138</u>	<u>14,207,866</u>
Operating lease liabilities	308,073	--
Other liabilities	<u>378,838</u>	<u>271,845</u>
Total liabilities	<u>46,101,575</u>	<u>45,244,141</u>
Stockholders' equity:		
Preferred stock at par \$0.01 (5,000,000 shares authorized): Series A (515,000 shares issued and outstanding)	502,840	502,840
Common stock at par \$0.01 (900,000,000 shares authorized; 490,439,070 and 490,439,070 shares issued; and 467,358,939 and 473,536,604 shares outstanding, respectively)	4,904	4,904
Paid-in capital in excess of par	6,099,474	6,099,940
Retained earnings	316,921	297,202
Treasury stock, at cost (23,080,131 and 16,902,466 shares, respectively)	<u>(220,546)</u>	<u>(161,998)</u>
Accumulated other comprehensive loss, net of tax:		
Net unrealized gain (loss) on securities available for sale, net of tax of (\$17,372) and \$4,201, respectively	44,561	(10,534)
Net unrealized loss on the non-credit portion of OTTI losses on securities, net of tax of \$2,517 and \$2,517, respectively	<u>(6,042)</u>	<u>(6,042)</u>
Net unrealized loss on pension and post-retirement obligations, net of tax of \$25,803 and \$27,224, respectively	<u>(67,434)</u>	<u>(71,077)</u>
Total accumulated other comprehensive loss, net of tax	<u>(28,915)</u>	<u>(87,653)</u>
Total stockholders' equity	<u>6,674,678</u>	<u>6,655,235</u>
Total liabilities and stockholders' equity	<u><u>\$ 52,776,253</u></u>	<u><u>\$ 51,899,376</u></u>

See accompanying notes to the consolidated financial statements.

**NEW YORK COMMUNITY BANCORP, INC.**  
**CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME**  
(in thousands, except per share data)  
(unaudited)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2019	2018	2019	2018
<b>Interest Income:</b>				
Mortgage and other loans and leases	\$387,634	\$368,456	\$767,424	\$724,373
Securities and money market investments	66,118	48,876	132,502	97,284
Total interest income	<u>453,752</u>	<u>417,332</u>	<u>899,926</u>	<u>821,657</u>
<b>Interest Expense:</b>				
Interest-bearing checking and money market accounts	47,772	40,380	97,931	74,749
Savings accounts	8,861	6,630	16,944	13,851
Certificates of deposit	80,651	39,534	148,426	70,049
Borrowed funds	78,778	66,833	157,610	128,755
Total interest expense	<u>216,062</u>	<u>153,377</u>	<u>420,911</u>	<u>287,404</u>
Net interest income	237,690	263,955	479,015	534,253
Provision for losses on loans	1,844	4,714	622	14,285
Net interest income after provision for loan losses	<u>235,846</u>	<u>259,241</u>	<u>478,393</u>	<u>519,968</u>
<b>Non-Interest Income:</b>				
Fee income	7,487	7,492	14,715	14,819
Bank-owned life insurance	6,479	6,318	13,454	13,122
Net gain (loss) on securities	493	(303)	7,480	(769)
Other	3,138	9,199	6,733	18,391
Total non-interest income	<u>17,597</u>	<u>22,706</u>	<u>42,382</u>	<u>45,563</u>
<b>Non-Interest Expense:</b>				
Operating expenses:				
Compensation and benefits	72,573	80,314	154,013	164,289
Occupancy and equipment	21,889	25,026	44,851	49,910
General and administrative	28,590	32,802	62,955	63,050
Total non-interest expense	<u>123,052</u>	<u>138,142</u>	<u>261,819</u>	<u>277,249</u>
Income before income taxes	130,391	143,805	258,956	288,282
Income tax expense	33,145	36,451	64,133	74,376
Net income	97,246	107,354	194,823	213,906
Preferred stock dividends	8,207	8,207	16,414	16,414
Net income available to common shareholders	<u>\$ 89,039</u>	<u>\$ 99,147</u>	<u>\$178,409</u>	<u>\$197,492</u>
Basic earnings per common share	<u>\$0.19</u>	<u>\$0.20</u>	<u>\$0.38</u>	<u>\$0.40</u>
Diluted earnings per common share	<u>\$0.19</u>	<u>\$0.20</u>	<u>\$0.38</u>	<u>\$0.40</u>
Net income	\$97,246	\$107,354	\$194,823	\$213,906
Other comprehensive income (loss), net of tax:				
Change in net unrealized gain (loss) on securities available for sale, net of tax of (\$10,232); \$7,111; (\$23,100) and \$31,718, respectively	26,258	(17,119)	59,013	(48,257)
Change in the non-credit portion of OTTI losses recognized in other comprehensive income (loss), net of tax of \$0; \$0; \$0; and (\$821), respectively	--	--	--	(821)
Change in pension and post-retirement obligations, net of tax of (\$710); (\$547); (\$1,421) and (\$11,064), respectively	1,823	1,313	3,643	(7,343)
Less: Reclassification adjustment for sales of available-for-sale securities, net of tax of \$10; \$0; \$1,527 and \$0, respectively	(26)	--	(3,918)	--
Total other comprehensive income (loss), net of tax	<u>28,055</u>	<u>(15,806)</u>	<u>58,738</u>	<u>(56,421)</u>
Total comprehensive income, net of tax	<u>\$125,301</u>	<u>\$ 91,548</u>	<u>\$253,561</u>	<u>\$157,485</u>

See accompanying notes to the consolidated financial statements.



**NEW YORK COMMUNITY BANCORP, INC.**  
**CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY**  
(in thousands, except share data)  
(unaudited)

(dollars in thousands)	Shares Outstanding	Preferred Stock (Par Value: \$0.01)	Common Stock (Par Value: \$0.01)	Paid-in Capital in excess of Par	Retained Earnings	Treasury Stock, at Cost	Accumulated Other Comprehensive Loss, Net of Tax	Total Stockholders' Equity
Balance at January 1, 2019	473,536,604	\$502,840	\$ 4,904	\$ 6,099,940	\$ 297,202	\$(161,998)	\$(87,653)	\$6,655,235
Shares issued for restricted stock, net of forfeitures	1,515,760	--	--	(15,058)	--	15,058	--	--
Compensation expense related to restricted stock awards	--	--	--	7,910	--	--	--	7,910
Net income	--	--	--	--	97,577	--	--	97,577
Dividends paid on common stock (\$0.17)	--	--	--	--	(79,340)	--	--	(79,340)
Dividends paid on preferred stock (\$15.94)	--	--	--	--	(8,207)	--	--	(8,207)
Purchase of common stock	(7,816,228)	--	--	--	--	(74,788)	--	(74,788)
Other comprehensive income, net of tax	--	--	--	--	--	--	30,683	30,683
Balance at March 31, 2019	<u>467,236,136</u>	<u>\$502,840</u>	<u>\$4,904</u>	<u>\$6,092,792</u>	<u>\$307,232</u>	<u>\$(221,728)</u>	<u>\$(56,970)</u>	<u>\$6,629,070</u>
Shares issued for restricted stock, net of forfeitures	126,288	--	--	(1,221)	--	1,221	--	--
Compensation expense related to restricted stock awards	--	--	--	7,903	--	--	--	7,903
Net income	--	--	--	--	97,246	--	--	97,246
Dividends paid on common stock (\$0.17)	--	--	--	--	(79,350)	--	--	(79,350)
Dividends paid on preferred stock (\$15.94)	--	--	--	--	(8,207)	--	--	(8,207)
Purchase of common stock	(3,485)	--	--	--	--	(39)	--	(39)
Other comprehensive income, net of tax	--	--	--	--	--	--	28,055	28,055
Balance at June 30, 2019	<u>467,358,939</u>	<u>\$502,840</u>	<u>\$4,904</u>	<u>\$6,099,474</u>	<u>\$316,921</u>	<u>\$(220,546)</u>	<u>\$(28,915)</u>	<u>\$6,674,678</u>

See accompanying notes to the consolidated financial statements.

**NEW YORK COMMUNITY BANCORP, INC.**  
**CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY**  
(in thousands, except share data)  
(unaudited)

(dollars in thousands)	Shares Outstanding	Preferred Stock (Par Value: \$0.01)	Common Stock (Par Value: \$0.01)	Paid-in Capital in excess of Par	Retained Earnings	Treasury Stock, at Cost	Accumulated Other Comprehensive Loss, Net of Tax	Total Stockholders' Equity
Balance at January 1, 2018	488,490,352	\$502,840	\$ 4,891	\$ 6,072,559	\$ 237,868	\$(7,615)	\$(15,167)	\$6,795,376
Shares issued for restricted stock	2,015,663	--	13	(8,566)	--	8,553	--	--
Compensation expense related to restricted stock awards	--	--	--	9,762	--	--	--	9,762
Net income	--	--	--	--	106,552	--	--	106,552
Dividends paid on common stock (\$0.17)	--	--	--	--	(83,242)	--	--	(83,242)
Dividends paid on preferred stock (\$15.94)	--	--	--	--	(8,207)	--	--	(8,207)
Effect of adopting ASU No. 2016-01	--	--	--	--	260	--	--	260
Effect of adopting ASU No. 2018-02	--	--	--	--	2,546	--	--	2,546
Purchase of common stock	(126,483)	--	--	--	--	(1,715)	--	(1,715)
Other comprehensive loss, net of tax	--	--	--	--	--	--	(40,615)	(40,615)
Balance at March 31, 2018	<u>490,379,532</u>	<u>\$502,840</u>	<u>\$4,904</u>	<u>\$6,073,755</u>	<u>\$255,777</u>	<u>\$(777)</u>	<u>\$(55,782)</u>	<u>\$6,780,717</u>
Shares issued for restricted stock	23,940	--	--	(313)	--	313	--	--
Compensation expense related to restricted stock awards	--	--	--	8,952	--	--	--	8,952
Net income	--	--	--	--	107,354	--	--	107,354
Dividends paid on common stock (\$0.17)	--	--	--	--	(83,365)	--	--	(83,365)
Dividends paid on preferred stock (\$15.94)	--	--	--	--	(8,207)	--	--	(8,207)
Effect of adopting ASU No. 2016-01	--	--	--	--	--	--	--	--
Effect of adopting ASU No. 2018-02	--	--	--	--	--	--	--	--
Purchase of common stock	(23,767)	--	--	--	--	(293)	--	(293)
Other comprehensive loss, net of tax	--	--	--	--	--	--	(15,806)	(15,806)
Balance at June 30, 2018	<u>490,379,705</u>	<u>\$502,840</u>	<u>\$4,904</u>	<u>\$6,082,394</u>	<u>\$271,559</u>	<u>\$(757)</u>	<u>\$(71,588)</u>	<u>\$6,789,352</u>

See accompanying notes to the consolidated financial statements.

**NEW YORK COMMUNITY BANCORP, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(in thousands)  
(unaudited)

	<b>For the Six Months Ended</b>	
	<b>June 30,</b>	
	<b>2019</b>	<b>2018</b>
<b>Cash Flows from Operating Activities:</b>		
Net income	\$ 194,823	\$ 213,906
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	622	14,285
Depreciation	13,771	16,549
Amortization of discounts and premiums, net	2,403	(3,095)
Net gain on securities	(7,480))	--
Gain on trading activity	(35)	(178)
Net loss (gain) on sales of loans	31	(178)
Stock-based compensation	15,813	18,714
Deferred tax expense	19,362	4,620
Changes in operating assets and liabilities:		
(Decrease) increase in other assets <sup>(1)</sup>	(31,751)	10,140
Increase in other liabilities <sup>(2)</sup>	51,381	36,492
Purchases of securities held for trading	(22,500)	(113,615)
Proceeds from sales of securities held for trading	22,535	113,793
Proceeds from sales of loans originated for sale	--	35,258
<b>Net cash provided by operating activities</b>	<b>258,975</b>	<b>346,691</b>
<b>Cash Flows from Investing Activities:</b>		
Proceeds from repayment of securities available for sale	507,198	416,555
Proceeds from sales of securities available for sale	363,346	--
Purchase of securities available for sale	(912,974)	(1,116,898)
Redemption of Federal Home Loan Bank stock	85,349	51,139
Purchases of Federal Home Loan Bank stock	(23,107)	(100,395)
Proceeds from bank-owned life insurance	2,664	9,457
Proceeds from sales of loans	70,387	78,058
Other changes in loans, net	(790,541)	(1,149,413)
Dispositions (purchase) of premises and equipment, net	58	(7,619)
<b>Net cash used in investing activities</b>	<b>(697,620)</b>	<b>(1,819,116)</b>
<b>Cash Flows from Financing Activities:</b>		
Net increase in deposits	1,568,096	453,682
Proceeds from long-term borrowed funds	1,504,820	3,450,000
Repayments of long-term borrowed funds	(2,631,000)	(2,570,000)
Cash dividends paid on common stock	(158,690)	(166,607)
Cash dividends paid on preferred stock	(16,414)	(16,414)
Treasury stock repurchased	(67,125)	--
Payments relating to treasury shares received for restricted stock award tax payments	(7,702)	(2,008)
<b>Net cash provided by financing activities</b>	<b>191,985</b>	<b>1,148,653</b>
Net decrease in cash, cash equivalents, and restricted cash	(246,660)	(323,772)
Cash, cash equivalents, and restricted cash at beginning of period	1,474,955	2,528,169
Cash, cash equivalents, and restricted cash at end of period	<b>\$ 1,228,295</b>	<b>\$2,204,397</b>
<b>Supplemental information:</b>		
Cash paid for interest	\$380,540	\$280,653
Cash paid for income taxes	75,280	13,884
<b>Non-cash investing and financing activities:</b>		
Transfers to repossessed assets from loans	\$3,027	\$2,461
Operating lease liabilities arising from obtaining right-of-use assets as of January 1, 2019	324,360	--
Transfer of loans from held for investment to held for sale	70,418	77,880
Dispositions of premises and equipment	1,245	--
Shares issued for restricted stock awards	16,279	8,879

(1) Includes \$16.3 million of amortization of operating lease right-of-use assets for the six months ended June 30, 2019.

(2) Includes \$16.3 million of amortization of operating lease liability for the six months ended June 30, 2019.

See accompanying notes to the consolidated financial statements.

**NEW YORK COMMUNITY BANCORP, INC.**  
**NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

**Note 1. Organization and Basis of Presentation**

***Organization***

New York Community Bancorp, Inc. (on a stand-alone basis, the “Parent Company” or, collectively with its subsidiaries, the “Company”) was organized under Delaware law on July 20, 1993 and is the holding company for New York Community Bank (hereinafter referred to as the “Bank”).

Founded on April 14, 1859 and formerly known as Queens County Savings Bank, the Bank converted from a state-chartered mutual savings bank to the capital stock form of ownership on November 23, 1993, at which date the Company completed its initial offering of common stock (par value: \$0.01 per share) at a price of \$25.00 per share (\$0.93 per share on a split-adjusted basis, reflecting the impact of nine stock splits between 1994 and 2004).

The Company currently operates 239 branches through eight local divisions, each with a history of service and strength: Queens County Savings Bank, Roslyn Savings Bank, Richmond County Savings Bank, Roosevelt Savings Bank, and Atlantic Bank in New York; Garden State Community Bank in New Jersey; Ohio Savings Bank in Ohio; and AmTrust Bank in Arizona and Florida.

***Basis of Presentation***

The following is a description of the significant accounting and reporting policies that the Company and its subsidiaries follow in preparing and presenting their consolidated financial statements, which conform to U.S. generally accepted accounting principles (“GAAP”) and to general practices within the banking industry. The preparation of financial statements in conformity with GAAP requires the Company to make estimates and judgments that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Estimates that are used in connection with the determination of the allowance for loan losses and the evaluation of goodwill for impairment.

The accompanying consolidated financial statements include the accounts of the Company and other entities in which the Company has a controlling financial interest. All inter-company accounts and transactions are eliminated in consolidation. The Company currently has certain unconsolidated subsidiaries in the form of wholly-owned statutory business trusts, which were formed to issue guaranteed capital securities. See Note 7, Borrowed Funds, for additional information regarding these trusts.

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

Basic earnings per common share (“EPS”) is computed by dividing the net income available to common shareholders by the weighted average number of common shares outstanding during the period. Diluted EPS is computed using the same method as basic EPS, however, the computation reflects the potential dilution that would occur if all dilutive securities were exercised and converted into common stock.

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

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

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2019</b>	<b>2018</b>	<b>2019</b>	<b>2018</b>
(in thousands, except share and per share amounts)				
Net income available to common shareholders	\$89,039	\$99,147	\$178,409	\$197,492
Less: Dividends paid on and earnings allocated to participating securities	(1,055)	(1,267)	(2,177)	(2,524)
Earnings applicable to common stock	\$87,984	\$97,880	\$176,232	\$194,968
Weighted average common shares outstanding	465,351,586	488,530,527	465,422,251	488,336,395
Basic earnings per common share	\$0.19	\$0.20	\$0.38	\$0.40
Earnings applicable to common stock	\$87,984	\$97,880	\$176,232	\$194,968
Weighted average common shares outstanding	465,351,586	488,530,527	465,422,251	488,336,395
Potential dilutive common shares	289,851	--	145,727	--
Total shares for diluted earnings per common share computation	465,641,437	488,530,527	465,567,978	488,336,395
Diluted earnings per common share and common share equivalents	\$0.19	\$0.20	\$0.38	\$0.40

**Note 3. Reclassifications Out of Accumulated Other Comprehensive Loss**

(in thousands)	<b>For the Six Months Ended June 30, 2019</b>	
	Amount Reclassified out of Accumulated Other Comprehensive Loss <sup>(1)</sup>	Affected Line Item in the Consolidated Statements of Operations and Comprehensive Income
Details about Accumulated Other Comprehensive Loss		
Unrealized gains on available-for-sale securities	\$ 5,445	Net gain (loss) on securities
	(1,527)	Income tax benefit
	\$ 3,918	Net gain (loss) on securities, net of tax
Amortization of defined benefit pension plan items:		
Past service liability	\$ 124	Included in the computation of net periodic credit <sup>(2)</sup>
Actuarial losses	(5,080)	Included in the computation of net periodic credit <sup>(2)</sup>
	(4,956)	Total before tax
	1,390	Income tax benefit
	\$ (3,566)	Amortization of defined benefit pension plan items, net of tax
Total reclassifications for the period	\$ 352	

(1) Amounts in parentheses indicate expense items.

(2) See Note 8, "Pension and Other Post-Retirement Benefits," for additional information.

#### Note 4. Securities

The following tables summarize the Company's portfolio of debt securities available for sale and equity investments with readily determinable fair values at June 30, 2019 and December 31, 2018:

(in thousands)	<b>June 30, 2019</b>			<u>Fair Value</u>
	<u>Amortized Cost</u>	<u>Gross Unrealized Gain</u>	<u>Gross Unrealized Loss</u>	
Debt securities available-for-sale:				
Mortgage-related Debt Securities:				
GSE certificates	\$1,284,885	\$31,356	\$ 405	\$1,315,836
GSE CMOs	<u>1,438,165</u>	<u>22,222</u>	<u>1,069</u>	<u>1,459,318</u>
Total mortgage-related debt securities	<u>\$2,723,050</u>	<u>\$53,578</u>	<u>\$ 1,474</u>	<u>\$2,775,154</u>
Other Debt Securities:				
U. S. Treasury obligations	\$ 29,840	\$ 23	\$ --	\$ 29,863
GSE debentures	1,602,270	7,160	1,067	1,608,363
Asset-backed securities <sup>(1)</sup>	385,554	--	2,972	382,582
Municipal bonds	27,383	578	485	27,476
Corporate bonds	859,812	11,737	6,592	864,957
Capital trust notes	48,304	6,608	5,161	49,751
Total other debt securities	<u>\$2,953,163</u>	<u>\$26,106</u>	<u>\$16,277</u>	<u>\$2,962,992</u>
Total debt securities available for sale <sup>(2)</sup>	<u>\$5,676,213</u>	<u>\$79,684</u>	<u>\$17,751</u>	<u>\$5,738,146</u>
Equity Securities:				
Preferred stock	15,292	61	--	15,353
Mutual funds and common stock <sup>(3)</sup>	<u>16,871</u>	<u>567</u>	<u>206</u>	<u>17,232</u>
Total equity securities	<u>\$ 32,163</u>	<u>\$ 628</u>	<u>\$ 206</u>	<u>\$ 32,585</u>
Total securities	<u>\$5,708,376</u>	<u>\$80,312</u>	<u>\$17,957</u>	<u>\$5,770,731</u>

(1) The underlying assets of the asset-backed securities are substantially guaranteed by the U.S. Government.

(2) The amortized cost includes the non-credit portion of OTTI recorded in AOCL. At June 30, 2019, the non-credit portion of OTTI recorded in AOCL was \$8.6 million before taxes.

(3) Primarily consists of mutual funds that are CRA-qualified investments.

(in thousands)	<b>December 31, 2018</b>			<u>Fair Value</u>
	<u>Amortized Cost</u>	<u>Gross Unrealized Gain</u>	<u>Gross Unrealized Loss</u>	
Debt securities available-for-sale:				
Mortgage-related Debt Securities:				
GSE certificates	\$1,705,336	\$18,146	\$15,961	\$1,707,521
GSE CMOs	<u>1,248,621</u>	<u>8,380</u>	<u>4,240</u>	<u>1,252,761</u>
Total mortgage-related debt securities	<u>\$2,953,957</u>	<u>\$26,526</u>	<u>\$20,201</u>	<u>\$2,960,282</u>
Other Debt Securities:				
GSE debentures	\$1,334,549	\$ 3,366	\$ 8,988	\$1,328,927
Asset-backed securities <sup>(1)</sup>	386,768	784	430	387,122
Municipal bonds	68,551	195	2,563	66,183
Corporate bonds	836,153	8,667	23,105	821,715
Capital trust notes	48,278	6,435	5,422	49,291
Total other debt securities	<u>\$2,674,299</u>	<u>\$19,447</u>	<u>\$40,508</u>	<u>\$2,653,238</u>
Total debt securities available for sale <sup>(2)</sup>	<u>\$5,628,256</u>	<u>\$45,973</u>	<u>\$60,709</u>	<u>\$5,613,520</u>
Equity Securities:				
Preferred stock	15,292	--	1,446	13,846
Mutual funds and common stock <sup>(3)</sup>	<u>16,870</u>	<u>366</u>	<u>531</u>	<u>16,705</u>
Total equity securities	<u>\$ 32,162</u>	<u>\$ 366</u>	<u>\$ 1,977</u>	<u>\$ 30,551</u>
Total securities	<u>\$5,660,418</u>	<u>\$46,339</u>	<u>\$62,686</u>	<u>\$5,644,071</u>

(1) The underlying assets of the asset-backed securities are substantially guaranteed by the U.S. Government.

(2) The amortized cost includes the non-credit portion of OTTI recorded in AOCL. At December 31, 2018, the non-credit portion of OTTI recorded in AOCL was \$8.6 million before taxes.

(3) Primarily consists of mutual funds that are CRA-qualified investments.

At June 30, 2019 and December 31, 2018, respectively, the Company had \$582.3 million and \$644.6 million of FHLB-NY stock, at cost. The Company maintains an investment in FHLB-NY stock partly in conjunction with its membership in the FHLB and partly related to its access to the FHLB funding it utilizes.

The following table summarizes the gross proceeds and gross realized gains from the sale of available-for-sale securities during the six months ended June 30, 2019 and 2018:

	<b>For the Six Months Ended June 30,</b>	
(in thousands)	<u>2019</u>	<u>2018</u>
Gross proceeds	\$ 361,311	--
Gross realized gains	5,445	--

In the following table, the beginning balance represents the credit loss component for debt securities on which OTTI occurred prior to January 1, 2019. For credit-impaired debt securities, OTTI recognized in earnings after that date is presented as an addition in two components, based upon whether the current period is the first time a debt security was credit-impaired (initial credit impairment) or is not the first time a debt security was credit-impaired (subsequent credit impairment).

	<b>For the Six Months Ended June 30, 2019</b>
(in thousands)	
Beginning credit loss amount as of December 31, 2018	<u>\$196,187</u>
Add: Initial other-than-temporary credit losses	--
Subsequent other-than-temporary credit losses	--
Amount previously recognized in AOCL	--
Less: Realized losses for securities sold	--
Securities intended or required to be sold	--
Increase in cash flows on debt securities	31
Ending credit loss amount as of June 30, 2019	<u><u>\$196,156</u></u>

The following table summarizes, by contractual maturity, the amortized cost of securities at June 30, 2019:

	Mortgage- Related Securities	Average Yield	U.S. Government and GSE Obligations	Average Yield	State, County, and Municipal	Average Yield <sup>(1)</sup>	Other Debt Securities <sup>(2)</sup>	Average Yield	Fair Value
(dollars in thousands)									
Available-for-Sale Debt Securities:									
Due within one year	\$ --	--%	\$ 29,840	2.45%	\$ 149	6.59%	\$ 13,963	3.79%	\$ 44,042
Due from one to five years	768,275	3.30	32,874	3.48	147	6.66	154,338	3.62	977,601
Due from five to ten years	343,552	3.41	1,405,546	3.41	10,966	3.79	711,760	4.38	2,495,243
Due after ten years	1,611,223	3.22	163,850	3.66	16,121	3.22	413,609	3.22	2,221,260
Total debt securities available for sale	<u>\$2,723,050</u>	<u>3.26%</u>	<u>\$ 1,632,110</u>	<u>3.42%</u>	<u>\$27,383</u>	<u>3.49%</u>	<u>\$1,293,670</u>	<u>3.91%</u>	<u>\$5,738,146</u>

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

(2) Includes corporate bonds, capital trust notes, and asset-backed securities.

The following table presents securities having a continuous unrealized loss position for less than twelve months and for twelve months or longer as of June 30, 2019:

	Less than Twelve Months		Twelve Months or Longer		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
(in thousands)						
Temporarily Impaired Securities:						
U. S. Government agency and GSE obligations	\$ 115,529	\$ 362	\$ 68,707	\$ 705	\$ 184,236	\$ 1,067
GSE certificates	--	--	228,788	405	228,788	405
GSE CMOs	127,725	263	138,221	806	265,946	1,069
Asset-backed securities	382,583	2,972	--	--	382,583	2,972
Municipal bonds	--	--	9,745	485	9,745	485
Corporate bonds	538,772	6,548	24,647	44	563,419	6,592
Capital trust notes	--	--	38,645	5,161	38,645	5,161
Equity securities	--	--	11,600	206	11,600	206
Total temporarily impaired securities	<u>\$ 1,164,609</u>	<u>\$10,145</u>	<u>\$520,353</u>	<u>\$ 7,812</u>	<u>\$ 1,684,962</u>	<u>\$ 17,957</u>



The following table presents securities having a continuous unrealized loss position for less than twelve months and for twelve months or longer as of December 31, 2018:

<i>(in thousands)</i>	<u>Less than Twelve Months</u>		<u>Twelve Months or Longer</u>		<u>Total</u>	
	<u>Fair Value</u>	<u>Unrealized Loss</u>	<u>Fair Value</u>	<u>Unrealized Loss</u>	<u>Fair Value</u>	<u>Unrealized Loss</u>
Temporarily Impaired Securities:						
U. S. Government agency and GSE obligations	\$ 276,113	\$ 2,629	\$329,372	\$ 6,359	\$ 605,485	\$ 8,988
GSE certificates	576,970	10,598	232,969	5,363	809,939	15,961
GSE CMOs	465,779	1,892	99,050	2,348	564,829	4,240
Asset-backed securities	69,166	430	--	--	69,166	430
Municipal bonds	5,876	21	48,837	2,542	54,713	2,563
Corporate bonds	642,843	23,105	--	--	642,843	23,105
Capital trust notes	--	--	38,360	5,422	38,360	5,422
Equity securities	17,836	1,464	11,293	513	29,129	1,977
Total temporarily impaired securities	<u>\$ 2,054,583</u>	<u>\$40,139</u>	<u>\$759,881</u>	<u>\$ 22,547</u>	<u>\$ 2,814,464</u>	<u>\$ 62,686</u>

An OTTI loss on impaired debt securities must be fully recognized in earnings if an investor has the intent to sell the debt security, or if it is more likely than not that the investor will be required to sell the debt security before recovery of its amortized cost. However, even if an investor does not expect to sell a debt security, it must evaluate the expected cash flows to be received and determine if a credit loss has occurred. In the event that a credit loss occurs, only the amount of impairment associated with the credit loss is recognized in earnings. Amounts of impairment relating to factors other than credit losses are recorded in AOCL.

At June 30, 2019, the Company had unrealized losses on certain available for sale GSE obligations, municipal bonds, corporate bonds, asset-backed securities, capital trust notes, and equity investments with readily determinable fair values. The unrealized losses on the Company's GSE obligations, municipal bonds, corporate bonds, asset-backed securities and capital trust notes at June 30, 2019 were primarily caused by movements in market interest rates and spread volatility, rather than credit risk. These securities are not expected to be settled at a price that is less than the amortized cost of the Company's investment.

The Company reviews quarterly financial information related to its investments in capital trust notes, as well as other information that is released by each of the issuers of such notes, to determine their continued creditworthiness. The Company continues to monitor these investments and currently estimates that the present value of expected cash flows is not less than the amortized cost of the securities. It is possible that these securities will perform worse than is currently expected, which could lead to adverse changes in cash flows from these securities and potential OTTI losses in the future. Future events that could trigger material unrecoverable declines in the fair values of the Company's investments, and thus result in potential OTTI losses, include, but are not limited to, government intervention; deteriorating asset quality and credit metrics; significantly higher levels of default and loan loss provisions; losses in value on the underlying collateral; net operating losses; and illiquidity in the financial markets.

The unrealized losses on the Company's equity investments with readily determinable fair values at June 30, 2019 were caused by market volatility. Equity investments with readily determinable fair values are measured at fair value with changes in fair value recognized in net income, thus eliminating eligibility for the available-for-sale category. Events that could trigger a material decline in the fair value of these securities include, but are not limited to, deterioration in the equity markets; a decline in the quality of the loan portfolio of the issuer in which the Company has invested; and the recording of higher loan loss provisions and net operating losses by such issuer.

The investment securities designated as having a continuous loss position for twelve months or more at June 30, 2019 consisted of seven agency mortgage-related securities, five capital trusts notes, four US Government agency securities, three agency collateralized mortgage obligations, one corporate bond, one municipal bond, and one mutual fund. At December 31, 2018 securities designated as having a continuous loss position for twelve months or more consisted of nine agency mortgage-related securities, nine US Government agency securities, seven agency collateralized mortgage obligations, five capital trusts notes, three municipal bonds, and one mutual fund.

At June 30, 2019, the fair value of securities having a continuous loss position for twelve months or more was 1.5% below the collective amortized cost of \$528.2 million. At December 31, 2018, the fair value of such securities was 2.9% below the collective amortized cost of \$782.4 million. At June 30, 2019 and December 31, 2018, the combined market value of the respective securities represented unrealized losses of \$7.8 million and \$22.5 million, respectively.

## **Note 5. Loans and Leases**

The following table sets forth the composition of the loan and lease portfolio at the dates indicated:

(dollars in thousands)	<b>June 30, 2019</b>		<b>December 31, 2018</b>	
	<u>Amount</u>	<u>Percent of Loans Held for Investment</u>	<u>Amount</u>	<u>Percent of Loans Held for Investment</u>
Loans and Leases Held for Investment:				
Mortgage Loans:				
Multi-family	\$30,465,835	74.61%	\$29,883,919	74.46%
Commercial real estate	6,898,577	16.89	6,998,834	17.44
One-to-four family	417,605	1.03	446,094	1.11
Acquisition, development, and construction	266,282	0.65	407,870	1.02
Total mortgage loans held for investment	<u>\$38,048,299</u>	<u>93.18</u>	<u>\$37,736,717</u>	<u>94.03</u>
Other Loans:				
Commercial and industrial	1,767,472	4.33	1,705,308	4.25
Lease financing, net of unearned income of \$81,559 and \$53,891, respectively	1,009,347	2.47	683,112	1.70
Total commercial and industrial loans <sup>(1)</sup>	<u>2,776,819</u>	<u>6.80</u>	<u>2,388,420</u>	<u>5.95</u>
Other	8,328	0.02	8,724	0.02
Total other loans held for investment	<u>2,785,147</u>	<u>6.82</u>	<u>2,397,144</u>	<u>5.97</u>
Total loans and leases held for investment	<u>\$40,833,446</u>	<u>100.00%</u>	<u>\$40,133,861</u>	<u>100.00%</u>
Net deferred loan origination costs	43,255		32,047	
Allowance for losses	(151,112)		(159,820)	
Total loans and leases, net	<u>\$40,725,589</u>		<u>\$40,006,088</u>	

(1) Includes specialty finance loans and leases of \$2.3 billion and \$1.9 billion, respectively, at June 30, 2019 and December 31, 2018. Other C&I loans of \$456.1 million and \$469.9 million, respectively, at June 30, 2019 and December 31, 2018.

### ***Loans and Leases***

#### ***Loans and Leases Held for Investment***

The majority of the loans the Company originates for investment are multi-family loans, most of which are collateralized by non-luxury apartment buildings in New York City with rent-regulated units and below-market rents. In addition, the Company originates CRE loans, most of which are collateralized by income-producing properties such as office buildings, retail centers, mixed-use buildings, and multi-tenanted light industrial properties that are located in New York City and on Long Island.

To a lesser extent, the Company also originates ADC loans for investment. One-to-four family loans held for investment were originated through the Company's former mortgage banking operation and primarily consisted of jumbo prime adjustable rate mortgages made to borrowers with a solid credit history.

ADC loans are primarily originated for multi-family and residential tract projects in New York City and on Long Island. C&I loans consist of asset-based loans, equipment loans and leases, and dealer floor-plan loans (together, specialty finance loans and leases) that generally are made to large corporate obligors, many of which are publicly traded, carry investment grade or near-investment grade ratings, and participate in stable industries nationwide; and other C&I loans that primarily are made to small and mid-size businesses in Metro New York. Other C&I loans are typically made for working capital, business expansion, and the purchase of machinery and equipment.

The repayment of multi-family and CRE loans generally depends on the income produced by the underlying properties which, in turn, depends on their successful operation and management. To mitigate the potential for credit losses, the Company underwrites its loans in accordance with credit standards it considers to be prudent, looking first at the consistency of the cash flows being produced by the underlying property. In addition, multi-family buildings, CRE properties, and ADC projects are inspected as a prerequisite to approval, and independent appraisers, whose appraisals are carefully reviewed by the Company's in-house appraisers, perform appraisals on the collateral properties. In many cases, a second independent appraisal review is performed.

To further manage its credit risk, the Company's lending policies limit the amount of credit granted to any one borrower and typically require conservative debt service coverage ratios and loan-to-value ratios. Nonetheless, the ability of the Company's borrowers to repay these loans may be impacted by adverse conditions in the local real estate market and the local economy.

Accordingly, there can be no assurance that its underwriting policies will protect the Company from credit-related losses or delinquencies.

ADC loans typically involve a higher degree of credit risk than loans secured by improved or owner-occupied real estate. Accordingly, borrowers are required to provide a guarantee of repayment and completion, and loan proceeds are disbursed as construction progresses, as certified by in-house inspectors or third-party engineers. The Company seeks to minimize the credit risk on ADC loans by maintaining conservative lending policies and rigorous underwriting standards. However, if the estimate of value proves to be inaccurate, the cost of completion is greater than expected, or the length of time to complete and/or sell or lease the collateral property is greater than anticipated, the property could have a value upon completion that is insufficient to assure full repayment of the loan. This could have a material adverse effect on the quality of the ADC loan portfolio, and could result in losses or delinquencies. In addition, the Company utilizes the same stringent appraisal process for ADC loans as it does for its multi-family and CRE loans.

To minimize the risk involved in specialty finance lending and leasing, the Company participates in syndicated loans that are brought to it, and equipment loans and leases that are assigned to it, by a select group of nationally recognized sources who have had long-term relationships with its experienced lending officers. Each of these credits is secured with a perfected first security interest or outright ownership in the underlying collateral, and structured as senior debt or as a non-cancelable lease. To further minimize the risk involved in specialty finance lending and leasing, each transaction is re-underwritten. In addition, outside counsel is retained to conduct a further review of the underlying documentation.

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

Included in loans held for investment at June 30, 2019 were loans of \$35.3 million to officers, directors, and their related interests and parties. There were no loans to principal shareholders at that date.

#### *Asset Quality*

The following table presents information regarding the quality of the Company's loans held for investment at June 30, 2019:

(in thousands)	Loans			Total Past Due Loans	Current Loans	Total Loans Receivable
	Loans 30-89 Days Past Due	Non- Accrual Loans	Loans 90 Days or More Delinquent and Still Accruing Interest			
Multi-family	\$1,312	\$3,906	\$--	\$5,218	\$30,460,617	\$30,465,835
Commercial real estate	--	2,993	--	2,993	6,895,584	6,898,577
One-to-four family	1,869	1,143	--	3,012	414,593	417,605
Acquisition, development, and construction	--	--	--	--	266,282	266,282
Commercial and industrial <sup>(1) (2)</sup>	1,084	43,357	--	44,441	2,732,378	2,776,819
Other	24	15	--	39	8,289	8,328
<b>Total</b>	<b>\$4,289</b>	<b>\$51,414</b>	<b>\$--</b>	<b>\$55,703</b>	<b>\$40,777,743</b>	<b>\$40,833,446</b>

(1) Includes \$204,000 and \$32.9 million of taxi medallion-related loans that were 30 to 89 days past due and 90 days or more past due, respectively.

(2) Includes lease financing receivables, all of which were current.

The following table presents information regarding the quality of the Company's loans held for investment at December 31, 2018:

(in thousands)	Loans					
	Loans 30-89 Days Past Due	Non- Accrual Loans	Loans 90 Days or More Delinquent and Still Accruing Interest	Total Past Due Loans	Current Loans	Total Loans Receivable
Multi-family	\$ --	\$ 4,220	\$--	\$ 4,220	\$29,879,699	\$29,883,919
Commercial real estate	--	3,021	--	3,021	6,995,813	6,998,834
One-to-four family	9	1,651	--	1,660	444,434	446,094
Acquisition, development, and construction	--	--	--	--	407,870	407,870
Commercial and industrial <sup>(1) (2)</sup>	530	36,608	--	37,138	2,351,282	2,388,420
Other	25	6	--	31	8,693	8,724
<b>Total</b>	<b>\$564</b>	<b>\$45,506</b>	<b>\$--</b>	<b>\$46,070</b>	<b>\$40,087,791</b>	<b>\$40,133,861</b>

(1) Includes \$530,000 and \$35.5 million of taxi medallion-related loans that were 30 to 89 days past due and 90 days or more past due, respectively.

(2) Includes lease financing receivables, all of which were current.

The following table summarizes the Company's portfolio of loans held for investment by credit quality indicator at June 30, 2019:

(in thousands)	Mortgage Loans				Other Loans			
	Multi- Family	Commercial Real Estate	One-to- Four Family	Acquisition, Development, and Construction	Total Mortgage Loans	Commercial and Industrial <sup>(1)</sup>	Other	Total Other Loans
Credit Quality Indicator:								
Pass	\$30,212,134	\$6,797,371	\$415,704	\$215,015	\$37,640,224	\$2,700,862	\$8,064	\$2,708,926
Special mention	226,488	25,106	758	46,508	298,860	3,591	--	3,591
Substandard	27,213	76,100	1,143	4,759	109,215	72,366	264	72,630
Doubtful	--	--	--	--	--	--	--	--
<b>Total</b>	<b>\$30,465,835</b>	<b>\$6,898,577</b>	<b>\$417,605</b>	<b>\$266,282</b>	<b>\$38,048,299</b>	<b>\$2,776,819</b>	<b>\$8,328</b>	<b>\$2,785,147</b>

(1) Includes lease financing receivables, all of which were classified as Pass.

The following table summarizes the Company's portfolio of loans held for investment by credit quality indicator at December 31, 2018:

(in thousands)	Mortgage Loans				Other Loans			
	Multi- Family	Commercial Real Estate	One-to- Four Family	Acquisition, Development, and Construction	Total Mortgage Loans	Commercial and Industrial <sup>(1)</sup>	Other	Total Other Loans
Credit Quality Indicator:								
Pass	\$29,548,242	\$6,880,105	\$444,443	\$319,001	\$37,191,791	\$2,306,563	\$ 8,469	\$2,315,032
Special mention	312,025	90,653	--	73,964	476,642	19,751	--	19,751
Substandard	23,652	28,076	1,651	14,905	68,284	62,106	255	62,361
Doubtful	--	--	--	--	--	--	--	--
<b>Total</b>	<b>\$29,883,919</b>	<b>\$6,998,834</b>	<b>\$446,094</b>	<b>\$407,870</b>	<b>\$37,736,717</b>	<b>\$2,388,420</b>	<b>\$ 8,724</b>	<b>\$2,397,144</b>

(1) Includes lease financing receivables, all of which were classified as Pass.

The preceding classifications are the most current ones available and generally have been updated within the last twelve months. In addition, they follow regulatory guidelines and can generally be described as follows: pass loans are of satisfactory quality; special mention loans have potential weaknesses that deserve management's close attention; substandard loans are inadequately protected by the current net worth and paying capacity of the borrower or of the collateral pledged (these loans have a well-defined weakness and there is a possibility that the Company will sustain some loss); and doubtful loans, based on existing circumstances, have weaknesses that make collection or liquidation in full highly questionable and improbable. In addition, one-to-four family loans are classified based on the duration of the delinquency.

## Troubled Debt Restructurings

The Company is required to account for certain loan modifications and restructurings as TDRs. In general, a modification or restructuring of a loan constitutes a TDR if the Company grants a concession to a borrower experiencing financial difficulty. A loan modified as a TDR generally is placed on non-accrual status until the Company determines that future collection of principal and interest is reasonably assured, which requires, among other things, that the borrower demonstrate performance according to the restructured terms for a period of at least six consecutive months.

In an effort to proactively manage delinquent loans, the Company has selectively extended to certain borrowers concessions such as rate reductions, extension of maturity dates, and forbearance agreements. As of June 30, 2019, loans on which concessions were made with respect to rate reductions and/or extension of maturity dates amounted to \$32.9 million; loans on which forbearance agreements were reached amounted to \$9.5 million.

The following table presents information regarding the Company's TDRs as of June 30, 2019 and December 31, 2018:

(in thousands)	June 30, 2019			December 31, 2018		
	Accruing	Non-Accrual	Total	Accruing	Non-Accrual	Total
Loan Category:						
Multi-family	\$ --	\$3,906	\$3,906	\$ --	\$ 4,220	\$ 4,220
Commercial real estate	--	--	--	--	--	--
One-to-four family	--	757	757	--	1,022	1,022
Acquisition, development, and construction	4,759	--	4,759	8,297	--	8,297
Commercial and industrial <sup>(1)</sup>	865	32,135	33,000	865	20,477	21,342
Total	<u>\$5,624</u>	<u>\$36,798</u>	<u>\$42,422</u>	<u>\$9,162</u>	<u>\$25,719</u>	<u>\$34,881</u>

(1) Includes \$22.6 million and \$22.4 million of taxi medallion-related loans at June 30, 2019 and December 31, 2018, respectively.

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

The financial effects of the Company's TDRs for the three months ended June 30, 2019 and 2018 are summarized as follows:

For the Three Months Ended June 30, 2019							
(dollars in thousands)	Number of Loans	Pre-Modification Recorded Investment	Post-Modification Recorded Investment	Weighted Average Interest Rate		Charge-off Amount	Capitalized Interest
				Pre-Modification	Post-Modification		
Loan Category:							
Commercial and industrial	<u>15</u>	<u>\$19,350</u>	<u>\$ 18,004</u>	5.31%	5.45%	<u>\$ 1,346</u>	<u>\$ --</u>

  

For the Three Months Ended June 30, 2018							
(dollars in thousands)	Number of Loans	Pre-Modification Recorded Investment	Post-Modification Recorded Investment	Weighted Average Interest Rate		Charge-off Amount	Capitalized Interest
				Pre-Modification	Post-Modification		
Loan Category:							
Commercial and industrial	<u>6</u>	<u>\$ 2,613</u>	<u>\$ 1,420</u>	3.27%	3.05%	<u>\$1,158</u>	<u>\$ --</u>

The financial effects of the Company's TDRs for the six months ended June 30, 2019 and 2018 are summarized as follows:

<b>For the Six Months Ended June 30, 2019</b>							
			Weighted Average Interest Rate				
(dollars in thousands)	Number of Loans	Pre-Modification Recorded Investment	Post-Modification Recorded Investment	Pre- Modification	Post- Modification	Charge-off Amount	Capitalized Interest
Loan Category:							
Commercial and industrial	<u>30</u>	<u>\$23,544</u>	<u>\$21,092</u>	4.95 %	5.09%	<u>\$2,452</u>	<u>\$ --</u>
<b>For the Six Months Ended June 30, 2018</b>							
			Weighted Average Interest Rate				
(dollars in thousands)	Number of Loans	Pre-Modification Recorded Investment	Post-Modification Recorded Investment	Pre- Modification	Post- Modification	Charge-off Amount	Capitalized Interest
Loan Category:							
Acquisition, development, and construction	1	\$ 900	\$ 900	4.50%	4.50%	\$ --	\$ --
Commercial and industrial	<u>12</u>	<u>5,780</u>	<u>3,174</u>	3.27	3.14	<u>2,476</u>	<u>--</u>
Total	<u>13</u>	<u>\$ 6,680</u>	<u>\$ 4,074</u>			<u>\$2,476</u>	<u>\$ --</u>

At June 30, 2019, 13 C&I loans, in the amount of \$3.3 million that had been modified as a TDR during the twelve months ended at that date were in payment default. At June 30, 2018, six C&I loans in the amount of \$1.7 million that had been modified as a TDR during the twelve months ended at that date were in prepayment default.

The Company does not consider a payment to be in default when the loan is in forbearance, or otherwise granted a delay of payment, when the agreement to forebear or allow a delay of payment is part of a modification.

Subsequent to the modification, the loan is not considered to be in default until payment is contractually past due in accordance with the modified terms. However, the Company does consider a loan with multiple modifications or forbearance periods to be in default, and would also consider a loan to be in default if the borrower were in bankruptcy or if the loan were partially charged off subsequent to modification.

#### **Note 6. Allowance for Loan Losses**

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

(in thousands)	<u>Mortgage</u>	<u>Other</u>	<u>Total</u>
Allowances for Loan Losses at June 30, 2019:			
Loans collectively evaluated for impairment	<u>\$122,088</u>	<u>\$ 29,024</u>	<u>\$ 151,112</u>

(in thousands)	<u>Mortgage</u>	<u>Other</u>	<u>Total</u>
Allowances for Loan Losses at December 31, 2018:			
Loans collectively evaluated for impairment	<u>\$130,983</u>	<u>\$ 28,837</u>	<u>\$ 159,820</u>

The following tables provide additional information regarding the methods used to evaluate the Company's loan portfolio for impairment:

(in thousands)	<u>Mortgage</u>	<u>Other</u>	<u>Total</u>
Loans Receivable at June 30, 2019:			
Loans individually evaluated for impairment	\$ 11,677	\$ 43,243	\$ 54,920
Loans collectively evaluated for impairment	38,036,622	2,741,904	40,778,526
Total	<u>\$38,048,299</u>	<u>\$2,785,147</u>	<u>\$40,833,446</u>

(in thousands)	<u>Mortgage</u>	<u>Other</u>	<u>Total</u>
Loans Receivable at December 31, 2018:			
Loans individually evaluated for impairment	\$ 15,794	\$ 36,375	\$ 52,169
Loans collectively evaluated for impairment	37,720,923	2,360,769	40,081,692
Total	<u>\$37,736,717</u>	<u>\$2,397,144</u>	<u>\$40,133,861</u>

### **Allowance for Loan Losses**

The following table summarizes activity in the allowance for loan losses for the periods indicated:

(in thousands)	<u>For the Six Months Ended June 30,</u>					
	<u>2019</u>			<u>2018</u>		
	<u>Mortgage</u>	<u>Other</u>	<u>Total</u>	<u>Mortgage</u>	<u>Other</u>	<u>Total</u>
Balance, beginning of period	\$130,983	\$28,837	\$159,820	\$128,275	\$29,771	\$158,046
Charge-offs	--	(9,830)	(9,830)	(5,444)	(7,404)	(12,848)
Recoveries	22	478	500	229	940	1,169
(Recovery of) provision for losses on loans	(8,917)	9,539	622	6,637	7,648	14,285
Balance, end of period	<u>\$122,088</u>	<u>\$29,024</u>	<u>\$151,112</u>	<u>\$129,697</u>	<u>\$30,955</u>	<u>\$160,652</u>

The following table presents additional information about the Company's impaired loans at June 30, 2019:

(in thousands)	<u>Recorded Investment</u>	<u>Unpaid Principal Balance</u>	<u>Related Allowance</u>	<u>Average Recorded Investment</u>	<u>Interest Income Recognized</u>
Impaired loans with no related allowance:					
Multi-family	\$ 3,906	\$ 6,981	\$ --	\$ 3,988	\$ 127
Commercial real estate	2,255	7,371	--	2,256	--
One-to-four family	757	775	--	884	10
Acquisition, development, and construction	4,759	5,659	--	5,647	251
Other	43,243	116,108	--	38,991	1,384
Total impaired loans with no related allowance	<u>\$54,920</u>	<u>\$136,894</u>	<u>\$ --</u>	<u>\$51,766</u>	<u>\$1,772</u>
Impaired loans with an allowance recorded:					
Multi-family	\$ --	\$ --	\$ --	\$ --	\$ --
Commercial real estate	--	--	--	--	--
One-to-four family	--	--	--	--	--
Acquisition, development, and construction	--	--	--	--	--
Other	--	--	--	7,500	--
Total impaired loans with an allowance recorded	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 7,500</u>	<u>\$ --</u>
Total impaired loans:					
Multi-family	\$ 3,906	\$ 6,981	\$ --	\$ 3,988	\$ 127
Commercial real estate	2,255	7,371	--	2,256	--
One-to-four family	757	775	--	884	10
Acquisition, development, and construction	4,759	5,659	--	5,647	251
Other	43,243	116,108	--	46,491	1,384



Total impaired loans	<u>\$54,920</u>	<u>\$136,894</u>	<u>\$ --</u>	<u>\$59,266</u>	<u>\$1,772</u>
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The following table presents additional information about the Company's impaired loans at December 31, 2018:

<i>(in thousands)</i>	<b>Recorded Investment</b>	<b>Unpaid Principal Balance</b>	<b>Related Allowance</b>	<b>Average Recorded Investment</b>	<b>Interest Income Recognized</b>
Impaired loans with no related allowance:					
Multi-family	\$ 4,220	\$ 7,168	\$ --	\$ 6,114	\$ 340
Commercial real estate	2,256	7,371	--	3,234	--
One-to-four family	1,022	1,076	--	1,576	26
Acquisition, development, and construction	8,296	9,197	--	9,238	590
Other	<u>36,375</u>	<u>101,701</u>	<u>--</u>	<u>42,984</u>	<u>3,057</u>
Total impaired loans with no related allowance	<u>\$52,169</u>	<u>\$126,513</u>	<u>\$ --</u>	<u>\$63,146</u>	<u>\$4,013</u>
Impaired loans with an allowance recorded:					
Multi-family	\$ --	\$ --	\$ --	\$ --	\$ --
Commercial real estate	--	--	--	--	--
One-to-four family	--	--	--	--	--
Acquisition, development, and construction	--	--	--	--	--
Other	<u>--</u>	<u>--</u>	<u>--</u>	<u>20</u>	<u>--</u>
Total impaired loans with an allowance recorded	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 20</u>	<u>\$ --</u>
Total impaired loans:					
Multi-family	\$ 4,220	\$ 7,168	\$ --	\$ 6,114	\$ 340
Commercial real estate	2,256	7,371	--	3,234	--
One-to-four family	1,022	1,076	--	1,576	26
Acquisition, development, and construction	8,296	9,197	--	9,238	590
Other	<u>36,375</u>	<u>101,701</u>	<u>--</u>	<u>43,004</u>	<u>3,057</u>
Total impaired loans	<u>\$52,169</u>	<u>\$126,513</u>	<u>\$ --</u>	<u>\$63,166</u>	<u>\$4,013</u>

### **Note 7. Borrowed Funds**

The following table summarizes the Company's borrowed funds at the dates indicated:

<i>(in thousands)</i>	<b>June 30, 2019</b>	<b>December 31, 2018</b>
Wholesale Borrowings:		
FHLB advances	\$11,627,661	\$13,053,661
Repurchase agreements	<u>800,000</u>	<u>500,000</u>
Total wholesale borrowings	\$12,427,661	\$13,553,661
Junior subordinated debentures	359,683	359,508
Subordinated notes	<u>294,794</u>	<u>294,697</u>
Total borrowed funds	<u>\$13,082,138</u>	<u>\$14,207,866</u>

The following table summarizes the Company's repurchase agreements accounted for as secured borrowings at June 30, 2019:

<i>(in thousands)</i>	<b>Remaining Contractual Maturity of the Agreements</b>			
	<b>Overnight and Continuous</b>	<b>Up to 30 Days</b>	<b>30-90 Days</b>	<b>Greater than 90 Days</b>
GSE obligations	<u>\$--</u>	<u>\$--</u>	<u>\$--</u>	<u>\$800,000</u>

### **Subordinated Notes**

On November 6, 2018, the Company issued \$300.0 million aggregate principal amount of our 5.90% Fixed-to-Floating Rate Subordinated Notes due 2028 (the "Notes"). The Notes will mature on November 6, 2028. From and including the date of original issuance to, but excluding November 6, 2023, the Notes will bear interest at an initial rate of 5.90% per annum, payable

semi-annually in arrears on May 6 and November 6 of each year, commencing on May 6, 2019. Unless redeemed, from and including November 6, 2023 to but excluding the Maturity Date, the interest rate will reset quarterly to an annual interest rate equal to the then-current three-month LIBOR rate plus 278 basis points, payable quarterly in arrears on February 6, May 6, August 6 and November 6 of each year, commencing on February 6, 2024.

### **Junior Subordinated Debentures**

The following junior subordinated debentures were outstanding at June 30, 2019:

Issuer	Interest Rate of Capital Securities and Debentures	Junior Subordinated Debentures Amount Outstanding	Capital Securities Amount Outstanding	Date of Original Issue	Stated Maturity	First Optional Redemption Date
(dollars in thousands)						
New York Community Capital Trust V (BONUSES <sup>SM</sup> Units)	6.000%	\$145,757	\$139,406	Nov. 4, 2002	Nov. 1, 2051	Nov. 4, 2007 <sup>(1)</sup>
New York Community Capital Trust X	4.010	123,712	120,000	Dec. 14, 2006	Dec. 15, 2036	Dec. 15, 2011 <sup>(2)</sup>
PennFed Capital Trust III	5.660	30,928	30,000	June 2, 2003	June 15, 2033	June 15, 2008 <sup>(2)</sup>
New York Community Capital Trust XI	3.969	<u>59,286</u>	<u>57,500</u>	April 16, 2007	June 30, 2037	June 30, 2012 <sup>(2)</sup>
Total junior subordinated debentures		<u>\$359,683</u>	<u>\$346,906</u>			

(1) Callable subject to certain conditions as described in the prospectus filed with the SEC on November 4, 2002.

(2) Callable from this date forward.

At June 30, 2019 and December 31, 2018, the Company had \$359.7 million and \$359.5 million, respectively, of outstanding junior subordinated deferrable interest debentures (junior subordinated debentures) held by statutory business trusts (the "Trusts") that issued guaranteed capital securities.

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

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

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

	<b>For the Three Months Ended June 30,</b>			
	<b>2019</b>		<b>2018</b>	
	Pension Benefits	Post-Retirement Benefits	Pension Benefits	Post-Retirement Benefits
(in thousands)				
Components of net periodic expense (credit): <sup>(1)</sup>				
Interest cost	\$ 1,415	\$128	\$ 1,271	\$128
Expected return on plan assets	(3,483)	--	(4,035)	--
Amortization of prior-service costs	--	(62)	--	(62)
Amortization of net actuarial loss	<u>2,509</u>	<u>31</u>	<u>1,795</u>	<u>76</u>
Net periodic expense (credit)	<u>\$ 441</u>	<u>\$ 97</u>	<u>\$ (969)</u>	<u>\$142</u>

(1) Amounts are included in G&A expense on the Consolidated Statements of Income and Comprehensive Income.

	<b>For the Six Months Ended June 30,</b>			
	<b>2019</b>		<b>2018</b>	
(in thousands)	Pension Benefits	Post- Retirement Benefits	Pension Benefits	Post- Retirement Benefits
Components of net periodic expense (credit): <sup>(1)</sup>				
Interest cost	\$2,830	\$256	\$ 2,543	\$256
Expected return on plan assets	(6,966)	--	(8,071)	--
Amortization of prior-service costs	--	(124)	--	(124)
Amortization of net actuarial loss	5,018	62	3,591	153
Net periodic expense(credit)	<u>\$ 882</u>	<u>\$194</u>	<u>\$(1,937)</u>	<u>\$285</u>

(1) Amounts are included in G&A expense on the Consolidated Statements of Income and Comprehensive Income.

The Company expects to contribute \$1.2 million to its post-retirement plan to pay premiums and claims for the fiscal year ending December 31, 2019. The Company does not expect to make any contributions to its pension plan in 2019.

### **Note 9. Stock-Based Compensation**

At June 30, 2019, the Company had a total of 2,506,550 shares available for grants as options, restricted stock, or other forms of related rights under the New York Community Bancorp, Inc. 2012 Stock Incentive Plan, which was approved by the Company's shareholders at its annual meeting of shareholders held on June 7, 2012. The Company granted 1,940,798 shares of restricted stock during the six months ended June 30, 2019. The shares had an average fair value of \$10.42 per share on the date of grant and a vesting period of five years. The six-month amount includes 197,558 shares that were granted in the second quarter with an average fair value of \$11.31 per share on the date of grant. Compensation and benefits expense related to the restricted stock grants is recognized on a straight-line basis over the vesting period and totaled \$15.5 million and \$18.7 million, respectively, in the six months ended June 30, 2019 and 2018, including \$7.6 and \$9.0 million in the three months ended at those dates.

The following table provides a summary of activity with regard to restricted stock awards in the six months ended June 30, 2019:

	<u>Number of Shares</u>	<u>Weighted Average Grant Date Fair Value</u>
Unvested at beginning of year	6,904,388	\$14.74
Granted	1,940,798	10.42
Vested	(2,109,295)	15.24
Canceled	(124,250)	13.12
Unvested at end of period	<u>6,611,641</u>	13.34

As of June 30, 2019, unrecognized compensation cost relating to unvested restricted stock totaled \$79.7 million. This amount will be recognized over a remaining weighted average period of 3.2 years.

In addition, during the three months ended June 30, 2019, the Company granted 418,674 Performance-Based Restricted Stock Units ("PSUs"). The PSUs have a performance period of January 1, 2019 to December 31, 2021 and vest on April 1, 2022, subject to adjustment or forfeiture, based upon the achievement by the Company of certain performance standards. Compensation and benefits expense related to PSUs is recognized using the fair value as of the date the units were approved, on a straight-line basis over the vesting period and totaled \$278,000 for the three and six months ended June 30, 2019. As of June 30, 2019, the Company believes it is probable that the performance conditions will be met.

### **Note 10. Fair Value Measurements**

GAAP sets forth a definition of fair value, establishes a consistent framework for measuring fair value, and requires disclosure for each major asset and liability category measured at fair value on either a recurring or non-recurring basis. GAAP also clarifies that fair value is an "exit" price, representing the amount that would be received when selling an asset, or paid when transferring a liability, in an orderly transaction between market participants. Fair value is thus a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for

considering such assumptions, GAAP establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

- Level 1 – Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 – Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
- Level 3 – Inputs to the valuation methodology are significant unobservable inputs that reflect a company’s own assumptions about the assumptions that market participants use in pricing an asset or liability.

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

The following tables present assets and liabilities that were measured at fair value on a recurring basis as of June 30, 2019 and December 31, 2018, and that were included in the Company’s Consolidated Statements of Condition at those dates:

<b>Fair Value Measurements at June 30, 2019</b>					
(in thousands)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Netting Adjustments	Total Fair Value
<b>Assets:</b>					
Mortgage-related Debt Securities					
Available for Sale:					
GSE certificates	\$ --	\$ 1,315,836	\$ --	\$ --	\$ 1,315,836
GSE CMOs	--	1,459,318	--	--	1,459,318
Total mortgage-related debt securities	<u>\$ --</u>	<u>\$ 2,775,154</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 2,775,154</u>
Other Debt Securities Available for Sale:					
U. S. Treasury obligations	\$ 29,863	\$ --	\$ --	\$ --	\$ 29,863
GSE debentures	--	1,608,363	--	--	1,608,363
Asset-backed securities	--	382,582	--	--	382,582
Municipal bonds	--	27,476	--	--	27,476
Corporate bonds	--	864,957	--	--	864,957
Capital trust notes	--	49,751	--	--	49,751
Total other debt securities	<u>\$ 29,863</u>	<u>\$ 2,933,129</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 2,962,992</u>
Total debt securities available for sale	<u>\$ 29,863</u>	<u>\$ 5,708,283</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 5,738,146</u>
Equity securities:					
Preferred stock	\$ 15,353	\$ --	\$ --	\$ --	\$ 15,353
Mutual funds and common stock	--	17,232	--	--	17,232
Total equity securities	<u>\$ 15,353</u>	<u>\$ 17,232</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 32,585</u>
Total securities	<u>\$ 45,216</u>	<u>\$ 5,725,515</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 5,770,731</u>

**Fair Value Measurements at December 31, 2018**

(in thousands)	Fair Value Measurements at December 31, 2018				
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Netting Adjustments	Total Fair Value
<b>Assets:</b>					
Mortgage-related Debt Securities					
Available for Sale:					
GSE certificates	\$ --	\$1,707,521	\$ --	\$ --	\$1,707,521
GSE CMOs	--	1,252,761	--	--	1,252,761
Total mortgage-related debt securities	\$ --	\$2,960,282	\$ --	\$ --	\$2,960,282
Other Debt Securities Available for Sale:					
GSE debentures	\$ --	\$1,328,927	\$ --	\$ --	\$1,328,927
Asset-backed securities	--	387,122	--	--	387,122
Municipal bonds	--	66,183	--	--	66,183
Corporate bonds	--	821,715	--	--	821,715
Capital trust notes	--	49,291	--	--	49,291
Total other debt securities	\$ --	\$2,653,238	\$ --	\$ --	\$2,653,238
Total debt securities available for sale	\$ --	\$5,613,520	\$ --	\$ --	\$5,613,520
Equity securities:					
Preferred stock	\$ 13,846	\$ --	\$ --	\$ --	\$ 13,846
Mutual funds and common stock	--	16,705	--	--	16,705
Total equity securities	\$ 13,846	\$ 16,705	\$ --	\$ --	\$ 30,551
Total securities	\$ 13,846	\$5,630,225	\$ --	\$ --	\$5,644,071

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

A description of the methods and significant assumptions utilized in estimating the fair values of securities follows:

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

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

Periodically, the Company uses fair values supplied by independent pricing services to corroborate the fair values derived from the pricing models. In addition, the Company reviews the fair values supplied by independent pricing services, as well as their underlying pricing methodologies, for reasonableness. The Company challenges pricing service valuations that appear to be unusual or unexpected.

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

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

Certain assets are measured at fair value on a non-recurring basis. Such instruments are subject to fair value adjustments under certain circumstances (e.g., when there is evidence of impairment). The following tables present assets and liabilities that were measured at fair value on a non-recurring basis as of June 30, 2019 and December 31, 2018, and that were included in the Company's Consolidated Statements of Condition at those dates:

**Fair Value Measurements at June 30, 2019 Using**

(in thousands)	Fair Value Measurements at June 30, 2019 Using			Total Fair Value
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Certain impaired loans <sup>(1)</sup>	\$--	\$--	\$30,512	\$30,512
Other assets <sup>(2)</sup>	--	--	--	--
<b>Total</b>	<u>\$--</u>	<u>\$--</u>	<u>\$30,512</u>	<u>\$30,512</u>

(1) Represents the fair value of impaired loans, based on the value of the collateral.

(2) Represents the fair value of repossessed assets, based on the appraised value of the collateral subsequent to its initial classification as repossessed assets.

**Fair Value Measurements at December 31, 2018 Using**

(in thousands)	Fair Value Measurements at December 31, 2018 Using			Total Fair Value
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Certain impaired loans <sup>(1)</sup>	\$--	\$--	\$38,213	\$38,213
Other assets <sup>(2)</sup>	--	--	1,265	1,265
<b>Total</b>	<u>\$--</u>	<u>\$--</u>	<u>\$39,478</u>	<u>\$39,478</u>

(1) Represents the fair value of impaired loans, based on the value of the collateral.

(2) Represents the fair value of repossessed assets, based on the appraised value of the collateral subsequent to its initial classification as repossessed assets.

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

**Other Fair Value Disclosures**

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

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

The following tables summarize the carrying values, estimated fair values, and fair value measurement levels of financial instruments that were not carried at fair value on the Company's Consolidated Statements of Condition at June 30, 2019 and December 31, 2018:

(in thousands)	June 30, 2019				
	Carrying Value	Estimated Fair Value	Fair Value Measurement Using		
			Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Financial Assets:</b>					
Cash and cash equivalents	\$ 1,228,295	\$ 1,228,295	\$1,228,295	\$ --	\$ --
FHLB stock <sup>(1)</sup>	582,348	582,348	--	582,348	--
Loans and leases, net	40,725,589	40,523,888	--	--	40,523,888
<b>Financial Liabilities:</b>					
Deposits	\$32,332,526	\$32,392,499	\$18,046,240 <sup>(2)</sup>	\$ 14,346,259 <sup>(3)</sup>	\$ --
Borrowed funds	13,082,138	13,242,632	--	13,242,632	--

(1) Carrying value and estimated fair value are at cost.

(2) Interest-bearing checking and money market accounts, savings accounts, and non-interest-bearing accounts.

(3) Certificates of deposit.

(in thousands)	<b>December 31, 2018</b>				
	Carrying Value	Estimated Fair Value	Fair Value Measurement Using		
			Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Financial Assets:</b>					
Cash and cash equivalents	\$ 1,474,955	\$ 1,474,955	\$ 1,474,955	\$ --	\$ --
FHLB stock <sup>(1)</sup>	644,590	644,590	--	644,590	--
Loans and leases, net	40,006,088	39,461,985	--	--	39,461,985
<b>Financial Liabilities:</b>					
Deposits	\$30,764,430	\$30,748,729	\$18,570,108 <sup>(2)</sup>	\$ 12,178,621 <sup>(3)</sup>	\$ --
Borrowed funds	14,207,866	14,136,526	--	14,136,526	--

(1) Carrying value and estimated fair value are at cost.

(2) Interest-bearing checking and money market accounts, savings accounts, and non-interest-bearing accounts.

(3) Certificates of deposit.

The methods and significant assumptions used to estimate fair values for the Company's financial instruments follow:

#### *Cash and Cash Equivalents*

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

#### *Securities*

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

#### *Federal Home Loan Bank Stock*

Ownership in equity securities of the FHLB is generally restricted and there is no established liquid market for their resale. The carrying amount approximates the fair value.

#### *Loans*

The Company discloses the fair value of loans measured at amortized cost using an exit price notion. The Company determined the fair value on substantially all of its loans for disclosure purposes, on an individual loan basis. The discount rates reflect current market rates for loans with similar terms to borrowers having similar credit quality on an exit price basis. The estimated fair values of non-performing mortgage and other loans are based on recent collateral appraisals. For those loans where a discounted cash flow technique was not considered reliable, the Company used a quoted market price for each individual loan.

#### *Deposits*

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

#### *Borrowed Funds*

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

The fair values of commitments to extend credit and unadvanced lines of credit are estimated based on an analysis of the interest rates and fees currently charged to enter into similar transactions, considering the remaining terms of the commitments and the creditworthiness of the potential borrowers. The estimated fair values of such off-balance sheet financial instruments were insignificant at June 30, 2019 and December 31, 2018.

**Note 11. Leases**

**Lessor Arrangements**

The Company is a lessor in the equipment finance business where it has executed direct financing leases (“lease finance receivables”). The Company produces lease finance receivables through a specialty finance subsidiary that is staffed by a group of industry veterans with expertise in originating and underwriting senior securitized debt and equipment loans and leases. The subsidiary participates in syndicated loans that are brought to them, and equipment loans and leases that are assigned to them, by a select group of nationally recognized sources, and are generally made to large corporate obligors, many of which are publicly traded, carry investment grade or near-investment grade ratings, and participate in stable industries nationwide. Lease finance receivables are carried at the aggregate of lease payments receivable plus the estimated residual value of the leased assets and any initial direct costs incurred to originate these leases, less unearned income, which is accreted to interest income over the lease term using the interest method.

The standard leases are typically repayable on a level monthly basis with terms ranging from 24 to 120 months. At the end of the lease term, the lessee usually has the option to return the equipment, to renew the lease or purchase the equipment at the then fair market value (“FMV”) price. For leases with a FMV renewal/purchase option, the relevant residual value assumptions are based on the estimated value of the leased asset at the end of lease term, including evaluation of key factors, such as, the estimated remaining useful life of the leased asset, its historical secondary market value including history of the lessee executing the FMV option, overall credit evaluation and return provisions. The Company acquires the leased asset at fair market value and provide funding to the respective lessee at acquisition cost, less any volume or trade discounts, as applicable. Therefore, there is generally no selling profit or loss to recognize or defer at inception of a lease.

The residual value component of a lease financing receivable represents the estimated fair value of the leased equipment at the end of the lease term. In establishing residual value estimates, the Company may rely on industry data, historical experience, and independent appraisals and, where appropriate, information regarding product life cycle, product upgrades and competing products. Upon expiration of a lease, residual assets are remarketed, resulting in an extension of the lease by the lessee, a lease to a new customer or purchase of the residual asset by the lessee or another party. Impairment of residual values arises if the expected fair value is less than the carrying amount. The Company assesses its net investment in lease financing receivables (including residual values) for impairment on an annual basis with any impairment losses recognized in accordance with the impairment guidance for financial instruments. As such, net investment in lease financing receivables may be reduced by an allowance for credit losses with changes recognized as provision expense. On certain lease financings, the Company obtains residual value insurance from third parties to manage and reduce the risk associated with the residual value of the leased assets. The carrying value of residual assets with third-party residual value insurance for at least a portion of the asset value was \$70.4 million.

The Company uses the interest rate implicit in the lease to determine the present value of its lease financing receivables.

The components of lease income were as follows:

<i>(in thousands)</i>	<b>For the Three Months Ended June 30, 2019</b>	<b>For the Six Months Ended June 30, 2019</b>
Interest income on lease financing <sup>(1)</sup>	\$9,881	\$17,208

(1) Included in Interest Income – Mortgage and other loans and leases in the Consolidated Statements of Income and Comprehensive Income.

At June 30, 2019, the carrying value of net investment in leases was \$1.1 billion. The components of net investment in direct financing leases, including the carrying amount of the lease receivables, as well as the unguaranteed residual asset were as follows:

<i>(in thousands)</i>	<b>June 30, 2019</b>
Net investment in the lease- lease payments receivable	\$1,025,333
Net investment in the lease- unguaranteed residual assets	65,573



Total lease payments	<u>\$1,090,906</u>
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The following table presents the remaining maturity analysis of the undiscounted lease receivables as of June 30, 2019, as well as the reconciliation to the total amount of receivables recognized in the Consolidated Statements of Condition:

<i>(in thousands)</i>	<b><u>June 30, 2019</u></b>
2019	\$1,082
2020	78,245
2021	209,674
2022	172,912
2023	70,951
Thereafter	<u>558,042</u>
Total lease payments	1,090,906
Plus: deferred origination costs	16,789
Less: unearned income	<u>(81,559)</u>
Total lease finance receivables, net	<u>\$1,026,136</u>

### ***Lessee Arrangements***

The Company determines if an arrangement is a lease at inception. Operating leases are included in operating lease right-of-use assets and operating lease liabilities in the Consolidated Statements of Condition.

ROU assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent the obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. As most leases do not provide an implicit rate, the incremental borrowing rate (FHLB borrowing rate) is used based on the information available at adoption date in determining the present value of lease payments. The implicit rate is used when readily determinable. The operating lease ROU asset is measured at cost, which includes the initial measurement of the lease liability, prepaid rent and initial direct costs incurred by the Company, less incentives received. The lease terms include options to extend the lease when it is reasonably certain that we will exercise that option. For the vast majority of the Company's leases, we are reasonably certain we will exercise our options to renew to the end of all renewal option periods. As such, substantially all of our future options to extend the leases have been included in the lease liability and ROU assets.

Variable costs such as the proportionate share of actual costs for utilities, common area maintenance, property taxes and insurance are not included in the lease liability and are recognized in the period in which they are incurred. Amortization of the ROU assets was \$4.6 million and \$16.3 million for the three and six months ended June 30, 2019, respectively. Included in the six month period amount is \$11.7 million that was due to the closing of certain locations.

The Company has operating leases for corporate offices, branch locations and certain equipment. The Company's leases have remaining lease terms of one year to approximately 25 years, the vast majority of which include one or more options to extend the leases for up to five years resulting in lease terms up to 40 years.

The components of lease expense were as follows:

<i>(in thousands)</i>	<b><u>For the Three Months Ended June 30, 2019</u></b>	<b><u>For the Six Months Ended June 30, 2019</u></b>
Components of Lease Expense:		
Operating lease cost	\$7,210	\$14,558
Sublease income	<u>(43)</u>	<u>(65)</u>
Total lease cost	<u>\$7,167</u>	<u>\$14,493</u>

Supplemental cash flow information related to the leases for the following period:

<i>(in thousands)</i>	<b><u>For the Three Months Ended June 30, 2019</u></b>	<b><u>For the Six Months Ended June 30, 2019</u></b>
Cash paid for amounts included in the measurement of lease liabilities:		

Operating cash flows from operating leases

\$7,210

\$14,558

Supplemental balance sheet information related to the leases for the following period:

(in thousands, except lease term and discount rate)

	<u>June 30, 2019</u>
<b>Operating Leases:</b>	
Operating lease right-of-use assets	\$308,412
Operating lease liabilities	308,073
Weighted average remaining lease term	17 years
Weighted average discount rate	3.25%

Maturities of lease liabilities:

**Maturities of lease liabilities:**

(in thousands)

	<u>June 30, 2019</u>
2019	\$14,442
2020	28,319
2021	27,677
2022	26,971
2023	26,541
Thereafter	<u>291,362</u>
Total lease payments	415,312
Less: imputed interest	<u>(107,239)</u>
Total present value of lease liabilities	<u>\$308,073</u>

As previously disclosed in the Company's 2018 Form 10-K, under the prior guidance of ASC 840, at December 31, 2018, the Company was obligated under various non-cancelable operating lease and license agreements with renewal options on properties used primarily for branch operations. The agreements contain periodic escalation clauses that provide for increases in the annual rents, commencing at various times during the lives of the agreements, which are primarily based on increases in real estate taxes and cost-of-living indices. The remaining projected minimum annual rental commitments under these agreements, exclusive of taxes and other charges, are summarized as follows:

(in thousands)

2019	\$ 30,322
2020	23,399
2021	19,736
2022	16,552
2023 and thereafter	<u>55,525</u>
Total minimum future rentals	<u>\$145,534</u>

**Note 12. Derivative and Hedging Activities**

The Company's derivative financial instruments consist of interest rate swaps. The Company is exposed to certain risks arising from both its business operations and economic conditions. The Company principally manages its exposure to a wide variety of business and operational risks through management of its core business activities. The Company manages economic risks, including interest rate and liquidity risks, primarily by managing the amount, sources, and duration of its assets and liabilities and, from time to time, the use of derivative financial instruments. Specifically, the Company enters into derivative financial instruments to manage exposures that arise from business activities that result in the payment of future known and uncertain cash amounts, the value of which are determined by interest rates. The Company's derivative financial instruments are used to manage differences in the amount, timing, and duration of the Company's known or expected cash receipts and its known or expected cash payments principally related to the Company's pools of fixed-rate assets.

The Company is exposed to changes in the fair value of certain of its fixed-rate assets due to changes in benchmark interest rates. The Company uses interest rate swaps to manage its exposure to changes in fair value on these instruments attributable to changes in the designated benchmark interest rate. Interest rate swaps designated as fair value hedges involve the payment of fixed-rate amounts to a counterparty in exchange for the Company receiving variable-rate payments over the life of the agreements without the exchange of the underlying notional amount. Such derivatives were used to hedge the changes in fair

value of certain of its pools of prepayable fixed rate assets. For derivatives designated and that qualify as fair value hedges, the gain or loss on the derivative as well as the offsetting loss or gain on the hedged item attributable to the hedged risk are recognized in interest income.

In the first quarter of 2019, the Company entered into an interest rate swap with a notional amount of \$2.0 billion to hedge certain real estate loans. For the three and six months ended June 30, 2019, the floating rate received related to the net settlement of this interest rate swap was in excess of the fixed rate payments. As such, interest income from Mortgage and Other Loans and Leases in the accompanying Consolidated Statements of Income and Comprehensive Income was increased by \$207,000 and \$446,000 for the three and six months ended June 30, 2019, respectively.

As of June 30, 2019, the following amounts were recorded on the balance sheet related to cumulative basis adjustment for fair value hedges. The Company did not have any derivative instruments at December 31, 2018:

<i>(in thousands)</i>	<b>June 30, 2019</b>	
	<u>Carrying Amount of the Hedged Assets</u>	<u>Cumulative Amount of Fair Value Hedging Adjustments Included in the Carrying Amount of the Hedged Assets</u>
Line Item in the Consolidated Statements of Condition in which the Hedge Item is Included		
Total loans and leases, net <sup>(1)</sup>	\$2,058,354	\$58,354

- (1) These amounts include the amortized cost basis of closed portfolios used to designated hedging relationships in which the hedged item is the last layer expected to be remaining at the end of the hedging relationship. At June 30, 2019, the amortized cost basis of the closed portfolios used in these hedging relationships was \$4.6 billion; the cumulative basis adjustments associated with these hedging relationships was \$58.4 million; and the amount of the designated hedged items was \$2.0 billion.

The following table sets forth information regarding the Company's derivative financial instruments at June 30, 2019. The Company had no derivative financial instruments at December 31, 2018.

<i>(in thousands)</i>	<b>June 30, 2019</b>		
	<u>Notional Amount</u>	<u>Fair Value</u>	
		<u>Other Assets</u>	<u>Other Liabilities</u>
Derivatives designated as hedging instruments:			
Fair value hedge interest rate swap	\$2,000,000	\$ --	\$ --
Total derivatives designated as hedging instruments	<u>\$2,000,000</u>	<u>\$ --</u>	<u>\$ --</u>

Title VII of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the "Dodd-Frank Act") requires all standardized derivatives, including most interest rate swaps, to be submitted for clearing to central counterparties to reduce counterparty risk. Two of the central counterparties are the Chicago Mercantile Exchange ("CME") and the London Clearing House ("LCH"). As of June 30, 2019, all of the Company's \$2.0 billion notional derivative contracts were cleared on the LCH. Variation margin payments on derivatives cleared through the LCH are accounted for as legal settlement. For derivatives cleared through LCH, the net gain (loss) position includes the variation margin amounts as settlement of the derivative and not collateral against the fair value of the derivative.

The Company's exposure is limited to the value of the derivative contracts in a gain position less any collateral held and plus any collateral posted. When there is a net negative exposure, we consider our exposure to the counterparty to be zero. At June 30, 2019, the Company had a net negative exposure.

The following table sets forth the effect of derivative instruments on the Consolidated Statements of Income and Comprehensive Income for the periods indicated. The Company had no derivative financial instruments outstanding during 2018:

<i>(in thousands)</i>	<b>For the Three Months Ended June 30, 2019</b>	<b>For the Six Months Ended June 30, 2019</b>
Derivative – interest rate swap:		
Interest income	\$ (39,822)	\$ (58,354)
Hedged item – loans:		
Interest income	\$ 39,822	\$ 58,354

## **Note 13. Impact of Recent Accounting Pronouncements**

### **Recently Adopted Accounting Standards**

The Company adopted ASU No. 2018-16, Derivatives and Hedging (Topic 815)—Inclusion of the Secured Overnight Financing Rate (SOFR) Overnight Index Swap (OIS) Rate as a Benchmark Interest Rate for Hedge Accounting Purposes, effective on its issuance date of October 25, 2018. The purpose of ASU 2018-16 is to permit the use of the OIS rate based on SOFR as a U.S. benchmark interest rate for hedge accounting purposes under Topic 815. The amendments in ASU 2018-16 are required to be applied prospectively for qualifying new or redesignated hedging relationships entered into on or after the date of adoption. The adoption of ASU No. 2018-16 did not have a material impact on the Company's Consolidated Statements of Condition, results of operations, or cash flows.

The Company early adopted ASU No. 2018-15, Intangibles – Goodwill and Other – Internal Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement that is a Service Contract as of January 1, 2019. ASU 2018-15 aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). The accounting for the service element of a hosting arrangement that is a service contract is not affected by the amendment. The adoption of ASU 2018-15 did not have a material effect on the Company's Consolidated Statements of Condition, results of operations, or cash flows.

The Company adopted ASU No. 2017-08, Receivables—Nonrefundable Fees and Other Costs (Subtopic 310-20): Premium Amortization on Purchased Callable Debt Securities as of January 1, 2019. ASU No. 2017-08 specifies that the premium amortization period ends at the earliest call date, rather than the contractual maturity date, for purchased non-contingently callable debt securities. Shortening the amortization period is generally expected to more closely align the interest income recognition with the expectations incorporated in the market pricing of the underlying securities. The adoption of ASU No. 2017-08 on January 1, 2019 did not have a material effect on the Company's Consolidated Statements of Condition, results of operations, or cash flows.

The Company adopted ASU No. 2016-02, Leases (Topic 842), and its subsequent amendments to the ASU: ASU No. 2018-01, Leases (Topic 842): Land Easement Practical Expedient Transition to Topic 842; ASU 2018-10, Codification Improvements to Topic 842, Leases; ASU 2018-11, Leases (Topic 842): Targeted Improvements; ASU 2018-20, Narrow-Scope Improvements for Lessors; and ASU 2019-01, Leases: Codification Improvements as of January 1, 2019, using the modified retrospective approach and utilizing the effective date as its date of initial application, for which prior periods are presented in accordance with the previous guidance in ASC 840, Leases. Topic 842 is intended to improve financial reporting about leasing transactions and the key provision impacting the Company is the requirement for a lessee to record a right-of-use asset and a liability, which represents the obligation to make lease payments for long-term operating leases. Additionally, ASU 2016-02 includes quantitative and qualitative disclosures required by lessees and lessors to help financial statement users better understand the amount, timing, and uncertainty of cash flows arising from leases. Topic 842 includes a number of optional practical expedients that entities may elect to apply. The Company adopted the practical expedients of: not reevaluating whether or not a contract contains a lease; retaining current lease classification; not reassessing initial direct costs for existing leases; and not reassessing existing land easements that were not previously accounted for as leases under current lease accounting rules. Accordingly, previously reported financial statements, including footnote disclosures, have not been recast to reflect the application of ASU 2016-02 to all comparative periods presented. The adoption of ASU 2016-02, as reflected in Note 11, did not have a material impact on the Company's Consolidated Statements of Condition, results of operations, or cash flows.

### **Recently Issued Accounting Standards**

In August 2018, the FASB issued ASU 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement. The purpose of ASU 2018-13 is to improve the effectiveness of disclosures in the notes to financial statements by facilitating clear communication of the information required by GAAP that is most important to users of each entity's financial statements. The amendments in ASU 2018-13 are effective for the Company as of January 1, 2020. Early adoption is permitted and an entity is permitted to early adopt any removed or modified disclosures upon issuance of the ASU and delay adoption of the additional disclosures until their effective date. The amendments removed the disclosure requirements for transfers between Levels 1 and 2 of the fair value hierarchy, the disclosure of the policy for timing of transfers between levels of the fair value hierarchy, and the disclosure of the valuation processes for Level 3 fair value measurements. Additionally, the amendments modified the disclosure requirements for investments in certain entities that calculate net asset value and measurement uncertainty. Finally, the amendments added disclosure requirements for the changes in unrealized gains and losses included in other comprehensive income for recurring Level 3 fair value measurements and the range and weighted average of significant unobservable inputs used to develop Level 3 measurements. The amendments on

changes in unrealized gains and losses, the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements and the narrative description of measurement uncertainty should be applied prospectively for only the most recent interim or annual period presented in the initial fiscal year of adoption. All other amendments should be applied retrospectively to all periods presented upon their effective date. The adoption of ASU 2018-13 is not expected to have a material effect on the Company's Consolidated Statements of Condition, results of operations, or cash flows.

In January 2017, the FASB issued ASU No. 2017-04, Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment. ASU No. 2017-04 eliminates the second step of the goodwill impairment test which requires an entity to determine the implied fair value of the reporting unit's goodwill. Instead, an entity will recognize an impairment loss if the carrying value of the net assets assigned to the reporting unit exceeds the fair value of the reporting unit, with the impairment loss not to exceed the amount of goodwill recorded. ASU No. 2017-04 does not amend the optional qualitative assessment of goodwill impairment. The Company plans to adopt ASU No. 2017-04 prospectively beginning January 1, 2020 and the impact of its adoption on the Company's Consolidated Statements of Condition, results of operations, or cash flows will be dependent upon goodwill impairment determinations made after that date.

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. ASU No. 2016-13 amends guidance on reporting credit losses for assets held on an amortized cost basis and available-for-sale debt securities. For assets held at amortized cost, ASU No. 2016-13 eliminates the probable initial recognition threshold in current GAAP and, instead, requires an entity to reflect its current estimate of all expected credit losses. Current GAAP requires an "incurred loss" methodology for recognizing credit losses that delays recognition until it is probable a loss has been incurred. The amendments in ASU No. 2016-13 replace the incurred loss impairment methodology in current GAAP with a methodology that reflects the measurement of expected credit losses based on relevant information about past events, including historical loss experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amounts. The allowance for credit losses is a valuation account that is deducted from the amortized cost basis of the financial assets to present the net amount expected to be collected. For available-for-sale debt securities, credit losses should be measured in a manner similar to current GAAP; however, ASU No. 2016-13 will require that credit losses be presented as an allowance rather than as a write-down. The amendments affect loans, debt securities, trade receivables, off-balance sheet credit exposures, reinsurance receivables, and any other financial assets not excluded from the scope that have the contractual right to receive cash.

The Company will adopt ASU No. 2016-13 as of January 1, 2020 on a modified retrospective basis with a cumulative-effect adjustment to retained earnings as of the adoption date. However, a prospective transition approach is required for debt securities for which an OTTI had been recognized before the effective date. The effect of a prospective transition approach is to maintain the same amortized cost basis before and after the effective date of ASU No. 2016-13. Amounts previously recognized in accumulated other comprehensive income (loss) as of the date of adoption that relate to improvements in cash flows expected to be collected will continue to be accreted into income over the remaining life of the asset. Recoveries of amounts previously written off relating to improvements in cash flows after the date of adoption will be recorded in earnings when received.

The Company is evaluating ASU No. 2016-13 and has a working group with multiple members from applicable departments to evaluate the requirements of the new standard, assess loss modeling requirements consistent with lifetime expected loss estimates, and determine the impact it will have on current processes. The Company is in the process of testing its credit loss models, where applicable, and assessing additional systems that may be required. The adoption of ASU No. 2016-13 could have a material effect on the Company's Consolidated Statements of Condition and results of operations. The extent of the impact upon adoption will likely depend on the characteristics of the Company's loan portfolio and economic conditions at that date, as well as forecasted conditions thereafter.

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

### CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING LANGUAGE

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 conditional verbs such as "will," "would," "should," "could," "may," or similar expressions. Although we believe that our plans, intentions, and expectations as reflected in these forward-looking statements are reasonable, we can give no assurance that they will be achieved or realized.

Our ability to predict results or the actual effects of our plans and strategies is inherently uncertain. Accordingly, actual results, performance, or achievements could differ materially from those contemplated, expressed, or implied by the forward-looking statements contained in this report.

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

- general economic conditions, either nationally or in some or all of the areas in which we and our customers conduct our respective businesses;
- conditions in the securities markets and real estate markets or the banking industry;
- changes in real estate values, which could impact the quality of the assets securing the loans in our portfolio;
- changes in interest rates, which may affect our net income, prepayment penalty income, and other future cash flows, or the market value of our assets, including our investment securities;
- any uncertainty relating to the LIBOR calculation process and the potential phasing out of LIBOR after 2021;
- changes in the quality or composition of our loan or securities portfolios;
- changes in our capital management policies, including those regarding business combinations, dividends, and share repurchases, among others;
- heightened regulatory focus on CRE concentrations by regulators;
- changes in competitive pressures among financial institutions or from non-financial institutions;
- changes in deposit flows and wholesale borrowing facilities;
- changes in the demand for deposit, loan, and investment products and other financial services in the markets we serve;
- our timely development of new lines of business and competitive products or services in a changing environment, and the acceptance of such products or services by our customers;
- our ability to obtain timely shareholder and regulatory approvals of any merger transactions or corporate restructurings we may propose;
- our ability to successfully integrate any assets, liabilities, customers, systems, and management personnel we may acquire into our operations, and our ability to realize related revenue synergies and cost savings within expected time frames;
- potential exposure to unknown or contingent liabilities of companies we have acquired, may acquire, or target for acquisition;
- the ability to pay future dividends at currently expected rates;
- the ability to hire and retain key personnel;
- the ability to attract new customers and retain existing ones in the manner anticipated;
- changes in our customer base or in the financial or operating performances of our customers' businesses;
- any interruption in customer service due to circumstances beyond our control;
- the outcome of pending or threatened litigation, or of matters before regulatory agencies, whether currently existing or commencing in the future;
- environmental conditions that exist or may exist on properties owned by, leased by, or mortgaged to the Company;

- any interruption or breach of security resulting in failures or disruptions in customer account management, general ledger, deposit, loan, or other systems;
- operational issues stemming from, and/or capital spending necessitated by, the potential need to adapt to industry changes in information technology systems, on which we are highly dependent;
- the ability to keep pace with, and implement on a timely basis, technological changes;
- changes in legislation, regulation, policies, or administrative practices, whether by judicial, governmental, or legislative action, and other changes pertaining to banking, securities, taxation, rent regulation and housing (the Housing Stability and Tenant Protection Act of 2019), financial accounting and reporting, environmental protection, insurance, and the ability to comply with such changes in a timely manner;
- changes in the monetary and fiscal policies of the U.S. Government, including policies of the U.S. Department of the Treasury and the Board of Governors of the Federal Reserve System;
- changes in accounting principles, policies, practices, and guidelines;
- changes in our estimates of future reserves based upon the periodic review thereof under relevant regulatory and accounting requirements;
- changes in regulatory expectations relating to predictive models we use in connection with stress testing and other forecasting or in the assumptions on which such modeling and forecasting are predicated;
- changes in our credit ratings or in our ability to access the capital markets;
- natural disasters, war, or terrorist activities; and
- other economic, competitive, governmental, regulatory, technological, and geopolitical factors affecting our operations, pricing, and services.

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

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

See Part II, Item 1A, Risk Factors, in this report and Part I, Item 1A, Risk Factors, in our Form 10-K for the year ended December 31, 2018 for a further discussion of important risk factors that could cause actual results to differ materially from our forward-looking statements.

Readers should not place undue reliance on these forward-looking statements, which reflect our expectations only as of the date of this report. We do not assume any obligation to revise or update these forward-looking statements except as may be required by law.

**RECONCILIATIONS OF STOCKHOLDERS' EQUITY, COMMON STOCKHOLDERS' EQUITY,  
AND TANGIBLE COMMON STOCKHOLDERS' EQUITY;  
TOTAL ASSETS AND TANGIBLE ASSETS; AND THE RELATED MEASURES**

(unaudited)

While stockholders' equity, common stockholders' equity, total assets, and book value per common share are financial measures that are recorded in accordance with GAAP, tangible common stockholders' equity, tangible assets, and tangible book value per common share are not. It is management's belief that these non-GAAP measures should be disclosed in this report and others we issue for the following reasons:

1. Tangible common stockholders' equity is an important indication of the Company's ability to grow organically and through business combinations, as well as its ability to pay dividends and to engage in various capital management strategies.
2. Tangible book value per common share and the ratio of tangible common stockholders' equity to tangible assets are among the capital measures considered by current and prospective investors, both independent of, and in comparison with, the Company's peers.

Tangible common stockholders' equity, tangible assets, and the related non-GAAP measures should not be considered in isolation or as a substitute for stockholders' equity, common stockholders' equity, total assets, or any other measure calculated in accordance with GAAP. Moreover, the manner in which we calculate these non-GAAP measures may differ from that of other companies reporting non-GAAP measures with similar names.

Reconciliations of our stockholders' equity, common stockholders' equity, and tangible common stockholders' equity; our total assets and tangible assets; and the related financial measures for the respective periods follow:

	At or for the Three Months Ended			At or for the Six Months Ended	
	Jun. 30, 2019	Mar. 31, 2019	Jun. 30, 2018	Jun. 30, 2019	Jun. 30, 2018
(dollars in thousands)					
<b>Total Stockholders' Equity</b>	\$ 6,674,678	\$ 6,629,070	\$ 6,789,352	\$ 6,674,678	\$ 6,789,352
Less: Goodwill	(2,426,379)	(2,426,379)	(2,436,131)	(2,426,379)	(2,436,131)
Preferred stock	(502,840)	(502,840)	(502,840)	(502,840)	(502,840)
<b>Tangible common stockholders' equity</b>	<u>\$ 3,745,459</u>	<u>\$ 3,699,851</u>	<u>\$ 3,850,381</u>	<u>\$ 3,745,459</u>	<u>\$ 3,850,381</u>
<b>Total Assets</b>	\$ 52,776,253	\$ 52,149,577	\$ 50,469,170	\$ 52,776,253	\$ 50,469,170
Less: Goodwill	(2,426,379)	(2,426,379)	(2,436,131)	(2,426,379)	(2,436,131)
<b>Tangible assets</b>	<u>\$ 50,349,874</u>	<u>\$ 49,723,198</u>	<u>\$ 48,033,039</u>	<u>\$ 50,349,874</u>	<u>\$ 48,033,039</u>
<b>Average Common Stockholders' Equity</b>	\$ 6,149,275	\$ 6,104,442	\$ 6,286,326	\$ 6,126,982	\$ 6,287,024
Less: Average goodwill	(2,426,379)	(2,435,806)	(2,436,131)	(2,431,066)	(2,436,131)
<b>Average tangible common stockholders' equity</b>	<u>\$ 3,722,896</u>	<u>\$ 3,668,636</u>	<u>\$ 3,850,195</u>	<u>\$ 3,695,916</u>	<u>\$ 3,850,893</u>
<b>Average Assets</b>	\$ 52,072,326	\$ 51,617,557	\$ 49,567,386	\$ 51,846,198	\$ 49,216,789
Less: Average goodwill	(2,426,379)	(2,435,806)	(2,436,131)	(2,431,066)	(2,436,131)
<b>Average tangible assets</b>	<u>\$ 49,645,947</u>	<u>\$ 49,181,751</u>	<u>\$ 47,131,255</u>	<u>\$ 49,415,132</u>	<u>\$ 46,780,658</u>
<b>Net Income Available to Common Shareholders</b>	\$ 89,039	\$ 89,370	\$ 99,147	\$ 178,409	\$ 197,492
<b>GAAP MEASURES:</b>					
Return on average assets (1)	0.75 %	0.76 %	0.87 %	0.75 %	0.87 %
Return on average common stockholders' equity (2)	5.79	5.86	6.31	5.82	6.28
Book value per common share	\$ 13.21	\$ 13.11	\$ 12.82	\$ 13.21	\$ 12.82
Common stockholders' equity to total assets	11.69	11.75	12.46	11.69	12.46
<b>NON-GAAP MEASURES:</b>					
Return on average tangible assets (1)	0.78 %	0.79 %	0.91 %	0.79 %	0.91 %
Return on average tangible common stockholders' equity (2)	9.57	9.74	10.30	9.65	10.26
Tangible book value per common share	\$ 8.01	\$ 7.92	\$ 7.85	\$ 8.01	\$ 7.85
Tangible common stockholders' equity to tangible assets	7.44	7.44	8.02	7.44	8.02

(1) To calculate return on average assets for a period, we divide net income generated during that period by average assets recorded during that period. To calculate return on average tangible assets for a period, we divide net income by average tangible assets recorded during that period.

(2) To calculate return on average common stockholders' equity for a period, we divide net income available to common shareholders generated during that period by average common stockholders' equity recorded during that period. To calculate return on average tangible common stockholders' equity for a period, we divide net income available to common shareholders generated during that period by average tangible common stockholders' equity recorded during that period.



## **Executive Summary**

New York Community Bancorp, Inc. is the holding company for New York Community Bank. At June 30, 2019, we had total assets of \$52.8 billion, total loans of \$40.9 billion, deposits of \$32.3 billion, and total stockholders' equity of \$6.7 billion.

Chartered in the State of New York, the Community Bank is subject to regulations by the FDIC, the CFPB, and the NYSDFS. In addition, the holding company is subject to regulation by the FRB, the SEC, and to the requirements of the NYSE, where shares of our common stock are traded under the symbol "NYCB" and shares of our preferred stock trade under the symbol "NYCB PR A."

Reflecting our growth through a series of acquisitions, the Company currently operates 239 branches through eight local divisions, each with a history of service and strength: Queens County Savings Bank, Roslyn Savings Bank, Richmond County Savings Bank, Roosevelt Savings Bank, and Atlantic Bank in New York; Garden State Community Bank in New Jersey; Ohio Savings Bank in Ohio; and AmTrust Bank in Arizona and Florida.

Now in our 26th year as a publicly traded company, our mission is to provide our shareholders with a solid return on their investment by producing a strong financial performance, adhering to conservative underwriting standards, maintaining a solid capital position, and engaging in corporate strategies that enhance the value of our shares.

The Company reported net income for the three months ended June 30, 2019 of \$97.2 million, relatively unchanged from the \$97.6 million reported for the three months ended March 31, 2019. On a year-to-date basis, net income was \$194.8 million, down 9% compared to the first six months of 2018.

Net income available to common shareholders for the second quarter of 2019 was \$89.0 million, or \$0.19 per common share, compared to \$89.4 million, also \$0.19 per common share for the first quarter of 2019. For the six months ended June 30, 2019, net income available to common shareholders totaled \$178.4 million, or \$0.38 per common share, compared to \$197.5 million or \$0.40 per common share for the six months ended June 30, 2018.

The key trends in the quarter were:

### ***Solid Loan Growth Including in the Multi-family Portfolio***

Total loans, net were \$40.7 billion at June 30, 2019, up \$719.5 million, or 4% annualized, compared to the balance at December 31, 2018. On a year-to-date basis, this quarter's loan growth was driven by our multi-family portfolio and our C&I loan portfolio, consisting largely of specialty finance loans, offset by a modest decline in the commercial real estate ("CRE") portfolio.

Total multi-family loans rose \$581.9 million in the first six months of 2019, or 4% annualized, while total C&I loans increased \$388.4 million, or 33% annualized, over the same time period. The growth in the C&I portfolio was largely driven by our specialty finance business. Specialty finance loans grew \$402.2 million, or 42% annualized, to \$2.3 billion compared to December 31, 2018.

### ***Continued Strong Deposit Growth***

The Company continues to execute on its strategy to organically grow our deposit base. For the six months ended June 30, 2019, total deposits increased \$1.6 billion, or 10% annualized. Similar to prior quarters, our deposit growth this quarter was largely focused in certificates of deposit ("CDs"). CDs increased \$2.1 billion, or 34% annualized for the first six months of the year, along with modest growth in savings accounts and non-interest bearing accounts.

During the current second quarter, total deposits grew \$731.4 million, or 9% annualized, compared to the prior quarter. Again, this was led by double digit growth in CDs, which increased \$1.5 billion, or 48% annualized. On a linked-quarter basis, interest bearing checking and money market accounts, as well as non-interest bearing accounts both declined, while savings accounts rose modestly.

### ***Operating Expenses Keep Declining***

Total non-interest expense for the three months ended June 30, 2019 was \$123.1 million, down \$15.7 million, or 11% on a linked-quarter basis. Our operating expenses during the first quarter of 2019 included certain items related to severance costs and branch rationalization, which totaled \$9.0 million. For the six months ended June 30, 2019, total non-interest expenses declined \$15.4 million, or 6%, to \$261.8 million. The efficiency ratio for the current second quarter was 48.20% compared to 52.15% in the first quarter of the year.

## ***NIM Stabilizing***

The NIM for the second quarter of 2019 was 2.00%, down three basis points compared to the first quarter 2019 NIM. The modest decrease was driven by higher funding costs and was offset somewhat by higher yields on our loan portfolio. Prepayment income for the second quarter was \$12.6 million, up 32% from the \$9.6 million recorded in the first quarter of 2019, contributing 11 basis points to this quarter's NIM, up three basis points from the previous quarter. Excluding the impact from prepayment income, our second quarter NIM would have been 1.89%, on a non-GAAP basis, down six basis points compared to the previous quarter.

## **Recent Events**

### ***Declaration of Dividend on Common Shares***

On July 30, 2019, our Board of Directors declared a quarterly cash dividend on the Company's common stock of \$0.17 per share. The dividend is payable on August 26, 2019 to common shareholders of record as of August 12, 2019.

### ***Status of LIBOR Transition Process***

On July 27, 2017, the U.K. Financial Conduct Authority (FCA), which regulates LIBOR, announced that it will no longer persuade or compel banks to submit rates for the calculation of LIBOR after 2021. Accordingly, the FRB has recommended an alternative index dubbed the Secured Overnight Financing Act or "SOFR". The Bank has established a sub-committee of its ALCO to address issues related to the phase-out and ultimate transition away from LIBOR to SOFR. This sub-committee is led by our ERM group and consists of personnel from various departments throughout the Bank including lending, loan administration, credit risk management, IT, finance/treasury, IT and operations. The sub-committee is currently reviewing and evaluating procedures, loan documentation, and IT systems, among other items, needed to implement the changeover.

## **Critical Accounting Policies**

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

We have identified the following to be critical accounting policies: the determination of the allowances for loan losses; and the determination of the amount, if any, of goodwill impairment.

The judgments used by management in applying these critical accounting policies may be influenced by adverse changes in the economic environment, which may result in changes to future financial results.

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

The allowance for loan losses represents our estimate of probable and estimable losses inherent in the loan portfolio as of the date of the balance sheet. Losses on loans are charged against, and recoveries of losses on loans are credited back to, the allowance for loan losses.

The methodology used for the allocation of the allowance for loan losses at June 30, 2019 and December 31, 2018 was generally comparable, whereby the Bank segregated their loss factors (used for both criticized and non-criticized loans) into a component that was primarily based on historical loss rates and a component that was primarily based on other qualitative factors that are probable to affect loan collectability. In determining the allowance for loan losses, management considers the Bank's current business strategies and credit processes, including compliance with applicable regulatory guidelines and with guidelines approved by the Boards of Directors with regard to credit limitations, loan approvals, underwriting criteria, and loan workout procedures.

The allowance for loan losses is established based on management's evaluation of incurred losses in the portfolio in accordance with GAAP, and is comprised of both specific valuation allowances and a general valuation allowance.

Specific valuation allowances are established based on management's analyses of individual loans that are considered impaired. If a loan is deemed to be impaired, management measures the extent of the impairment and establishes a specific valuation allowance for that amount. A loan is classified as impaired when, based on current information and/or events, it is probable that we will be unable to collect all amounts due under the contractual terms of the loan agreement. We apply this classification as necessary to loans individually evaluated for impairment in our portfolios. Smaller-balance homogenous loans and loans carried at the lower of cost or fair value are evaluated for impairment on a collective, rather than individual, basis.

Loans to certain borrowers who have experienced financial difficulty and for which the terms have been modified, resulting in a concession, are considered TDRs and are classified as impaired.

We primarily measure impairment on an individual loan and determine the extent to which a specific valuation allowance is necessary by comparing the loan's outstanding balance to either the fair value of the collateral, less the estimated cost to sell, or the present value of expected cash flows, discounted at the loan's effective interest rate. Generally, when the fair value of the collateral, net of the estimated cost to sell, or the present value of the expected cash flows is less than the recorded investment in the loan, any shortfall is promptly charged off.

We also follow a process to assign the general valuation allowance to loan categories. The general valuation allowance is established by applying our loan loss provisioning methodology, and reflect the inherent risk in outstanding held-for-investment loans. This loan loss provisioning methodology considers various factors in determining the appropriate quantified risk factors to use to determine the general valuation allowance. The factors assessed begin with the historical loan loss experience for each major loan category. We also take into account an estimated historical loss emergence period (which is the period of time between the event that triggers a loss and the confirmation and/or charge-off of that loss) for each loan portfolio segment.

The allocation methodology consists of the following components: First, we determine an allowance for loan losses based on a quantitative loss factor for loans evaluated collectively for impairment. This quantitative loss factor is based primarily on historical loss rates, after considering loan type, historical loss and delinquency experience, and loss emergence periods. The quantitative loss factors applied in the methodology are periodically re-evaluated and adjusted to reflect changes in historical loss levels, loss emergence periods, or other risks. Lastly, we allocate an allowance for loan losses based on qualitative loss factors. These qualitative loss factors are designed to account for losses that may not be provided for by the quantitative loss component due to other factors evaluated by management, which include, but are not limited to:

- Changes in lending policies and procedures, including changes in underwriting standards and collection, and charge-off and recovery practices;
- Changes in international, national, regional, and local economic and business conditions and developments that affect the collectability of the portfolio, including the condition of various market segments;
- Changes in the nature and volume of the portfolio and in the terms of loans;
- Changes in the volume and severity of past-due loans, the volume of non-accrual loans, and the volume and severity of adversely classified or graded loans;
- Changes in the quality of our loan review system;
- Changes in the value of the underlying collateral for collateral-dependent loans;
- The existence and effect of any concentrations of credit, and changes in the level of such concentrations;
- Changes in the experience, ability, and depth of lending management and other relevant staff; and
- The effect of other external factors, such as competition and legal and regulatory requirements, on the level of estimated credit losses in the existing portfolio.

By considering the factors discussed above, we determine an allowance for loan losses that is applied to each significant loan portfolio segment to determine the total allowance for loan losses.

The historical loss period we use to determine the allowance for loan losses on loans is a rolling 34-quarter look-back period, as we believe this produces an appropriate reflection of our historical loss experience.

The process of establishing the allowance for losses on loans also involves:

- Periodic inspections of the loan collateral by qualified in-house and external property appraisers/inspectors;
- Regular meetings of executive management with the pertinent Board committees, during which observable trends in the local economy and/or the real estate market are discussed;
- Assessment of the aforementioned factors by the pertinent members of the Board of Directors and management when making a business judgment regarding the impact of anticipated changes on the future level of loan losses; and
- Analysis of the portfolio in the aggregate, as well as on an individual loan basis, taking into consideration payment history, underwriting analyses, and internal risk ratings.

In order to determine their overall adequacy, the loan loss allowance is reviewed quarterly by management Board Committees and the Board of Directors of the Bank, as applicable.

We charge off loans, or portions of loans, in the period that such loans, or portions thereof, are deemed uncollectible. The collectability of individual loans is determined through an assessment of the financial condition and repayment capacity of the borrower and/or through an estimate of the fair value of any underlying collateral. For non-real estate-related consumer credits, the following past-due time periods determine when charge-offs are typically recorded: (1) closed-end credits are charged off in the quarter that the loan becomes 120 days past due; (2) open-end credits are charged off in the quarter that the loan becomes 180 days past due; and (3) both closed-end and open-end credits are typically charged off in the quarter that the credit is 60 days past the date we received notification that the borrower has filed for bankruptcy.

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

An allowance for unfunded commitments is maintained separate from the allowance for loan losses and is included in Other liabilities in the Consolidated Statements of Condition.

See Note 6, Allowances for Loan Losses for a further discussion of our allowance for loan losses.

### ***Goodwill Impairment***

We have significant intangible assets related to goodwill. In connection with our acquisitions, assets acquired and liabilities assumed are recorded at their estimated fair values. Goodwill represents the excess of the purchase price of our acquisitions over the fair value of identifiable net assets acquired, including other identified intangible assets. Our goodwill is evaluated for impairment annually as of year-end or more frequently if conditions exist that indicate that the value may be impaired. We test our goodwill for impairment at the reporting unit level. These impairment evaluations are performed by comparing the carrying value of the goodwill of a reporting unit to its estimated fair value. We allocate goodwill to reporting units based on the reporting unit expected to benefit from the business combination. We had previously identified two reporting units: our Banking Operations reporting unit and our Residential Mortgage Banking reporting unit. On September 29, 2017, the Company sold the Residential Mortgage Banking reporting unit. Our reporting unit is the same as our operating segment and reportable segment. If we change our strategy or if market conditions shift, our judgments may change, which may result in adjustments to the recorded goodwill balance.

For annual goodwill impairment testing, we have the option to first perform a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount, including goodwill and other intangible assets. If we conclude that this is the case, we must perform the two-step test described below. If we conclude based on the qualitative assessment that it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, we have completed our goodwill impairment test and do not need to perform the two-step test.

Step one requires the fair value of each reporting unit is compared to its carrying value in order to identify potential impairment. If the fair value of a reporting unit exceeds the carrying value of its net assets, goodwill is not considered impaired and no further testing is required. If the carrying value of the net assets exceeds the fair value of a reporting unit, potential impairment is indicated at the reporting unit level and step two of the impairment test is performed.

Step two requires that when potential impairment is indicated in step one, we compare the implied fair value of goodwill with the carrying amount of that goodwill. Determining the implied fair value of goodwill requires a valuation of the reporting unit's tangible and (non-goodwill) intangible assets and liabilities in a manner similar to the allocation of the purchase price in a business combination. Any excess in the value of a reporting unit over the amounts assigned to its assets and liabilities is referred to as the implied fair value of goodwill. If the carrying amount of the reporting unit goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to that excess.

As of June 30, 2019, we had goodwill of \$2.4 billion. During the quarter ended June 30, 2019, no triggering events were identified that indicated that the value of goodwill may be impaired. The Company performed its annual goodwill impairment assessment as of December 31, 2018 using step one of the quantitative test and found no indication of goodwill impairment at that date.

### **Balance Sheet Summary**

Total assets as of June 30, 2019 were \$52.8 billion, an increase of \$876.9 million, or 3% annualized, compared to our total assets at December 31, 2018. The year-to-date increase was driven by continued growth in our loan portfolio, with both the

multi-family and C&I segments increasing, and to a lesser degree, growth in the securities portfolio. As was the case last quarter, this quarter's growth was funded via continued strong growth in our deposits, while the level of borrowed funds declined.

Total loans held for investment increased \$710.8 million, or 4% on an annualized basis, compared to the balance at December 31, 2018. Second quarter loan growth occurred in two categories: our core multi-family portfolio and our specialty finance portfolio, which is classified as C&I.

While it has been one of our strategies to redeploy a portion of our cash position into securities, given the extraordinarily low interest rate environment in place during much of the second quarter, we did not reinvest in securities as much as in the past. As a result, our overall cash position increased \$238.3 million, or 24% to \$1.2 billion, compared to the previous quarter, while the securities portfolio remained relatively unchanged compared to the previous quarter. Year-to-date, total deposits increased \$1.6 billion, or 10% annualized, while total borrowed funds declined \$1.1 billion, or 16% annualized, to \$13.1 billion, compared to \$14.2 billion at December 31, 2018.

Total loans, net were \$40.7 billion at June 30, 2019, up \$719.5 million, or 4% annualized, compared to the balance at December 31, 2018. On a year-to-date basis, this quarter's loan growth was driven by our multi-family portfolio and our C&I loan portfolio, consisting largely of specialty finance loans, offset by a modest decline in the CRE portfolio.

Total multi-family loans rose \$581.9 million in the first six months of 2019, or 4% annualized, while total C&I loans increased \$388.4 million, or 33% annualized, over the same time period. The growth in the C&I portfolio was largely driven by our specialty finance business. Specialty finance loans grew \$402.2 million, or 42% annualized, to \$2.3 billion compared to December 31, 2018. On a linked-quarter, multi-family loans increased \$533.0 million, or 7% annualized, and C&I loans rose \$71.8 million, or 11% annualized.

The Company continues to execute on its strategy to organically grow our deposit base. For the six months ended June 30, 2019, total deposits increased \$1.6 billion, or 10% annualized. Similar to prior quarters, our deposit growth this quarter was largely focused in CDs. CDs increased \$2.1 billion, or 34% annualized for the first six months of the year, along with modest growth in savings accounts and non-interest bearing accounts.

During the current second quarter, total deposits grew \$731.4 million, or 9% annualized, compared to the prior quarter. Again, this was led by double digit growth in CDs, which increased \$1.5 billion, or 48% annualized. On a linked-quarter basis, interest bearing checking and money market accounts, as well as non-interest bearing accounts both declined, while savings accounts rose modestly.

At June 30, 2019, total borrowed funds were \$13.1 billion, down \$1.1 billion, or 16% annualized, compared to \$14.2 billion at December 31, 2018 and down \$175.8 million, or 5% annualized, on a linked-quarter basis. The entire decline was attributable to a decline in wholesale borrowings, specifically Federal Home Loan Bank of New York advances.

Total stockholders' equity at June 3, 2019, was \$6.7 billion relatively unchanged compared to the balance at December 31, 2018. Common stockholders' equity to total assets was 11.69% compared to 11.85% at December 31, 2018. The modest decline was due to balance sheet growth during the first half of 2019. Book value per common share was to \$13.21 at June 30, 2019 compared to \$12.99 at December 31, 2018.

Excluding goodwill of \$2.4 billion, tangible common stockholders' equity totaled \$3.7 billion at June 30, 2019, also relatively unchanged compared to December 31, 2018. Tangible common stockholders' equity to tangible assets was 7.44% compared to 7.51% at December 31, 2018. Tangible book value per common share at March 31, 2019 was \$8.01 compared to \$7.85 at December 31, 2018.

## **Loans and Leases**

### ***Loans and Leases Held for Investment***

The majority of the loans we produce are loans and leases held for investment and most of the held-for-investment loans we produce are multi-family loans. Our production of multi-family loans began five decades ago in the five boroughs of New York City, where the majority of the rental units currently consist of non-luxury, rent-regulated apartments featuring below-market rents. In addition to multi-family loans, our portfolio of loans held for investment contains a large number of CRE loans, most of which are secured by income-producing properties located in New York City and Long Island.

In addition to multi-family and CRE loans, our portfolio includes smaller balances of one-to-four family loans, ADC loans, and other loans held for investment, with C&I loans comprising the bulk of the other loan portfolio. Specialty finance loans and

leases account for the majority of our C&I loans, with the remainder consisting primarily of loans to small- and mid-size businesses, referred to as other C&I loans.

During the second quarter of 2019, we originated \$3.0 billion of held-for-investment loans, up 47% from the \$2.0 billion we originated in first quarter 2019 and up 1% from the amount we originated in the second quarter of 2018. The linked-quarter increase was primarily due to increases in multi-family and CRE originations, while the year-over-year increase was driven by CRE and specialty finance loan originations. Multi-family originations during the second quarter were \$1.8 billion, up 78% compared to \$1.0 billion in the first quarter, but down 13% compared to the year-ago second quarter. CRE originations were \$382.9 million, up 85% and 50%, respectively, compared to the prior and year-ago quarters. Specialty finance loan originations totaled \$677.3 million, down 1% on a linked quarter basis, but up 39% on a year-over-year basis.

For the first six months of 2019, the Company originated \$5.0 billion in new loans, down 7% compared to the \$5.4 billion it originated for the first six months of 2018. Multi-family originations declined 26% to \$2.8 billion, but that decrease was partially offset by a 37% increase in CRE originations to \$590.1 million and a 54% increase in specialty finance originations to \$1.4 billion.

The following table presents information about the loans held for investment we originated for the respective periods:

(in thousands)	For the Three Months Ended			For the Six Months Ended	
	June 30, 2019	March 31, 2019	June 30, 2018	June 30, 2019	June 30, 2018
<b>Mortgage Loans Originated for Investment:</b>					
Multi-family	\$1,800,659	\$1,009,351	\$2,070,222	\$2,810,010	\$3,776,433
Commercial real estate	382,915	207,209	254,808	590,124	431,950
One-to-four family residential	1,554	3,209	--	4,763	2,699
Acquisition, development, and construction	9,242	12,024	13,804	21,266	29,125
Total mortgage loans originated for investment	<u>\$2,194,370</u>	<u>\$1,231,793</u>	<u>\$2,338,834</u>	<u>\$3,426,163</u>	<u>\$4,240,207</u>
<b>Other Loans Originated for Investment:</b>					
Specialty finance	\$ 677,345	\$ 685,611	\$ 486,890	\$1,362,956	\$ 883,779
Other commercial and industrial	104,178	104,947	119,449	209,125	237,063
Other	1,230	920	1,322	2,150	2,200
Total other loans originated for investment	<u>\$ 782,753</u>	<u>\$ 791,478</u>	<u>\$ 607,661</u>	<u>\$1,574,231</u>	<u>\$1,123,042</u>
Total loans originated for investment	<u>\$2,977,123</u>	<u>\$2,023,271</u>	<u>\$2,946,495</u>	<u>\$5,000,394</u>	<u>\$5,363,249</u>

The individual held-for-investment loan portfolios are discussed in detail below.

#### Multi-Family Loans

Multi-family loans are our principal asset. The loans we produce are primarily secured by non-luxury residential apartment buildings in New York City that are rent-regulated and feature below-market rents—a market we refer to as our Primary Lending Niche. The majority of our multi-family loans are made to long-term owners of buildings with apartments that are subject to rent regulation and feature below-market rents.

At June 30, 2019 multi-family loans represented \$30.5 billion, or 75%, of total loans held for investment reflecting a \$581.9 million increase from the balance at December 31, 2018. The average multi-family loan had a principal balance of \$6.2 million at the end of the current second quarter and an average weighted life of 2.1 years.

At June 30, 2019, \$18.4 billion or 60% of the Company's total multi-family portfolio is secured by properties in New York State and subject to the new rent regulation laws. The weighted average LTV of the \$18.4 billion rent regulated multi-family portfolio was 54.04% as of June 30, 2019.

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

While a small percentage of our multi-family loans are ten-year fixed rate credits, the vast majority of our multi-family loans feature a term of ten or twelve years, with a fixed rate of interest for the first five or seven years of the loan, and an alternative rate of interest in years six through ten or eight through twelve. The rate charged in the first five or seven years is

generally based on intermediate-term interest rates plus a spread. During the remaining years, the loan resets to an annually adjustable rate that is tied to the prime rate of interest, plus a spread. Alternately, the borrower may opt for a fixed rate that is tied to the five-year fixed advance rate of the FHLB-NY, plus a spread. The fixed-rate option also requires the payment of one percentage point of the then-outstanding loan balance. In either case, the minimum rate at repricing is equivalent to the rate in the initial five-or seven-year term.

Multi-family loans that refinance within the first five or seven years are typically subject to an established prepayment penalty schedule. Depending on the remaining term of the loan at the time of prepayment, the penalties normally range from five percentage points to one percentage point of the then-current loan balance. If a loan extends past the fifth or seventh year and the borrower selects the fixed-rate option, the prepayment penalties typically reset to a range of five points to one point over years six through ten or eight through twelve. For example, a ten-year multi-family loan that prepays in year three would generally be expected to pay a prepayment penalty equal to three percentage points of the remaining principal balance. A twelve-year multi-family loan that prepays in year one or two would generally be expected to pay a penalty equal to five percentage points.

Because prepayment penalties are recorded as interest income, they are reflected in the average yields on our loans and interest-earning assets, our net interest rate spread and net interest margin, and the level of net interest income we record. No assumptions are involved in the recognition of prepayment income, as such income is only recorded when cash is received.

Our success as a multi-family lender partly reflects the solid relationships we have developed with the market's leading mortgage brokers, who are familiar with our lending practices, our underwriting standards, and our long-standing practice of basing our loans on the existing, in-place cash flows produced by the properties. The process of producing such loans is generally four to six weeks in duration and, because the multi-family market is largely broker-driven, the expense incurred in sourcing such loans is substantially reduced.

At June 30, 2019, the majority of our multi-family loans were secured by rental apartment buildings. In addition, 77.8% of our multi-family loans were secured by buildings in the metro New York City area and 3.6% were secured by buildings elsewhere in New York State. The remaining multi-family loans were secured by buildings outside these markets, including in the four other states served by our retail branch offices.

Our emphasis on multi-family loans is driven by several factors, including their structure, which reduces our exposure to interest rate volatility to some degree. Another factor driving our focus on multi-family lending has been the comparative quality of the loans we produce. Reflecting the nature of the buildings securing our loans, our underwriting standards, and the generally conservative LTV ratios our multi-family loans feature at origination, a relatively small percentage of the multi-family loans that have transitioned to non-performing status have actually resulted in losses, even when the credit cycle has taken a downward turn.

We primarily underwrite our multi-family loans based on the current cash flows produced by the collateral property, with a reliance on the "income" approach to appraising the properties, rather than the "sales" approach. The sales approach is subject to fluctuations in the real estate market, as well as general economic conditions, and is therefore likely to be more risky in the event of a downward credit cycle turn. We also consider a variety of other factors, including the physical condition of the underlying property; the net operating income of the mortgaged premises prior to debt service; the DSCR, 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 (i.e., the LTV) of the property.

In addition to requiring a minimum DSCR of 120% on multi-family buildings, we obtain a security interest in the personal property located on the premises, and an assignment of rents and leases. Our multi-family loans generally represent no more than 75% of the lower of the appraised value or the sales price of the underlying property, and typically feature an amortization period of 30 years. In addition, some of our multi-family loans may contain an initial interest-only period which typically does not exceed two years; however, these loans are underwritten on a fully amortizing basis.

Accordingly, while our multi-family lending niche has not been immune to downturns in the credit cycle, the limited number of losses we have recorded, even in adverse credit cycles, suggests that the multi-family loans we produce involve less credit risk than certain other types of loans. In general, buildings that are subject to rent regulation have tended to be stable, with occupancy levels remaining more or less constant over time. Because the rents are typically below market and the buildings securing our loans are generally maintained in good condition, they have been more likely to retain their tenants in adverse economic times. In addition, we exclude any short-term property tax exemptions and abatement benefits the property owners receive when we underwrite our multi-family loans.

### *Commercial Real Estate Loans*

CRE loans represented \$6.9 billion, or 17%, of total loans held for investment at the end of the current second quarter, a 100.3 million decrease from the balance at December 31, 2018. At June 30, 2019, the average CRE loan had a principal balance of \$6.2 million and the average weighted life was 2.4 years.

The CRE loans we produce are secured by income-producing properties such as office buildings, retail centers, mixed-use buildings, and multi-tenanted light industrial properties. At June 30, 2019, 85.8% of our CRE loans were secured by properties in the metro New York City area, while properties in other parts of New York State accounted for 3.0% of the properties securing our CRE credits, while all other states accounted for 11.2%, combined.

The terms of our CRE loans are similar to the terms of our multi-family credits. While a small percentage of our CRE loans feature ten-year fixed-rate terms, they primarily feature a fixed rate of interest for the first five or seven years of the loan that is generally based on intermediate-term interest rates plus a spread. During years six through ten or eight through twelve, the loan resets to an annually adjustable rate that is tied to the prime rate of interest, plus a spread. Alternately, the borrower may opt for a fixed rate that is tied to the five-year fixed advance rate of the FHLB-NY plus a spread. The fixed-rate option also requires the payment of an amount equal to one percentage point of the then-outstanding loan balance. In either case, the minimum rate at repricing is equivalent to the rate in the initial five- or seven-year term.

Prepayment penalties apply to our CRE loans, as they do our multi-family credits. Depending on the remaining term of the loan at the time of prepayment, the penalties normally range from five percentage points to one percentage point of the then-current loan balance. If a loan extends past the fifth or seventh year and the borrower selects the fixed rate option, the prepayment penalties typically reset to a range of five points to one point over years six through ten or eight through twelve. Our CRE loans tend to refinance within two to three years of origination, as reflected in the expected weighted average life of the CRE portfolio noted above.

The repayment of loans secured by commercial real estate is often dependent on the successful operation and management of the underlying properties. To minimize our credit risk, we originate CRE loans in adherence with conservative underwriting standards, and require that such loans qualify on the basis of the property's current income stream and DSCR. The approval of a loan also depends on the borrower's credit history, profitability, and expertise in property management, and generally requires a minimum DSCR of 130% and a maximum LTV of 65%. In addition, the origination of CRE loans typically requires a security interest in the fixtures, equipment, and other personal property of the borrower and/or an assignment of the rents and/or leases. In addition, our CRE loans may contain an interest-only period which typically does not exceed three years; however, these loans are underwritten on a fully amortizing basis.

### *Acquisition, Development, and Construction Loans*

The balance of ADC loans declined \$141.6 million from December 31, 2018 representing 0.7% of total held-for-investment loans at the current second-quarter end. Because ADC loans are generally considered to have a higher degree of credit risk, especially during a downturn in the credit cycle, borrowers are required to provide a guarantee of repayment and completion. We had no recoveries against guarantees for the six months ended June 30, 2019.

### *C&I Loans*

Our C&I loans are divided into two categories: specialty finance loans and leases and other C&I loans, as further described below.

#### *Specialty Finance Loans and Leases*

At June 30, 2019, specialty finance loans and leases represented \$2.3 billion of total loans held for investment, up \$402.2 million compared to December 31, 2018.

We produce our specialty finance loans and leases through a subsidiary that is staffed by a group of industry veterans with expertise in originating and underwriting senior securitized debt and equipment loans and leases. The subsidiary participates in syndicated loans that are brought to them, and equipment loans and leases that are assigned to them, by a select group of nationally recognized sources, and are generally made to large corporate obligors, many of which are publicly traded, carry investment grade or near-investment grade ratings, and participate in stable industries nationwide.

The specialty finance loans and leases we fund fall into three categories: asset-based lending, dealer floor-plan lending, and equipment loan and lease financing. Each of these credits is secured with a perfected first security interest in, or outright ownership of, the underlying collateral, and structured as senior debt or as a non-cancelable lease. Asset-based and dealer floor-



plan loans are priced at floating rates predominately tied to LIBOR, while our equipment financing credits are priced at fixed rates at a spread over Treasuries.

Since launching our specialty finance business in the third quarter of 2013, no losses have been recorded on any of the loans or leases in this portfolio.

#### Other C&I Loans

In the three months ended June 30, 2019, other C&I loans totaled \$456.1 million compared to \$469.9 million at December 31, 2018. Included in the quarter-end balance were taxi medallion-related loans of \$65.3 million, representing 0.16% of total held-for-investment loans at June 30, 2019.

In contrast to the loans produced by our specialty finance subsidiary, the other C&I loans we produce are primarily made to small and mid-size businesses in the five boroughs of New York City and on Long Island. Such loans are tailored to meet the specific needs of our borrowers, and include term loans, demand loans, revolving lines of credit, and, to a much lesser extent, loans that are partly guaranteed by the Small Business Administration.

A broad range of other C&I loans, both collateralized and unsecured, are made available to businesses for working capital (including inventory and accounts receivable), business expansion, the purchase of machinery and equipment, and other general corporate needs. In determining the term and structure of other C&I loans, several factors are considered, including the purpose, the collateral, and the anticipated sources of repayment. Other C&I loans are typically secured by business assets and personal guarantees of the borrower, and include financial covenants to monitor the borrower's financial stability.

The interest rates on our other C&I loans can be fixed or floating, with floating-rate loans being tied to prime or some other market index, plus an applicable spread. Our floating-rate loans may or may not feature a floor rate of interest. The decision to require a floor on other C&I loans depends on the level of competition we face for such loans from other institutions, the direction of market interest rates, and the profitability of our relationship with the borrower.

#### *One-to-Four Family Loans*

At June 30, 2019, one-to-four family loans held for investment decreased to \$417.6 million, representing 1.0% of total loans held for investment at that date.

#### *Other Loans*

At June 30, 2019, other loans totaled \$8.3 million and consisted primarily of overdraft loans and loans to non-profit organizations. We currently do not offer home equity loans or home equity lines of credit.

#### *Lending Authority*

The loans we originate for investment are subject to federal and state laws and regulations, and are underwritten in accordance with loan underwriting policies approved by the Management Credit Committee, the Commercial Credit Committee and the Mortgage and Real Estate and Credit Committees of the Board, and the Board of Directors of the Bank.

C&I loans less than or equal to \$3.0 million are approved by the joint authority of lending officers. C&I loans in excess of \$3.0 million and all multifamily, CRE, ADC and Specialty Finance loans regardless of amount are required to be presented to the Management Credit Committee for approval. Multifamily, CRE and C&I loans in excess of \$5.0 million and Specialty finance in excess of \$15.0 million are also required to be presented to the Commercial Credit Committee and the Mortgage and Real Estate Committee of the Board, as applicable so that the Committees can review the loan's associated risks. The Commercial Credit and Mortgage and Real Estate Committees have authority to direct changes in lending practices as they deem necessary or appropriate in order to address individual or aggregate risks and credit exposures in accordance with the Bank's strategic objectives and risk appetites.

All mortgage loans in excess of \$50.0 million, specialty finance loans in excess of \$15.0 million and all other C&I loans in excess of \$5.0 million require approval by the Mortgage and Real Estate Committee or the Credit Committee of the Board, as applicable.

In addition, all loans of \$20.0 million or more originated by the Bank continue to be reported to the Board of Directors.

At June 30, 2019, the largest loan in our portfolio was a \$246.0 million multi-family loan originated by the Bank on February 8, 2018 collateralized by six properties in Brooklyn, New York. As of the date of this report, the loan has been current since origination.

### Geographical Analysis of the Portfolio of Loans Held for Investment

The following table presents a geographical analysis of the multi-family and CRE loans in our held-for-investment loan portfolio at June 30, 2019:

(dollars in thousands)	At June 30, 2019			
	Multi-Family Loans		Commercial Real Estate Loans	
	Amount	Percent of Total	Amount	Percent of Total
New York City:				
Manhattan	\$ 7,762,435	25.48%	\$3,287,333	47.65%
Brooklyn	5,276,569	17.32	539,660	7.82
Bronx	3,956,892	12.99	120,696	1.75
Queens	2,508,057	8.23	600,183	8.70
Staten Island	82,115	0.27	54,567	0.79
Total New York City	<u>\$19,586,068</u>	<u>64.29%</u>	<u>\$4,602,439</u>	<u>66.71%</u>
New Jersey	3,555,746	11.67	502,906	7.29
Long Island	551,021	1.81	816,294	11.83
Total Metro New York	<u>\$23,692,835</u>	<u>77.77%</u>	<u>\$5,921,639</u>	<u>85.83%</u>
Other New York State	1,101,011	3.61	204,623	2.97
All other states	5,671,989	18.62	772,315	11.20
Total	<u>\$30,465,835</u>	<u>100.00%</u>	<u>\$6,898,577</u>	<u>100.00%</u>

At June 30, 2019, the largest concentration of ADC loans held for investment was located in New York City, with a total of \$210.2 million. The majority of our other loans held for investment were secured by properties and/or businesses located in Metro New York.

### Outstanding Loan Commitments

At June 30, 2019, we had outstanding loan commitments of \$2.2 billion, up \$151.3 million from the level at December 31, 2018.

Multi-family, CRE, and ADC loans together represented \$626.4 million of held-for-investment loan commitments at the end of the quarter, while other loans represented \$1.6 billion. Included in the latter amount were commitments to originate specialty finance loans and leases of \$1.1 billion and commitments to originate other C&I loans of \$326.7 million.

In addition to loan commitments, we had commitments to issue financial stand-by, performance stand-by, and commercial letters of credit totaling \$503.2 million at June 30, 2019, a \$5.0 million decrease from the volume at December 31, 2018. 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.

### Asset Quality

#### Loans Held for Investment and Repossessed Assets

Total NPAs declined 12% compared to the first quarter of this year, to \$63.1 million, as the level of both non-accrual loans and repossessed assets declined. Total non-performing loans also declined 12% to \$51.4 million, or 0.13% of total loans. Included in this amount is \$32.9 million of non-accrual taxi medallion-related loans. Total repossessed assets declined 8% to \$11.7 million. Included in this amount is \$9.7 million of repossessed taxi medallions. As of June 30, 2019, our remaining taxi medallion-related loans totaled \$65.3 million, compared to \$69.6 million at March 31, 2019.

Net charge-offs for the three months ended June 30, 2019 totaled \$7.4 million or 0.02% of average loans, up \$5.4 million compared to \$2.0 million or 0.00% of average loans for the three months ended March 31, 2019. The linked-quarter increase was due to the partial charge-off of a C&I loan related to one borrower which became non-accrual last quarter. Net charge-offs for the six months ended June 30, 2019 totaled \$9.3 million or 0.02% of average loans, down \$2.4 million or 20% compared to \$11.7

million or 0.03% of average loans for the six months ended June 30, 2018. In addition to the one C&I-related charge-off, the first six months of 2019 included \$4.0 million of taxi medallion-related charge-offs compared to \$7.4 million for the first six months of 2018.

The following table presents our non-performing loans by loan type and the changes in the respective balances from December 31, 2018 to June 30, 2019:

	June 30, 2019	December 31, 2018	Change from December 31, 2018 to June 30, 2019	
			Amount	Percent
(dollars in thousands)				
<b>Non-Performing Loans:</b>				
Non-accrual mortgage loans:				
Multi-family	\$3,906	\$4,220	\$(314)	(7.44)%
Commercial real estate	2,993	3,021	(28)	(0.93)
One-to-four family	1,143	1,651	(508)	(30.77)
Acquisition, development, and construction	--	--	--	--
Total non-accrual mortgage loans	8,042	8,892	(850)	(9.56)
Non-accrual other loans <sup>(1)</sup>	43,372	36,614	6,758	18.46
Total non-performing loans	<u>\$51,414</u>	<u>\$45,506</u>	<u>\$5,908</u>	12.98%

(1) Includes \$32.9 million and \$35.5 million of non-accrual taxi medallion-related loans at June 30, 2019 and December 31, 2018, respectively.

The following table sets forth the changes in non-performing loans over the six months ended June 30, 2019:

(in thousands)	
Balance at December 31, 2018	\$ 45,506
New non-accrual	26,487
Charge-offs	(6,095)
Transferred to repossessed assets	(3,129)
Loan payoffs, including dispositions and principal pay-downs	(11,355)
Restored to performing status	--
Balance at June 30, 2019	<u>\$ 51,414</u>

A loan generally is classified as a non-accrual loan when it is 90 days or more past due or when it is deemed to be impaired because we no longer expect to collect all amounts due according to the contractual terms of the loan agreement. 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. At June 30, 2019 and December 31, 2018, all of our non-performing loans were non-accrual loans. A loan is generally returned to accrual status when the loan is current and we have reasonable assurance that the loan will be fully collectible.

We monitor non-accrual loans both within and beyond our primary lending area, which is defined as including: (a) the counties that comprise our CRA Assessment area, and (b) the entirety of the following states: Arizona; Florida; New York; New Jersey; Ohio; and Pennsylvania, in the same manner. Monitoring loans generally involves inspecting and re-appraising the collateral properties; holding discussions with the principals and managing agents of the borrowing entities and/or retained legal counsel, as applicable; requesting financial, operating, and rent roll information; confirming that hazard insurance is in place or force-placing such insurance; monitoring tax payment status and advancing funds as needed; and appointing a receiver, whenever possible, to collect rents, manage the operations, provide information, and maintain the collateral properties.

It is our policy to order updated appraisals for all non-performing loans, irrespective of loan type, that are collateralized by multi-family buildings, CRE properties, or land, in the event that such a loan is 90 days or more past due, and if the most recent appraisal on file for the property is more than one year old. Appraisals are ordered annually until such time as the loan becomes performing and is returned to accrual status. It is not our policy to obtain updated appraisals for performing loans. However, appraisals may be ordered for performing loans when a borrower requests an increase in the loan amount, a modification in loan terms, or an extension of a maturing loan. We do not analyze current LTVs on a portfolio-wide basis.

Non-performing loans are reviewed regularly by management and discussed on a monthly basis with the Management Credit Committee, the Commercial and the Mortgage and Real Estate Credit Committees of the Board, and the Boards of Directors of the Company and the Bank, as applicable. Collateral-dependent non-performing loans are written down to their current appraised values, less certain transaction costs. Workout specialists from our Loan Workout Unit actively pursue borrowers who are delinquent in repaying their loans in an effort to collect payment. In addition, outside counsel with experience in foreclosure proceedings are retained to institute such action with regard to such borrowers.

Properties and assets that are acquired through foreclosure are classified as either OREO or repossessed assets, and are recorded at fair value at the date of acquisition, less the estimated cost of selling the property/asset. Subsequent declines in the fair value of OREO or repossessed assets are charged to earnings and are included in non-interest expense. It is our policy to require an appraisal and an environmental assessment of properties classified as OREO before foreclosure, and to re-appraise the properties/assets on an as-needed basis, and not less than annually, until they are sold. We dispose of such properties/assets as quickly and prudently as possible, given current market conditions and the property's or asset's condition.

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

The condition of the collateral property is another critical factor. Multi-family buildings and CRE properties are inspected from rooftop to basement as a prerequisite to approval, with a member of the Mortgage or Credit Committee participating in inspections on multi-family loans to be originated in excess of \$7.5 million, and a member of the Mortgage or Credit Committee participating in inspections on CRE loans to be originated in excess of \$4.0 million. Furthermore, independent appraisers, whose appraisals are carefully reviewed by our experienced in-house appraisal officers and staff, perform appraisals on collateral properties. In many cases, a second independent appraisal review is performed.

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

Reflecting the strength of the underlying collateral for these loans and the collateral structure, a relatively small percentage of our non-performing multi-family loans have resulted in losses over time.

To further manage our credit risk, our lending policies limit the amount of credit granted to any one borrower, and typically require minimum DSCRs of 120% for multi-family loans and 130% for CRE loans. Although we typically lend up to 75% of the appraised value on multi-family buildings and up to 65% on commercial properties, the average LTVs of such credits at origination were below those amounts at June 30, 2019. Exceptions to these LTV limitations are minimal and are reviewed on a case-by-case basis.

The repayment of loans secured by commercial real estate is often dependent on the successful operation and management of the underlying properties. To minimize our credit risk, we originate CRE loans in adherence with conservative underwriting standards, and require that such loans qualify on the basis of the property's current income stream and DSCR. The approval of a CRE loan also depends on the borrower's credit history, profitability, and expertise in property management. Given that our CRE loans are underwritten in accordance with underwriting standards that are similar to those applicable to our multi-family credits, the percentage of our non-performing CRE loans that have resulted in losses has been comparatively small over time.

Multi-family and CRE loans are generally originated at conservative LTVs and DSCRs, as previously stated. Low LTVs provide a greater likelihood of full recovery and reduce the possibility of incurring a severe loss on a credit; in many cases, they reduce the likelihood of the borrower "walking away" from the property. Although borrowers may default on loan payments, they have a greater incentive to protect their equity in the collateral property and to return their loans to performing status. Furthermore, in the case of multi-family loans, the cash flows generated by the properties are generally below-market and have significant value.

With regard to ADC loans, we typically lend up to 75% of the estimated as-completed market value of multi-family and residential tract projects; however, in the case of home construction loans to individuals, the limit is 80%. With respect to commercial construction loans, we typically lend up to 65% of the estimated as-completed market value of the property. Credit

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

To minimize the risk involved in specialty finance lending and leasing, each of our credits is secured with a perfected first security interest or outright ownership in the underlying collateral, and structured as senior debt or as a non-cancellable lease. To further minimize the risk involved in specialty finance lending and leasing, we re-underwrite each transaction. In addition, we retain outside counsel to conduct a further review of the underlying documentation.

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

In addition, one-to-four family loans, ADC loans, and other loans represented 1.0%, 0.65%, and 6.8%, respectively, of total loans and leases held for investment at June 30, 2019, comparable to, or consistent with, the levels at December 31, 2018. Furthermore, at the end of the current second quarter, only 1.6% of our other loans and 0.27% of one-to-four family loans were non-performing at that date, while we had no non-performing ADC loans.

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

The following table presents our loans 30 to 89 days past due by loan type and the changes in the respective balances from December 31, 2018 to June 30, 2019:

	June 30, 2019	December 31, 2018	Change from December 31, 2018 to June 30, 2019	
			Amount	Percent
(dollars in thousands)				
<b>Loans 30-89 Days Past Due:</b>				
Multi-family	\$ 1,312	\$ --	\$1,312	NM%
Commercial real estate	--	--	--	--
One-to-four family	1,869	9	1,860	NM
Acquisition, development, and construction	--	--	--	--
Other loans <sup>(1)</sup>	<u>1,108</u>	<u>555</u>	<u>553</u>	99.64
Total loans 30-89 days past due	<u>\$4,289</u>	<u>\$ 564</u>	<u>\$3,725</u>	660.46%

(1) Includes \$204,000 and \$530,000 of non-accrual taxi medallion-related loans at June 30, 2019 and December 31, 2018, respectively.

Fair values for all multi-family buildings, CRE properties, and land are determined based on the appraised value. If an appraisal is more than one year old and the loan is classified as either non-performing or as an accruing TDR, then an updated appraisal is required to determine fair value. Estimated disposition costs are deducted from the fair value of the property to determine estimated net realizable value. In the instance of an outdated appraisal on an impaired loan, we adjust the original appraisal by using a third-party index value to determine the extent of impairment until an updated appraisal is received.

While we strive to originate loans that will perform fully, adverse economic and market conditions, among other factors, can adversely impact a borrower's ability to repay.

Reflecting management's assessment of the allowance for loan losses, the Company reported a provision for loan losses of \$1.8 million compared to a recovery of loan losses of \$1.2 million in the previous quarter. On a year-to-date basis, the Company reported a provision for loan losses of \$622,000 compared to a provision for loan losses of \$14.3 million in the first half of 2018.

Based upon all relevant and available information as of the end of the current second quarter, management believes that the allowance for losses on loans was appropriate at that date.

At June 30, 2019, our three largest non-performing loans were two C&I loans with balances of \$7.2 million and \$3.0 million, and a multi-family loan with a balance of \$3.9 million. The borrower with the \$7.2 million non-performing loan also has a \$2.0 million non-performing loan as part of his relationship.

#### *Troubled Debt Restructurings*

In an effort to proactively manage delinquent loans, we have selectively extended to certain borrowers such concessions as rate reductions and extensions of maturity dates, as well as forbearance agreements, when such borrowers have exhibited financial difficulty. In accordance with GAAP, we are required to account for such loan modifications or restructurings as TDRs.

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

Loans modified as TDRs are placed on non-accrual status until we determine that future collection of principal and interest is reasonably assured. This generally requires that the borrower demonstrate performance according to the restructured terms for at least six consecutive months. At June 30, 2019, non-accrual TDRs included taxi medallion-related loans with a combined balance of \$22.6 million.

At June 30, 2019, loans on which concessions were made with respect to rate reductions and/or extensions of maturity dates totaled \$32.9 million; loans in connection with which forbearance agreements were reached totaled \$9.5 million at that date.

Based on the number of loans performing in accordance with their revised terms, our success rates for restructured multi-family loans, and ADC loans were 100%. The success rates for restructured one-to-four family and other loans were 67% and 82%, respectively, at June 30, 2019.

#### **Analysis of Troubled Debt Restructurings**

The following table sets forth the changes in our TDRs over the six months ended June 30, 2019:

(in thousands)	<u>Accruing</u>	<u>Non-Accrual</u>	<u>Total</u>
Balance at December 31, 2018	\$ 9,162	\$ 25,719	\$34,881
New TDRs	865	20,482	21,347
Charge-offs	--	(5,893)	(5,893)
Transferred to repossessed assets	--	(189)	(189)
Loan payoffs, including dispositions and principal pay-downs	(4,403)	(3,321)	(7,724)
Balance at June 30, 2019	<u>\$ 5,624</u>	<u>\$36,798</u>	<u>\$42,422</u>

On a limited basis, we may provide additional credit to a borrower after a loan has been placed on non-accrual status or classified as a TDR if, in management's judgment, the value of the property after the additional loan funding is greater than the initial value of the property plus the additional loan funding amount. During the six months ended June 30, 2019, no such additions were made. Furthermore, the terms of our restructured loans typically would not restrict us from cancelling outstanding commitments for other credit facilities to a borrower in the event of non-payment of a restructured loan.

Except for the non-accrual loans and TDRs disclosed in this filing, we did not have any potential problem loans at the end of the current second quarter that would have caused management to have serious doubts as to the ability of a borrower to comply with present loan repayment terms and that would have resulted in such disclosure if that were the case.

## Asset Quality Analysis

The following table presents information regarding our consolidated allowance for loan losses, our non-performing assets, and our 30 to 89 days past due loans at June 30, 2019 and December 31, 2018.

(dollars in thousands)	<u>At or For the Six Months Ended June 30, 2019</u>	<u>At or For the Year Ended December 31, 2018</u>
<b>Allowance for Loan Losses:</b>		
Balance at beginning of period	\$159,820	\$158,046
Provision for losses	622	18,256
Charge-offs:		
Multi-family	--	(34)
Commercial real estate	--	(3,191)
One-to-four family residential	--	--
Acquisition, development, and construction	--	(2,220)
Other loans	(9,830)	(12,897)
Total charge-offs	(9,830)	(18,342)
Recoveries:		
Multi-family	--	--
Commercial real estate	--	137
One-to-four family residential	--	--
Acquisition, development, and construction	22	127
Other loans	478	1,596
Total recoveries	500	1,860
Net charge-offs	(9,330)	(16,482)
Balance at end of period	<u>\$151,112</u>	<u>\$159,820</u>
<b>Non-Performing Assets:</b>		
Non-accrual mortgage loans:		
Multi-family	\$ 3,906	\$ 4,220
Commercial real estate	2,993	3,021
One-to-four family residential	1,143	1,651
Acquisition, development, and construction	--	--
Total non-accrual mortgage loans	8,042	8,892
Other non-accrual loans	43,372	36,614
Total non-performing loans	\$ 51,414	\$45,506
Repossessed assets <sup>(1)</sup>	11,691	10,794
Total non-performing assets	<u>\$ 63,105</u>	<u>\$56,300</u>
<b>Asset Quality Measures:</b>		
Non-performing loans to total loans	0.13 %	0.11 %
Non-performing assets to total assets	0.12	0.11
Allowance for loan losses to non-performing loans	293.91	351.21
Allowance for loan losses to total loans	0.37	0.40
Net charge-offs during the period to average loans outstanding during the period	0.02	0.04
<b>Loans 30-89 Days Past Due:</b>		
Multi-family	\$ 1,312	\$ --
Commercial real estate	--	--
One-to-four family residential	1,869	9
Acquisition, development, and construction	--	--
Other loans	1,108	555
Total loans 30-89 days past due <sup>(2)</sup>	<u>\$ 4,289</u>	<u>\$ 564</u>

(1) Includes \$9.7 million and \$8.2 million of repossessed taxi medallions at June 30, 2019 and December 31, 2018, respectively.

(2) Includes \$204,000 and \$530,000 of taxi medallion loans at June 30, 2019 and December 31, 2018, respectively.

## Geographical Analysis of Non-Performing Loans

The following table presents a geographical analysis of our non-performing loans at June 30, 2019:

(in thousands)	
New York	\$44,876
New Jersey	4,758
Arizona	833
All other states	947
Total non-performing loans	<u>\$51,414</u>

## Securities

Securities increased \$126.7 million from December 31, 2018 to \$5.8 billion or 10.9% of total assets at June 30, 2019. During the second quarter of 2017, we reclassified our entire securities portfolio as “Available-for-Sale”. Accordingly, at June 30, 2019 and December 31, 2018, we had no securities designated as “Held-to-Maturity”. At June 30, 2019, 32% of the securities portfolio was variable rates, mainly one- and three-month LIBOR and prime.

## Federal Home Loan Bank Stock

As a member of the FHLB-NY, the Bank is required to acquire and hold shares of its capital stock, and to the extent FHLB borrowings are utilized, may further invest in FHLB stock. At June 30, 2019 and December 31, 2018, the Bank held FHLB-NY stock in the amount of \$582.3 million and \$644.6 million, respectively. FHLB-NY stock continued to be valued at par, with no impairment required at that date.

Dividends from the FHLB-NY to the Bank totaled \$9.4 million and \$9.7 million, respectively, in the three months ended June 30, 2019 and 2018.

## Bank-Owned Life Insurance

BOLI is recorded 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 of the policies is recorded in Non-Interest Income in the Consolidated Statements of Income and Comprehensive Income. Reflecting an increase in the cash surrender value of the underlying policies, our investment in BOLI rose \$9.9 million to \$987.5 million in the six months ended June 30, 2019.

## Goodwill

We record goodwill in our Consolidated Statements of Condition in connection with certain of our business combinations. Goodwill, which is tested at least annually for impairment, refers to the difference between the purchase price and the fair value of an acquired company’s assets, net of the liabilities assumed. Goodwill totaled \$2.4 billion at both June 30, 2019 and December 31, 2018. For more information about the Company’s goodwill, see the discussion of “Critical Accounting Policies” earlier in this report.

## Sources of Funds

The Parent Company (i.e., the Company on an unconsolidated basis) has three 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 stock; and funding raised through the issuance of debt instruments.

On a consolidated basis, our funding primarily stems from a combination of the following sources: deposits; borrowed funds, primarily in the form of wholesale borrowings; the cash flows generated through the repayment and sale of loans; and the cash flows generated through the repayment and sale of securities.

Loan repayments and sales totaled \$4.3 billion in the six months ended June 30, 2019, down \$38.0 million from the \$4.3 billion recorded in the year-earlier six months. Cash flows from the repayment and sales of securities totaled \$870.5 million and \$416.6 million, respectively, in the corresponding periods, while purchases of securities totaled \$913.0 million and \$1.1 billion, respectively.

## *Deposits*

Our ability to retain and attract deposits depends on numerous factors, including customer satisfaction, the rates of interest we pay, the types of products we offer, and the attractiveness of their terms. From time to time, we have chosen not to compete



actively for deposits, depending on our access to deposits through acquisitions, the availability of lower-cost funding sources, the impact of competition on pricing, and the need to fund our loan demand.

At June 30, 2019, total deposits of \$32.3 billion were up \$1.6 billion as compared to the level recorded at December 31, 2018. CDs represented 44.2% of total deposits at the end of the second quarter, and total deposits represented 61.3% of total assets at that date.

Included in the June 30, 2019 balance of deposits were institutional deposits of \$1.3 billion and municipal deposits of \$1.4 billion, as compared to \$1.8 billion and \$961.9 million, respectively, at December 31, 2018. Brokered deposits rose \$889.8 million during the first six months of the year to \$4.9 billion, reflecting a \$483.2 million decrease in brokered money market accounts to \$1.4 billion and a \$1.3 billion increase in brokered CDs to \$2.6 billion. In addition, at June 30, 2019, we had \$816.9 million of brokered interest bearing checking accounts, an increase of \$30.8 million from December 31, 2018. The extent to which we accept brokered deposits depends on various factors, including the availability and pricing of such wholesale funding sources, and the availability and pricing of other sources of funds.

### ***Borrowed Funds***

Borrowed funds consist primarily of wholesale borrowings (i.e., FHLB-NY advances, repurchase agreements, and federal funds purchased) and, to a far lesser extent, junior subordinated debentures. As of June 30, 2019, the balance of borrowed funds decreased \$1.1 billion from year-end 2018 to \$13.1 billion, representing 24.8% of total assets, at that date. The majority of the decrease was related to a lower balance of wholesale borrowings.

#### ***Wholesale Borrowings***

Wholesale borrowings declined \$1.1 billion from the year-end 2018 amount to \$12.4 billion, representing 23.5% of total assets at June 30, 2019.

FHLB-NY advances decreased \$1.4 billion since December 31, 2018, to \$11.6 billion, while the balance of repurchase agreements were \$800 million at June 30, 2019 and \$500 million at December 31, 2018.

#### ***Subordinated Notes***

On November 6, 2018, the Company issued \$300 million aggregate principal amount of its 5.90% Fixed-to-Floating Rate Subordinated Notes due 2028. The Company intends to use the net proceeds from the Offering for general corporate purposes, which may include opportunistic repurchases of shares of its common stock pursuant to its previously announced share repurchase program. The Notes were offered to the public at 100% of their face amount. At June 30, 2019, the balance of subordinated notes was \$294.8 million, which excludes certain costs related to their issuance.

#### ***Junior Subordinated Debentures***

Junior subordinated debentures totaled \$359.7 million at June 30, 2019, comparable to the balance at December 31, 2018.

### **Risk Definitions**

The following section outlines the definitions of interest rate risk, market risk, and liquidity risk, and how the Company manages market and interest rate risk:

**Interest Rate Risk** – Interest rate risk is the risk to earnings or capital arising from movements in interest rates. Interest rate risk arises from differences between the timing of rate changes and the timing of cash flows (re-pricing risk); from changing rate relationships among different yield curves affecting Company activities (basis risk); from changing rate relationships across the spectrum of maturities (yield curve risk); and from interest-related options embedded in a bank's products (options risk). The evaluation of interest rate risk must consider the impact of complex, illiquid hedging strategies or products, and also the potential impact on fee income (e.g. prepayment income) which is sensitive to changes in interest rates. In those situations where trading is separately managed, this refers to structural positions and not trading portfolios.

**Market Risk** – Market risk is the risk to earnings or capital arising from changes in the value of portfolios of financial instruments. This risk arises from market-making, dealing, and position-taking activities in interest rate, foreign exchange, equity, and commodities markets. Many banks use the term "price risk" interchangeably with market risk; this is because market risk focuses on the changes in market factors (e.g., interest rates, market liquidity, and volatilities) that affect the value of traded instruments. The primary accounts affected by market risk are those which are revalued for financial presentation (e.g., trading accounts for securities, derivatives, and foreign exchange products).

**Liquidity Risk** – Liquidity risk is the risk to earnings or capital arising from a bank’s inability to meet its obligations when they become due, without incurring unacceptable losses. Liquidity risk includes the inability to manage unplanned decreases or changes in funding sources. Liquidity risk also arises from a bank’s failure to recognize or address changes in market conditions that affect the ability to liquidate assets quickly and with minimal loss in value.

### **Management of Market and Interest Rate Risk**

We manage our assets and liabilities to reduce our exposure to changes in market interest rates. The asset and liability management process has three primary objectives: to evaluate the interest rate risk inherent in certain balance sheet accounts; to determine the appropriate level of risk, given our business strategy, risk appetite, 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 and the Bank.

#### ***Market and Interest Rate Risk***

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

The actual duration of held-for-investment 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 interest rates and the availability of refinancing opportunities.

We managed our interest rate risk by taking the following actions: (1) We continued to emphasize the origination and retention of intermediate-term assets, primarily in the form of multi-family and CRE loans; (2) We continued the origination of certain C&I loans that feature floating interest rates; (3) We replaced maturing wholesale borrowings with longer term borrowings, including some with callable features; and (4) We entered into an interest rate swap with a notional amount of \$2.0 billion to hedge certain real estate loans.

#### ***Interest Rate Sensitivity Analysis***

The matching of assets and liabilities may be analyzed by examining the extent to which such assets and liabilities are “interest rate sensitive” and by monitoring a bank’s interest rate sensitivity “gap.” An asset or liability is said to be interest rate sensitive within a specific time frame if it will mature or reprice within that period of time. The interest rate sensitivity gap is defined as the difference between the amount of interest-earning assets maturing or repricing within a specific time frame and the amount of interest-bearing liabilities maturing or repricing within that same period of time.

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

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

At June 30, 2019, our one-year gap was a negative 13.46%, compared to a negative 22.56% at December 31, 2018. The change in our one-year gap reflects an increase in expected prepayments on loans coupled with the addition of the previously mentioned interest rate swap, partially offset by an increase in CDs maturing within one year.

The table on the following page sets forth the amounts of interest-earning assets and interest-bearing liabilities outstanding at June 30, 2019 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 June 30, 2019 on the basis of contractual maturities, anticipated prepayments, and scheduled rate adjustments within a three-month period and subsequent selected time intervals. For residential mortgage-related securities, prepayment rates are forecasted at a weighted average CPR of 9% per annum; for multi-family and CRE loans, prepayment rates are forecasted at weighted average CPRs of 21% and 14% per annum, respectively. Borrowed funds were not assumed to prepay.

Savings, interest bearing checking and money market accounts were assumed to decay based on a comprehensive statistical analysis that incorporated our historical deposit experience. Based on the results of this analysis, savings accounts were assumed to decay at a rate of 60% for the first five years and 40% for years six through ten. Interest-bearing checking accounts were assumed to decay at a rate of 73% for the first five years and 27% for years six through ten. The decay assumptions reflect the prolonged low interest rate environment and the uncertainty regarding future depositor behavior. Including those accounts having specified repricing dates, money market accounts were assumed to decay at a rate of 83% for the first five years and 17% for years six through ten.

	At June 30, 2019						
	Three Months or Less	Four to Twelve Months	More Than One Year to Three Years	More Than Three Years to Five Years	More Than Five Years to 10 Years	More Than 10 Years	Total
<i>(dollars in thousands)</i>							
<b>INTEREST-EARNING ASSETS:</b>							
Mortgage and other loans <sup>(1)</sup>	\$6,109,884	\$7,462,959	\$16,178,067	\$9,014,218	\$1,849,468	\$210,691	\$40,825,287
Mortgage-related securities <sup>(2)(3)</sup>	66,277	177,562	589,122	714,331	627,149	600,714	2,775,155
Other securities <sup>(2)</sup>	2,581,223	585,042	238,540	48,496	43,428	48,610	3,545,339
Interest-earning cash and cash equivalents	1,064,238	--	--	--	--	--	1,064,238
<b>Total interest-earning assets</b>	<b>9,821,622</b>	<b>8,225,563</b>	<b>17,005,729</b>	<b>9,777,045</b>	<b>2,520,045</b>	<b>860,015</b>	<b>48,210,019</b>
<b>INTEREST-BEARING LIABILITIES:</b>							
Interest-bearing checking and money market accounts	5,100,667	824,355	1,505,442	898,301	2,441,595	--	10,770,360
Savings accounts	812,374	956,245	662,244	442,044	1,927,116	--	4,800,023
Certificates of deposit	3,615,965	8,877,805	1,595,471	196,673	372	--	14,286,286
Borrowed funds	544,926	4,419,000	1,927,661	--	6,050,000	140,551	13,082,138
<b>Total interest-bearing liabilities</b>	<b>10,073,932</b>	<b>15,077,405</b>	<b>5,690,818</b>	<b>1,537,018</b>	<b>10,419,083</b>	<b>140,551</b>	<b>42,938,807</b>
Interest rate sensitivity gap per period <sup>(4)</sup>	\$(252,310)	\$(6,851,842)	\$11,314,911	\$8,240,027	\$(7,899,038)	\$719,464	\$5,271,212
Cumulative interest rate sensitivity gap	\$(252,310)	\$(7,104,152)	\$4,210,759	\$12,450,786	\$4,551,748	\$5,271,212	
Cumulative interest rate sensitivity gap as a percentage of total assets	(0.48)%	(13.46)%	7.98%	23.59%	8.62%	9.99%	
Cumulative net interest-earning assets as a percentage of net interest-bearing liabilities	97.50 %	71.75 %	113.65 %	138.45%	110.64%	112.28%	

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

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

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

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

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

To validate our prepayment assumptions for our multi-family and CRE loan portfolios, we perform a monthly analysis, during which we review our historical prepayment rates and compare them to our projected prepayment rates. We continually review the actual prepayment rates to ensure that our projections are as accurate as possible, since prepayments on these types of loans are not as closely correlated to changes in interest rates as prepayments on one-to-four family loans tend to be. In addition, we review the call provisions, if any, in our borrowings and investment portfolios and, on a monthly basis, compare the actual calls to our projected calls to ensure that our projections are reasonable.

As of June 30, 2019, the impact of a 100-bp decline in market interest rates would have increased our projected prepayment rates for multi-family and CRE loans by a constant prepayment rate of 18.95% per annum. Conversely, the impact of a 100-bp increase in market interest rates would have decreased our projected prepayment rates for multi-family and CRE loans by a constant prepayment rate of 8.92% per annum.

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. Also, the ability of some borrowers to repay their adjustable-rate loans may be adversely impacted by an increase in market interest rates.

Interest rate sensitivity is also monitored through the use of a model that generates estimates of the change in our Economic Value of Equity (“EVE”) over a range of interest rate scenarios. EVE is defined as the net present value of expected cash flows from assets, liabilities, and off-balance sheet contracts. The EVE ratio, under any interest rate scenario, is defined as the EVE 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.

Based on the information and assumptions in effect at June 30, 2019, the following table reflects the estimated percentage change in our EVE, assuming the changes in interest rates noted:

<b>Change in Interest Rates (in basis points)<sup>(1)</sup></b>	<b>Estimated Percentage Change in Economic Value of Equity</b>
+100	(3.03)%
+200	(9.23)%
-100	(2.99)%

(1) The impact of a 200-bp reduction in interest rates is not presented in view of the current level of the federal funds rate and other short-term interest rates.

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

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 EVE 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 EVE 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 benefit of any strategic actions we may take to further reduce our exposure to interest rate risk. Accordingly, while the EVE 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.

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

Based on the information and assumptions in effect at June 30, 2019, the following table reflects the estimated percentage change in future net interest income for the next twelve months, assuming the changes in interest rates noted:

<u>Change in Interest Rates (in basis points)<sup>(1)(2)</sup></u>	<u>Estimated Percentage Change in Future Net Interest Income</u>
+100	(2.54)%
+200	(4.62)%
-100	2.48%

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

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

In the event that our NPV and net interest income sensitivities were to breach our internal policy limits, we would undertake the following actions to ensure that appropriate remedial measures were put in place:

- Our ALCO Committee would inform the Board of Directors of the variance, and present recommendations to the Board regarding proposed courses of action to restore conditions to within-policy tolerances.
- In formulating appropriate strategies, the ALCO Committee would ascertain the primary causes of the variance from policy tolerances, the expected term of such conditions, and the projected effect on capital and earnings.

Where temporary changes in market conditions or volume levels result in significant increases in risk, strategies may involve reducing open positions or employing synthetic hedging techniques to more immediately reduce risk exposure. Where variance from policy tolerances is triggered by more fundamental imbalances in the risk profiles of core loan and deposit products, a remedial strategy may involve restoring balance through natural hedges to the extent possible before employing synthetic hedging techniques. Other strategies might include:

- Asset restructuring, involving sales of assets having higher risk profiles, or a gradual restructuring of the asset mix over time to affect the maturity or repricing schedule of assets;
- Liability restructuring, whereby product offerings and pricing are altered or wholesale borrowings are employed to affect the maturity structure or repricing of liabilities;
- Expansion or shrinkage of the balance sheet to correct imbalances in the repricing or maturity periods between assets and liabilities; and/or
- Use or alteration of off-balance sheet positions, including interest rate swaps, caps, floors, options, and forward purchase or sales commitments.

In connection with our net interest income simulation modeling, we also evaluate the impact of changes in the slope of the yield curve. At June 30, 2019, our analysis indicated that an immediate inversion of the yield curve would be expected to result in a 6.51% decrease in net interest income; conversely, an immediate steepening of the yield curve would be expected to result in a 9.48% increase in net interest income. It should be noted that the yield curve changes in these scenarios were updated, given the changing market rate environment, which resulted in an increase in the income sensitivity.

## **Liquidity**

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

We monitor our liquidity daily to ensure that sufficient funds are available to meet our financial obligations. Our most liquid assets are cash and cash equivalents, which totaled \$1.2 billion and \$1.5 billion, respectively, at June 30, 2019 and December 31, 2018. As in the past, our portfolios of loans and securities provided liquidity in the first six months of the year, with cash flows from the repayment and sale of loans totaling \$4.3 billion and cash flows from the repayment and sale of securities totaling \$870.5 million.

Additional liquidity stems from the retail, institutional, and municipal deposits we gather and from our use of wholesale funding sources, including brokered deposits and wholesale borrowings. We also have access to the Bank's approved lines of credit with various counterparties, including the FHLB-NY. The availability of these wholesale funding sources is generally based on the available amount of mortgage loan collateral under a blanket lien we have pledged to the respective institutions and,

to a lesser extent, the available amount of securities that may be pledged to collateralize our borrowings. At June 30, 2019, our available borrowing capacity with the FHLB-NY was \$8.9 billion. In addition, the Bank had \$5.7 billion of available-for-sale securities, at that date.

Furthermore, the Bank has agreements with the FRB-NY that enables it to access the discount window as a further means of enhancing their liquidity if need be. In connection with their agreements, the Bank pledged certain loans and securities to collateralize any funds they may borrow. At June 30, 2019, the maximum amount the Bank could borrow from the FRB-NY was \$1.3 billion. There were no borrowings against either of these lines of credit at that date.

Our primary investing activity is loan production. In the first six months of 2019, the volume of loans originated for investment was \$5.0 billion. During this time, the net cash used in investing activities totaled \$697.6 million. Our operating activities provided net cash of 259.0 million, while the net cash provided by our financing activities totaled \$192.0 million.

CDs due to mature in one year or less as of June 30, 2019 totaled \$12.5 billion, representing 87.5% of total CDs at that date. Our ability to retain these CDs and to attract new deposits depends on numerous factors, including customer satisfaction, the rates of interest we pay on our deposits, the types of products we offer, and the attractiveness of their terms. However, there are times when we may choose not to compete for such deposits, depending on the availability of lower-cost funding, the competitiveness of the market and its impact on pricing, and our need for such deposits to fund loan demand, as previously discussed.

The Parent Company is a separate legal entity from the Bank and must provide for its own liquidity. In addition to operating expenses and any share repurchases, the Parent Company is responsible for paying dividends declared to our shareholders. As a Delaware corporation, the Parent Company is able to pay dividends either from surplus or, in case there is no surplus, from net profits for the fiscal year in which the dividend is declared and/or the preceding fiscal year.

In each of the four quarters of 2018, the Company was required to receive a non-objection from the FRB to pay all dividends; non-objections were received from the FRB in all four quarters of the year. Beginning in 2019, the Company no longer is required to receive non-objection from the FRB to pay dividends.

The Parent Company's ability to pay dividends may also depend, in part, upon dividends it receives from the Bank. The ability of the Community 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 certain regulations of the FDIC. In addition, the Superintendent of the New York State Department of Financial Services (the "Superintendent"), the FDIC, and the FRB, for reasons of safety and soundness, may prohibit the payment of dividends that are otherwise permissible by regulations.

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 the six months ended June 30, 2019, the Bank paid dividends totaling \$190.0 million to the Parent Company, leaving \$277.3 million they could dividend to the Parent Company without regulatory approval at that date. Additional sources of liquidity available to the Parent Company at June 30, 2019 included \$170.5 million in cash and cash equivalents. If the Bank was to apply to the Superintendent for approval to make a dividend or capital distribution in excess of the dividend amounts permitted under the regulations, there can be no assurance that such application would be approved.

### **Capital Position**

On March 17, 2017, we issued 515,000 shares of preferred stock. The offering generated capital of \$502.8 million, net of underwriting and other issuance costs, for general corporate purposes, with the bulk of the proceeds being distributed to the Community Bank.

On October 24, 2018, the Company announced that it had received regulatory approval to repurchase its common stock. Accordingly, the Board of Directors approved a \$300 million common share repurchase program. The repurchase program was funded through the issuance of a like amount of subordinated notes. As of June 30, 2019, the Company has repurchased a total of 23.9 million shares at an average price of \$9.54 or an aggregate purchase price of \$227.9 million, leaving \$72.1 million remaining under the current authorization.

Common stockholders' equity represented 11.69% and 11.85% of total assets at June 30, 2019 and December 31, 2018, and was equivalent to a book value per common share of \$13.21, and \$12.99 at the respective dates. We calculate book value per common share by dividing the amount of common stockholders' equity at the end of a period by the number of common

shares outstanding at the same date. At June 30, 2019 and December 31, 2018, we had outstanding common shares of 467,358,939 and 473,536,604, respectively.

Tangible common stockholders' equity was relatively stable at \$3.7 billion, representing 7.44% of tangible assets and a tangible book value per common share of \$8.01 at June 30, 2019. At December 31, 2018, tangible common stockholders' equity totaled \$3.7 billion or 7.51% of tangible assets and a tangible book value per common share of \$7.85.

We calculate tangible common stockholders' equity by subtracting the amount of goodwill recorded at the end of a period from the amount of common stockholders' equity recorded at the same date. At June 30, 2019 and December 31, 2018 we recorded goodwill of \$2.4 billion, respectively, at the corresponding dates. (See the discussion and reconciliations of stockholders' equity, common stockholders' equity, and tangible common stockholders' equity; total assets and tangible assets; and the related financial measures that appear earlier in this report.)

Stockholders' equity, common stockholders' equity, and tangible common stockholders' equity include AOCL, which decreased \$58.7 million from the balance at the end of last year and decreased \$42.7 million from the year-ago quarter to \$28.9 million at June 30, 2019. The year-to-date decrease was primarily the result of a \$55.1 million change in the net unrealized gain (loss) on available-for-sale securities, net of tax, from a loss of \$10.5 million at December 31, 2018 to a gain of \$44.6 million at June 30, 2019 and a \$3.6 million decrease in net unrealized loss on pension and post-retirement obligations, net of tax, to \$67.4 million.

At June 30, 2019, our capital measures continued to exceed the minimum federal requirements for a bank holding company and for a bank. The following table sets forth our common equity tier 1, tier 1 risk-based, total risk-based, and leverage capital amounts and ratios on a consolidated basis and for the Bank on a stand-alone basis, as well as the respective minimum regulatory capital requirements, at that date:

#### Regulatory Capital Analysis (the Company)

At June 30, 2019 (dollars in thousands)	Risk-Based Capital							
	Common Equity		Tier 1		Total		Leverage Capital	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total capital	\$3,777,348	10.02%	\$4,280,187	11.36%	\$5,074,092	13.46%	\$4,280,187	8.64%
Minimum for capital adequacy purposes	1,696,189	4.50	2,261,586	6.00	3,015,448	8.00	1,981,872	4.00
Excess	\$2,081,159	5.52%	\$2,018,601	5.36%	\$2,058,644	5.46%	\$2,298,315	4.64%

At June 30, 2019, our total risk-based capital ratio exceeded the minimum requirement for capital adequacy purposes by 546 bp and the fully-phased in capital conservation buffer by 296 bp.

#### Regulatory Capital Analysis (New York Community Bank)

At June 30, 2019 (dollars in thousands)	Risk-Based Capital							
	Common Equity		Tier 1		Total		Leverage Capital	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total capital	\$4,756,803	12.63%	\$4,756,803	12.63%	\$4,909,007	13.03%	\$4,756,803	9.60%
Minimum for capital adequacy purposes	1,695,431	4.50	2,260,574	6.00	3,014,099	8.00	1,981,282	4.00
Excess	\$3,061,372	8.13%	\$2,496,229	6.63%	\$1,894,908	5.03%	\$2,775,521	5.60%

The Bank also exceeded the minimum capital requirements to be categorized as "Well Capitalized." To be categorized as well capitalized, a bank must maintain a minimum common equity tier 1 ratio of 6.50%; a minimum tier 1 risk-based capital ratio of 8.00%; a minimum total risk-based capital ratio of 10.00%; and a minimum leverage capital ratio of 5.00%.

#### Earnings Summary for the Three Months Ended June 30, 2019

The Company reported net income for the three months ended June 30, 2019 of \$97.2 million, relatively unchanged from the \$97.6 million reported for the three months ended March 31, 2019 and down 9% from \$107.4 million for the three months



ended June 30, 2018. On a year-to-date basis, net income was \$194.8 million, down 9% compared to the first six months of 2018. Net income available to common shareholders for the second quarter of 2019 was \$89.0 million, or \$0.19 per common share, compared to \$89.4 million, also \$0.19 per common share for the first quarter of 2019 and \$99.1 million, or \$0.20 per common share for the second quarter of 2018.

### **Net Interest Income**

Net interest income is our primary source of income. Its level 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 FOMC, and market interest rates.

Net interest income is also influenced by the level of prepayment income primarily generated in connection with the prepayment of our multi-family and CRE loans, as well as securities. Since prepayment income is recorded as interest income, an increase or decrease in its level will also be reflected in the average yields (as applicable) on our loans, securities, and interest-earning assets, and therefore in our interest rate spread and net interest margin.

It should be noted that the level of prepayment income on loans recorded in any given period depends on the volume of loans that refinance or prepay during that time. Such activity is largely dependent on such external factors as current market conditions, including real estate values, and the perceived or actual direction of market interest rates. In addition, while a decline in market interest rates may trigger an increase in refinancing and, therefore, prepayment income, so too may an increase in market interest rates. It is not unusual for borrowers to lock in lower interest rates when they expect, or see, that market interest rates are rising rather than risk refinancing later at a still higher interest rate.

### **Linked-Quarter and Year-Over-Year Comparison**

Both the year-over-year and sequential decline in net interest income was primarily attributable to an increase in our cost of funds, as short-term interest rates rose throughout the second half of 2017 and all of 2018. This was partially offset by higher yields on our loan portfolio, as well as continued loan growth.

Details of the decline in net interest income follow:

- Interest income of \$453.8 million in the current second quarter increased \$36.4 million from the year earlier quarter and \$7.6 million from the amount reported in the trailing quarter. Interest income from loans of \$387.6 million increased \$19.2 million compared to the year-ago quarter and \$7.8 million compared to the prior quarter, while interest income from securities and money market investments increased \$17.2 million from the year-ago quarter and was unchanged compared to the prior quarter.
- Interest income was driven by a \$449.1 million increase in average earning assets to \$47.5 billion along with a two bp increase on the average yield to 3.82%. The increase in average earning assets was the result of higher average loan balances along with a five bp increase in loan yields.
- Interest expense rose \$62.7 million on a year-over-year basis and \$11.2 million sequentially to \$216.1 million, primarily due to higher levels of interest expense on interest-bearing deposits largely driven by higher CD balances and higher costs associated with those balances.

### **Net Interest Margin**

The direction of the Company's net interest margin was consistent with that of its net interest income, and generally was driven by the same factors as those described above. At 2.00%, the margin was three bps narrower than the trailing-quarter measure and 33 bp narrower than the margin recorded in the second quarter of last year.

The following table summarizes the contribution of loan and securities prepayment income on the Company's interest income and net interest margin in the periods noted:

	For the Three Months Ended			Jun. 30, 2019 compared to	
	Jun. 30, 2019	Mar. 31, 2019	Jun. 30, 2018	Mar. 31, 2019	Jun. 30, 2018
(dollars in thousands)					
<b>Total Interest Income</b>	\$453,752	\$446,174	\$417,332	2%	9%
<b>Prepayment Income:</b>					
Loans	\$11,842	\$9,341	\$15,781	27%	-25%
Securities	780	227	634	244%	23%
Total prepayment income	<u>\$12,622</u>	<u>\$9,568</u>	<u>\$16,415</u>	32%	-23%
<b>GAAP Net Interest Margin</b>	2.00%	2.03%	2.33%	-3 bp	-33 bp
Less:					
Prepayment income from loans	10 bp	8 bp	14 bp	2 bp	-4 bp
Prepayment income from securities	1	-	-	1 bp	1 bp
Total prepayment income contribution to net interest margin	<u>11 bp</u>	<u>8 bp</u>	<u>14 bp</u>	3 bp	-3 bp
<b>Adjusted Net Interest Margin (non-GAAP)</b>	1.89%	1.95%	2.19%	-6 bp	-30 bp

(1) “Adjusted net interest margin” is a non-GAAP financial measure as more fully discussed below.

While our net interest margin, including the contribution of prepayment income, is recorded in accordance with GAAP, adjusted net interest margin, which excludes the contribution of prepayment income, is not. Nevertheless, management uses this non-GAAP measure in its analysis of our performance, and believes that this non-GAAP measure should be disclosed in this report and other investor communications for the following reasons:

- Adjusted net interest margin gives investors a better understanding of the effect of prepayment income on our net interest margin. Prepayment income in any given period depends on the volume of loans that refinance or prepay, or securities that prepay, during that period. Such activity is largely dependent on external factors such as current market conditions, including real estate values, and the perceived or actual direction of market interest rates.
- Adjusted net interest margin is among the measures considered by current and prospective investors, both independent of, and in comparison with, our peers.

Adjusted net interest margin should not be considered in isolation or as a substitute for net interest margin, which is calculated in accordance with GAAP. Moreover, the manner in which we calculate this non-GAAP measure may differ from that of other companies reporting a non-GAAP measure with a similar name.

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

## Net Interest Income Analysis

### NEW YORK COMMUNITY BANCORP, INC. NET INTEREST INCOME ANALYSIS LINKED-QUARTER AND YEAR-OVER-YEAR COMPARISONS

(unaudited)

	For the Three Months Ended								
	June 30, 2019			March 31, 2019			June 30, 2018		
	Average Balance	Interest	Average Yield/Cost	Average Balance	Interest	Average Yield/Cost	Average Balance	Interest	Average Yield/Cost
(dollars in thousands)									
<b>Assets:</b>									
Interest-earning assets:									
Mortgage and other loans and leases, net	\$ 40,208,256	\$ 387,634	3.86 %	\$ 39,890,669	\$ 379,790	3.81 %	\$ 38,937,521	\$ 368,456	3.79 %
Securities	6,320,252	60,340	3.82	6,263,933	61,037	3.91	4,029,967	37,962	3.77
Interest-earning cash and cash equivalents	967,364	5,778	2.40	892,187	5,347	2.43	2,288,581	10,914	1.91
Total interest-earning assets	<u>47,495,872</u>	<u>453,752</u>	3.82	<u>47,046,789</u>	<u>446,174</u>	3.80	<u>45,256,069</u>	<u>417,332</u>	3.69
Non-interest-earning assets	4,576,454			4,570,768			4,311,317		
Total assets	<u>\$ 52,072,326</u>			<u>\$ 51,617,557</u>			<u>\$ 49,567,386</u>		
<b>Liabilities and Stockholders' Equity:</b>									
Interest-bearing deposits:									
Interest-bearing checking and money									
market accounts	\$ 10,811,077	\$ 47,772	1.77 %	\$ 11,478,820	\$ 50,159	1.77 %	\$ 12,185,478	\$ 40,380	1.33 %
Savings accounts	4,729,517	8,861	0.75	4,669,824	8,083	0.70	4,935,936	6,630	0.54
Certificates of deposit	<u>13,509,392</u>	<u>80,651</u>	2.39	<u>12,298,274</u>	<u>67,775</u>	2.23	<u>9,631,672</u>	<u>39,534</u>	1.65
Total interest-bearing deposits	29,049,986	137,284	1.90	28,446,918	126,017	1.80	26,753,086	86,544	1.30
Borrowed funds	<u>13,111,692</u>	<u>78,778</u>	2.41	<u>13,491,860</u>	<u>78,832</u>	2.37	<u>13,126,137</u>	<u>66,833</u>	2.04
Total interest-bearing liabilities	42,161,678	216,062	2.06	41,938,778	204,849	1.98	39,879,223	153,377	1.54
Non-interest-bearing deposits	2,698,578			2,477,420			2,675,223		
Other liabilities	<u>559,955</u>			<u>594,077</u>			<u>223,774</u>		
Total liabilities	45,420,211			45,010,275			42,778,220		
Stockholders' equity	<u>6,652,115</u>			<u>6,607,282</u>			<u>6,789,166</u>		
Total liabilities and stockholders' equity	<u>\$ 52,072,326</u>			<u>\$ 51,617,557</u>			<u>\$ 49,567,386</u>		
Net interest income/interest rate spread		<u>\$ 237,690</u>	<u>1.76 %</u>		<u>\$ 241,325</u>	<u>1.82 %</u>		<u>\$ 263,955</u>	<u>2.15 %</u>
Net interest margin			<u>2.00 %</u>			<u>2.03 %</u>			<u>2.33 %</u>
Ratio of interest-earning assets to interest-bearing liabilities			<u>1.13 x</u>			<u>1.12 x</u>			<u>1.13 x</u>

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

(2) Amounts are at amortized cost.

(3) Includes FHLB stock.

### **Provision for (recovery of) Losses on Loans**

The provision for losses on loans is based on the methodology used by management in calculating the allowance for losses on such loans. Reflecting this methodology, which is discussed in detail under “Critical Accounting Policies,” the Company reported a provision for loan losses of \$1.8 million compared to a recovery of loan losses of \$1.2 million in the previous quarter and a \$4.7 million provision in the second quarter of 2018. The provision for losses on loans for the second quarter of last year was largely due our taxi medallion-related loans.

For additional information about our provisions for and recoveries of loan losses, see the discussion of the allowances for loan losses under “Critical Accounting Policies” and the discussion of “Asset Quality” that appear earlier in this report.

### **Non-Interest Income**

We generate non-interest income through a variety of sources, including—among others—fee income (in the form of retail deposit fees and charges on loans); income from our investment in BOLI; gains on the sale of securities; and revenues produced through the sale of third-party investment products.

For the three months ended June 30, 2019, non-interest income declined 29% on a linked-quarter basis to \$17.6 million and declined 23% on a year-over-year basis. Included in the first quarter 2019 was \$7.0 million of net gains on the sale of securities compared to only \$493,000 in the current second quarter. Included in the year-ago period was approximately \$5.2 million related to our wealth management business, Peter B. Cannell & Co., which was sold in the first quarter of this year.

The following table summarizes our non-interest income for the respective periods:

#### **Non-Interest Income Analysis**

	<b>For the Three Months Ended</b>		
	<b>June 30, 2019</b>	<b>March 31, 2019</b>	<b>June 30, 2018</b>
(in thousands)			
Fee income	\$ 7,487	\$ 7,228	\$ 7,492
BOLI income	6,479	6,975	6,318
Net gain (loss) on securities	493	6,987	(303)
Other income:			
Third-party investment product sales	1,225	2,896	3,515
Other	1,913	699	5,684
Total other income	3,138	3,595	9,199
Total non-interest income	<u>\$17,597</u>	<u>\$24,785</u>	<u>\$22,706</u>

### **Non-Interest Expense**

Non-interest expense consists of compensation and benefits expense, occupancy and equipment expense, and G&A expense.

Total non-interest expense for the current second quarter was \$123.1 million, down \$15.7 million, or 11% on a linked-quarter basis and down \$15.1 million or also 11% compared to the year ago. Our operating expenses during the first quarter of 2019 included certain items related to severance costs and branch rationalization, which totaled \$9.0 million: \$3.5 million in severance costs and \$5.5 million related to branch rationalization costs. Excluding these two items, total non-interest expenses, on a non-GAAP basis, would have totaled \$129.7 million in the first quarter. The year-over-year decrease in non-interest expense reflects the continued successful execution of our expense reduction plan.

### **Income Tax Expense**

Income tax expense for the three months ended June 30, 2019 totaled \$33.1 million, compared to \$31.0 million in the prior quarter and \$36.5 million in the year-ago quarter. The effective tax rate was 25.42% during the current second quarter, compared to 24.10% in the first quarter of 2019 and 25.35% in the year-ago quarter.

### **Earnings Summary for the Six Months Ended June 30, 2019**

In the first six months of 2019, the Company generated net income of \$194.8 million, down \$19.1 million or 9% compared to the \$213.9 million we generated in the first six months of 2018. Net income available to common shareholders for the six months ended June 30, 2019 totaled \$178.4 million, down 10% compared to the \$197.5 million for the six months ended

June 30, 2018. On a per share basis, this translates into \$0.38 per diluted common share for the first six months of this year compared to \$0.40 per diluted common share for the first six months of last year, down 5%.

### Net Interest Income

Net interest income declined \$55.2 million or 10% to \$479.0 million for the six months ended June 30, 2019. The decline is attributable to the net impact of a \$78.3 million increase in total interest income to \$899.9 million, offset by a \$133.5 million increase in total interest expenses to \$420.9 million. During the first six months of 2019, the NIM declined 35 bp to 2.02%.

The following factors contributed to the year-over-year decrease in net interest income and NIM:

- Average interest-earning assets increased \$2.4 billion or 5% to \$47.3 billion due to a \$2.2 billion or 55% increase in average securities and a \$1.4 billion or 4% increase in average loans. The majority of the growth in average securities was funded by cash. Accordingly, the average balance of cash and cash equivalents declined \$1.3 billion or 58% to \$930.0 million.
- The average yield on interest-earning assets rose 14 bp to 3.81%. This was primarily due to a nine bp increase in the average yield on loans, while the average yield on securities was unchanged at 3.86%.
- Average interest-bearing liabilities increased \$2.4 billion or 6% to \$42.1 billion. This was driven by a \$2.1 billion or 8% increase in average interest-bearing deposits to \$28.8 billion, led primarily by growth in CDs. The average CD balance increased \$3.7 billion or 40% to \$12.9 billion. The average balance of borrowed funds rose \$273.4 million or 2% to \$13.3 billion.
- In addition to the growth in the average balance of interest-bearing liabilities, the average cost of our interest-bearing liabilities also increased given the increase in short-term interest rates over the past several years. The average cost of interest-bearing liabilities rose 56 bp to 2.02% driven by a 65 bp increase in the cost of deposits to 1.85% and a 40 bp increase in the cost of borrowed funds to 2.39%.

The following table summarizes the contribution from prepayment income on loans and securities on the Company's interest income and NIM for the six months ended June 30, 2019 and 2018:

	<b>For the Six Months Ended</b>		<b>Change (%)</b>
	<b>Jun. 30, 2019</b>	<b>Jun. 30, 2018</b>	
(dollars in thousands)			
<b>Total Interest Income</b>	\$899,926	\$821,657	10%
<b>Prepayment Income:</b>			
Loans	\$21,183	\$27,560	-23%
Securities	1,007	3,567	-72%
Total prepayment income	<u>\$22,190</u>	<u>\$31,127</u>	-29%
<b>GAAP Net Interest Margin</b>	2.02%	2.37%	-35 bp
Less:			
Prepayment income from loans	9 bp	12 bp	-3 bp
Prepayment income from securities	<u>1</u>	<u>1</u>	0 bp
Total prepayment income contribution to net interest margin	<u>10 bp</u>	<u>13 bp</u>	-3 bp
<b>Adjusted Net Interest Margin (non-GAAP)</b>	1.92%	2.24%	-32 bp

(1) "Adjusted net interest margin" is a non-GAAP financial measure as more fully discussed below.

While our net interest margin, including the contribution of prepayment income, is recorded in accordance with GAAP, adjusted net interest margin, which excludes the contribution of prepayment income, is not. Nevertheless, management uses this

non-GAAP measure in its analysis of our performance, and believes that this non-GAAP measure should be disclosed in this report and other investor communications for the following reasons:

1. Adjusted net interest margin gives investors a better understanding of the effect of prepayment income on our net interest margin. Prepayment income in any given period depends on the volume of loans that refinance or prepay, or securities that prepay, during that period. Such activity is largely dependent on external factors such as current market conditions, including real estate values, and the perceived or actual direction of market interest rates.
2. Adjusted net interest margin is among the measures considered by current and prospective investors, both independent of, and in comparison with, our peers.

Adjusted net interest margin should not be considered in isolation or as a substitute for net interest margin, which is calculated in accordance with GAAP. Moreover, the manner in which we calculate this non-GAAP measure may differ from that of other companies reporting a non-GAAP measure with a similar name.

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

### Net Interest Income Analysis

	For the Six Months Ended June 30,					
	2019			2018		
	Average Balance	Interest	Average Yield/ Cost	Average Balance	Interest	Average Yield/ Cost
(dollars in thousands)						
<b>Assets:</b>						
Interest-earning assets:						
Mortgage and other loans and leases, net <sup>(1)</sup>	\$40,050,340	\$ 767,424	3.84%	\$38,615,946	\$724,373	3.75%
Securities <sup>(2)(3)</sup>	6,292,248	121,377	3.86	4,048,189	77,954	3.86
Interest-earning cash and cash equivalents	929,983	11,125	2.41	2,212,203	19,330	1.76
Total interest-earning assets	47,272,571	899,926	3.81	44,876,338	821,657	3.67
Non-interest-earning assets	4,573,627			4,340,451		
Total assets	<u>\$51,846,198</u>			<u>\$49,216,789</u>		
<b>Liabilities and Stockholders' Equity:</b>						
Interest-bearing deposits:						
Interest-bearing checking and money market accounts	\$11,143,104	\$ 97,931	1.77%	\$12,405,260	\$ 74,749	1.22%
Savings accounts	4,699,835	16,944	0.73	4,999,171	13,851	0.56
Certificates of deposit	12,907,179	148,426	2.32	9,220,551	70,049	1.53
Total interest-bearing deposits	28,750,118	263,301	1.85	26,624,982	158,649	1.20
Borrowed funds	13,300,726	157,610	2.39	13,027,277	128,755	1.99
Total interest-bearing liabilities	42,050,844	420,911	2.02	39,652,259	287,404	1.46
Non-interest-bearing deposits	2,588,610			2,540,102		
Other liabilities	576,922			234,564		
Total liabilities	45,216,376			42,426,925		
Stockholders' equity	6,629,822			6,789,864		
Total liabilities and stockholders' equity	<u>\$51,846,198</u>			<u>\$49,216,789</u>		
Net interest income/interest rate spread		<u>\$479,015</u>	<u>1.79%</u>		<u>\$534,253</u>	<u>2.21%</u>
Net interest margin			<u>2.02%</u>			<u>2.37%</u>
Ratio of interest-earning assets to interest-bearing liabilities			<u>1.12x</u>			<u>1.13x</u>

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

(2) Amounts are at amortized cost.

(3) Includes FHLB stock.

### **Provision for (recovery of) Losses on Loans**

The provision for losses on loans is based on the methodology used by management in calculating the allowance for losses on such loans. Reflecting this methodology, which is discussed in detail under “Critical Accounting Policies,” the Company reported a provision for losses on loans losses of \$622,000 for the six months ended June 30, 2019 compared to \$14.3 million for the six months ended June 30, 2018. The majority of the 2018 provision for losses on loans was related to taxi medallion-related loans.

### **Non-Interest Income**

The following table summarizes the components of non-interest income for the respective periods:

#### **Non-Interest Income Analysis**

(in thousands)	<b>For the Six Months Ended June 30,</b>	
	<b>2019</b>	<b>2018</b>
Fee income	\$ 14,715	\$ 14,819
BOLI income	13,454	13,122
Net gain (loss) on securities	7,480	(769)
Other income:		
Third-party investment product sales	4,122	6,590
Other	2,611	11,801
Total other income	6,733	18,391
Total non-interest income	<u>\$ 42,382</u>	<u>\$ 45,563</u>

In the first six months of 2019, we recorded non-interest income of \$42.4 million as compared to \$45.6 million in the first six months of 2018. The \$3.2 million or 7% decline was driven by a number of items: a net gain on securities of \$7.5 million for the current six month period compared to a net loss on securities of \$769,000 for the year-ago six month period and an \$11.7 million or 63% decrease in other income. This decline was driven by the sale of our wealth management business, Peter B. Cannell & Co., which was sold in the first quarter of 2019.

### **Non-Interest Expense**

In the first six months of 2019, we recorded non-interest expense of \$261.8 million, down \$15.4 million or 6% compared to the first half of 2018. Non-interest expense for the current six month period includes certain items related to severance costs and branch rationalization, which totaled \$9.0 million. The year-over-year improvement in non-interest expenses reflects management’s ongoing efforts to reduce costs throughout the organization.

### **Income Tax Expense**

Income tax expense for the six months ended June 30, 2019 declined \$10.2 million or 14% to \$64.1 million and reflects an effective tax rate of 24.77%.

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

Quantitative and qualitative disclosures about the Company’s market risk were presented on pages 73 and 77 of our 2018 Annual Report on Form 10-K, filed with the SEC on March 1, 2019. Subsequent changes in the Company’s market risk profile and interest rate sensitivity are detailed in the discussion entitled “Management of Market and Interest Rate Risk” earlier in this quarterly report.

## **ITEM 4. CONTROLS AND PROCEDURES**

### ***(a) Evaluation of Disclosure Controls and Procedures***

Disclosure controls and procedures are the controls and other procedures that are designed to ensure that information required to be disclosed in the reports that the Company files or submits under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the U.S. Securities and Exchange Commission’s (the “SEC’s”) rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in the reports that the Company files or submits under the Exchange Act is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

As of the end of the period covered by this report, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures pursuant to Rule 13a-15(b), as adopted by the SEC under the Securities Exchange Act of 1934 (the "Exchange Act"). Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of the end of the period.

***(b) Changes in Internal Control over Financial Reporting***

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



## **PART II – OTHER INFORMATION**

### **Item 1. Legal Proceedings**

The Company is involved in various legal actions arising in the ordinary course of its business. All such actions in the aggregate involve amounts that are believed by management to be immaterial to the financial condition and results of operations of the Company.

### **Item 1A. Risk Factors**

In addition to the other information set forth in this report, readers should carefully consider the factors discussed in Part I, “Item 1A. Risk Factors” in the Company’s Annual Report on Form 10-K for the year ended December 31, 2018, as such factors could materially affect the Company’s business, financial condition, or future results of operations.

The following additional risk factor supplements the risk factors disclosed in Part I “Item 1A. Risk Factors” in the Company’s Annual Report on Form 10-K for the year ended December 31, 2018.

#### ***Our New York State multi-family loan portfolio could be adversely impacted by changes in legislation or regulation.***

On June 14, 2019, the New York State legislature passed the Housing Stability and Tenant Protection Act of 2019 impacting about one million rent regulated apartment units. Among other things, the new legislation: (i) curtails rent increases from Material Capital Improvements and Individual Apartment Improvements; (ii) all but eliminates the ability for apartments to exit rent regulation; (iii) does away with vacancy decontrol and high-income deregulation; and (iv) repealed the 20% vacancy bonus. While it is too early to measure the full impact of the legislation, in total, it generally limits a landlord’s ability to increase rents on rent regulated apartments and makes it more difficult to convert rent regulated apartments to market rate apartments. As a result, the value of the collateral located in New York State securing the Company’s multi-family loans or the future net operating income of such properties could potentially become impaired.

### **Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

#### ***Shares Repurchased Pursuant to the Company’s Stock-Based Incentive Plans***

Participants in the Company’s stock-based incentive plans may have shares of common stock withheld to fulfill the income tax obligations that arise in connection with the vesting of their stock awards. Shares that are withheld for this purpose are repurchased pursuant to the terms of the applicable stock-based incentive plan, rather than pursuant to the share repurchase program authorized by the Board of Directors, described below.

#### ***Shares Repurchased Pursuant to the Board of Directors’ Share Repurchase Authorization***

On October 23, 2018, the Board of Directors authorized the repurchase of up to \$300 million of the Company’s common stock. Under said authorization, shares may be repurchased on the open market or in privately negotiated transactions.

Shares that are repurchased pursuant to the Board of Directors’ authorization, and those that are repurchased pursuant to the Company’s stock-based incentive plans, are held in our Treasury account and may be used for various corporate purposes, including, but not limited to, merger transactions and the vesting of restricted stock awards.

As indicated in the table below, during the three months ended June 30, 2019, the Company allocated 3,485 shares or \$39,000 toward the repurchase of shares tied to its stock-based incentive plans. Also, during the first quarter of the year, the Company repurchased \$67.1 million or 7.1 million shares of its common stock under its recently authorized share repurchase program.

(dollars in thousands, except per share data)

<b><u>Second Quarter 2019</u></b>	<b><u>Total Shares of Common Stock Repurchased</u></b>	<b><u>Average Price Paid per Common Share</u></b>	<b><u>Total Allocation</u></b>
April 1 – April 30	1,870	\$11.83	\$22
May 1 – May 31	1,023	10.67	11
June 1 – June 30	592	9.75	6
Total shares repurchased	<u>3,485</u>	11.14	<u>\$39</u>

### **Item 3. Defaults upon Senior Securities**

Not applicable.

#### **Item 4. Mine Safety Disclosures**

Not applicable.

#### **Item 5. Other Information**

Not applicable.

#### **Item 6. Exhibits**

##### **Exhibit No.**

- 3.1 Amended and Restated Certificate of Incorporation. <sup>(1)</sup>
- 3.2 Certificates of Amendment of Amended and Restated Certificate of Incorporation. <sup>(2)</sup>
- 3.3 Certificate of Amendment of Amended and Restated Certificate of Incorporation. <sup>(3)</sup>
- 3.4 Certificate of Designations of the Registrant with respect to the Series A Preferred Stock, dated March 16, 2017, filed with the Secretary of State of the State of Delaware and effective March 16, 2017. <sup>(4)</sup>
- 3.5 Amended and Restated Bylaws. <sup>(5)</sup>
- 4.1 Specimen Stock Certificate. <sup>(6)</sup>
- 4.2 Deposit Agreement, dated as of March 16, 2017, by and among the Registrant, Computershare, Inc., and Computershare Trust Company, N.A., as joint depository, and the holders from time to time of the depository receipts described therein. <sup>(7)</sup>
- 4.3 Form of certificate representing the Series A Preferred Stock. <sup>(7)</sup>
- 4.4 Form of depository receipt representing the Depository Shares. <sup>(7)</sup>
- 4.5 Registrant will furnish, upon request, copies of all instruments defining the rights of holders of long-term debt instruments of the registrant and its consolidated subsidiaries.
  
- 31.1 Rule 13a-14(a) Certification of Chief Executive Officer of the Company in accordance with Section 302 of the Sarbanes-Oxley Act of 2002 (attached hereto).
- 31.2 Rule 13a-14(a) Certification of Chief Financial Officer of the Company in accordance with Section 302 of the Sarbanes-Oxley Act of 2002 (attached hereto).
- 32.0 Section 1350 Certifications of the Chief Executive Officer and Chief Financial Officer of the Company in accordance with Section 906 of the Sarbanes-Oxley Act of 2002 (attached hereto).
- 101 The following materials from the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2019, formatted in XBRL (Inline Extensible Business Reporting Language): (i) the Consolidated Statements of Condition, (ii) the Consolidated Statements of Operations and Comprehensive Income, (iii) the Consolidated Statement of Changes in Stockholders' Equity, (iv) the Consolidated Statements of Cash Flows, and (v) the Notes to the Consolidated Financial Statements.

- 
- (1) Incorporated by reference to Exhibits filed with the Company's Form 10-Q for the quarterly period ended March 31, 2001 (File No. 0-22278).
  - (2) Incorporated by reference to Exhibits filed with the Company's Form 10-K for the year ended December 31, 2003 (File No. 1-31565).
  - (3) Incorporated by reference to Exhibits to the Company's Form 8-K filed with the Securities and Exchange Commission on April 27, 2016 (File No. 1-31565).
  - (4) Incorporated by reference to Exhibits of the Company's Registration Statement on Form 8-A (File No. 333-210919), as filed with the Securities and Exchange Commission on March 16, 2017.
  - (5) Incorporated by reference to Exhibits filed with the Company's Form 10-K for the year ended December 31, 2016 (File No. 1-31565).
  - (6) Incorporated by reference to Exhibits filed with the Company's Form 10-Q for the quarterly period ended September 30, 2017 (File No. 1-31565).
  - (7) Incorporated by reference to Exhibits filed with the Company's Form 8-K filed with the Securities and Exchange

**NEW YORK COMMUNITY BANCORP, INC.**

**SIGNATURES**

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

New York Community Bancorp, Inc.  
(Registrant)

DATE: August 9, 2019

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

DATE: August 9, 2019

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

**NEW YORK COMMUNITY BANCORP, INC.**

**CERTIFICATION PURSUANT TO SECTION 302**  
**OF THE SARBANES-OXLEY ACT OF 2002**

I, Joseph R. Ficalora, certify that:

1. I have reviewed this quarterly report on Form 10-Q of New York Community Bancorp, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

DATE: August 9, 2019

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

**NEW YORK COMMUNITY BANCORP, INC.****CERTIFICATION PURSUANT TO SECTION 302  
OF THE SARBANES-OXLEY ACT OF 2002**

I, Thomas R. Cangemi, certify that:

1. I have reviewed this quarterly report on Form 10-Q of New York Community Bancorp, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

DATE: August 9, 2019

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

**NEW YORK COMMUNITY BANCORP, INC.**

**CERTIFICATIONS PURSUANT TO 18 U.S.C. SECTION 1350 AS ADOPTED  
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report of New York Community Bancorp, Inc. (the “Company”) on Form 10-Q for the period ended on June 30, 2019 as filed with the Securities and Exchange Commission (the “Report”), the undersigned certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of and for the period covered by the Report.

DATE: August 9, 2019

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

DATE: August 9, 2019

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