NEW YORK COMMUNITY BANCORP INC
Form 10-Q
August 09, 2010
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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, 2010

Commission File Number 1-31565

NEW YORK COMMUNITY BANCORP, INC.

(Exact name of registrant as specified in its charter)

Delaware	**06-1377322**

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

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

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

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

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

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

435,545,171

Number of shares of common stock outstanding at

August 3, 2010

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NEW YORK COMMUNITY BANCORP, INC.

CONSOLIDATED STATEMENTS OF CONDITION

(in thousands, except share data)

	June 30, 2010 (unaudited)	December 31, 2009
Assets:		
Cash and cash equivalents	$ 2,614,325	$ 2,670,857
Securities available for sale:		
Mortgage-related ($543,383 and $602,233 pledged, respectively)	597,970	774,205
Other securities ($234,771 and $302,022 pledged, respectively)	333,963	744,441
Total available-for-sale securities	931,933	1,518,646
Securities held to maturity:		
Mortgage-related ($1,812,723 and $2,459,161 pledged, respectively) (fair value of $1,906,106 and $2,551,608, respectively)	1,819,478	2,465,956
Other securities ($1,659,065 and $1,564,585 pledged, respectively) (fair value of $1,955,285 and $1,698,054, respectively)	1,945,836	1,757,641
Total held-to-maturity securities	3,765,314	4,223,597
Total securities	4,697,247	5,742,243
Loans held for sale	930,565	
Non-covered loans held for investment, net of deferred loan fees and costs	23,592,926	23,376,599
Less: Allowance for loan losses	(140,583)	(127,491)
Non-covered loans held for investment, net	23,452,343	23,249,108
Covered loans (includes $351.3 million of loans held for sale at December 31, 2009)	4,626,574	5,016,100
Total loans, net	29,009,482	28,265,208
Federal Home Loan Bank (FHLB) stock, at cost	446,845	496,742
Premises and equipment, net	200,233	205,165
FDIC loss share receivable	825,608	743,276
Goodwill	2,436,327	2,436,401
Core deposit intangibles, net	93,226	105,764
Bank-owned life insurance	728,946	715,962
Other assets (includes $38.0 million of other real estate owned (OREO) covered by FDIC loss sharing agreements at June 30, 2010)	958,508	772,251
Total assets	$ 42,010,747	$ 42,153,869
Liabilities and Stockholders Equity:		
Deposits:		
NOW and money market accounts	$ 8,178,524	$ 7,706,288
Savings accounts	3,915,083	3,788,294
Certificates of deposit	8,635,360	9,053,891
Non-interest-bearing accounts	1,714,701	1,767,938
Total deposits	22,443,668	22,316,411

Borrowed funds:		
FHLB advances	8,460,674	8,955,769
Repurchase agreements	4,125,000	4,125,000
Total wholesale borrowings	12,585,674	13,080,769
Junior subordinated debentures	427,205	427,371
Other borrowings	653,605	656,546
Total borrowed funds	13,666,484	14,164,686
Other liabilities	454,161	305,870
Total liabilities	36,564,313	36,786,967
Stockholders equity:		
Preferred stock at par $0.01 (5,000,000 shares authorized; none issued)		
Common stock at par $0.01 (600,000,000 shares authorized; 435,504,508 and 433,197,332 shares issued and outstanding, respectively)	4,355	4,332
Paid-in capital in excess of par	5,276,635	5,238,231
Retained earnings	218,730	175,193
Unallocated common stock held by Employee Stock Ownership Plan (ESOP)	(481)	(951)
Accumulated other comprehensive loss, net of tax:		
Net unrealized gain (loss) on securities available for sale, net of tax	1,138	(457)
Net unrealized loss on securities transferred from available-for-sale to held to maturity and the non-credit portion of other-than-temporary impairment (OTTI) losses, net of tax	(15,909)	(9,744)
Net unrealized loss on pension and post-retirement obligations, net of tax	(38,034)	(39,702)
Total accumulated other comprehensive loss, net of tax	(52,805)	(49,903)
Total stockholders equity	5,446,434	5,366,902
Total liabilities and stockholders equity	$ 42,010,747	$ 42,153,869

See accompanying notes to the unaudited consolidated financial statements.

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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,	
	2010	2009	2010	2009
Interest Income:				
Mortgage and other loans	$ 417,168	$ 321,640	$ 830,843	$ 643,357
Securities and money market investments	66,019	80,056	134,722	158,445
Total interest income	483,187	401,696	965,565	801,802
Interest Expense:				
NOW and money market accounts	16,413	7,314	32,844	14,877
Savings accounts	5,800	3,565	11,545	7,781
Certificates of deposit	37,327	44,617	74,880	97,340
Borrowed funds	129,446	128,615	257,511	257,304
Total interest expense	188,986	184,111	376,780	377,302
Net interest income	294,201	217,585	588,785	424,500
Provision for loan losses	22,000	12,000	42,000	18,000
Net interest income after provision for loan losses	272,201	205,585	546,785	406,500
Non-Interest Income (Loss):				
Total loss on OTTI of securities	(481)	(51,073)	(13,666)	(51,073)
Less: Non-credit portion of OTTI recorded in other comprehensive income (before taxes)	59	11,345	12,521	11,345
Net loss on OTTI recognized in earnings	(422)	(39,728)	(1,145)	(39,728)
Fee income	14,088	9,282	28,053	18,573
Bank-owned life insurance	6,775	6,728	14,176	13,568
Net loss on sale of securities			(8)	
Gain on business acquisition	10,780		10,780	
Gain on debt repurchase			293	
Other	49,192	6,007	83,308	12,052
Total non-interest income (loss)	80,413	(17,711)	135,457	4,465
Non-Interest Expense:				
Operating expenses:				
Compensation and benefits	67,797	45,045	134,697	87,467
Occupancy and equipment	22,115	17,907	43,780	36,643
General and administrative	43,576	38,975	83,866	61,728

Total operating expenses	133,488	101,927	262,343	185,838
Amortization of core deposit intangibles	7,883	5,476	15,775	11,163
Total non-interest expense	141,371	107,403	278,118	197,001
Income before income taxes	211,243	80,471	404,124	213,964
Income tax expense	74,985	24,023	143,717	68,827
Net Income	$ 136,258	$ 56,448	$ 260,407	$ 145,137
Other comprehensive income, net of tax:				
Change in net unrealized gain on securities and non-credit portion of OTTI for the period	212	1,264	(4,571)	9,294
Change in pension and post-retirement obligations	835	1,111	1,669	2,314
Total comprehensive income, net of tax	$ 137,305	$ 58,823	$ 257,505	$ 156,745
Basic earnings per share	$ 0.31	$ 0.16	$ 0.60	$ 0.42
Diluted earnings per share	$ 0.31	$ 0.16	$ 0.60	$ 0.42

See accompanying notes to the unaudited consolidated financial statements.

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NEW YORK COMMUNITY BANCORP, INC.

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS EQUITY

(in thousands, except share data)

(unaudited)

	Six Months Ended June 30, 2010
Common Stock (Par Value: $0.01):	
Balance at beginning of year	$ 4,332
Shares issued for restricted stock awards (353,944 shares)	4
Shares issued for stock options exercised (186,750 shares)	2
Shares issued in connection with the direct stock purchase feature of the Dividend Reinvestment and Stock Purchase Plan (DRP) (1,766,482 shares)	17
Balance at end of period	4,355
Paid-in Capital in Excess of Par:	
Balance at beginning of year	5,238,231
Allocation of ESOP stock	1,899
Shares issued for restricted stock awards, net of forfeitures	(1,114)
Compensation expense related to restricted stock awards	5,693
Exercise of stock options	1,905
Tax effect of stock plans	1,103
Shares issued in connection with the direct stock purchase feature of the DRP	28,918
Balance at end of period	5,276,635
Retained Earnings:	
Balance at beginning of year	175,193
Net income	260,407
Dividends paid on common stock ($0.50 per share)	(216,870)
Balance at end of period	218,730
Treasury Stock:	
Balance at beginning of year	
Purchase of common stock (175,537 shares)	(2,758)
Exercise of stock options (104,981 shares)	1,648
Shares issued for restricted stock awards (70,556 shares)	1,110
Balance at end of period	
Unallocated Common Stock Held by ESOP:	
Balance at beginning of year	(951)
Earned portion of ESOP	470
Balance at end of period	(481)

Accumulated Other Comprehensive Loss, net of tax:		
Balance at beginning of year		(49,903)
Change in net unrealized gain on securities available for sale, net of tax of $637		958
Non-credit portion of OTTI loss recognized in other comprehensive income, net of tax of $4,861		(7,660)
Amortization of net unrealized loss on securities transferred from available for sale to held to maturity, net of tax of $905		1,426
Change in pension and post-retirement obligations, net of tax of $1,058		1,669
Reclassification adjustment for loss on sale and OTTI of securities, net of tax of $448		705
Balance at end of period		(52,805)
Total stockholders equity at end of period	$	5,446,434

See accompanying notes to the unaudited consolidated financial statements.

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NEW YORK COMMUNITY BANCORP, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	Six Months Ended June 30,	
	2010	**2009**
Cash Flows from Operating Activities:		
Net income	$ 260,407	$ 145,137
Adjustments to reconcile net income to net cash used in operating activities:		
Provision for loan losses	42,000	18,000
Depreciation and amortization	9,752	10,016
Amortization of premiums (accretion of discounts), net	2,763	(3,943)
Net change in net deferred loan origination costs and fees	2,953	(932)
Amortization of core deposit intangibles	15,775	11,163
Net loss on sale of securities	8	
Net gain on sale of loans	(25,814)	(285)
Gain on business acquisition	(10,780)	
Stock plan-related compensation	8,062	6,679
Loss on OTTI of securities recognized in earnings	1,145	39,728
Changes in assets and liabilities:		
Decrease (increase) in deferred tax asset, net	12,200	(16,138)
Increase in other assets	(189,344)	(85,622)
Increase (decrease) in other liabilities	144,793	(135,111)
Origination of loans held for sale	(3,507,401)	(50,619)
Proceeds from sale of loans originated for sale	2,953,595	43,032
Net cash used in operating activities	(279,886)	(18,895)
Cash Flows from Investing Activities:		
Proceeds from repayment of securities held to maturity	1,780,505	1,900,150
Proceeds from repayment of securities available for sale	588,726	150,050
Proceeds from sale of securities available for sale	660	
Purchase of securities held to maturity	(1,331,059)	(1,808,546)
Net redemption (purchase) of FHLB stock	53,484	(38,084)
Net increase in loans	(12,895)	(590,433)
Purchase of premises and equipment, net	(4,820)	(3,391)
Net cash acquired in business acquisition	140,895	
Net cash provided by (used in) investing activities	1,215,496	(390,254)
Cash Flows from Financing Activities:		
Net decrease in deposits	(263,385)	(21,567)
Net increase in short-term borrowed funds		512,500
Net (decrease) increase in long-term borrowed funds	(542,706)	49,793
Tax effect of stock plans	1,103	1,321
Cash dividends paid on common stock	(216,870)	(172,113)
Treasury stock purchases	(2,758)	(1,262)
Net cash received from stock option exercises	3,539	25
Proceeds from issuance of common stock, net	28,935	

Net cash (used in) provided by financing activities	(992,142)	368,697
Net decrease in cash and cash equivalents	(56,532)	(40,452)
Cash and cash equivalents at beginning of period	2,670,857	203,216
Cash and cash equivalents at end of period	$ 2,614,325	$ 162,764
Supplemental information:		
Cash paid for interest	$ 414,470	$ 380,345
Cash paid for income taxes	147,548	162,382
Non-cash investing and financing activities:		
Transfers to other real estate owned from loans	20,890	561

Note: Excluding the core deposit intangible and the FDIC loss share receivable, the fair values of non-cash assets acquired and of liabilities assumed in the acquisition of Desert Hills Bank on March 26, 2010 were $245.4 million and $445.6 million, respectively.

See accompanying notes to the unaudited consolidated financial statements.

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NEW YORK COMMUNITY BANCORP, INC.

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Basis of Presentation

The accompanying unaudited consolidated financial statements include the accounts of New York Community Bancorp, Inc. and subsidiaries (the Company), including its two bank subsidiaries, New York Community Bank (the Community Bank) and New York Commercial Bank (the Commercial Bank). The unaudited consolidated financial statements reflect all normal recurring adjustments that, in the opinion of management, are necessary to present a fair statement of the results for the periods presented. There are no other adjustments reflected in the accompanying consolidated financial statements. The results of operations for the three and six months ended June 30, 2010 are not necessarily indicative of the results of operations that may be expected for all of 2010.

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

The unaudited consolidated financial statements include the accounts of the Company and other entities in which the Company has a controlling financial interest. All inter-company balances and transactions have been eliminated. These unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company s 2009 Annual Report on Form 10-K.

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

Note 2. Business Combinations

AmTrust Bank

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

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

As part of the Purchase and Assumption Agreement entered into by the Community Bank with the FDIC in connection with the AmTrust acquisition, the Community Bank entered into loss sharing agreements, in accordance with which the FDIC will cover a substantial portion of any future losses on the acquired loans. The acquired loans that are subject to the loss sharing agreements are collectively referred to as covered loans. Under the terms of the loss sharing agreements, the FDIC is obligated to reimburse the Community Bank for 80% of losses up to $907.0 million and 95% of losses in excess of $907.0 million with respect to the covered loans. The Community Bank will reimburse the FDIC for 80% of recoveries with respect to losses for which the FDIC paid the Community Bank 80% reimbursement, and for 95% of recoveries with respect to losses for which the FDIC paid the Community Bank 95% reimbursement under the loss sharing agreements. The expected net reimbursements under the loss sharing agreements were recorded as an indemnification asset (an FDIC loss share receivable) at an estimated fair value of $740.0 million on the acquisition date. The loss sharing agreements are subject to the Company following certain servicing procedures, as specified in the loss sharing agreements with the FDIC.

Furthermore, the Community Bank has agreed to pay to the FDIC, on January 18, 2020 (the True-Up Measurement Date), half of the amount, if positive, calculated as (1) $181,400,000 minus (2) the sum of (a) 25% of the asset discount bid made in connection with the AmTrust acquisition; (b) 25% of the Cumulative Shared-Loss Payments (as defined below); and (c) the sum of the period servicing amounts for every consecutive twelve-month period prior to, and ending on, the True-Up Measurement Date in respect of each of the shared loss agreements

NEW YORK COMMUNITY BANCORP, INC.

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

during which the applicable shared loss agreement is in effect (with such period servicing amounts to equal, for any twelve-month period with respect to which each of the shared loss agreements during which such shared loss agreement is in effect, the product of the simple average of the principal amount of shared loss loans and shared loss assets at the beginning and end of such period and 1%). For the purposes of the above calculation, Cumulative Shared-Loss Payments means (i) the aggregate of all of the payments made or payable to the Community Bank under the shared-loss agreements minus (ii) the aggregate of all of the payments made or payable to the FDIC under the shared-loss agreements.

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

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

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

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

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

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

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

Net after-tax gain on the AmTrust acquisition	$	84,197

The net after-tax gain represents the excess of the estimated fair value of the assets acquired (including cash payments received from the FDIC) over the estimated fair value of the liabilities assumed, and is influenced significantly by the FDIC-assisted transaction process. Under the FDIC-assisted transaction process, only certain

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NEW YORK COMMUNITY BANCORP, INC.

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

assets and liabilities are transferred to the acquirer and, depending on the nature and amount of the acquirer s bid, the FDIC may be required to make a cash payment to the acquirer. As indicated in the preceding table, net liabilities of $2.8 billion (i.e., the cost basis) were transferred to the Company in the AmTrust acquisition, and the FDIC made cash payments to the Company totaling $3.2 billion.

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

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

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

Net assets acquired	$	84,197

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

NEW YORK COMMUNITY BANCORP, INC.

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

Desert Hills Bank

On March 26, 2010, the Community Bank acquired certain assets and assumed certain liabilities of Desert Hills Bank (Desert Hills) from the FDIC in an FDIC-assisted transaction (the Desert Hills acquisition). Headquartered in Phoenix, Arizona, Desert Hills operated six branch locations in Arizona. In the second quarter of 2010, three of those locations were consolidated into neighboring branches of AmTrust Bank.

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

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

In addition, the Community Bank will reimburse the FDIC for 80% of recoveries with respect to losses for which the FDIC paid the Community Bank 80% reimbursement, and for 95% of recoveries with respect to losses for which the FDIC paid the Community Bank 95% reimbursement under the loss sharing agreements. The expected net reimbursements under the loss sharing agreements were recorded as an indemnification asset (an FDIC loss share receivable) at an estimated fair value of $62.6 million on the acquisition date. The loss sharing agreements are subject to the Company following certain servicing procedures, as specified in the loss sharing agreements with the FDIC.

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

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

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

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The application of the acquisition method of accounting resulted in a bargain purchase gain of $10.8 million, which is included in non-interest income in the Company s Consolidated Statement of Income and Comprehensive Income for the six months ended June 30, 2010. This gain amounted to $6.6 million after-tax.

Under the FDIC-assisted transaction process, only certain assets and liabilities are transferred to the acquirer and, depending on the nature and amount of the acquirer s bid, the FDIC may be required to make a cash payment to the acquirer. The Community Bank acquired assets at fair value including $140.9 million in cash and cash equivalents (inclusive of $86.8 million received from the FDIC), loans of $196.7 million, OREO of $38.6 million, and securities of $5.2 million. The Community Bank also assumed, at fair value, $390.6 million in deposits and $44.5 million in FHLB-San Francisco advances. These advances were extinguished by the Community Bank in March with a cash payment of $44.5 million on March 29, 2010.

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

Fair Value of Assets Acquired and Liabilities Assumed

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

Cash and Cash Equivalents

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

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

Investment Securities and FHLB Stock

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

The fair value of FHLB stock approximates the redemption amount.

Loans

The acquired loan portfolios were segregated into various components for valuation purposes in order to group loans based on their significant financial characteristics, such as loan type (mortgages, HELOCs, commercial and industrial, or consumer), borrower type, and payment status (performing or non-performing). The estimated fair values of mortgage and other loans were computed by discounting the anticipated cash flows from the respective portfolios. We estimated the cash flows expected to be collected at the acquisition date by using interest rate risk and

prepayment risk models that incorporated our best estimate of current key assumptions, such as default rates,

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loss severity rates, and prepayment speeds. Prepayment assumptions use swap rates and various relevant reference rates (e.g., U.S. Treasury obligations) as benchmarks. Prepayment assumptions are developed by reference to historical prepayment speeds of loans with similar characteristics and by developing base curves for loans with particular reset and prepayment penalty periods. Once the base curves are determined, other factors that will influence constant prepayment rates in the future include, but are not limited to, current loan-to-value ratios, loan balances, home price appreciation, documentation type, and forward rates. Loss severity rates are based on, or developed by using, historical loss rates of loans in a loan performance database. The major inputs include, but are not limited to, current loan-to-value ratios, home price appreciation, payment history, original FICO scores, original debt-to-income ratios, property type, and loan balances.

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

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

Other Real Estate Owned (OREO)

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

FDIC Loss Share Receivable

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

Core Deposit Intangible (CDI)

CDI is a measure of the value of non-interest-bearing accounts, checking accounts, savings accounts, and NOW and money market accounts that are acquired in a business combination. The fair value of the CDI stemming

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from any given business combination is based on the present value of the expected cost savings attributable to the core deposit funding, relative to an alternative source of funding. The CDI that relates to the AmTrust and Desert Hills acquisitions will be amortized over an estimated useful life of seven years to approximate the existing deposit relationships acquired. The Company evaluates such identifiable intangibles for impairment when an indication of impairment exists.

Deposit Liabilities

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

Borrowed Funds

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

Note 3. Stock-Based Compensation

At June 30, 2010, the Company had 4,640,158 shares available for grant as options, restricted stock, or other forms of related rights under the New York Community Bancorp, Inc. 2006 Stock Incentive Plan (the 2006 Stock Incentive Plan). Under the 2006 Stock Incentive Plan, the Company granted 424,500 shares of restricted stock in the six months ended June 30, 2010, with an average fair value of $16.31 per share on the date of grant and a vesting period of five years. The six-month amount includes 25,000 shares that were granted in the second quarter with an average fair value of $16.60 per share on the date of grant. Compensation and benefits expense related to restricted stock grants is recognized on a straight-line basis over the vesting period, and totaled $2.8 million and $2.3 million, respectively, in the three months ended June 30, 2010 and 2009, and $5.7 million and $4.8 million, respectively, in the six months ended at those dates.

A summary of activity with regard to restricted stock awards during the six months ended June 30, 2010 is presented in the following table:

	For the Six Months Ended June 30, 2010	
	Number of Shares	Weighted Average Grant Date Fair Value
Unvested at January 1, 2010	3,000,824	$ 13.95
Granted	424,500	16.31
Vested	(444,800)	15.93
Forfeited/expired	(11,600)	13.45
Unvested at June 30, 2010	2,968,924	13.99

As of June 30, 2010, unrecognized compensation costs relating to unvested restricted stock totaled $37.3 million. This amount will be recognized over a remaining weighted average period of 3.8 years.

In addition, the Company had eleven stock option plans at June 30, 2010: the 1993 and 1997 New York Community Bancorp, Inc. Stock Option Plans; the 1993 and 1996 Haven Bancorp, Inc. Stock Option Plans; the 1998 Richmond County Financial Corp. Stock Compensation Plan; the T R Financial Corp. 1993 Incentive Stock Option Plan; the Roslyn Bancorp, Inc. 1997 and 2001 Stock-based Incentive Plans; the 1998 Long Island Financial Corp. Stock Option Plan; and the 2003 and 2004 Synergy Financial Group, Inc. Stock Option Plans (all eleven plans

collectively referred to as the Stock Option Plans). All stock options granted under the Stock Option Plans expire ten years from the date of grant.

Using the modified prospective approach, the Company recognizes compensation costs related to share-based payments at fair value on the date of grant, and recognizes such costs in the financial statements over the vesting

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period during which the employee provides service in exchange for the award. However, as there were no unvested options at any time during the six months ended June 30, 2010 or the year ended December 31, 2009, the Company did not record any compensation and benefits expense relating to stock options during these periods.

Generally, the Company issues new shares of common stock to satisfy the exercise of options. The Company may also use common stock held in Treasury to satisfy the exercise of options. In such event, the difference between the average cost of Treasury shares and the exercise price is recorded as an adjustment to retained earnings or paid-in capital on the date of exercise. At June 30, 2010, there were 12,720,656 stock options outstanding. The number of shares available for future issuance under the Stock Option Plans was 11,151 at June 30, 2010.

The status of the Company s Stock Option Plans at June 30, 2010 and the changes that occurred during the six months ended at that date are summarized in the following table:

	For the Six Months Ended June 30, 2010	
	Number of Stock Options	Weighted Average Exercise Price
Stock options outstanding and exercisable at January 1, 2010	13,037,564	$ 15.56
Exercised	(305,458)	11.53
Forfeited/expired	(11,450)	16.28
Stock options outstanding and exercisable at June 30, 2010	12,720,656	15.66

Total stock options outstanding and exercisable at June 30, 2010 had a weighted average remaining contractual life of 1.84 years, a weighted average exercise price of $15.66 per share, and an aggregate intrinsic value of $9.1 million. The intrinsic value of options exercised during the six months ended June 30, 2010 was $1.5 million. The intrinsic value of options exercised in the year-earlier six-month period was nominal.

Note 4. Securities

The following tables summarize the Company s portfolio of securities available for sale at June 30, 2010 and December 31, 2009:

	June 30, 2010			
(in thousands)	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value
Mortgage-Related Securities:				
GSE[1] certificates	$ 227,822	$ 9,613	$ 5	$ 237,430
GSE CMOs[2]	277,150	11,283		288,433
Private label CMOs	75,203		3,096	72,107
Total mortgage-related securities	$ 580,175	$ 20,896	$ 3,101	$ 597,970
Other Securities:				
U.S. Treasury obligations	$ 228,964	$ 635	$	$ 229,599
GSE debentures	621	13		634

Corporate bonds	5,810	3	750	5,063
State, county, and municipal	1,424	51	1	1,474
Capital trust notes	38,273	7,007	4,940	40,340
Preferred stock	31,400	60	11,775	19,685
Common stock	43,759	2,100	8,691	37,168
Total other securities	$ 350,251	$ 9,869	$ 26,157	$ 333,963
Total securities available for sale[3]	$ 930,426	$ 30,765	$ 29,258	$ 931,933

(1) Government-sponsored enterprises

(2) Collateralized mortgage obligations

(3) As of June 30, 2010, the non-credit portion of OTTI recorded in accumulated other comprehensive loss, net of tax (AOCL) was $571,000 (before taxes).

As of June 30, 2010, the amortized cost of marketable equity securities included perpetual preferred stock of $31.4 million and common stock of $43.8 million. Perpetual preferred stock consisted of investments in two

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financial institutions: one of the largest banking and financial services organizations in the world and a Florida-based diversified financial services firm that provides a variety of banking, wealth management, and outsourced business processing services to high-net worth clients and premier financial institutions. Common stock primarily consisted of an investment in a large cap equity fund and certain other funds that are Community Reinvestment Act (CRA) eligible.

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

The following tables summarize the Company s portfolio of securities held to maturity at June 30, 2010 and December 31, 2009:

(in thousands)	June 30, 2010 Amortized Cost	Carrying Amount(1)	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value
Mortgage-Related Securities:					
GSE certificates	$ 186,425	$ 186,425	$ 17,070	$	$ 203,495
GSE CMOs	1,626,298	1,626,298	69,558		1,695,856
Other mortgage-related securities	6,755	6,755			6,755
Total mortgage-related securities	$ 1,819,478	$ 1,819,478	$ 86,628	$	$ 1,906,106
Other Securities:					
GSE debentures	$ 1,692,652	$ 1,692,652	$ 10,808	$	$ 1,703,460
Corporate bonds	97,088	97,088	7,578		104,666
Capital trust notes	178,044	156,096	17,965	26,902	147,159

Total other securities	$ 1,967,784	$ 1,945,836	$ 36,351	$ 26,902	$ 1,955,285
Total securities held to maturity	$ 3,787,262	$ 3,765,314	$ 122,979	$ 26,902	$ 3,861,391

(1) Held-to-maturity securities are reported at a carrying amount equal to amortized cost less the non-credit portion of OTTI recorded in AOCL. At June 30, 2010, the non-credit portion recorded in AOCL was $21.9 million (before taxes).

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NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

Included in the $187.5 million market value of the capital trust note portfolio held at June 30, 2010 are three pooled trust preferred securities. The table below details the pooled trust preferred securities that have at least one credit rating below investment grade as of June 30, 2010:

(dollars in thousands)	**INCAPS Funding I Class B-2 Notes**	**Alesco Preferred Funding VII Ltd. Class C-1 Notes**	**Preferred Term Securities II Mezzanine Notes**
Book value	$ 14,964	$ 553	$ 625
Fair value	21,459	553	1,251
Unrealized gain/(loss)	6,495		626
Lowest credit rating assigned to security	B	CC	CC
Number of banks currently performing	26	63	23
Actual deferrals and defaults as a percentage of original collateral	6%	28%	36%
Expected deferrals and defaults as a percentage of remaining performing collateral	25	27	0
Expected recoveries as a percentage of remaining performing collateral	0	0	10
Excess subordination as a percentage of remaining performing collateral	8	0	0

As of June 30, 2010, after taking into account our best estimates of future deferrals, defaults, and recoveries, two of our pooled trust preferred securities had no excess subordination in the classes we own and one had excess subordination of 8%. Excess subordination is calculated after taking into account the deferrals, defaults, and recoveries noted in the table above, and indicates whether there is sufficient additional collateral to cover the outstanding principal balance of the class we own, after taking into account these projected deferrals, defaults, and recoveries.

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

(in thousands)		For the Six Months Ended June 30, 2010
Beginning credit loss amount as of December 31, 2009		$ 199,883
Add:	Initial other-than-temporary credit losses	331
	Subsequent other-than-temporary credit losses	814
Less:	Realized losses for securities sold	
	Securities intended or required to be sold	
	Increases in expected cash flows on debt securities	
Ending credit loss amount as of June 30, 2010		$ 201,028

OTTI losses on securities totaled $13.7 million in the six months ended June 30, 2010 and consisted entirely of trust preferred securities. The OTTI losses that were related to credit were recognized in earnings and totaled $1.1 million during this period, and were determined through a present-value analysis of expected cash flows on the securities. The significant inputs that the Company used to determine these expected cash flows were the anticipated magnitude and timing of interest payment deferrals, if any, and the underlying creditworthiness of the individual issuers whose debt acts as collateral for these trust preferred securities. The discount rate used to estimate the fair value was determined by considering the weighted average of certain market credit spreads, as well as credit spreads interpolated using other market factors. The discount rate used in determining the credit portion of OTTI, if any, is the yield on the position at the time of purchase.

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The following table presents held-to-maturity and available-for-sale securities having a continuous unrealized loss position for less than twelve months or for twelve months or longer as of June 30, 2010:

At June 30, 2010	**Less than Twelve Months**		**Twelve Months or Longer**		**Total**	
(in thousands)	**Fair Value**	**Unrealized Loss**	**Fair Value**	**Unrealized Loss**	**Fair Value**	**Unrealized Loss**
Temporarily Impaired Held-to-Maturity Debt Securities:						
Capital trust notes	$ 1,561	$ 18	$ 69,140	$ 26,884	$ 70,701	$ 26,902
Total temporarily impaired held-to-maturity debt securities	$ 1,561	$ 18	$ 69,140	$ 26,884	$ 70,701	$ 26,902
Temporarily Impaired Available-for-Sale Securities:						
Debt Securities:						
GSE certificates	$ 2,286	$ 5	$	$	$ 2,286	$ 5
Private label CMOs			72,107	3,096	72,107	3,096
Corporate bonds			4,045	750	4,045	750
State, county, and municipal	133	1			133	1
Capital trust notes	4,016	10	9,689	4,930	13,705	4,940
Total temporarily impaired available-for-sale debt securities	$ 6,435	$ 16	$ 85,841	$ 8,776	$ 92,276	$ 8,792
Equity securities	11,901	549	29,833	19,917	41,734	20,466
Total temporarily impaired available-for-sale securities	$ 18,336	$ 565	$ 115,674	$ 28,693	$ 134,010	$ 29,258

The twelve months or longer unrealized losses of $19.9 million relating to available-for-sale equity securities primarily consisted of two security positions. The first is a perpetual preferred stock of a Florida-based diversified financial services firm, which was evaluated under the debt model described on page 119 of the Company s 2009 Annual Report on Form 10-K; and the second was a large cap equity fund. The respective twelve months or longer unrealized losses on the preferred stock and the large cap equity fund were $11.2 million and $7.7 million, respectively.

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

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

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

Available-for-sale securities in unrealized loss positions are analyzed as part of the Company s ongoing assessment of OTTI. When the Company intends to sell such available-for-sale securities, the Company recognizes an impairment loss equal to the full difference between the amortized cost basis and the fair value of those securities. When the Company does not intend to sell available-for-sale equity or debt securities in an unrealized loss position, potential OTTI is considered based on a variety of factors, including the length of time and extent to which the fair value has been less than cost; adverse conditions specifically related to the industry, the geographic area, or financial condition of the issuer or the underlying collateral of a security; the payment structure of the security; changes to the rating of the security by a rating agency; the volatility of the fair value changes; and changes in fair value of the security after the balance sheet date. For debt securities, the Company estimates cash flows over the remaining lives of the underlying collateral to assess whether credit losses exist and, where applicable, to determine if any adverse changes in cash flows have occurred. The Company s cash flow estimates take into account expectations of relevant market and economic data as of the end of the reporting period. As of June 30, 2010, the Company did not intend to sell the securities with an unrealized loss position in AOCL, and it was more likely than not that the Company would be required to sell these securities before recovery of their amortized cost basis. The Company believes that the securities with an unrealized loss in AOCL were not other-than-temporarily impaired as of June 30, 2010.

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

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

The unrealized losses on the Company s GSE debentures and GSE CMOs at June 30, 2010 were primarily caused by movements in market interest rates and spread volatility, rather than credit risk. The Company purchased these investments either at par or at a discount relative to their face amount, and the contractual cash flows of these investments are guaranteed by the GSEs. Accordingly, it is expected that these securities would not be settled at a price that is less than the amortized cost of the Company s investment. Because the Company does not have the intent to sell the investments and it is not more likely than not that the Company will be required to sell the investments before anticipated recovery of fair value, which may be at maturity, the Company did not consider these investments to be other-than-temporarily impaired at June 30, 2010.

The Company reviews quarterly financial information related to its investments in capital securities as well as other information that is released by each financial institution to determine the continued creditworthiness of the

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securities they issued. The contractual terms of these investments do not permit settling the securities at prices that are less than the amortized costs of the investments; therefore, the Company expects that these investments would not be settled at prices that are less than their amortized costs. The Company continues to monitor these investments and currently estimates that the present value of expected cash flows is not less than the amortized cost of the securities. Because the Company does not have the intent to sell the investments and it is not more likely than not that the Company will be required to sell the investments before anticipated recovery of fair value, which may be at maturity, it did not consider these investments to be other-than-temporarily impaired at June 30, 2010. It is possible that these securities will perform worse than is currently expected, which could lead to adverse changes in cash flows on these securities and potential OTTI losses in the future. Events that may occur in the future at the financial institutions that issued these securities could trigger material unrecoverable declines in fair values for the Company s investments and therefore could result in future potential OTTI losses. Such events include, but are not limited to, government intervention, deteriorating asset quality and credit metrics, significantly higher levels of default and loan loss provisions, losses in value on the underlying collateral, deteriorating credit enhancement, net operating losses, and further illiquidity in the financial markets.

The unrealized losses on the Company s private label CMOs at June 30, 2010 were primarily attributable to market interest rate volatility and a significant widening of interest rate spreads from the acquisition dates across market sectors relating to the continued illiquidity and uncertainty in the financial markets, rather than to credit risk. Current characteristics of each security owned, such as delinquency and foreclosure levels, credit enhancement, and projected losses and coverage, are reviewed periodically by management. Accordingly, it is expected that the securities would not be settled at a price less than the amortized cost of the Company s investment. Because the Company does not have the intent to sell the investments and it is not more likely than not that the Company will be required to sell the investments before anticipated recovery of fair value, which may be at maturity, the Company did not consider these investments to be other than temporarily impaired at June 30, 2010. It is possible that the underlying loan collateral of these securities will perform worse than is currently expected, which could lead to adverse changes in cash flows on these securities and future OTTI losses. Events that could trigger material unrecoverable declines in fair values, and therefore potential OTTI losses for these securities in the future, include, but are not limited to, deterioration of credit metrics, significantly higher levels of default, loss in value on the underlying collateral, deteriorating credit enhancement, and further illiquidity in the financial markets.

At June 30, 2010, the Company s equity securities portfolio consisted of perpetual preferred and common stock, and mutual funds. The Company considers a decline in fair value of available-for-sale equity securities to be other than temporary if the Company does not expect to recover the entire amortized cost basis of the security. In analyzing its investments in perpetual preferred stock for OTTI, the Company uses an impairment model that is applied to debt securities, consistent with guidance provided by the SEC, provided that there has been no evidence of deterioration in the creditworthiness of the issuer. If deterioration occurs, an equity security impairment model is used. The unrealized losses on the Company s equity securities were primarily caused by market volatility. In addition, perpetual preferred stock was impacted by widening interest rate spreads across market sectors related to the continued illiquidity and uncertainty in the marketplace. The Company evaluated the near-term prospects of a recovery of fair value for each security in the portfolio, together with the severity and duration of impairment to date. Based on this evaluation, and the Company s ability and intent to hold these investments for a reasonable period of time sufficient to realize a near-term forecasted recovery of fair value, the Company did not consider these investments to be other-than-temporarily impaired at June 30, 2010. Nonetheless, it is possible that these equity securities will perform worse than currently expected, which could lead to adverse changes in their fair values or the failure of the securities to fully recover in value as presently forecasted by management, causing the Company to record OTTI losses in future periods. Events that could trigger material declines in the fair values of these securities include, but are not limited to, deterioration in the equity markets; a decline in the quality of the loan portfolios of the issuers in which the Company has invested; and the recording of higher loan loss provisions and net operating losses by such issuers.

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The following tables summarize the carrying amounts and estimated fair values of held-to-maturity debt securities and the amortized cost and estimated fair values of available-for-sale debt securities at June 30, 2010 by contractual maturity. Mortgage-related securities held to maturity and available for sale, all of which have prepayment provisions, are distributed to a maturity category based on the end of the estimated average life of such securities. Principal and amortization prepayments are not shown in maturity categories as they occur, but are considered in the determination of estimated average life.

	Carrying Amount								
(dollars in thousands)	Mortgage-Related Securities	Average Yield	U.S. Treasury and GSE Obligations	Average Yield	State, County, and Municipal	Average Yield[1]	Other Debt Securities[2]	Average Yield	Fair Value
Held-to-Maturity Debt Securities:									
Due within one year	$	%	$	%	$	%	$	%	$
Due from one to five years							32,753	6.34	33,547
Due from five to ten years	9,362	6.38	1,692,652	4.34			23,026	5.20	1,739,106
Due after ten years	1,810,116	5.00					197,405	7.49	2,088,738
Total debt securities held to maturity	$ 1,819,478	5.01%	$ 1,692,652	4.34%	$	%	$ 253,184	7.13%	$ 3,861,391

	Amortized Cost								
(dollars in thousands)	Mortgage-Related Securities	Average Yield	U.S. Treasury and GSE Obligations	Average Yield	State, County, and Municipal	Average Yield[1]	Other Debt Securities[2]	Average Yield	Fair Value
Available-for-Sale Debt Securities:[3]									
Due within one year	$ 200	7.16%	$ 170,347	0.27%	$ 125	5.12%	$ 1,016	5.60%	$ 171,708
Due from one to five years	1,046	5.10	58,617	1.19	492	5.75	4,794	5.39	64,916
Due from five to ten years	13,618	6.89			673	6.48			14,536
Due after ten years	565,311	4.68	621	5.26	134	6.66	38,273	5.06	623,920
Total debt securities available for sale	$ 580,175	4.73%	$ 229,585	0.52%	$ 1,424	6.13%	$ 44,083	5.11%	$ 875,080

(1) Not presented on a tax-equivalent basis.
(2) Includes corporate bonds and capital trust notes. Included in capital trust notes are $15.5 million and $625,000 of pooled trust preferred securities available for sale and held to maturity, respectively, all of which are due after ten years. The remaining capital trust notes consist of single-issue trust preferred securities.
(3) As equity securities have no contractual maturity, they have been excluded from this table.

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Note 5. Loans, net

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

	June 30, 2010		December 31, 2009	
(dollars in thousands)	Amount	Percent of Non-Covered Loans	Amount	Percent of Non-Covered Loans
Non-Covered Loans:				
Mortgage Loans:				
Multi-family	$ 16,819,673	68.57%	$ 16,737,721	71.59%
Commercial real estate	5,230,053	21.32	4,988,649	21.34
Acquisition, development, and construction	624,799	2.55	666,440	2.85
One- to four-family	189,917	0.77	216,078	0.92
Loans held for sale	930,565	3.79		
Total mortgage loans	$ 23,795,007	97.00	$ 22,608,888	96.70
Other Loans:				
Commercial and industrial	635,171	2.59	653,159	2.79
Other	100,159	0.41	118,445	0.51
Total other loans	735,330	3.00	771,604	3.30
Total non-covered loans	$ 24,530,337	100.00%	$ 23,380,492	100.00%
Net deferred loan origination fees	(6,846)		(3,893)	
Allowance for loan losses	(140,583)		(127,491)	
Total non-covered loans, net	24,382,908		23,249,108	
Total Covered Loans	4,626,574		5,016,100	
Loans, net	$ 29,009,482		$ 28,265,208	

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

Non-Covered Loans

Loans Originated for Portfolio

The Company is primarily a multi-family mortgage lender, with a significant portion of its loan portfolio collateralized by non-luxury apartment buildings in New York City that feature below-market rents.

The Company also originates the following types of loans for portfolio: commercial real estate (CRE) loans, primarily in New York City, Long Island, and New Jersey; and, to a lesser extent, acquisition, development, and construction (ADC) loans and commercial and industrial (C&I)

loans. ADC loans are primarily originated for multi-family and residential tract projects in New York City and Long Island, while C&I loans are made to small and mid-size businesses in New York City, Long Island, New Jersey, and Arizona on both a secured and unsecured basis for working capital, business expansion, and the purchase of machinery and equipment.

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

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

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

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

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

One- to Four-Family Loans Originated for Sale

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

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

Asset Quality

At June 30, 2010 and December 31, 2009, the Company had $636.8 million and $578.1 million, respectively, of non-accrual non-covered loans. In addition, at June 30, 2010, the Company had covered loans of $266.3 million that were over 90 days past due but are considered to be performing due to the application of the yield accretion method under Codification Topic 310-30. Codification Topic 310-30 allows the Company to aggregate credit-impaired loans acquired in the same fiscal quarter into one or more pools, provided that the loans have common risk characteristics. A pool is then accounted for as a single asset with a single composite interest rate and an aggregate expectation of cash flows. Accordingly, loans that may have been classified as non-performing loans by AmTrust or Desert Hills are no longer classified as non-performing because, at the respective dates of acquisition, the Company believed that it would fully collect the new carrying value of these loans. The new carrying value represents the contractual balance, reduced by the portion expected to be uncollectible (referred to as the non-accretable difference) and by an accretable yield (discount) that is recognized as interest income. It is important to note that management s judgment is required in reclassifying loans subject to Codification Topic 310-30 as performing loans, and is dependent on having a reasonable expectation about the timing and amount of the cash flows to be collected, even if the loan is contractually past due. In addition, at June 30, 2010, the Company had covered loans of $153.4 million that were 30 to 89 days past due.

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The following table presents information regarding the Company s non-performing loans at June 30, 2010 and December 31, 2009, excluding covered loans:

(in thousands)	June 30, 2010	December 31, 2009
Non-Performing Loans:		
Non-accrual mortgage loans:		
Multi-family	$ 384,144	$ 393,113
Commercial real estate	111,764	70,618
Acquisition, development, and construction	94,783	79,228
One- to four-family	17,782	14,171
Total non-accrual mortgage loans	608,473	557,130
Other non-accrual loans	28,305	20,938
Loans 90 days or more past due and still accruing interest		
Total non-performing loans	$ 636,778	$ 578,068

In accordance with GAAP, the Company is required to account for certain loan modifications or restructurings as troubled debt restructurings (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. Loans modified in TDRs are placed on non-accrual status until the Company determines that future collection of principal and interest is reasonably assured, which generally requires that the borrower demonstrate performance according to the restructured terms for a period of at least six months. At June 30, 2010, loans modified in TDRs totaled $347.2 million; of this amount, $197.0 million were non-accrual loans and $150.3 million were accruing interest. At December 31, 2009, loans modified in TDRs totaled $184.8 million; of this amount, $167.3 million were non-accrual loans and $17.5 million were accruing interest.

The following table presents additional information regarding the Company s TDRs as of June 30, 2010:

(in thousands)	Accruing	Non-Accrual
Multi-family	$ 146,342	$ 112,842
Commercial real estate	3,945	57,954
Acquisition, development, and construction		17,666
Commercial and industrial		6,968
One- to four-family		1,520
Total	$ 150,287	$ 196,950

In an effort to proactively deal with delinquent loans, the Company has selectively extended to certain borrowers concessions such as rate reductions, forbearance of arrears, extension of maturity dates, and conversion from amortizing to interest-only payments. As of June 30, 2010, concessions made with respect to rate reductions amounted to $257.8 million; maturity extensions amounted to $53.0 million; forbearance agreements amounted to $30.6 million; and loans converted from amortizing to interest-only payments amounted to $5.9 million.

Most of the Company s TDRs involve rate reductions and/or forbearance of arrears, which have thus far proven the most successful in allowing selected borrowers to emerge from delinquency and keep their loans current.

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 judgment by Company personnel regarding the likelihood that the concession will result in the maximum recovery for the Company.

At June 30, 2010, non-covered loans included $930.6 million of loans held for sale, a vast majority of which were originated by AmTrust s mortgage banking operation for sale to GSEs. In the first six months of 2010, the Company recorded aggregate gains of $25.8 million in connection with the sale of loans totaling $2.9 billion.

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

(in thousands)	At or For the Six Months Ended June 30, 2010	At or For the Year Ended December 31, 2009
Balance at beginning of period	$ 127,491	$ 94,368
Provision for loan losses	42,000	63,000
Charge-offs	(29,110)	(29,931)
Recoveries	202	54
Balance at end of period	$ 140,583	$ 127,491

At June 30, 2010, the Company had $737.9 million of non-covered impaired loans. At June 30, 2010, there was an allowance for loan losses of $14.5 million relating to non-covered impaired loans of $81.1 million.

The average balance of impaired loans for the three and six months ended June 30, 2010, was $758.6 million and $685.0 million, respectively. The interest income recorded on these loans, which was not materially different from cash-basis interest income, amounted to $4.3 million and $5.8 million for the respective periods. For the three and six months ended June 30, 2009, the average balance of impaired loans was $362.5 million and $322.6 million, respectively, and the interest income amounted to $4.6 million and $9.1 million, respectively.

Covered Loans

The following table presents the balance of covered loans acquired in the AmTrust and Desert Hills acquisitions as of June 30, 2010:

(dollars in thousands)	Amount	Percent of Covered Loans
Loan Category:		
Mortgage loans	$ 4,238,485	91.6%
Commercial and industrial and other loans	388,089	8.4
Total loans	$ 4,626,574	100.0%

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

At the acquisition date, we estimated the fair values of the Desert Hills loan portfolio at $196.7 million, which represents the expected cash flows from the portfolio discounted at market-based rates. In estimating such fair value, we (a) calculated the contractual amount and timing of undiscounted principal and interest payments (the undiscounted contractual cash flows); and (b) estimated the amount and timing of undiscounted expected principal and interest payments (the undiscounted expected cash flows). The amount by which the undiscounted expected cash flows exceed the estimated fair value (the accretable yield) is accreted into interest income over the lives of the loans. The difference between the undiscounted contractual cash flows and the undiscounted expected cash flows is referred to as the non-accretable difference. The non-accretable difference represents an estimate of the credit risk in the Desert Hills loan portfolio at the acquisition date. On the acquisition date, the estimate of the contractual principal and interest payments for covered loans acquired in the Desert Hills acquisition was $275.4

million. On the acquisition date, the accretable yield was $28.3 million and the non-accretable difference was $50.3 million.

In connection with the Desert Hills acquisition, the Company also acquired $38.6 million of OREO, which is covered under an FDIC loss sharing agreement. Covered OREO was initially recorded at its estimated fair value on the acquisition date based on independent appraisals less estimated selling costs. Any subsequent write downs due to declines in fair value will be charged to non-interest expense with a partially offsetting non-interest income item for the loss reimbursement under the FDIC loss sharing agreement. Any recoveries of previous write downs are credited to non-interest expense with a corresponding charge to non-interest income for the portion of the recovery that is due to the FDIC.

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At June 30, 2010, the outstanding balance (representing amounts owed to the Company) of loans acquired in the AmTrust and Desert Hills acquisitions was $5.6 billion. The carrying values of such loans were $4.6 billion and $5.0 billion at June 30, 2010 and December 31, 2009, respectively.

Changes in the accretable yield for acquired loans were as follows for the six months ended June 30, 2010:

(in thousands)	Accretable Yield
Balance at beginning of period[1]	$ 2,081,765
Additions	28,315
Accretion	(135,990)
Balance at end of period	$ 1,974,090

(1) Excludes loans held for sale.

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

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

Under Codification Topic 310-30, purchasers are permitted to aggregate acquired loans into one or more pools, provided that the loans have common risk characteristics. A pool is then accounted for as a single asset with a single composite interest rate and an aggregate expectation of cash flows.

Note 6. Mortgage Servicing Rights

The Company had mortgage servicing rights (MSRs) of $31.8 million and $10.6 million at June 30, 2010 and December 31, 2009, respectively. MSRs are included in other assets in the Consolidated Statements of Condition. The Company has two classes of MSRs for which it separately manages the economic risk: residential MSRs and securitized MSRs. Residential MSRs are carried at fair value, with changes in fair value recorded as a component of non-interest income in each period. The Company uses various derivative instruments to mitigate the income statement-effect of changes in fair value due to changes in valuation inputs and assumptions of its residential MSRs. MSRs do not trade in an active, open market with readily observable prices. Accordingly, the Company utilizes a valuation model that calculates the present value of estimated future cash flows. The model incorporates various assumptions, including estimates of prepayment speeds, discount rates, refinance rates, servicing costs, and ancillary income. The Company reassesses and periodically adjusts the underlying inputs and assumptions in the model to reflect market conditions and assumptions that a market participant would consider in valuing the MSR asset. The value of MSRs is significantly affected by mortgage interest rates available in the marketplace, which influence mortgage loan prepayment speeds. In general, during periods of declining interest rates, the value of MSRs declines due to increasing prepayments attributable to increased mortgage

refinancing activity. Conversely, during periods of rising interest rates, the value of MSRs generally increases due to reduced mortgage refinancing activity.

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

The following table sets forth the changes in residential and securitized MSRs for the six months ended June 30, 2010 and the year ended December 31, 2009:

	For the Six Months Ended June 30, 2010		For the Year Ended December 31, 2009	
(in thousands)	**Residential**	**Securitized**	**Residential**	**Securitized**
Carrying value, beginning of year	$ 8,617	$ 1,965	$	$ 3,568
Additions	28,206			
Decrease in fair value	(6,597)			
Amortization		(386)		(1,603)
Additions recorded at fair value in the AmTrust acquisition			8,617	
Carrying value, end of period	$ 30,226	$ 1,579	$ 8,617	$ 1,965

Note 7. Borrowed Funds

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

(in thousands)	**June 30, 2010**	**December 31, 2009**
Wholesale borrowings:		
FHLB advances	$ 8,460,674	$ 8,955,769
Repurchase agreements	4,125,000	4,125,000
Total wholesale borrowings	12,585,674	13,080,769
Junior subordinated debentures	427,205	427,371
Senior debt	601,805	601,746
Preferred stock of subsidiaries	51,800	54,800
Total borrowed funds	$ 13,666,484	$ 14,164,686

At June 30, 2010, the Company had $427.2 million of outstanding junior subordinated deferrable interest debentures (junior subordinated debentures) held by nine statutory business trusts (the Trusts) that issued guaranteed capital securities. The capital securities qualified as Tier 1 capital of the Company at that date. The Trusts are accounted for as unconsolidated subsidiaries in accordance with GAAP. The proceeds of each issuance were invested in a series of junior subordinated debentures of the Company and the underlying assets of each statutory business trust are the relevant debentures. The Company has fully and unconditionally guaranteed the obligations under each trust s capital securities to the extent set forth in a guarantee by the Company to each trust. The Trusts capital securities are each subject to mandatory redemption, in whole or in part, upon repayment of the debentures at their stated maturity or earlier redemption. However, with the passage of the Dodd-Frank Act in July 2010, the qualification of capital securities as Tier 1 capital will be phased out from January 1, 2013 to January 1, 2016.

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NEW YORK COMMUNITY BANCORP, INC.

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table provides a summary of the outstanding capital securities issued by each trust and the carrying amounts of the junior subordinated debentures issued by the Company to each trust as of June 30, 2010:

Issuer	Interest Rate of Capital Securities and Debentures[1]	Junior Subordinated Debenture Carrying Amount	Capital Securities Amount Outstanding	Date of Original Issue	Stated Maturity	First Optional Redemption Date
		(dollars in thousands)				
Haven Capital Trust II	10.250%	$ 23,333	$ 22,550	May 26, 1999	June 30, 2029	June 30, 2009[2]
Queens County Capital Trust I	11.045	10,309	10,000	July 26, 2000	July 19, 2030	July 19, 2010
Queens Statutory Trust I	10.600	15,464	15,000	September 7, 2000	September 7, 2030	September 7, 2010
New York Community Capital Trust V	6.000	143,583	137,232	November 4, 2002	November 1, 2051	November 4, 2007[3]
New York Community Capital Trust X	2.137	123,712	120,000	December 14, 2006	December 15, 2036	December 15, 2011
LIF Statutory Trust I	10.600	7,732	7,500	September 7, 2000	September 7, 2030	September 7, 2010
PennFed Capital Trust II	10.180	12,858	12,486	March 28, 2001	June 8, 2031	June 8, 2011
PennFed Capital Trust III	3.787	30,928	30,000	June 2, 2003	June 15, 2033	June 15, 2008[2]
New York Community Capital Trust XI	2.183	59,286	57,500	April 16, 2007	June 30, 2037	June 30, 2012
		$ 427,205	$ 412,268			

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

Note 8. Pension and Other Post-Retirement Benefits

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

	For the Three Months Ended June 30,			
	2010		2009	
(in thousands)	Pension Benefits	Post-Retirement Benefits	Pension Benefits	Post-Retirement Benefits
Components of net periodic (credit) expense:				
Interest cost	$ 1,515	$ 198	$ 1,611	$ 228
Service cost		1		1
Expected return on plan assets	(2,866)		(2,576)	
Unrecognized past service liability	49	(62)	50	(62)
Amortization of unrecognized loss	1,286	78	1,746	75

Net periodic (credit) expense	$ (16)	$ 215	$ 831	$ 242

	For the Six Months Ended June 30,			
	2010		2009	
(in thousands)	Pension Benefits	Post-Retirement Benefits	Pension Benefits	Post-Retirement Benefits
Components of net periodic (credit) expense:				
Interest cost	$ 3,028	$ 397	$ 3,222	$ 455
Service cost		2		2
Expected return on plan assets	(5,731)		(5,151)	
Unrecognized past service liability	98	(125)	100	(124)
Amortization of unrecognized loss	2,572	157	3,492	151
Net periodic (credit) expense	$ (33)	$ 431	$ 1,663	$ 484

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

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NEW YORK COMMUNITY BANCORP, INC.

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Note 9. Computation of Earnings per Share

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

(in thousands, except share and per share data)	Three Months Ended June 30, 2010	Three Months Ended June 30, 2009	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009
Net income	$ 136,258	$ 56,448	$ 260,407	$ 145,137
Less: Dividends paid on and earnings allocated to participating securities	(797)	(463)	(1,493)	(945)
Earnings applicable to common stock	$ 135,461	$ 55,985	$ 258,914	$ 144,192
Weighted average common shares outstanding	434,184,751	343,549,598	433,137,053	343,435,986
Basic earnings per common share	$ 0.31	$ 0.16	$ 0.60	$ 0.42
Earnings applicable to common stock	$ 135,461	$ 55,985	$ 258,914	$ 144,192
Weighted average common shares outstanding	434,184,751	343,549,598	433,137,053	343,435,986
Potential dilutive common shares[(1)]	438,776	75,745	351,309	76,798
Total shares for diluted earnings per share computation	434,623,527	343,625,343	433,488,362	343,512,784
Diluted earnings per common share and common share equivalents	$ 0.31	$ 0.16	$ 0.60	$ 0.42

(1) Options to purchase 2,822,923 and 5,304,612 shares, respectively, of the Company s common stock that were outstanding in the three and six months ended June 30, 2010, at respective weighted average exercise prices of $19.18 and $17.72, were not included in the respective computations of diluted earnings per share because their inclusion would have had an antidilutive effect. Options to purchase 13,100,767 shares of the Company s common stock that were outstanding in the three and six months ended June 30, 2009, were not included in the respective computations of diluted earnings per share because their inclusion would have had an antidilutive effect.

Note 10. Fair Value Measurement

The Company carries loans held for sale originated by the mortgage banking unit at fair value, in accordance with applicable accounting guidance (Fair Value Option). In 2008, the FASB issued a standard that, among other things, defined fair value, established a consistent framework for measuring fair value, and expanded disclosure for each major asset and liability category measured at fair value on either a recurring or non-recurring basis. The standard clarified that fair value is an exit price, representing the amount that would be received when selling an asset, or paid when transferring a liability, in an orderly transaction between market participants. Fair value is thus a market-based

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

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

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

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

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

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NEW YORK COMMUNITY BANCORP, INC.

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following tables present assets and liabilities that were measured at fair value on a recurring basis as of June 30, 2010 and December 31, 2009, and that were included in the Company s Consolidated Statement of Condition at those dates:

	Fair Value Measurements at June 30, 2010 Using				
(in thousands)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Netting Adjustments[1]	Total Fair Value
Mortgage-Related Securities Available for Sale:					
GSE certificates	$	$ 237,430	$	$	$ 237,430
GSE CMOs		288,435			288,435
Private label CMOs		72,107			72,107
Total mortgage-related securities	$	$ 597,972	$	$	$ 597,972
Other Securities Available for Sale:					
GSE debentures	$	$ 634	$	$	$ 634
Corporate bonds		5,063			5,063
U. S. Treasury obligations	229,599				229,599
State, county, and municipal		1,474			1,474
Capital trust notes		15,786	24,553		40,339
Preferred stock		11,961	7,724		19,685
Common stock	37,167				37,167
Total other securities	$ 266,766	$ 34,918	$ 32,277	$	$ 333,961
Total securities available for sale	$ 266,766	$ 632,890	$ 32,277	$	$ 931,933
Other Assets:					
Loans held for sale	$	$ 923,166	$	$	$ 923,166
Mortgage servicing rights			30,226		30,226
Derivative assets	946		19,739		20,685
Liabilities:					
Derivative liabilities	$ 1,009	$ 30,138	$	$ (4,107)	$ 27,040

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

NEW YORK COMMUNITY BANCORP, INC.

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

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

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

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

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

securities and corporate debt.

The fair value of loans held for sale is primarily based on quoted market prices for securities backed by similar types of loans. The changes in fair value of these assets are largely driven by changes in interest rates subsequent to loan funding and changes in the fair value of servicing associated with the mortgage loans held for sale. Loans held for sale are classified within Level 2 of the valuation hierarchy.

In certain cases where there is limited activity or less transparency around inputs to the valuation, securities are classified within Level 3 of the valuation hierarchy. In valuing collateralized debt obligations (CDOs) (which include pooled trust preferred securities and income notes) and certain single-issue capital trust notes, both of which

NEW YORK COMMUNITY BANCORP, INC.

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

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

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

The Company had no transfers in or out of Level 1 or 2 during the six months ended June 30, 2010.

NEW YORK COMMUNITY BANCORP, INC.

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Changes in Level 3 Fair Value Measurements

The following tables include a roll-forward of the balance sheet amounts for the six months ended June 30, 2010 and 2009 (including the change in fair value) for financial instruments classified in Level 3 of the valuation hierarchy:

		Total Realized/Unrealized Gains/(Losses) Recorded in					
(in thousands)	**Fair Value January 1, 2010**	**Income**	**Comprehensive Income**	**Purchases, Issuances, and Settlements, Net**	**Transfers in/out of Level 3**	**Fair Value June 30, 2010**	**Change in Unrealized Gains and (Losses) Related to Instruments Held at June 30, 2010**
Available-for-Sale Debt Securities:							
Capital securities and preferred stock	$ 31,232	$ (878)	$ 1,923	$	$	$ 32,277	$ 1,045
Mortgage servicing rights	8,617	(6,597)		28,206		30,226	(6,597)
Derivatives, net	32	19,707				19,739	19,707

		Total Realized/Unrealized Gains/(Losses) Recorded in					
(in thousands)	**Fair Value January 1, 2009**	**Income**	**Comprehensive Income**	**Purchases, Issuances, and Settlements, Net**	**Transfers in/out of Level 3**	**Fair Value June 30, 2009**	**Change in Unrealized Gains and (Losses) Related to Instruments Held at June 30, 2009**
Available-for-Sale Debt Securities:							
Capital securities	$ 14,590	$ (1,220)	$ 4,288	$ (253)	$ 2,075	$ 19,480	$ 3,744

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NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Assets Measured at Fair Value on a Non-Recurring Basis

Certain assets are measured at fair value on a non-recurring basis. Such instruments are subject to fair value adjustments under certain circumstances (e.g., when there is evidence of impairment). The following tables present assets and liabilities that were measured at fair value on a non-recurring basis as of June 30, 2010 and December 31, 2009, and that were included in the Company s Consolidated Statements of Condition at those dates:

	Fair Value Measurements at June 30, 2010 Using			
(in thousands)	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Total Fair Value**
Loans held for sale	$	$ 7,399	$	$ 7,399
Certain impaired loans			188,759	188,759
Total	$	$ 7,399	$ 188,759	$ 196,158

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

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

Other Fair Value Disclosures

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

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

The following table summarizes the carrying values and estimated fair values of the Company s financial instruments at June 30, 2010 and December 31, 2009:

	June 30, 2010		December 31, 2009	
(in thousands)	**Carrying Value**	**Estimated Fair Value**	**Carrying Value**	**Estimated Fair Value**
Financial Assets:				
Cash and cash equivalents	$ 2,614,325	$ 2,614,325	$ 2,670,857	$ 2,670,857
Securities held to maturity	3,765,314	3,861,391	4,223,597	4,249,662
Securities available for sale	931,933	931,933	1,518,646	1,518,646
FHLB stock	446,845	446,845	496,742	496,742
Loans, net	29,009,482	29,714,600	28,265,208	28,302,882
Mortgage servicing rights	31,804	31,804	10,582	10,582
Derivatives	20,685	20,685	18,253	18,253
Financial Liabilities:				
Deposits	$ 22,443,668	$ 22,503,603	$ 22,316,411	$ 22,373,559
Borrowed funds	13,666,484	15,043,663	14,164,686	15,271,668
Derivatives	27,040	27,040	261	261

NEW YORK COMMUNITY BANCORP, INC.

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

Cash and Cash Equivalents

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

Securities Held to Maturity and Available for Sale

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

FHLB Stock

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

Loans

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

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

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

Loans Held for Sale

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

Mortgage Servicing Rights (MSRs)

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

Derivative Financial Instruments

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

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NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

Deposits

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

Borrowed Funds

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

Off-Balance-Sheet Financial Instruments

The fair values of commitments to extend credit and unadvanced lines of credit are estimated based on an analysis of the interest rates and fees currently charged to enter into similar transactions, considering the remaining terms of the commitments and the creditworthiness of the potential borrowers. The estimated fair values of such off-balance-sheet financial instruments were insignificant at June 30, 2010 and December 31, 2009.

Note 11. Derivative Financial Instruments

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

The Company held derivatives not designated as hedges with a notional amount of $4.1 billion at June 30, 2010. Changes in the fair value of these derivatives are reflected in current-period earnings.

The following table sets forth information concerning the Company s derivative financial instruments at June 30, 2010:

	June 30, 2010		
	Notional	Fair Value[1]	
(in thousands)	Amount	Gain	Loss
Derivatives Not Designated as Hedges:			
Mortgage banking:			
Treasury options	$ 110,000	$ 17	$
Eurodollar futures	400,000		1,009
Forward commitments to sell loans/mortgage-backed securities	1,989,835		29,974
Forward commitments to buy loans/mortgage-backed securities	175,000	3,943	
Interest rate lock commitments	1,468,561	19,739	

Total derivatives	$ 4,143,396	$ 23,699	$ 30,983

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

The Company uses various financial instruments, including derivatives, in connection with its strategies to reduce price risk resulting from changes in interest rates. Derivative instruments may include interest rate lock

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NEW YORK COMMUNITY BANCORP, INC.

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

commitments entered into with borrowers or correspondents/brokers to acquire conforming fixed and adjustable rate residential mortgage loans that will be held for sale. Other derivative instruments include Treasury options and Eurodollar futures. Gains or losses due to changes in the fair value of derivatives are recognized currently in earnings.

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

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

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

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

The following table sets forth the effect of derivative instruments on the Consolidated Statements of Income for the six months ended June 30, 2010 and for the period from December 4, 2009 (the date of the AmTrust acquisition) through December 31, 2009:

	Gain (Loss) Recognized in Non-Interest Income	
(in thousands)	For the Six Months Ended June 30, 2010	For the Year Ended December 31, 2009
Mortgage Banking:		
Treasury options	$ 1,678	$ (77)
Eurodollar futures	(1,127)	186
Forward commitments to buy/sell loans/mortgage-backed securities	(7,974)	16,224
Other Management Activities:		
Interest rate swaps		1,221
Total (loss) gain	$ (7,423)	$ 17,554

Note 12. Impact of Recent Accounting Pronouncements

In July 2010, the FASB issued Accounting Standard Update (ASU) 2010-20, Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses. ASU 2010-20 was issued to improve the disclosures that an entity provides about the credit quality of its financing receivables and the related allowance for credit losses. As a result of these amendments, an entity is required to disaggregate, by portfolio segment or class, certain existing disclosures and provide certain new disclosures about its financing receivables and related allowance for credit losses. The disclosures as of the end of a reporting period are effective for interim and annual reporting periods ending on or after December 15, 2010. The disclosures about activity that occurs during a reporting period are effective for interim and annual reporting periods beginning on or after December 15, 2010. The amendments in ASU 2010-20 encourage, but do not require, comparative disclosures for earlier reporting periods that ended before initial adoption. However, an entity should provide comparative disclosures for those reporting periods

ending after initial adoption. The Company s adoption of ASU 2010-20 is not expected to have a material effect on its consolidated financial statements.

In January 2010, the FASB issued a standard that requires more robust disclosures about (1) the different classes of assets and liabilities measured at fair value, (2) the valuation techniques and inputs used, (3) the activity

NEW YORK COMMUNITY BANCORP, INC.

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

in Level 3 fair value measurements, and (4) the transfers between Levels 1, 2, and 3. The new disclosures and clarifications of existing disclosures are effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the roll-forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years.

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

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

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

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

In April 2009, the FASB issued new requirements regarding disclosure of fair value measurements and accounting for the impairment of