NEW YORK COMMUNITY BANCORP INC
Form 10-Q
May 10, 2013
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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 MARCH 31, 2013**

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

440,858,405
Number of shares of common stock outstanding at

May 2, 2013

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# NEW YORK COMMUNITY BANCORP, INC.

## FORM 10-Q

### Quarter Ended March 31, 2013


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**NEW YORK COMMUNITY BANCORP, INC.**

**CONSOLIDATED STATEMENTS OF CONDITION**

(in thousands, except share data)

| | March 31, 2013 (unaudited) | December 31, 2012 |
|---|---|---|
| **Assets:** | | |
| Cash and cash equivalents | $ 2,055,058 | $ 2,427,258 |
| Securities: | | |
| Available-for-sale ($91,483 and $196,300 pledged, respectively) | 324,361 | 429,266 |
| Held-to-maturity ($4,845,118 and $4,084,380 pledged, respectively) (fair value of $5,320,255 and $4,705,960, respectively) | 5,139,826 | 4,484,262 |
| Total securities | 5,464,187 | 4,913,528 |
| Non-covered loans held for sale | 718,095 | 1,204,370 |
| Non-covered loans held for investment, net of deferred loan fees and costs | 28,114,377 | 27,284,464 |
| Less: Allowance for losses on non-covered loans | (140,387) | (140,948) |
| Non-covered loans held for investment, net | 27,973,990 | 27,143,516 |
| Covered loans | 3,166,897 | 3,284,061 |
| Less: Allowance for losses on covered loans | (55,813) | (51,311) |
| Covered loans, net | 3,111,084 | 3,232,750 |
| Total loans, net | 31,803,169 | 31,580,636 |
| Federal Home Loan Bank stock, at cost | 456,557 | 469,145 |
| Premises and equipment, net | 264,660 | 264,149 |
| FDIC loss share receivable | 548,604 | 566,479 |
| Goodwill | 2,436,131 | 2,436,131 |
| Core deposit intangibles, net | 27,603 | 32,024 |
| Mortgage servicing rights | 172,978 | 144,713 |
| Bank-owned life insurance | 873,506 | 867,250 |
| Other real estate owned (includes $46,887 and $45,115, respectively, covered by loss sharing agreements) | 117,206 | 74,415 |
| Other assets | 292,059 | 369,372 |
| Total assets | $ 44,511,718 | $ 44,145,100 |
| **Liabilities and Stockholders Equity:** | | |
| Deposits: | | |
| NOW and money market accounts | $ 9,297,827 | $ 8,783,795 |
| Savings accounts | 4,846,361 | 4,213,972 |
| Certificates of deposit | 8,652,828 | 9,120,914 |
| Non-interest-bearing accounts | 2,680,656 | 2,758,840 |
| Total deposits | 25,477,672 | 24,877,521 |
| Borrowed funds: | | |
| Wholesale borrowings: | | |
| Federal Home Loan Bank advances | 8,566,301 | 8,842,974 |
| Repurchase agreements | 4,125,000 | 4,125,000 |
| Fed funds purchased | 125,000 | 100,000 |
| Total wholesale borrowings | 12,816,301 | 13,067,974 |
| Junior subordinated debentures | 357,967 | 357,917 |

| | | |
|---|---|---|
| Other borrowings | 4,300 | 4,300 |
| Total borrowed funds | 13,178,568 | 13,430,191 |
| Other liabilities | 189,864 | 181,124 |
| Total liabilities | 38,846,104 | 38,488,836 |
| 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; 440,867,068 and 439,133,951 shares issued, and 440,867,068 and 439,050,966 shares outstanding, respectively) | 4,409 | 4,391 |
| Paid-in capital in excess of par | 5,327,491 | 5,327,111 |
| Retained earnings | 396,242 | 387,534 |
| Treasury stock, at cost (0 and 82,985 shares, respectively) | -- | (1,067) |
| Accumulated other comprehensive loss, net of tax: | | |
| Net unrealized gain on securities available for sale, net of tax | 10,277 | 12,614 |
| Net unrealized loss on the non-credit portion of other-than-temporary impairment ( OTTI ) losses on securities, net of tax | (13,497) | (13,525) |
| Net unrealized loss on pension and post-retirement obligations, net of tax | (59,308) | (60,794) |
| Total accumulated other comprehensive loss, net of tax | (62,528) | (61,705) |
| Total stockholders equity | 5,665,614 | 5,656,264 |
| Total liabilities and stockholders equity | $ 44,511,718 | $ 44,145,100 |

See accompanying notes to the consolidated financial statements.

## NEW YORK COMMUNITY BANCORP, INC.

## CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

(in thousands, except per share data)

(unaudited)

| | For the Three Months Ended March 31, | |
|---|---|---|
| | **2013** | **2012** |
| **Interest Income:** | | |
| Mortgage and other loans | $ 366,999 | $ 398,184 |
| Securities and money market investments | 45,808 | 48,454 |
| Total interest income | 412,807 | 446,638 |
| **Interest Expense:** | | |
| NOW and money market accounts | 9,175 | 8,733 |
| Savings accounts | 4,021 | 3,496 |
| Certificates of deposit | 22,235 | 23,720 |
| Borrowed funds | 102,200 | 122,275 |
| Total interest expense | 137,631 | 158,224 |
| Net interest income | 275,176 | 288,414 |
| Provision for losses on non-covered loans | 5,000 | 15,000 |
| Provision for losses on covered loans | 4,502 | -- |
| Net interest income after provision for loan losses | 265,674 | 273,414 |
| **Non-Interest Income:** | | |
| Mortgage banking income | 26,109 | 35,165 |
| Fee income | 8,772 | 9,758 |
| Bank-owned life insurance | 7,253 | 9,585 |
| Gain on sales of securities | 16,622 | 718 |
| FDIC indemnification income | 3,602 | -- |
| Other income | 13,193 | 6,770 |
| Total non-interest income | 75,551 | 61,996 |
| **Non-Interest Expense:** | | |
| Operating expenses: | | |
| Compensation and benefits | 83,506 | 73,617 |
| Occupancy and equipment | 23,600 | 21,884 |
| General and administrative | 44,569 | 49,517 |
| Total operating expenses | 151,675 | 145,018 |
| Amortization of core deposit intangibles | 4,421 | 5,159 |
| Total non-interest expense | 156,096 | 150,177 |

| | | |
|---|---|---|
| Income before income taxes | 185,129 | 185,233 |
| Income tax expense | 66,454 | 66,980 |
| Net income | $ 118,675 | $ 118,253 |
| Other comprehensive (loss) income, net of tax: | | |
| Change in net unrealized gains and losses on securities available for sale, net of tax of $463 and $1,377, respectively | 685 | 2,091 |
| Amortization of the non-credit portion of OTTI losses recognized in other comprehensive income, net of tax of $17 and $15, respectively | 28 | 23 |
| Change in pension and post-retirement obligations, net of tax of $1,008 and $1,042, respectively | 1,486 | 1,537 |
| Less: Reclassification adjustment for sales of available-for-sale securities, net of tax of $2,048 and $275, respectively | (3,022) | (443) |
| Total other comprehensive (loss) income, net of tax | (823) | 3,208 |
| Total comprehensive income, net of tax | $ 117,852 | $ 121,461 |
| Basic earnings per share | $ 0.27 | $ 0.27 |
| Diluted earnings per share | $ 0.27 | $ 0.27 |

See accompanying notes to the 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)

| | For the Three Months Ended March 31, 2013 |
|---|---|
| **Common Stock (Par Value: $0.01):** | |
| Balance at beginning of year | $ 4,391 |
| Shares issued for restricted stock awards (1,729,950 shares) | 18 |
| Balance at end of period | 4,409 |
| **Paid-in Capital in Excess of Par:** | |
| Balance at beginning of year | 5,327,111 |
| Shares issued for restricted stock awards, net of forfeitures | (5,093) |
| Compensation expense related to restricted stock awards | 5,537 |
| Tax effect of stock plans | (64) |
| Balance at end of period | 5,327,491 |
| **Retained Earnings:** | |
| Balance at beginning of year | 387,534 |
| Net income | 118,675 |
| Dividends paid on common stock ($0.25 per share) | (109,955) |
| Exercise of stock options | (12) |
| Balance at end of period | 396,242 |
| **Treasury Stock:** | |
| Balance at beginning of year | (1,067) |
| Purchase of common stock (304,830 shares) | (4,079) |
| Exercise of stock options (5,344 shares) | 71 |
| Shares issued for restricted stock awards (382,471 shares) | 5,075 |
| Balance at end of period | -- |
| **Accumulated Other Comprehensive Loss, net of tax:** | |
| Balance at beginning of year | (61,705) |
| Other comprehensive loss, net of tax | (823) |
| Balance at end of period | (62,528) |
| Total stockholders equity | $ 5,665,614 |

See accompanying notes to the consolidated financial statements.

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# NEW YORK COMMUNITY BANCORP, INC.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

| | For the Three Months Ended March 31, | |
|---|---|---|
| | 2013 | 2012 |
| **Cash Flows from Operating Activities:** | | |
| Net income | $ 118,675 | $ 118,253 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Provision for loan losses | 9,502 | 15,000 |
| Depreciation and amortization | 6,880 | 6,005 |
| Accretion of premiums and discounts, net | (199) | (216) |
| Amortization of core deposit intangibles | 4,421 | 5,159 |
| Net gain on sale of securities | (16,622) | (718) |
| Net gain on sale of loans | (25,883) | (40,014) |
| Stock plan-related compensation | 5,537 | 5,109 |
| Changes in assets and liabilities: | | |
| Decrease in deferred tax asset, net | 7,259 | 9,360 |
| Decrease in other assets | 11,170 | 60,249 |
| Increase in other liabilities | 11,234 | 19,818 |
| Origination of loans held for sale | (2,361,315) | (2,487,034) |
| Proceeds from sale of loans originated for sale | 2,861,356 | 3,030,905 |
| **Net cash provided by operating activities** | 632,015 | 741,876 |
| **Cash Flows from Investing Activities:** | | |
| Proceeds from repayment of securities held to maturity | 313,394 | 250,495 |
| Proceeds from repayment of securities available for sale | 48,852 | 154,624 |
| Proceeds from sale of securities held to maturity | 191,142 | -- |
| Proceeds from sale of securities available for sale | 335,064 | 240,218 |
| Purchase of securities held to maturity | (1,148,160) | (739,371) |
| Purchase of securities available for sale | (278,000) | (239,500) |
| Net redemption (purchase) of Federal Home Loan Bank stock | 12,588 | (14,170) |
| Net increase in loans | (706,193) | (904,364) |
| Purchase of premises and equipment, net | (7,391) | (5,802) |
| **Net cash used in investing activities** | (1,238,704) | (1,257,870) |
| **Cash Flows from Financing Activities:** | | |
| Net increase in deposits | 600,151 | 666,663 |
| Net (decrease) increase in short-term borrowed funds | (225,000) | 318,000 |
| Net decrease in long-term borrowed funds | (26,623) | (2,289) |
| Tax effect of stock plans | (64) | (354) |
| Cash dividends paid on common stock | (109,955) | (109,554) |
| Treasury stock purchases | (4,079) | (2,425) |
| Net cash received from stock option exercises | 59 | -- |
| **Net cash provided by financing activities** | 234,489 | 870,041 |

| | | |
|---|---|---|
| Net (decrease) increase in cash and cash equivalents | (372,200) | 354,047 |
| Cash and cash equivalents at beginning of period | 2,427,258 | 2,001,737 |
| Cash and cash equivalents at end of period | $ 2,055,058 | $ 2,355,784 |
| Supplemental information: | | |
| Cash paid for interest | $ 130,989 | $ 161,951 |
| Cash paid for income taxes | 10,270 | 39,746 |
| Non-cash investing and financing activities: | | |
| Transfers to other real estate owned from loans | 49,587 | 33,263 |

See accompanying notes to the consolidated financial statements.

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## NEW YORK COMMUNITY BANCORP, INC.

## NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

### Note 1. Organization and Basis of Presentation

***Organization***

Formerly known as Queens County Bancorp, Inc., New York Community Bancorp, Inc. (on a stand-alone basis, the Parent Company or, collectively with its subsidiaries, the Company ) was organized under Delaware law on July 20, 1993 and is the holding company for New York Community Bank and New York Commercial Bank (hereinafter referred to as the Community Bank and the Commercial Bank, respectively, and collectively as the Banks ). In addition, for the purpose of these Consolidated Financial Statements, the Community Bank and the Commercial Bank refer not only to the respective banks but also to their respective subsidiaries.

The Community Bank is the primary banking subsidiary of the Company. Founded on April 14, 1859 and formerly known as Queens County Savings Bank, the Community Bank converted from a state-chartered mutual savings bank to the capital stock form of ownership on November 23, 1993, at which date the Company issued its initial offering of common stock (par value: $0.01 per share) at a price of $25.00 per share. The Commercial Bank was established on December 30, 2005.

Reflecting nine stock splits, the Company s initial offering price adjusts to $0.93 per share. All share and per share data presented in this report have been adjusted to reflect the impact of the stock splits.

The Company changed its name to New York Community Bancorp, Inc. on November 21, 2000 in anticipation of completing the first of eight business combinations that expanded its footprint well beyond Queens County to encompass all five boroughs of New York City, Long Island, and Westchester County in New York, and seven counties in the northern and central parts of New Jersey. The Company expanded beyond this region to south Florida, northeast Ohio, and central Arizona through its FDIC-assisted acquisition of certain assets and its assumption of certain liabilities of AmTrust Bank ( AmTrust ) in December 2009, and extended its Arizona franchise through its FDIC-assisted acquisition of certain assets and its assumption of certain liabilities of Desert Hills Bank ( Desert Hills ) in March 2010. On June 28, 2012, the Company completed its 11th transaction when it assumed the deposits of Aurora Bank FSB.

Reflecting this strategy of growth through acquisitions, the Community Bank currently operates 239 branches, four of which operate directly under the Community Bank name. The remaining 235 Community Bank branches operate through seven divisional banks Queens County Savings Bank, Roslyn Savings Bank, Richmond County Savings Bank, and Roosevelt Savings Bank (in New York), Garden State Community Bank in New Jersey, AmTrust Bank in Florida and Arizona, and Ohio Savings Bank in Ohio.

The Commercial Bank currently operates 35 branches in Manhattan, Queens, Brooklyn, Westchester County, and Long Island (all in New York), including 18 branches that operate under the name Atlantic Bank.

***Basis of Presentation***

The following is a description of the significant accounting and reporting policies that the Company and its wholly-owned subsidiaries follow in preparing and presenting their consolidated financial statements, which conform to U.S. generally accepted accounting principles ( GAAP ) and to general practices within the banking industry. The preparation of financial statements in conformity with GAAP requires the Company to make estimates and judgments that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the reporting period. Estimates that are particularly susceptible to change in the near term are used in connection with the determination of the allowances for loan losses; the valuation of loans held for sale; the evaluation of goodwill for impairment; the evaluation of other-than-temporary impairment ( OTTI ) on securities; and the evaluation of the need for a valuation allowance on the Company s deferred tax assets. The current economic environment has increased the degree of uncertainty inherent in these material estimates.

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 accounts and transactions are eliminated in consolidation. These unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company s 2012 Annual Report on Form 10-K. The Company currently has unconsolidated subsidiaries in the form of wholly-owned statutory business trusts, which were formed to issue guaranteed capital debentures ( capital securities ). Please see Note 7, Borrowed Funds, for additional information

regarding these trusts.

When necessary, reclassifications are made to prior-year amounts to conform to the current-year presentation.

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

Basic earnings per share ( EPS ) is computed by dividing net income by the weighted average number of common shares outstanding during the period. Diluted EPS is computed using the same method as basic EPS, however, the computation reflects the potential dilution that would occur if outstanding in-the-money stock options were exercised and converted into common stock.

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

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

| | Three Months Ended March 31, | |
|---|---|---|
| (in thousands, except share and per share amounts) | 2013 | 2012 |
| Net income | $118,675 | $118,253 |
| Less: Dividends paid on, and earnings allocated to, participating securities | (1,212) | (1,089) |
| Earnings applicable to common stock | $117,463 | $117,164 |
| Weighted average common shares outstanding | 438,703,468 | 437,467,859 |
| Basic earnings per common share | $0.27 | $0.27 |
| Earnings applicable to common stock | $117,463 | $117,164 |
| Weighted average common shares outstanding | 438,703,468 | 437,467,859 |
| Potential dilutive common shares[1] | 5,052 | 5,330 |
| Total shares for diluted earnings per share computation | 438,708,520 | 437,473,189 |
| Diluted earnings per common share and common share equivalents | $0.27 | $0.27 |

(1) Options to purchase 253,500 and 5,247,328 shares, respectively, of the Company s common stock that were outstanding as of March 31, 2013 and 2012, at respective weighted average exercise prices of $22.14 and $15.70, were excluded from the respective computations of diluted EPS because their inclusion would have had an antidilutive effect.

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

| (in thousands) | **For the Three Months Ended March 31, 2013** | |
|---|---|---|
| Details About Accumulated Other Comprehensive Loss | Amount Reclassified from Accumulated Other Comprehensive Loss [(1)] | Affected Line Item in the Consolidated Statement of Income and Comprehensive Income |
| Unrealized gains on available-for-sale securities | $ 5,070 | Gain on sales of securities |
| | (2,048) | Tax expense |
| | $ 3,022 | Net gain on sales of securities, net of tax |
| Amortization of defined benefit pension items: | | |
| Prior-service costs | $ 62 | (2) |
| Actuarial (losses) | (2,515) | (2) |
| | (2,453) | Total before tax |
| | 991 | Tax benefit |
| | $ (1,462) | Amortization of defined benefit pension items, net of tax |
| Total reclassifications for the period | $ 1,560 | |

(1) Amounts in parentheses indicate expense items.
(2) These accumulated other comprehensive loss components are included in the computation of net periodic (credit) expense. (Please see Note 9, Pension and Other Post-Retirement Benefits, for additional information).

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**Note 4. Securities**

The following table summarizes the Company s portfolio of securities available for sale at March 31, 2013:

| | March 31, 2013 | | | |
|---|---|---|---|---|
| (in thousands) | Amortized Cost | Gross Unrealized Gain | Gross Unrealized Loss | Fair Value |
| Mortgage-Related Securities: | | | | |
| GSE certificates | $ 30,553 | $ 1,942 | $ 4 | $ 32,491 |
| GSE CMOs [1] | 62,197 | 4,287 | -- | 66,484 |
| Private label CMOs | 16,362 | 178 | -- | 16,540 |
| Total mortgage-related securities | $ 109,112 | $ 6,407 | $ 4 | $ 115,515 |
| Other Securities: | | | | |
| Municipal bonds | $ 1,074 | $ 140 | $ -- | $ 1,214 |
| Capital trust notes | 35,234 | 4,218 | 3,372 | 36,080 |
| Preferred stock | 118,205 | 7,561 | -- | 125,766 |
| Common stock | 44,092 | 2,294 | 600 | 45,786 |
| Total other securities | $ 198,605 | $ 14,213 | $ 3,972 | $ 208,846 |
| Total securities available for sale [2] | $ 307,717 | $ 20,620 | $ 3,976 | $ 324,361 |

(1) Collateralized mortgage obligations

(2) At March 31, 2013, the non-credit portion of OTTI recorded in accumulated other comprehensive loss ( AOCL ) was $570,000 (before taxes).

As of March 31, 2013, the fair value of marketable equity securities included common stock of $45.8 million, corporate preferred stock of $125.2 million, and Freddie Mac preferred stock of $556,000. Common stock primarily consisted of an investment in a large cap equity fund and certain other funds that are Community Reinvestment Act ( CRA ) eligible. The Freddie Mac preferred stock was recognized by the Company as other-than-temporarily impaired in the fourth quarter of 2008.

The following table summarizes the Company s portfolio of securities available for sale at December 31, 2012:

| | December 31, 2012 | | | |
|---|---|---|---|---|
| (in thousands) | Amortized Cost | Gross Unrealized Gain | Gross Unrealized Loss | Fair Value |
| Mortgage-Related Securities: | | | | |
| GSE certificates | $ 85,488 | $ 7,197 | $ 6 | $ 92,679 |
| GSE CMOs | 62,236 | 4,924 | -- | 67,160 |
| Private label CMOs | 17,276 | 140 | -- | 17,416 |
| Total mortgage-related securities | $ 165,000 | $ 12,261 | $ 6 | $ 177,255 |
| Other Securities: | | | | |
| Municipal bonds | $ 46,288 | $ 128 | $ 120 | $ 46,296 |

| | | | | |
|---|---|---|---|---|
| Capital trust notes | 35,231 | 7,363 | 4,159 | 38,435 |
| Preferred stock | 118,205 | 6,843 | 30 | 125,018 |
| Common stock | 43,984 | 1,191 | 2,913 | 42,262 |
| Total other securities | $ 243,708 | $ 15,525 | $ 7,222 | $ 252,011 |
| Total securities available for sale [(1)] | $ 408,708 | $ 27,786 | $ 7,228 | $ 429,266 |

(1) At December 31, 2012, the non-credit portion of OTTI recorded in AOCL was $570,000 (before taxes).

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The following tables summarize the Company s portfolio of securities held to maturity at March 31, 2013 and December 31, 2012:

| | March 31, 2013 | | | | |
|---|---|---|---|---|---|
| (in thousands) | Amortized Cost | Carrying Amount | Gross Unrealized Gain | Gross Unrealized Loss | Fair Value |
| Mortgage-Related Securities: | | | | | |
| GSE certificates | $ 1,291,554 | $ 1,291,554 | $ 73,498 | $ 272 | $ 1,364,780 |
| GSE CMOs | 1,596,858 | 1,596,858 | 77,832 | -- | 1,674,690 |
| Other mortgage-related securities | 3,174 | 3,174 | -- | -- | 3,174 |
| Total mortgage-related securities | $ 2,891,586 | $ 2,891,586 | $ 151,330 | $ 272 | $ 3,042,644 |
| Other Securities: | | | | | |
| GSE debentures | $ 2,004,767 | $ 2,004,767 | $ 14,714 | $ 34 | $ 2,019,447 |
| Corporate bonds | 72,601 | 72,601 | 12,011 | -- | 84,612 |
| Municipal bonds | 61,926 | 61,926 | 167 | -- | 62,093 |
| Capital trust notes | 130,470 | 108,946 | 15,031 | 12,518 | 111,459 |
| Total other securities | $ 2,269,764 | $ 2,248,240 | $ 41,923 | $ 12,552 | $ 2,277,611 |
| Total securities held to maturity [(1)] | $ 5,161,350 | $ 5,139,826 | $ 193,253 | $ 12,824 | $ 5,320,255 |

(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 March 31, 2013, the non-credit portion of OTTI recorded in AOCL was $21.5 million (before taxes).

| | December 31, 2012 | | | | |
|---|---|---|---|---|---|
| (in thousands) | Amortized Cost | Carrying Amount | Gross Unrealized Gain | Gross Unrealized Loss | Fair Value |
| Mortgage-Related Securities: | | | | | |
| GSE certificates | $ 1,253,769 | $ 1,253,769 | $ 87,860 | $ 5 | $ 1,341,624 |
| GSE CMOs | 1,898,228 | 1,898,228 | 104,764 | -- | 2,002,992 |
| Other mortgage-related securities | 3,220 | 3,220 | -- | -- | 3,220 |
| Total mortgage-related securities | $ 3,155,217 | $ 3,155,217 | $ 192,624 | $ 5 | $ 3,347,836 |
| Other Securities: | | | | | |
| GSE debentures | $ 1,129,618 | $ 1,129,618 | $ 15,739 | $ -- | $ 1,145,357 |
| Corporate bonds | 72,501 | 72,501 | 12,504 | -- | 85,005 |
| Municipal bonds | 16,982 | 16,982 | 245 | -- | 17,227 |
| Capital trust notes | 131,513 | 109,944 | 14,588 | 13,997 | 110,535 |
| Total other securities | $ 1,350,614 | $ 1,329,045 | $ 43,076 | $ 13,997 | $ 1,358,124 |
| Total securities held to maturity [(1)] | $ 4,505,831 | $ 4,484,262 | $ 235,700 | $ 14,002 | $ 4,705,960 |

(1) At December 31, 2012, the non-credit portion of OTTI recorded in AOCL was $21.6 million (before taxes).

The Company had $456.6 million and $469.1 million of Federal Home Loan Bank ( FHLB ) stock, at cost, at March 31, 2013 and December 31, 2012, respectively. The Company is required to maintain this investment in order to have access to the funding resources provided by the FHLB.

The following table summarizes the gross proceeds, gross realized gains, and gross realized losses from the sale of available-for-sale securities during the three months ended March 31, 2013 and 2012:

| | **For the Three Months Ended March 31,** | |
|---|---|---|
| (in thousands) | **2013** | **2012** |
| Gross proceeds | $ 335,064 | $ 240,218 |
| Gross realized gains | 5,070 | 718 |
| Gross realized losses | -- | -- |

In addition, during the three months ended March 31, 2013, the Company sold held-to-maturity securities with gross proceeds of $191.1 million and gross realized gains of $11.5 million. These sales occurred because the Company had collected a substantial portion (at least 85%) of the initial principal balance.

The $147.5 million market value of the capital trust note portfolio at March 31, 2013 included three pooled trust preferred securities. The following table details the pooled trust preferred securities that had at least one credit rating below investment grade as of March 31, 2013:

| (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 | $ 449 |
| Fair value | 18,955 | 546 | 805 |
| Unrealized gain (loss) | 3,991 | (7) | 356 |
| Lowest credit rating assigned to security | CCC | C | C |
| Number of banks/insurance companies currently performing | 23 | 59 | 24 |
| Actual deferrals and defaults as a percentage of original collateral | 9% | 17% | 34% |
| Expected deferrals and defaults as a percentage of remaining performing collateral | 22 | 25 | 19 |
| Expected recoveries as a percentage of remaining performing collateral | -- | -- | -- |
| Excess subordination as a percentage of remaining performing collateral | 21 | -- | -- |

As of March 31, 2013, after taking into account the Company s best estimates of future deferrals, defaults, and recoveries, two of its pooled trust preferred securities had no excess subordination in the classes it owns and one had excess subordination of 21%. Excess subordination is calculated after taking into account the projected 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 owned.

As the following table indicates, there was no activity from December 31, 2012 through March 31, 2013 in 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, 2012. For credit-impaired debt securities, OTTI recognized in earnings after that date is presented as an addition in two components, based upon whether the current period is the first time a debt security was credit-impaired (initial credit impairment) or is not the first time a debt security was credit-impaired (subsequent credit impairment).

| (in thousands) | **For the Three Months Ended March 31, 2013** |
|---|---|
| Beginning credit loss amount as of December 31, 2012 | $ 219,978 |
| Add: Initial other-than-temporary credit losses | -- |
| Subsequent other-than-temporary credit losses | -- |
| Amount previously recognized in AOCL | -- |
| Less: Realized losses for securities sold | -- |
| Securities intended or required to be sold | -- |
| Increases in expected cash flows on debt securities | -- |
| Ending credit loss amount as of March 31, 2013 | $ 219,978 |

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The following table summarizes the carrying amounts and estimated fair values of held-to-maturity debt securities, and the amortized costs and estimated fair values of available-for-sale debt securities, at March 31, 2013, 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 ends of the estimated average lives 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.

| | At March 31, 2013 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| (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 Securities: | | | | | | | | | |
| Due within one year | $ -- | --% | $ -- | --% | $ | --% | $ -- | --% | $ -- |
| Due from one to five years | -- | -- | 60,563 | 4.17 | 1,588 | 2.96 | -- | -- | 71,530 |
| Due from five to ten years | 1,808,336 | 3.17 | 894,204 | 2.52 | -- | -- | 46,749 | 4.04 | 2,865,039 |
| Due after ten years | 1,083,250 | 3.53 | 1,050,000 | 2.66 | 60,338 | 2.85 | 134,798 | 6.20 | 2,383,686 |
| Total debt securities held to maturity | $ 2,891,586 | 3.3% | $ 2,004,767 | 2.64% | $ 61,926 | 2.86% | $ 181,547 | 5.64% | $ 5,320,255 |
| Available-for-Sale Securities: [3] | | | | | | | | | |
| Due within one year | $ 109 | 4.32% | $ -- | --% | $ 124 | 5.90% | $ -- | --% | $ 242 |
| Due from one to five years | 7,760 | 7.08 | -- | -- | 532 | 6.36 | -- | -- | 8,906 |
| Due from five to ten years | 19,374 | 3.57 | -- | -- | 418 | 6.59 | -- | -- | 21,638 |
| Due after ten years | 81,869 | 3.91 | -- | -- | -- | -- | 35,234 | 4.54 | 122,023 |
| Total debt securities available for sale | $ 109,112 | 4.08% | $ -- | --% | $ 1,074 | 6.39% | $ 35,234 | 4.54% | $ 152,809 |

(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 $449,000 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.

At March 31, 2013, the Company had commitments to purchase $37.7 million of securities, all of which were GSE securities.

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The following tables present held-to-maturity and available-for-sale securities having a continuous unrealized loss position for less than twelve months and for twelve months or longer as of March 31, 2013:

| **At March 31, 2013** | 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 | $ 499,966 | $ 34 | $ -- | $ -- | $ 499,966 | $ 34 |
| GSE Certificates | 24,380 | 272 | -- | -- | 24,380 | 272 |
| GSE CMOs | -- | -- | -- | -- | -- | -- |
| Corporate bonds | -- | -- | -- | -- | -- | -- |
| Capital trust notes | -- | -- | 33,632 | 12,518 | 33,632 | 12,518 |
| Total temporarily impaired held-to-maturity debt securities | $ 524,346 | $306 | $33,632 | $ 12,518 | $ 557,978 | $ 12,824 |
| Temporarily Impaired Available-for-Sale Securities: | | | | | | |
| Debt Securities: | | | | | | |
| GSE certificates | $ 247 | $ 4 | $ -- | $ -- | $ 247 | $ 4 |
| Private label CMOs | -- | -- | -- | -- | -- | -- |
| Corporate bonds | -- | -- | -- | -- | -- | -- |
| State, county, and municipal | -- | -- | -- | -- | -- | -- |
| Capital trust notes | -- | -- | 5,161 | 3,372 | 5,161 | 3,372 |
| Total temporarily impaired available-for-sale debt securities | $ 247 | $ 4 | $ 5,161 | $ 3,372 | $ 5,408 | $ 3,376 |
| Equity securities | | | 1,075 | 600(1) | 1,075 | 600 |
| Total temporarily impaired available-for-sale securities | $ 247 | $ 4 | $ 6,236 | $ 3,972 | $ 6,483 | $ 3,976 |

(1) The twelve months or longer unrealized losses on equity securities of $600,000 at March 31, 2013 relate to an investment in a financial institution. The principal balance of the investment was $1.7 million at that date.

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The following tables present held-to-maturity and available-for-sale securities having a continuous unrealized loss position for less than twelve months and for twelve months or longer as of December 31, 2012:

| **At December 31, 2012** | 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 | $ -- | $ -- | $ -- | $ -- | $ -- | $ -- |
| GSE certificates | 2,238 | 5 | -- | -- | 2,238 | 5 |
| GSE CMOs | -- | -- | -- | -- | -- | -- |
| Corporate bonds | -- | -- | -- | -- | -- | -- |
| Capital trust notes | -- | -- | 32,148 | 13,997 | 32,148 | 13,997 |
| Total temporarily impaired held-to-maturity debt securities | $ 2,238 | $ 5 | $ 32,148 | $ 13,997 | $ 34,386 | $ 14,002 |
| Temporarily Impaired Available-for-Sale Securities: | | | | | | |
| Debt Securities: | | | | | | |
| GSE certificates | $ 297 | $ 5 | $ 53 | $ 1 | $ 350 | $ 6 |
| Private label CMOs | -- | -- | -- | -- | -- | -- |
| Corporate bonds | -- | -- | -- | -- | -- | -- |
| State, county, and municipal | 45,096 | 120 | -- | -- | 45,096 | 120 |
| Capital trust notes | -- | -- | 4,371 | 4,159 | 4,371 | 4,159 |
| Total temporarily impaired available-for-sale debt securities | $ 45,393 | $ 125 | $ 4,424 | $ 4,160 | $ 49,817 | $ 4,285 |
| Equity securities | 15,262 | 30 | 28,989 | 2,913(1) | 44,251 | 2,943 |
| Total temporarily impaired available-for-sale securities | $ 60,655 | $ 155 | $ 33,413 | $ 7,073 | $ 94,068 | $ 7,228 |

(1) The twelve months or longer unrealized losses on equity securities of $2.9 million at December 31, 2012 relate to available-for-sale equity securities that consisted of a large cap equity fund and investments in certain financial institutions. The principal balance of the large cap equity fund was $30.2 million and the twelve months or longer unrealized loss was $2.2 million at that date. The principal balance of investments in financial institutions totaled $1.7 million and the twelve months or longer unrealized loss was $709,000 at that date.

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 occurs, 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. Financial Accounting Standards Board ( FASB ) 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.

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 the 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 life of the underlying collateral to assess whether credit losses exist and, where applicable, to determine if any adverse changes in cash flows have occurred. The Company s cash flow estimates take into account expectations of relevant market and economic data as of the end of the reporting period. As of March 31, 2013, 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 not be required to sell these securities before recovery of their amortized cost basis. The Company believes that the securities with an unrealized loss position in AOCL were not other-than-temporarily impaired as of March 31, 2013.

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 a security before its anticipated recovery, is based on 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 Company reviews quarterly financial information related to its investments in capital trust notes as well as other information that is released by each of the financial institutions that issued the notes to determine their continued creditworthiness. 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 will 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 them before the anticipated recovery of fair value, which may be at maturity, it did not consider these investments to be other-than-temporarily impaired at March 31, 2013. It is possible that these securities will perform worse than is currently expected, which could lead to adverse changes in cash flows from these securities and potential OTTI losses in the future. Events that may occur in the future at the financial institutions that issued these securities could trigger material unrecoverable declines in the fair values of 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.

At March 31, 2013, the Company s equity securities portfolio consisted of perpetual preferred and common stock, and mutual funds. The Company considers a decline in the 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. The unrealized losses on the Company s equity securities were primarily caused by market volatility. 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 reasonably sufficient period of time to realize a near-term forecasted recovery of fair value, the Company did not consider these investments to be other-than-temporarily impaired at March 31, 2013. Nonetheless, it is possible that these equity securities will perform worse than is currently expected, which could lead to adverse changes in their fair values, or the failure of the securities to fully recover in

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value as presently forecasted by management, causing the Company to potentially record OTTI losses in future periods. Events that could trigger material declines in the fair values of these securities include, but are not limited to, deterioration in the equity markets; a decline in the quality of the loan portfolios of the issuers in which the Company has invested; and the recording of higher loan loss provisions and net operating losses by such issuers.

The investment securities designated as having a continuous loss position for twelve months or more at March 31, 2013 consisted of seven capital trust notes and one equity security. At December 31, 2012, the investment securities designated as having a continuous loss position for twelve months or more consisted of seven capital trust notes, three equity securities, and one mortgage-backed security. At March 31, 2013 and December 31, 2012, the combined market value of the respective securities represented unrealized losses of $16.5 million and $21.1 million. At March 31, 2013, the fair value of securities having a continuous loss position for twelve months or more was 29.6% below the collective amortized cost of $55.8 million. At December 31, 2012, the fair value of such securities was 24.5% below the collective amortized cost of $86.1 million.

**Note 5. Loans**

The following table sets forth the composition of the loan portfolio at March 31, 2013 and December 31, 2012:

| | **March 31, 2013** | | **December 31, 2012** | |
|---|---|---|---|---|
| (dollars in thousands) | Amount | Percent of Non-Covered Loans Held for Investment | Amount | Percent of Non-Covered Loans Held for Investment |
| Non-Covered Loans Held for Investment: | | | | |
| Mortgage Loans: | | | | |
| Multi-family | $19,217,617 | 68.38% | $18,595,833 | 68.18% |
| Commercial real estate | 7,542,437 | 26.84 | 7,436,598 | 27.27 |
| Acquisition, development, and construction | 399,168 | 1.42 | 397,917 | 1.46 |
| One-to-four family | 305,339 | 1.09 | 203,435 | 0.75 |
| Total mortgage loans held for investment | 27,464,561 | 97.73 | 26,633,783 | 97.66 |
| Other Loans: | | | | |
| Commercial and industrial | 591,007 | 2.10 | 590,044 | 2.16 |
| Other | 46,655 | 0.17 | 49,880 | 0.18 |
| Total other loans held for investment | 637,662 | 2.27 | 639,924 | 2.34 |
| Total non-covered loans held for investment | $28,102,223 | 100.00% | $27,273,707 | 100.00% |
| Net deferred loan origination costs | 12,154 | | 10,757 | |
| Allowance for losses on non-covered loans | (140,387) | | (140,948) | |
| Non-covered loans held for investment, net | $27,973,990 | | $27,143,516 | |
| Covered loans | 3,166,897 | | 3,284,061 | |
| Allowance for losses on covered loans | (55,813) | | (51,311) | |
| Total covered loans, net | $ 3,111,084 | | $ 3,232,750 | |
| Loans held for sale | 718,095 | | 1,204,370 | |
| Total loans, net | $31,803,169 | | $31,580,636 | |

***Non-Covered Loans***

*Non-Covered Loans Held for Investment*

The vast majority of the loans the Company originates for investment are multi-family loans, most of which are collateralized by non-luxury apartment buildings in New York City that feature below-market rents. In addition, the Company originates commercial real estate ( CRE ) loans, most of which are collateralized by properties located in New York City and, to a lesser extent, on Long Island and in New Jersey.

The Company also originates acquisition, development, and construction ( ADC ) loans, commercial and industrial ( C&I ) loans, and one-to-four family loans for investment. ADC loans are primarily originated for multi-family and residential tract projects in New York City and on Long Island, while secured and unsecured C&I loans are made to small and mid-size businesses in New York City, Long Island, New Jersey, and, to a lesser extent, Arizona. C&I loans are typically made 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 loans secured by improved or owner-occupied real estate. Accordingly, borrowers are required to provide a guarantee of repayment and completion, and loan proceeds are disbursed as construction progresses, as certified by in-house or third-party engineers. The risk of loss on an ADC loan is largely dependent upon the accuracy of the initial appraisal of the property s value upon completion of construction 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 conservative lending policies and rigorous underwriting standards. However, if the estimate of value proves to be inaccurate, the cost of completion is greater than expected, 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 could have a material adverse effect on the quality of the ADC loan portfolio, and could result in significant 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.

The ability of the Company s borrowers to repay their loans, and the value of the collateral securing such loans, could be 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 an increase in charge-offs and/or non-performing assets, but also could necessitate an increase in the provision for losses on non-covered loans. These events, if they were to occur, would have an adverse impact on the Company s results of operations and its capital.

While the vast majority of the one-to-four family loans the Company holds for investment are loans that were acquired in merger transactions prior to 2009, the portfolio also includes hybrid jumbo one-to-four family loans that the Company has been originating for investment since 2012.

*Loans Held for Sale*

The Community Bank s mortgage banking operation is one of the largest aggregators of one-to-four family loans for sale in the nation. Community banks, credit unions, mortgage companies, and mortgage brokers use its proprietary web-accessible mortgage banking platform to originate and close one-to-four family loans in all 50 states. These loans are generally sold, servicing retained, to government-sponsored enterprises ( GSEs ). To a much lesser extent, the Community Bank uses its mortgage banking platform to originate fixed-rate jumbo loans under contract for sale to other financial institutions. Although the volume of jumbo loan originations has been immaterial to date, and the Company does not expect the origination of such loans to represent a material portion of the held-for-sale loans it produces, it decided to originate jumbo loans to complement its position in the residential loan origination marketplace.

The Company also services mortgage loans for various third parties, primarily including those it sells to GSEs. The unpaid principal balance of serviced loans was $19.5 billion at March 31, 2013 and $17.6 billion at December 31, 2012.

*Asset Quality*

The following table presents information regarding the quality of the Company s non-covered loans held for investment at March 31, 2013:

| (in thousands) | Loans 30-89 Days Past Due | Non-Accrual Loans | Loans 90 Days or More Delinquent and Still Accruing Interest | Total Past Due Loans | Current Loans | Total Loans Receivable |
|---|---|---|---|---|---|---|
| Multi-family | $ 11,099 | $ 109,688 | $ -- | $ 120,787 | $ 19,096,830 | $ 19,217,617 |
| Commercial real estate | 5,305 | 55,735 | -- | 61,040 | 7,481,397 | 7,542,437 |
| Acquisition, development, and construction | -- | 8,959 | -- | 8,959 | 390,209 | 399,168 |
| One-to-four family | 1,726 | 11,317 | -- | 13,043 | 292,296 | 305,339 |
| Commercial and industrial | 1,298 | 6,254 | -- | 7,552 | 583,455 | 591,007 |
| Other | 374 | 1,660 | -- | 2,034 | 44,621 | 46,655 |
| Total | $ 19,802 | $ 193,613 | $ -- | $ 213,415 | $ 27,888,808 | $ 28,102,223 |

The following table presents information regarding the quality of the Company s non-covered loans held for investment at December 31, 2012:

| (in thousands) | Loans 30-89 Days Past Due | Non-Accrual Loans | Loans 90 Days or More Delinquent and Still Accruing Interest | Total Past Due Loans | Current Loans | Total Loans Receivable |
|---|---|---|---|---|---|---|
| Multi-family | $ 19,945 | $ 163,460 | $ -- | $ 183,405 | $ 18,412,428 | $ 18,595,833 |
| Commercial real estate | 1,679 | 56,863 | -- | 58,542 | 7,378,056 | 7,436,598 |
| Acquisition, development, and construction | 1,178 | 12,091 | -- | 13,269 | 384,648 | 397,917 |
| One-to-four family | 2,645 | 10,945 | -- | 13,590 | 189,845 | 203,435 |
| Commercial and industrial | 262 | 17,372 | -- | 17,634 | 572,410 | 590,044 |
| Other | 1,876 | 599 | -- | 2,475 | 47,405 | 49,880 |
| Total | $ 27,585 | $ 261,330 | $ -- | $ 288,915 | $ 26,984,792 | $ 27,273,707 |

The following table summarizes the Company s non-covered held-for-investment loan portfolio by credit quality indicator at March 31, 2013:

| (in thousands) | Multi-Family | Commercial Real Estate | Acquisition, Development, and Construction | One-to-Four Family | Total Mortgage Segment | Commercial and Industrial | Other | Total Other Loan Segment |
|---|---|---|---|---|---|---|---|---|
| Credit Quality Indicator: | | | | | | | | |
| Pass | $18,958,146 | $ 7,444,746 | $ 389,113 | $ 296,564 | $ 27,088,569 | $ 570,343 | $ 44,996 | $ 615,339 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Special mention | 57,636 | 24,800 | -- | 285 | 82,721 | 12,175 | -- | 12,175 |
| Substandard | 200,558 | 72,391 | 6,971 | 8,490 | 288,410 | 8,489 | 1,659 | 10,148 |
| Doubtful | 1,277 | 500 | 3,084 | -- | 4,861 | -- | -- | -- |
| Total | $19,217,617 | $ 7,542,437 | $ 399,168 | $ 305,339 | $ 27,464,561 | $ 591,007 | $ 46,655 | $ 637,662 |

The following table summarizes the Company s non-covered held-for-investment loan portfolio by credit quality indicator at December 31, 2012:

| (in thousands) | **Multi-Family** | **Commercial Real Estate** | **Acquisition, Development, and Construction** | **One-to-Four Family** | **Total Mortgage Segment** | **Commercial and Industrial** | **Other** | **Total Other Loan Segment** |
|---|---|---|---|---|---|---|---|---|
| Credit Quality Indicator: | | | | | | | | |
| Pass | $18,285,333 | $ 7,337,315 | $ 383,557 | $ 195,232 | $ 26,201,437 | $ 561,541 | $ 49,281 | $ 610,822 |
| Special mention | 55,280 | 26,523 | -- | 294 | 82,097 | 10,211 | -- | 10,211 |
| Substandard | 253,794 | 72,260 | 11,277 | 7,909 | 345,240 | 18,292 | 599 | 18,891 |
| Doubtful | 1,426 | 500 | 3,083 | -- | 5,009 | -- | -- | -- |
| Total | $18,595,833 | $ 7,436,598 | $ 397,917 | $ 203,435 | $ 26,633,783 | $ 590,044 | $ 49,880 | $ 639,924 |

The preceding classifications follow regulatory guidelines and can be generally described as follows: pass loans are of satisfactory quality; special mention loans have a potential weakness or risk that may result in the deterioration of future repayment; substandard loans are inadequately protected by the current net worth and paying capacity of the borrower or of the collateral pledged (these loans have a well-defined weakness and there is a distinct possibility that the Company will sustain

some loss); and doubtful loans, based on existing circumstances, have weaknesses that make collection or liquidation in full highly questionable and improbable. In addition, one-to-four family residential loans are classified utilizing an inter-regulatory agency methodology that incorporates the extent of delinquency and the loan-to-value ratios. These classifications are the most current available and generally have been updated within the last twelve months.

*Troubled Debt Restructurings*

In accordance with GAAP, the Company is required to account for certain held-for-investment 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 as 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 consecutive months.

The following table presents information regarding the Company s TDRs as of March 31, 2013 and December 31, 2012:

| | **March 31, 2013** | | | **December 31, 2012** | | |
|---|---|---|---|---|---|---|
| (in thousands) | Accruing | Non-Accrual | Total | Accruing | Non-Accrual | Total |
| Loan Category: | | | | | | |
| Multi-family | $65,830 | $ 68,944 | $134,774 | $ 66,092 | $114,556 | $180,648 |
| Commercial real estate | 2,255 | 38,750 | 41,005 | 37,457 | 39,127 | 76,584 |
| Acquisition, development, and construction | -- | -- | -- | -- | 510 | 510 |
| Commercial and industrial | 1,410 | -- | 1,410 | 1,463 | -- | 1,463 |
| One-to-four family | -- | 1,101 | 1,101 | -- | 1,101 | 1,101 |
| Total | $69,495 | $108,795 | $178,290 | $105,012 | $155,294 | $260,306 |

The $35.2 million decline in accruing CRE loans noted in the preceding table was due to the pay-off of a single CRE loan in the first quarter of 2013.

In an effort to proactively manage delinquent loans, the Company has selectively extended to certain borrowers concessions such as rate reductions, extension of maturity dates, and forbearance agreements. As of March 31, 2013, loans on which concessions were made with respect to rate reductions and/or extension of maturity dates amounted to $158.5 million and loans on which forbearance agreements were reached amounted to $19.8 million.

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.

In the three months ended March 31, 2013, the Company classified one new loan (a CRE loan) in the amount of $627,000 as a non-accrual TDR. While other concessions were granted to the borrower, the interest rate on the loan was maintained at 5.50%. As a result, the TDR did not have a financial impact on the Company s results of operations.

During the three months ended March 31, 2013, there were no payment defaults on any loans that had been modified as TDRs during the preceding twelve months. A loan is considered to be in payment default once it is 30 days contractually past due under the modified terms.

The Company does not consider a payment to be in default when the loan is in forbearance, or otherwise granted a delay of payment, when the agreement to forebear or allow a delay of payment is part of a modification. Subsequent to the modification, the loan is not considered to be in default until payment is contractually past due in accordance with the modified terms. However, the Company does consider a loan with multiple modifications or forbearance periods to be in default, and would also consider a loan to be in default if it were in bankruptcy or, subsequent to modification, was partially charged off.

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***Covered Loans***

The following table presents the balance of covered loans acquired in the AmTrust and Desert Hills acquisitions as of March 31, 2013:

| (dollars in thousands) | Amount | Percent of Covered Loans |
|---|---|---|
| Loan Category: | | |
| One-to-four family | $ 2,870,871 | 90.6% |
| All other loans | 296,026 | 9.4 |
| Total covered loans | $ 3,166,897 | 100.0% |

The Company refers to the loans acquired in the AmTrust and Desert Hills acquisitions as covered loans because the Company is being reimbursed for a substantial portion of losses on these loans under the terms of the FDIC loss sharing agreements. Covered loans are accounted for under Accounting Standards Codification ( ASC ) Topic 310-30, Loans and Debt Securities Acquired with Deteriorated Credit Quality ( ASC 310-30 ), and initially measured at fair value, which includes estimated future credit losses expected to be incurred over the lives of the loans. Under ASC 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.

At March 31, 2013 and December 31, 2012, the unpaid principal balances of covered loans were $3.8 billion and $3.9 billion, respectively. The carrying values of such loans were $3.2 billion and $3.3 billion, respectively, at the corresponding dates.

At the respective acquisition dates, the Company estimated the fair values of the AmTrust and Desert Hills loan portfolios, which represented the expected cash flows from the portfolios, 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 expected amount and timing of undiscounted 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 amount by which the undiscounted contractual cash flows exceed 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 loan portfolios at the respective acquisition dates.

The accretable yield is affected by changes in interest rate indices for variable rate loans, changes in prepayment assumptions, and changes in expected principal and interest payments over the estimated lives of the loans. Changes in interest rate indices for variable rate loans increase or decrease the amount of interest income expected to be collected, depending on the direction of interest rates. Prepayments affect the estimated lives of covered loans and could change the amount of interest income and principal expected to be collected. Changes in expected principal and interest payments over the estimated lives of covered loans are driven by the credit outlook and actions that may be taken with borrowers.

The Company periodically evaluates the estimates of the cash flows it expects to collect. Expected future cash flows from interest payments are based on variable rates at the time of the periodic evaluation. Estimates of expected cash flows that are impacted by changes in interest rate indices for variable rate loans and prepayment assumptions are treated as prospective yield adjustments and included in interest income.

Changes in the accretable yield for covered loans for the three months ended March 31, 2013 were as follows:

| (in thousands) | Accretable Yield |
|---|---|
| Balance at beginning of period | $1,201,172 |
| Reclassification from non-accretable difference | 50,052 |
| Accretion | (40,552) |
| Balance at end of period | $1,210,672 |

In the preceding table, the line item reclassification from non-accretable difference includes changes in cash flows that the Company expects to collect due to changes in prepayment assumptions and changes in interest rates on variable rate loans. As of the Company s last periodic evaluation, prepayment assumptions decreased and, accordingly, future expected interest cash flows increased. This resulted in an increase in the accretable yield. In addition, these increases were partially offset by additional reductions in the expected cash flows from interest payments, as interest rates continued to be very low. As a result, a large percentage of the Company s covered variable rate loans continue to reset at lower interest rates. In addition, the accretable yield increased due to increases in the expected principal and interest payments, driven by better expectations relating to credit.

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In connection with the AmTrust and Desert Hills transactions, the Company has acquired other real estate owned ( OREO ), all of which is covered under FDIC loss sharing agreements. Covered OREO is initially recorded at its estimated fair value on the acquisition date, based on independent appraisals less the estimated selling costs. Any subsequent write-downs due to declines in fair value are charged to non-interest expense, and partially offset by loss reimbursements under the FDIC loss sharing agreements. Any recoveries of previous write-downs are credited to non-interest expense and partially offset by the portion of the recovery that is due to the FDIC.

The FDIC loss share receivable represents the present value of the estimated losses on covered loans and OREO 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 is reduced as losses on covered loans are recognized and as 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 lower than the acquisition-date estimates, the FDIC loss share receivable will be reduced.

The following table presents information regarding the Company s covered loans 90 days or more past due at March 31, 2013 and December 31, 2012:

| (in thousands) | March 31, 2013 | December 31, 2012 |
|---|---|---|
| Covered Loans 90 Days or More Past Due: | | |
| One-to-four family | $281,039 | $297,265 |
| Other loans | 15,001 | 15,308 |
| Total covered loans 90 days or more past due | $296,040 | $312,573 |

The following table presents information regarding the Company s covered loans that were 30 to 89 days past due at March 31, 2013 and December 31, 2012:

| (in thousands) | March 31, 2013 | December 31, 2012 |
|---|---|---|
| Covered Loans 30-89 Days Past Due: | | |
| One-to-four family | $57,335 | $75,129 |
| Other loans | 5,046 | 6,057 |
| Total covered loans 30-89 days past due | $62,381 | $81,186 |

At March 31, 2013, the Company had $62.4 million of covered loans that were 30 to 89 days past due, and covered loans of $296.0 million that were 90 days or more past due but considered to be performing due to the application of the yield accretion method under ASC 310-30. The remaining portion of the Company s covered loan portfolio totaled $2.8 billion at March 31, 2013 and was considered current at that date. ASC 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 were 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 that is expected to be uncollectible (i.e., 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 ASC 310-30 as performing loans, and such judgment 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.

The primary credit quality indicator for covered loans is the expectation of underlying cash flows. The Company recorded a provision for losses on covered loans of $4.5 million during the three months ended March 31, 2013 and a recovery of $3.3 million during the three months ended December 31, 2012. The first quarter 2013 provision was largely due to credit deterioration in the acquired portfolios of one-to-four family and home equity loans and was largely offset by FDIC indemnification income of $3.6 million recorded in non-interest income in the same quarter. The fourth quarter 2012 recovery was largely due to improvement in the credit quality of the same loan portfolios and was largely offset by FDIC indemnification expense of $2.6 million recorded in non-interest income in the same three-month period.

**Note 6. Allowance for Loan Losses**

The following table provides additional information regarding the Company s allowances for losses on covered and non-covered loans by segment (i.e., mortgage and other), based upon the method of evaluating loan impairment:

| (in thousands) | Mortgage | Other | Total |
|---|---|---|---|
| Allowance for Loan Losses at March 31, 2013: | | | |
| Loans individually evaluated for impairment | $ 1,258 | $ -- | $ 1,258 |
| Loans collectively evaluated for impairment | 126,643 | 12,486 | 139,129 |
| Acquired loans with deteriorated credit quality | 36,473 | 19,340 | 55,813 |
| Total | $ 164,374 | $ 31,826 | $ 196,200 |

| (in thousands) | Mortgage | Other | Total |
|---|---|---|---|
| Allowance for Loan Losses at December 31, 2012: | | | |
| Loans individually evaluated for impairment | $ 1,486 | $ 1,199 | $ 2,685 |
| Loans collectively evaluated for impairment | 126,448 | 11,815 | 138,263 |
| Acquired loans with deteriorated credit quality | 32,593 | 18,718 | 51,311 |
| Total | $ 160,527 | $ 31,732 | $ 192,259 |

The following table provides additional information, by segment, regarding the methods used to evaluate the Company s loan portfolio for impairment:

| (in thousands) | Mortgage | Other | Total |
|---|---|---|---|
| Loans Receivable at March 31, 2013: | | | |
| Loans individually evaluated for impairment | $ 250,997 | $ 7,571 | $ 258,568 |
| Loans collectively evaluated for impairment | 27,213,564 | 630,091 | 27,843,655 |
| Acquired loans with deteriorated credit quality | 2,870,871 | 296,026 | 3,166,897 |
| Total | $ 30,335,432 | $ 933,688 | $ 31,269,120 |

| (in thousands) | Mortgage | Other | Total |
|---|---|---|---|
| Loans Receivable at December 31, 2012: | | | |
| Loans individually evaluated for impairment | $ 309,694 | $ 17,702 | $ 327,396 |
| Loans collectively evaluated for impairment | 26,324,088 | 622,223 | 26,946,311 |
| Acquired loans with deteriorated credit quality | 2,976,067 | 307,994 | 3,284,061 |
| Total | $ 29,609,849 | $ 947,919 | $ 30,557,768 |

***Non-Covered Loans***

The following table summarizes activity in the allowance for losses on non-covered loans, by segment, for the three months ended March 31, 2013 and 2012:

| | March 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2013 | | | 2012 | | |
| (in thousands) | **Mortgage** | **Other** | **Total** | **Mortgage** | **Other** | **Total** |
| Balance, beginning of period | $127,934 | $13,014 | $140,948 | $121,995 | $15,295 | $137,290 |
| Charge-offs | (1,431) | (6,173) | (7,604) | (14,531) | (2,508) | (17,039) |
| Recoveries | 1,675 | 368 | 2,043 | 317 | 1,199 | 1,516 |
| Provision for losses on non-covered loans | (277) | 5,277 | 5,000 | 14,845 | 155 | 15,000 |
| Balance, end of period | $127,901 | $12,486 | $140,387 | $122,626 | $14,141 | $136,767 |

Please see Critical Accounting Policies for additional information regarding the Company s allowance for losses on non-covered loans.

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The following table presents additional information regarding the Company s impaired non-covered loans at March 31, 2013:

| (in thousands) | Recorded Investment | Unpaid Principal Balance | Related Allowance | Average Recorded Investment | Interest Income Recognized |
|---|---|---|---|---|---|
| Impaired loans with no related allowance: | | | | | |
| Multi-family | $ 172,761 | $ 181,952 | $ -- | $ 183,131 | $ 1,118 |
| Commercial real estate | 59,709 | 60,453 | -- | 70,081 | 410 |
| Acquisition, development, and construction | 7,109 | 7,639 | -- | 8,656 | -- |
| One-to-four family | 1,101 | 1,147 | -- | 1,101 | -- |
| Commercial and industrial | 7,572 | 31,047 | -- | 9,068 | 22 |
| Total impaired loans with no related allowance | $ 248,252 | $ 282,238 | $ -- | $ 272,037 | $ 1,550 |
| Impaired loans with an allowance recorded: | | | | | |
| Multi-family | $ 6,717 | $ 11,337 | $ 519 | $ 13,513 | $ 38 |
| Commercial real estate | 3,599 | 3,926 | 739 | 3,256 | 19 |
| Acquisition, development, and construction | -- | -- | -- | 608 | -- |
| One-to-four family | -- | -- | -- | -- | -- |
| Commercial and industrial | -- | -- | -- | 3,569 | -- |
| Total impaired loans with an allowance recorded | $ 10,316 | $ 15,263 | $ 1,258 | $ 20,946 | $ 57 |
| Total impaired loans: | | | | | |
| Multi-family | $ 179,478 | $ 193,289 | $ 519 | $ 196,644 | $ 1,156 |
| Commercial real estate | 63,308 | 64,379 | 739 | 73,337 | 429 |
| Acquisition, development, and construction | 7,109 | 7,639 | -- | 9,264 | -- |
| One-to-four family | 1,101 | 1,147 | -- | 1,101 | -- |
| Commercial and industrial | 7,572 | 31,047 | -- | 12,637 | 22 |
| Total impaired loans | $ 258,568 | $ 297,501 | $ 1,258 | $ 292,983 | $ 1,607 |

The following table presents additional information regarding the Company s impaired non-covered loans at December 31, 2012:

| (in thousands) | Recorded Investment | Unpaid Principal Balance | Related Allowance | Average Recorded Investment | Interest Income Recognized |
|---|---|---|---|---|---|
| Impaired loans with no related allowance: | | | | | |
| Multi-family | $ 193,500 | $ 211,329 | $ -- | $ 189,510 | $ 4,929 |
| Commercial real estate | 80,453 | 81,134 | -- | 72,271 | 1,705 |
| Acquisition, development, and construction | 10,203 | 14,297 | -- | 20,954 | 790 |
| One-to-four family | 1,101 | 1,147 | -- | 1,114 | -- |
| Commercial and industrial | 10,564 | 14,679 | -- | 10,021 | 380 |
| Total impaired loans with no related allowance | $ 295,821 | $ 322,586 | $ -- | $ 293,870 | $ 7,804 |
| Impaired loans with an allowance recorded: | | | | | |
| Multi-family | $ 20,307 | $ 21,620 | $ 1,055 | $ 27,894 | $ 802 |

| | | | | | |
|---|---|---|---|---|---|
| Commercial real estate | 2,914 | 2,940 | 402 | 3,693 | 98 |
| Acquisition, development, and construction | 1,216 | 1,494 | 29 | 1,877 | -- |
| One-to-four family | -- | -- | -- | -- | -- |
| Commercial and industrial | 7,138 | 10,252 | 1,199 | 1,785 | 1,405 |
| Total impaired loans with an allowance recorded | $ 31,575 | $ 36,306 | $ 2,685 | $ 35,249 | $ 2,305 |
| Total impaired loans: | | | | | |
| Multi-family | $ 213,807 | $ 232,949 | $ 1,055 | $ 217,404 | $ 5,731 |
| Commercial real estate | 83,367 | 84,074 | 402 | 75,964 | 1,803 |
| Acquisition, development, and construction | 11,419 | 15,791 | 29 | 22,831 | 790 |
| One-to-four family | 1,101 | 1,147 | -- | 1,114 | -- |
| Commercial and industrial | 17,702 | 24,931 | 1,199 | 11,806 | 1,785 |
| Total impaired loans | $ 327,396 | $ 358,892 | $ 2,685 | $ 329,119 | $ 10,109 |

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***Covered Loans***

Under the loss sharing agreements with the FDIC, covered loans 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 from these loans. Covered loans have been aggregated into pools of loans with common characteristics. In determining the allowance for losses on covered loans, the Company periodically performs an analysis to estimate the expected cash flows for each of the loan pools. The Company records a provision for loan losses on covered loans to the extent that the expected cash flows from a loan pool have decreased since the acquisition date. Accordingly, if there is a decrease in expected cash flows due to an increase in estimated credit losses, as compared to the estimates made at the respective acquisition dates, the decrease in the present value of expected cash flows is recorded as a provision for covered loan losses charged to earnings, and an allowance for covered loan losses is established. A related credit to non-interest income and an increase in the FDIC loss share receivable is recognized at the same time, and measured based on the applicable loss sharing agreement percentages.

The following table summarizes activity in the allowance for losses on covered loans for the three months ended March 31, 2013 and 2012:

| | **March 31,** | |
|---|---|---|
| (in thousands) | **2013** | **2012** |
| Balance, beginning of period | $ 51,311 | $ 33,323 |
| Provision for loan losses | 4,502 | -- |
| Balance, end of period | $ 55,813 | $ 33,323 |

**Note 7. Borrowed Funds**

The following table summarizes the Company s borrowed funds at March 31, 2013 and December 31, 2012:

| (in thousands) | **March 31, 2013** | **December 31, 2012** |
|---|---|---|
| Wholesale borrowings: | | |
| FHLB advances | $ 8,566,301 | $ 8,842,974 |
| Repurchase agreements | 4,125,000 | 4,125,000 |
| Fed funds purchased | 125,000 | 100,000 |
| Total wholesale borrowings | $ 12,816,301 | $ 13,067,974 |
| Junior subordinated debentures | 357,967 | 357,917 |
| Preferred stock of subsidiaries | 4,300 | 4,300 |
| Total borrowed funds | $ 13,178,568 | $ 13,430,191 |

At March 31, 2013 and December 31, 2012, the Company had $358.0 million and $357.9 million, respectively, of outstanding junior subordinated deferrable interest debentures ( junior subordinated debentures ) held by wholly-owned statutory business trusts (the Trusts ) that issued guaranteed capital securities. Traditionally, these capital securities qualified as Tier 1 capital of the Company. However, with the passage of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, (the Dodd-Frank Act ) in July 2010, the qualification of capital securities as Tier 1 capital is expected to be phased out by January 1, 2016. As the rules relating to this phase-out have not yet been finalized, the Company has not yet reduced the contribution of its capital securities to its Tier 1 capital. However, if the Company had reduced that contribution by the 25% proposed, the impact would have been a 21-basis point reduction in its Tier 1 leverage capital ratio and a 32-basis point reduction in its Tier 1 risk-based capital ratio at March 31, 2013.

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.

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The following junior subordinated debentures were outstanding at March 31, 2013:

| Issuer | Interest Rate of Capital Securities and Debentures | Junior Subordinated Debenture Carrying Amount | Capital Securities Amount Outstanding | Date of Original Issue | Stated Maturity | First Optional Redemption Date |
|---|---|---|---|---|---|---|
| | | (dollars in thousands) | | | | |
| New York Community Capital Trust V (BONUSES℠ Units) | 6.000% | $144,041 | $137,690 | Nov. 4, 2002 | Nov. 1, 2051 | Nov. 4, 2007 [1] |
| New York Community Capital Trust X | 1.880 | 123,712 | 120,000 | Dec. 14, 2006 | Dec. 15, 2036 | Dec. 15, 2011 [2] |
| PennFed Capital Trust III | 3.530 | 30,928 | 30,000 | June 2, 2003 | June 15, 2033 | June 15, 2008 [2] |
| New York Community Capital Trust XI | 1.934 | 59,286 | 57,500 | April 16, 2007 | June 30, 2037 | June 30, 2012 [2] |
| Total junior subordinated debentures | | $357,967 | $345,190 | | | |

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

(2) Callable from this date forward.

On December 31, 2012, the Company redeemed the following junior subordinated debentures totaling $69.2 million: Haven Capital Trust II, Queens County Capital Trust I, Queens Statutory Trust I, LIF Statutory Trust I, and PennFed Capital Trust II. As a result, $2.3 million loss on debt redemption was recorded in non-interest income in the fourth quarter of 2012.

**Note 8. Mortgage Servicing Rights**

The Company had mortgage servicing rights ( MSRs ) of $173.0 million and $144.7 million, respectively, at March 31, 2013 and December 31, 2012. The Company has two classes of MSRs for which it separately manages the economic risk: residential and securitized.

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 regarding its residential MSRs. MSRs do not trade in an active open market with readily observable prices. Accordingly, the Company bases the fair value of its MSRs on the present value of estimated future net servicing income cash flows utilizing an internal valuation model. The Company estimates future net servicing income cash flows with assumptions that market participants would use to estimate fair value, including estimates of prepayment speeds, discount rates, default rates, refinance rates, servicing costs, escrow account earnings, contractual servicing fee income, 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 residential MSRs at any given time is significantly affected by the mortgage interest rates that are then currently available in the marketplace which, in turn, influence mortgage loan prepayment speeds. During periods of declining interest rates, the value of MSRs generally declines as an increase in mortgage refinancing activity results in an increase in prepayments. Conversely, during periods of rising interest rates, the value of MSRs generally increases as mortgage refinancing activity declines.

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 their carrying amount and their current fair value. If it is determined that impairment exists, the resultant loss is charged against earnings.

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The following tables set forth the changes in the balances of residential and securitized MSRs for the periods indicated below:

| | For the Three Months Ended March 31, 2013 | | For the Year Ended December 31, 2012 | |
|---|---|---|---|---|
| (in thousands) | Residential | Securitized | Residential | Securitized |
| Carrying value, beginning of year | $144,520 | $193 | $116,416 | $ 596 |
| Additions | 31,601 | -- | 116,407 | -- |
| Increase (decrease) in fair value: | | | | |
| Due to changes in valuation assumptions | 13,094 | -- | (20,938) | -- |
| Due to other changes[1] | (16,366) | -- | (67,365) | -- |
| Amortization | -- | (64) | -- | (403) |
| Carrying value, end of period | $172,849 | $ 129 | $144,520 | $ 193 |

(1) Includes net servicing cash flows and the passage of time.

The following table presents the key assumptions used in calculating the fair value of the Company s residential MSRs at the dates indicated:

| | March 31, 2013 | December 31, 2012 |
|---|---|---|
| Expected Weighted Average Life | 73 months | 64 months |
| Constant Prepayment Speed | 13.2% | 15.4% |
| Discount Rate | 10.5 | 10.5 |
| Primary Mortgage Rate to Refinance | 3.8 | 3.6 |
| Cost to Service (per loan per year): | | |
| Current | $ 53 | $ 53 |
| 30-59 days or less delinquent | 103 | 103 |
| 60-89 days delinquent | 203 | 203 |
| 90-119 days delinquent | 303 | 303 |
| Over 120 days delinquent | 553 | 553 |

As indicated in the preceding table, there were no changes in the assumed servicing costs.

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**Note 9. Pension and Other Post-Retirement Benefits**

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

| | For the Three Months Ended March 31, | | | |
|---|---|---|---|---|
| | 2013 | | 2012 | |
| (in thousands) | Pension Benefits | Post-Retirement Benefits | Pension Benefits | Post-Retirement Benefits |
| Components of net periodic (credit) expense: | | | | |
| Interest cost | $ 1,364 | $ 171 | $ 1,471 | $ 160 |
| Service cost | -- | 1 | -- | 2 |
| Expected return on plan assets | (4,147) | -- | (3,314) | -- |
| Amortization of prior-service costs | -- | (62) | -- | (62) |
| Amortization of net actuarial loss | 2,351 | 164 | 2,434 | 126 |
| Net periodic (credit) expense | $ (432) | $ 274 | $ 591 | $ 226 |

As discussed in the notes to the consolidated financial statements presented in the Company s 2012 Annual Report on Form 10-K, the Company expects to contribute $1.5 million to its post-retirement plan to pay premiums and claims for the fiscal year ending December 31, 2013. The Company does not expect to contribute to its pension plan in 2013.

**Note 10. Stock-Based Compensation**

At March 31, 2013, the Company had 16,817,351 shares available for grants as options, restricted stock, or other forms of related rights under the New York Community Bancorp, Inc. 2012 Stock Incentive Plan (the 2012 Stock Incentive Plan ), which was approved by the Company s shareholders at its Annual Meeting on June 7, 2012. Included in this amount were 1,030,673 shares that were transferred from the New York Community Bancorp, Inc. 2006 Stock Incentive Plan (the 2006 Stock Incentive Plan ), which was approved by the Company s shareholders at its Annual Meeting on June 7, 2006 and reapproved at its Annual Meeting on June 2, 2011. Under the 2012 Stock Incentive Plan, the Company granted 2,185,222 shares of restricted stock during the three months ended March 31, 2013. The shares had an average fair value of $13.62 on the date of grant and a vesting period of five years. Compensation and benefits expense related to the restricted stock grants is recognized on a straight-line basis over the vesting period, and totaled $5.5 million and $5.1 million, respectively, in the three months ended March 31, 2013 and 2012.

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A summary of activity with regard to restricted stock awards in the three months ended March 31, 2013 is presented in the following table:

| | For the Three Months Ended March 31, 2013 | |
|---|---|---|
| | Number of Shares | Weighted Average Grant Date Fair Value |
| Unvested at beginning of year | 4,386,245 | $ 14.73 |
| Granted | 2,185,222 | 13.62 |
| Vested | (911,005) | 15.27 |
| Cancelled | (94,520) | 13.84 |
| Unvested at end of period | 5,565,942 | 14.22 |

As of March 31, 2013, unrecognized compensation cost relating to unvested restricted stock totaled $73.0 million. This amount will be recognized over a remaining weighted average period of 3.7 years.

In addition, the Company had eight stock option plans at March 31, 2013: the 1993 and 1997 New York Community Bancorp, Inc. Stock Option Plans; the 1993 Haven Bancorp, Inc. Stock Option Plan; the 1998 Richmond County Financial Corp. Stock Compensation Plan; the 2001 Roslyn Bancorp, Inc. Stock-based Incentive Plan; the 1998 Long Island Financial Corp. Stock Option Plan; and the 2003 and 2004 Synergy Financial Group Stock Option Plans (all eight 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.

The Company uses the modified prospective approach to recognize compensation costs related to share-based payments at fair value on the date of grant, and recognizes such costs in the financial statements over the vesting period during which the employee provides service in exchange for the award. As there were no unvested options at any time during the three months ended March 31, 2013 or the year ended December 31, 2012, the Company did not record any compensation and benefits expense relating to stock options during those periods.

To satisfy the exercise of options, the Company either issues new shares of common stock or uses common stock held in Treasury. In the event that Treasury stock is used, 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 March 31, 2013, there were 344,106 stock options outstanding. The number of shares available for future issuance under the Stock Option Plans was 11,840 at that date.

The status of the Stock Option Plans at March 31, 2013, and changes that occurred during the three months ended at that date, are summarized below:

| | For the Three Months Ended March 31, 2013 | |
|---|---|---|
| | Number of Stock Options | Weighted Average Exercise Price |
| Stock options outstanding, beginning of year | 2,641,344 | $ 16.68 |
| Granted | -- | -- |
| Exercised | (8,511) | 6.98 |
| Expired/forfeited | (2,288,727) | 16.27 |
| Stock options outstanding, end of period | 344,106 | 19.60 |
| Options exercisable, end of period | 344,106 | 19.60 |

The intrinsic value of stock options outstanding and exercisable at March 31, 2013 was $167,000. The intrinsic value of options exercised during the three months ended March 31, 2013 was $60,000. There were no stock options exercised in the three months ended March 31, 2012.

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**Note 11. Fair Value Measurements**

The FASB issued guidance 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 guidance 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 FASB established a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

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

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

The following tables present assets and liabilities that were measured at fair value on a recurring basis as of March 31, 2013 and December 31, 2012, and that were included in the Company s Consolidated Statements of Condition at those dates:

| | **Fair Value Measurements at March 31, 2013 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 | $ -- | $ 32,491 | $ -- | $ -- | $ 32,491 |
| GSE CMOs | -- | 66,484 | -- | -- | 66,484 |
| Private label CMOs | -- | 16,540 | -- | -- | 16,540 |
| Total mortgage-related securities | $ -- | $ 115,515 | $ -- | $ -- | $ 115,515 |
| Other Securities Available for Sale: | | | | | |
| GSE debentures | $ -- | $ -- | $ -- | $ -- | $ -- |
| Corporate bonds | -- | -- | -- | -- | -- |
| U. S. Treasury obligations | -- | -- | -- | -- | -- |
| Municipal bonds | -- | 1,214 | -- | -- | 1,214 |
| Capital trust notes | -- | 16,580 | 19,500 | -- | 36,080 |
| Preferred stock | 96,555 | 29,211 | -- | -- | 125,766 |
| Common stock | 43,115 | 2,671 | -- | -- | 45,786 |
| Total other securities | $ 139,670 | $ 49,676 | $ 19,500 | $ -- | $ 208,846 |
| Total securities available for sale | $ 139,670 | $ 165,191 | $ 19,500 | $ -- | $ 324,361 |
| Other Assets: | | | | | |
| Loans held for sale | $ -- | $ 718,095 | $ -- | $ -- | $ 718,095 |
| Mortgage servicing rights | -- | -- | 172,849 | -- | 172,849 |
| Interest rate lock commitments | -- | -- | 12,420 | -- | 12,420 |

| | | | | | |
|---|---|---|---|---|---|
| Derivative assets-other[2] | 2,202 | 4,144 | -- | (4,291) | 2,055 |
| Liabilities: | | | | | |
| Derivative liabilities | $ (170) | $ (4,260) | $ -- | $ 3,450 | $ (980) |

(1) Includes cash collateral received and pledged.
(2) Includes $2.1 million to purchase Treasury options.

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| | Fair Value Measurements at December 31, 2012 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 | Total Fair Value |
| Mortgage-Related Securities Available for Sale: | | | | | |
| GSE certificates | $ -- | $ 92,679 | $ -- | $ -- | $ 92,679 |
| GSE CMOs | -- | 67,160 | -- | -- | 67,160 |
| Private label CMOs | -- | 17,416 | -- | -- | 17,416 |
| Total mortgage-related securities | $ -- | $ 177,255 | $ -- | $ -- | $ 177,255 |
| Other Securities Available for Sale: | | | | | |
| GSE debentures | $ -- | $ -- | $ -- | $ -- | $ -- |
| Corporate bonds | -- | -- | -- | -- | -- |
| U. S. Treasury obligations | -- | -- | -- | -- | -- |
| Municipal bonds | -- | 46,296 | -- | -- | 46,296 |
| Capital trust notes | -- | 19,866 | 18,569 | | 38,435 |
| Preferred stock | 124,734 | 284 | -- | | 125,018 |
| Common stock | 39,682 | 2,580 | -- | -- | 42,262 |
| Total other securities | $ 164,416 | $ 69,026 | $ 18,569 | $ -- | $ 252,011 |
| Total securities available for sale | $ 164,416 | $ 246,281 | $ 18,569 | $ -- | $ 429,266 |
| Other Assets: | | | | | |
| Loans held for sale | $ -- | $ 1,204,370 | $ -- | $ -- | $ 1,204,370 |
| Mortgage servicing rights | -- | -- | 144,520 | -- | 144,520 |
| Interest rate lock commitments | -- | -- | 21,446 | -- | 21,446 |
| Derivative assets-other[(1)] | 5,939 | 2,910 | -- | (4,730) | 4,119 |
| Liabilities: | | | | | |
| Derivative liabilities | $ (2,303) | $ (5,808) | $ -- | $ 4,730 | $ (3,381) |

(1) Includes $5.3 million to purchase Treasury options.

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 values 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, exchange-traded securities, and derivatives.

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

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 capital trust notes, which may include pooled trust preferred securities, collateralized debt obligations ( CDOs ), and certain single-issue capital trust notes, the determination of fair value may require benchmarking to similar instruments or analyzing default and recovery rates. Therefore, 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, the price is considered when arriving at a 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.

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

The Company carries loans held for sale originated by the Residential Mortgage Banking segment at fair value, in accordance with ASC 825, Financial Instruments. The fair value of held-for-sale loans 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.

MSRs do not trade in an active open market with readily observable prices. The Company bases the fair value of its MSRs on the present value of estimated future net servicing income cash flows, utilizing an internal valuation model. The Company estimates future net servicing income cash flows with assumptions that market participants would use to estimate fair value, including estimates of prepayment speeds, discount rates, default rates, refinance rates, servicing costs, escrow account earnings, contractual servicing fee income, 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 within Level 3.

Exchange-traded derivatives that are valued using quoted prices are classified within Level 1 of the valuation hierarchy. The majority of the Company s derivative positions are valued using internally developed models that use readily observable market parameters as their basis. These are parameters that are actively quoted and can be validated by external sources, including industry pricing services. Where the types of derivative products have been in existence for some time, the Company uses models that are widely accepted in the financial services industry. These models reflect the contractual terms of the derivatives, including the period to maturity, and market-based parameters such as interest rates, volatility, and the credit quality of the counterparty. Furthermore, many of these models do not contain a high level of subjectivity, as the methodologies used in the models do not require significant judgment, and inputs to the models are readily observable from actively quoted markets, as is the case for plain vanilla interest rate swaps and option contracts. Such instruments are generally classified within Level 2 of the valuation hierarchy. Derivatives that are valued based on models with significant unobservable market parameters, and that are normally traded less actively, have trade activity that is one-way, and/or are traded in less-developed markets, are classified within Level 3 of the valuation hierarchy.

The fair value of interest rate lock commitments ( IRLCs ) for residential mortgage loans that the Company intends to sell 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 values of the MSRs, loan level price adjustment factors, and historical IRLC closing ratios. The closing ratio is computed by the Company s mortgage banking operation and is periodically reviewed by management for reasonableness. 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.

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**Changes in Level 3 Fair Value Measurements**

The following tables include a roll-forward of the balance sheet amounts for the three months ended March 31, 2013 and 2012 (including changes in fair value) for financial instruments classified in Level 3 of the valuation hierarchy:

| (in thousands) | Fair Value January 1, 2013 | Total Realized/Unrealized Gains/(Losses) Recorded in Income | Comprehensive (Loss) Income | Issuances | Settlements | Transfers to/(from) Level 3 | Fair Value at March 31, 2013 | Change in Unrealized Gains/ (Losses) Related to Instruments Held at March 31, 2013 |
|---|---|---|---|---|---|---|---|---|
| Available-for-sale capital securities | $ 18,569 | $ -- | $ 931 | $ -- | $ -- | $ -- | $ 19,500 | $ 931 |
| Mortgage servicing rights | 144,520 | (3,272) | -- | 31,601 | -- | | 172,849 | 13,094 |
| Interest rate lock commitments | 21,446 | (9,026) | -- | -- | -- | -- | 12,420 | 12,224 |

| (in thousands) | Fair Value January 1, 2012 | Total Realized/Unrealized Gains/(Losses) Recorded in Income | Comprehensive (Loss) Income | Issuances | Settlements | Transfers to/(from) Level 3 | Fair Value at March 31, 2012 | Change in Unrealized Gains/ (Losses) Related to Instruments Held at March 31, 2012 |
|---|---|---|---|---|---|---|---|---|
| Available-for-sale capital securities and preferred stock | $ 18,078 | $ -- | $ 1,783 | $ -- | $ -- | $ (3,054) | $ 16,807 | $ 1,654 |
| Mortgage servicing rights | 116,416 | (11,477) | -- | 34,853 | -- | -- | 139,792 | (11,477) |
| Interest rate lock commitments | 15,633 | (2,085) | -- | -- | -- | -- | 13,548 | (2,085) |

The Company s policy is to recognize transfers in and out of Levels 1, 2, and 3 as of the end of the reporting period. There were no transfers in or out of Level 3 during the three months ended March 31, 2013. During the three months ended March 31, 2013, the Company transferred certain preferred stock from Level 1 to Level 2 as a result of increased observable market activity for these securities. During the three months ended March 31, 2012, the Company transferred certain trust preferred securities from Level 3 to Level 2 as a result of increased observable market activity for these securities. There were no gains or losses recognized as a result of the transfer of securities during the three months ended March 31, 2013 or 2012. There were no transfers of securities between Levels 1 and 2 for the three months ended March 31, 2012.

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For Level 3 assets and liabilities measured at fair value on a recurring basis as of March 31, 2013, the significant unobservable inputs used in the fair value measurements were as follows:

| (dollars in thousands) | Fair Value at March 31, 2013 | Valuation Technique | Significant Unobservable Inputs | Significant Unobservable Input Value |
|---|---|---|---|---|
| Capital trust notes | $ 19,500 | Discounted Cash Flow | Weighted Average Discount Rate [(1)] | 4.72% |
| Mortgage Servicing Rights | 172,849 | Discounted Cash Flow | Weighted Average Constant Prepayment Rate [(2)] | 13.20 |
| | | | Weighted Average Discount Rate | 10.50 |
| Interest Rate Lock Commitments | 12,420 | Pricing Model | Weighted Average Closing Ratio | 78.90 |

(1) Derived from multiple interest rate scenarios that incorporate a spread to the London Interbank Offered Rate swap curve and market volatility.
(2) Represents annualized loan repayment rate assumptions.

The significant unobservable input used in the fair value measurement of the Company s capital trust notes is the weighted average discount rate. The fair value of the capital trust notes will move in the opposite direction of the discount rate (i.e., if the discount rate decreases, the value of the capital trust notes will increase). The Company estimates the expected cash flows for such securities, and discounts them using the weighted average discount rates above to arrive at the estimated fair value.

The significant unobservable inputs used in the fair value measurement of the Company s MSRs are the weighted average constant prepayment rate and the weighted average discount rate. Significant increases (decreases) in any of those inputs in isolation could result in significantly lower or higher fair value measurements. Although the constant prepayment rate and the discount rate are not directly interrelated, they will generally move in opposite directions.

The significant unobservable input used in the fair value measurement of the Company s IRLCs is the closing ratio, which represents the percentage of loans currently in a lock position that management estimates will ultimately close. Generally, the fair value of an IRLC is positive if the prevailing interest rate is lower than the IRLC rate, and the fair value of an IRLC is negative if the prevailing interest rate is higher than the IRLC rate. Therefore, an increase in the closing ratio (i.e., higher percentage of loans estimated to close) will result in the fair value of the IRLC increasing if in a gain position, or decreasing if in a loss position. The closing ratio is largely dependent on the stage of processing that a loan is currently in, and the change in prevailing interest rates from the time of the rate lock.

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

Certain assets are measured at fair value on a non-recurring basis. Such instruments are subject to fair value adjustments under certain circumstances (e.g., when there is evidence of impairment). The following tables present assets and liabilities that were measured at fair value on a non-recurring basis as of March 31, 2013 and December 31, 2012, and that were included in the Company s Consolidated Statements of Condition at those dates:

| | **Fair Value Measurements at March 31, 2013 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 |
| Certain impaired loans | $-- | $ -- | $13,984 | $13,984 |
| Other assets [1] | -- | 18,629 | -- | 18,629 |
| Total | $-- | $18,629 | $13,984 | $32,613 |

(1) Represents the fair value of OREO, based on the appraised value of the collateral subsequent to its initial classification as OREO.

| | **Fair Value Measurements at December 31, 2012 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 |
| Certain impaired loans | $-- | $ -- | $76,704 | $76,704 |
| Other assets [1] | -- | 22,664 | -- | 22,664 |
| Total | $-- | $22,664 | $76,704 | $99,368 |

(1) Represents the fair value of OREO, based on the appraised value of the collateral subsequent to its initial classification as OREO.

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. When available, quoted market prices are used as the measure of fair value. In cases where quoted market prices are not available, fair values are based on present-value estimates or other valuation techniques. Such fair values are significantly affected by the assumptions used, the timing of future cash flows, and the discount rate.

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

The following tables summarize the carrying values, estimated fair values, and the fair value measurement levels of financial instruments that were not carried at fair value on the Company s Consolidated Statements of Condition at March 31, 2013 and December 31, 2012:

| | | | **March 31, 2013** | | |
|---|---|---|---|---|---|
| | | | Fair Value Measurement Using | | |
| (in thousands) | Carrying Value | Estimated Fair Value | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Financial Assets: | | | | | |
| Cash and cash equivalents | $ 2,055,058 | $ 2,055,058 | $ 2,055,058 | $ -- | $ -- |
| Securities held to maturity | 5,139,826 | 5,320,255 | 5,000 | 5,309,974 | 5,281 |
| FHLB stock[(1)] | 456,557 | 456,557 | -- | 456,557 | -- |
| Loans, net | 31,803,169 | 32,088,109 | -- | -- | 32,088,109 |
| Mortgage servicing rights | 129 | 129 | -- | -- | 129 |
| Financial Liabilities: | | | | | |
| Deposits | $ 25,477,672 | 25,535,579 | $ 16,824,844[(2)] | 8,710,735[(3)] | -- |
| Borrowed funds | 13,178,568 | 14,656,333 | -- | 14,656,333 | -- |

(1) Carrying value and estimated fair value are at cost.
(2) Includes NOW and money market accounts, savings accounts, and non-interest-bearing accounts.
(3) Represents certificates of deposit.

| | | | **December 31, 2012** | | |
|---|---|---|---|---|---|
| | | | Fair Value Measurement Using | | |
| (in thousands) | Carrying Value | Estimated Fair Value | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Financial Assets: | | | | | |
| Cash and cash equivalents | $ 2,427,258 | $ 2,427,258 | $ 2,427,258 | $ -- | $ -- |
| Securities held to maturity | 4,484,262 | 4,705,960 | -- | 4,648,766 | 57,194 |
| FHLB stock[(1)] | 469,145 | 469,145 | -- | 469,145 | -- |
| Loans, net | 31,580,636 | 31,977,472 | -- | -- | 31,977,472 |
| Mortgage servicing rights | 193 | 193 | -- | -- | 193 |
| Financial Liabilities: | | | | | |
| Deposits | $ 24,877,521 | $ 24,909,496 | $ 15,756,607[(2)] | $ 9,152,889[(3)] | $ -- |
| Borrowed funds | 13,430,191 | 14,935,580 | -- | 14,935,580 | -- |

(1) Carrying value and estimated fair value are at cost.
(2) Includes NOW and money market accounts, savings accounts, and non-interest-bearing accounts.
(3) Represents certificates of deposit.

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

*Cash and Cash Equivalents*

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

*Securities*

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

*Federal Home Loan Bank Stock*

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

*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 described in ASC 820-10, Fair Value Measurements and Disclosures.

*Loans Held for Sale*

The Company has elected the fair value option for its loans held for sale. The Company s loans held for sale consist of one-to-four family mortgage loans with an aggregate unpaid principal balance of $697.5 million at March 31, 2013, none of which were more than 90 days past due at that date. Management believes the mortgage banking business operates on a short-term cycle. Therefore, in order to reflect the most relevant valuations for the key components of this business, and to reduce timing differences in amounts recognized in earnings, the Company has elected to record loans held for sale at fair value to match the recognition of IRLCs, MSRs, and derivatives, all of which are recorded at fair value in earnings.

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 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 current 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. The fair value of IRLCs for one-to-four family mortgage loans that the Company intends to sell 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 IRLC 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 certificates of deposit ( CDs ) represent contractual cash flows, discounted using interest rates currently offered on deposits with similar characteristics and remaining maturities. These estimated fair values do

not include the intangible value of core deposit relationships, which comprise a significant portion of the Company s deposit base.

*Borrowed Funds*

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

*Off-Balance-Sheet Financial Instruments*

The fair values of commitments to extend credit and unadvanced lines of credit are estimated based on an analysis of the interest rates and fees currently charged to enter into similar transactions, considering the remaining terms of the commitments and the creditworthiness of the potential borrowers. The estimated fair values of such off-balance sheet financial instruments were insignificant at March 31, 2013 and December 31, 2012.

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**Note 12. Derivative Financial Instruments**

The Company s derivative financial instruments consist of financial forward and futures contracts, IRLCs, 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.

In accordance with the applicable accounting guidance, the Company takes into account the impact of collateral and master netting agreements that allow it to settle all derivative contracts held with a single counterparty on a net basis, and to offset the net derivative position with the related collateral when recognizing derivative assets and liabilities. As a result, the Company s Statements of Financial Condition could reflect derivative contracts with negative fair values included in derivative assets, and contracts with positive fair values included in derivative liabilities.

The Company held derivatives with a notional amount of $3.7 billion at March 31, 2013. Changes in the fair value of these derivatives are reflected in current-period earnings. None of these derivatives are designated as hedges for accounting purposes.

The following table sets forth information regarding the Company s derivative financial instruments at March 31, 2013:

| | March 31, 2013 | | |
|---|---|---|---|
| | Notional | Unrealized[1] | |
| (in thousands) | Amount | Gain | Loss |
| Treasury options | $ 290,000 | $ 105 | $ 167 |
| Eurodollar futures | 65,000 | 7 | 3 |
| Forward commitments to sell loans/mortgage-backed securities | 1,561,000 | 2,149 | 4,260 |
| Forward commitments to buy loans/mortgage-backed securities | 710,000 | 1,995 | -- |
| Interest rate lock commitments | 1,055,929 | 12,420 | -- |
| Total derivatives | $ 3,681,929 | $ 16,676 | $ 4,430 |

(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 pricing risk resulting from changes in interest rates. Derivative instruments may include IRLCs entered into with borrowers or correspondents/brokers to acquire agency-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 in current-period earnings.

The Company enters into forward contracts to sell fixed rate mortgage-backed securities to protect against changes in the prices of agency-conforming fixed rate loans held for sale. Forward contracts are entered into with securities dealers in an amount related to the portion of IRLCs that is 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 IRLCs 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 mitigating this risk is to purchase derivative instruments, the value of which changes in the opposite direction of interest rates, thus partially offsetting changes in the value of our servicing assets, which tends to move in the same direction as interest rates. Accordingly, the Company purchases Eurodollar futures and call options on Treasury securities and enters into forward contracts to purchase mortgage-backed securities.

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The following table sets forth the effect of derivative instruments on the Consolidated Statements of Income and Comprehensive Income for the periods indicated:

| | **Gain (Loss) Included in Mortgage Banking Income** For the Three Months Ended March 31, | |
|---|---|---|
| (in thousands) | 2013 | 2012 |
| Treasury options | $(3,588) | $(6,803) |
| Eurodollar futures | 15 | (75) |
| Forward commitments to buy/sell loans/mortgage-backed securities | 8,979 | 7,556 |
| Total gain | $ 5,406 | $ 678 |

The Company has in place an enforceable master netting arrangement with every counterparty. All master netting arrangements include rights to offset associated with the Company s recognized derivative assets, derivative liabilities, and cash collateral received and pledged. Accordingly, the Company, where appropriate, offsets all derivative asset and liability positions with the cash collateral received and pledged.

The following tables present the effect the master netting arrangements have on the presentation of the derivative assets in the Consolidated Statements of Financial Condition as of the dates indicated:

| | **March 31, 2013** | | | | | |
|---|---|---|---|---|---|---|
| | | | | Gross Amounts Not Offset in the Consolidated Statement of Condition | | |
| (in thousands)<br>Description | Gross Amounts of Recognized Assets | Gross Amounts Offset in the Statement of Financial Condition | Net Amounts of Assets Presented in the Statement of Financial Condition | Financial Instruments | Cash Collateral Received | Net Amount |
| Derivatives | $18,766 | $4,291 | $14,475 | $-- | $-- | $14,475 |

| | **December 31, 2012** | | | | | |
|---|---|---|---|---|---|---|
| | | | | Gross Amounts Not Offset in the Consolidated Statement of Condition | | |
| (in thousands)<br>Description | Gross Amounts of Recognized Assets | Gross Amounts Offset in the Statement of Financial Condition | Net Amounts of Assets Presented in the Statement | Financial Instruments | Cash Collateral Received | Net Amount |

| | | | of Financial Condition | | | |
|---|---|---|---|---|---|---|
| Derivatives | $30,295 | $4,730 | $25,565 | $-- | $41 | $25,524 |

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The following tables present the effect the master netting arrangements have on the presentation of the derivative liabilities in the Consolidated Statements of Financial Condition as of the date indicated:

| | March 31, 2013 | | | | | |
|---|---|---|---|---|---|---|
| | | | | Gross Amounts Not Offset in the Consolidated Statement of Condition | | |
| (in thousands)<br>Description | Gross Amounts of Recognized Liabilities | Gross Amounts Offset in the Statement of Financial Condition | Net Amounts of Liabilities Presented in the Statement of Financial Condition | Financial Instruments | Cash Collateral Pledged | Net Amount |
| Derivatives | $ 4,430 | $ 3,450 | $980 | $ -- | $ -- | $ 980 |

| | December 31, 2012 | | | | | |
|---|---|---|---|---|---|---|
| | | | | Gross Amounts Not Offset in the Consolidated Statement of Condition | | |
| (in thousands)<br>Description | Gross Amounts of Recognized Liabilities | Gross Amounts Offset in the Statement of Financial Condition | Net Amounts of Liabilities Presented in the Statement of Financial Condition | Financial Instruments | Cash Collateral Pledged | Net Amount |
| Derivatives | $ 8,111 | $ 4,730 | $ 3,381 | $ -- | $ 2,795 | $ 586 |

**Note 13. Segment Reporting**

The Company s operations are divided into two reportable business segments: Banking Operations and Residential Mortgage Banking. These operating segments have been identified based on the Company s organizational structure. The segments require unique technology and marketing strategies, and offer different products and services. While the Company is managed as an integrated organization, individual executive managers are held accountable for the operations of these business segments.

The Company measures and presents information for internal reporting purposes in a variety of ways. The internal reporting system presently used by management in the planning and measurement of operating activities, and to which most managers are held accountable, is based on organizational structure.

The management accounting process uses various estimates and allocation methodologies to measure the performance of the operating segments. To determine financial performance for each segment, the Company allocates capital, funding charges and credits, certain non-interest expenses, and income tax provisions to each segment, as applicable. Allocation methodologies are subject to periodic adjustment as the internal management accounting system is revised and/or as business or product lines within the segments change. In addition, because the development and application of these methodologies is a dynamic process, the financial results presented may be periodically revised.

The Company s overall objective is to maximize shareholder value by, among other means, optimizing return on equity and managing risk. Capital is assigned to each segment, the total of which is equivalent to the Company s consolidated total, on an economic basis, using management s assessment of the inherent risks associated with the segment. Capital allocations are made to cover the following risk categories: credit risk, liquidity risk, interest rate risk, option risk, basis risk, market risk, and operational risk.

The Company allocates expenses to the reportable segments based on various factors, including the volume and amount of loans produced and the number of full-time equivalent employees. Income taxes are allocated to the various segments based on taxable income and statutory rates applicable to the segment.

***Banking Operations Segment***

The Banking Operations Segment serves individual and business customers by offering and servicing a variety of loan and deposit products and other financial services.

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***Residential Mortgage Banking Segment***

The Residential Mortgage Banking segment originates, sells, aggregates, and services one-to-four family mortgage loans. Mortgage loan products include conventional and jumbo fixed- and adjustable-rate loans for the purpose of purchasing or refinancing one-to-four family residential properties. The Residential Mortgage Banking segment earns interest on loans held in the warehouse and non-interest income from the origination and servicing of loans. It also recognizes gains or losses from the sale of such loans.

The following table provides a summary of the Company s segment results for the three months ended March 31, 2013, on an internally managed accounting basis:

| | For the Three Months Ended March 31, 2013 | | |
|---|---|---|---|
| (in thousands) | Banking Operations | Residential Mortgage Banking | Total Company |
| Non-interest income third party[1] | $ 48,722 | $ 26,829 | $ 75,551 |
| Non-interest income inter-segment | (4,159) | 4,159 | -- |
| Total non-interest income | 44,563 | 30,988 | 75,551 |
| Net interest income | 268,063 | 7,113 | 275,176 |
| Total net revenues | 312,626 | 38,101 | 350,727 |
| Provision for loan losses | 9,502 | -- | 9,502 |
| Non-interest expense[2] | 134,926 | 21,170 | 156,096 |
| Income before income tax expense | 168,198 | 16,931 | 185,129 |
| Income tax expense | 60,034 | 6,420 | 66,454 |
| Net income | $ 108,164 | $ 10,511 | $ 118,675 |
| Identifiable segment assets (period-end) | $ 43,560,092 | $ 951,626 | $ 44,511,718 |

(1) Includes ancillary fee income.
(2) Includes both direct and indirect expenses.

The following table provides a summary of the Company s segment results for the three months ended March 31, 2012, on an internally managed accounting basis:

| | For the Three Months Ended March 31, 2012 | | |
|---|---|---|---|
| (in thousands) | Banking Operations | Residential Mortgage Banking | Total Company |
| Non-interest revenue third party[1] | $ 26,141 | $ 35,855 | $ 61,996 |
| Non-interest revenue inter-segment | (3,586) | 3,586 | -- |
| Total non-interest revenue | 22,555 | 39,441 | 61,996 |
| Net interest income | 281,099 | 7,315 | 288,414 |
| Total net revenues | 303,654 | 46,756 | 350,410 |
| Provision for loan losses | 15,000 | -- | 15,000 |

| | | | |
|---|---|---|---|
| Non-interest expense[2] | 131,484 | 18,693 | 150,177 |
| Income before income tax expense | 157,170 | 28,063 | 185,233 |
| Income tax expense | 56,291 | 10,689 | 66,980 |
| Net income | $ 100,879 | $ 17,374 | $ 118,253 |
| Identifiable segment assets (period-end) | $ 42,368,092 | $ 670,059 | $ 43,038,151 |

(1) Includes ancillary fee income.
(2) Includes both direct and indirect expenses.

**Note 14. Impact of Recent Accounting Pronouncements**

In February 2013, the FASB issued Accounting Standards Update ( ASU ) No. 2013-02, Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income, ( ASU No. 2013-02 ). ASU 2013-02 does not change the current requirements for reporting net income or other comprehensive income in financial statements; however, the amendments require an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, an entity is required to present, either on the face of the statement where net income is presented or in the notes thereto, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required under GAAP to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required under GAAP to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures required under GAAP that provide additional detail about those amounts. ASU No. 2013-02 is effective prospectively for reporting periods beginning after December 15, 2012. The Company adopted ASU 2013-02 on January 1, 2013. Please see Note 3, Reclassifications out of Accumulated Other Comprehensive Loss, for presentation of such disclosures.

In January 2013, the FASB issued ASU No. 2013-01, Balance Sheet (Topic 210): Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities, ( ASU No. 2013-01 ). ASU No. 2013-01 clarifies that ordinary trade receivables and receivables are not in the scope of ASU No. 2011-11, Disclosures about Offsetting Assets and Liabilities, and that ASU 2011-11 applies only to derivatives, repurchase agreements and reverse purchase agreements, and securities borrowing and securities lending transactions that are either offset in accordance with specific criteria contained in the ASC or subject to a master netting arrangement or similar agreement. ASU 2013-01 is effective for fiscal years beginning on or after January 1, 2013, and interim periods within those annual periods. An entity should provide the required disclosures retrospectively for all comparative periods presented. The Company adopted ASU 2013-01 on January 1, 2013. Please see Note 12, Derivative Financial Instruments, for the presentation of such disclosures.

In October 2012, the FASB issued ASU No. 2012-06, Business Combinations (Topic 805): Subsequent Accounting for an Indemnification Asset Recognized at the Acquisition Date as a Result of a Government-Assisted Acquisition of a Financial Institution (a consensus of the FASB Emerging Issues Task Force), ( ASU No. 2012-06 ). ASU No. 2012-06 amends FASB ASC 805-20, Business Combinations Identifiable Assets and Liabilities, and Any Non-controlling Interest, formerly, SFAS No. 141(R), by adding guidance specifically related to accounting for the support the Federal Deposit Insurance Corp. or the National Credit Union Administration provide to buyers of failed banks. When a reporting entity recognizes an indemnification asset (in accordance with Subtopic 805-20) as a result of a government-assisted acquisition of a financial institution, and a change in the cash flows expected to be collected on the indemnification asset subsequently occurs (as a result of a change in cash flows expected to be collected on the assets subject to indemnification), the reporting entity should subsequently account for the change in the measurement of the indemnification asset on the same basis as the change in the assets subject to indemnification. Any amortization of changes in value should be limited to the contractual term of the indemnification agreement (that is, the lesser of the term of the indemnification agreement or the remaining life of the indemnified assets).

The amendments in ASU No. 2012-06 are effective for fiscal years, and interim periods within those years, beginning on or after December 15, 2012. The amendments should be applied prospectively to any new indemnification assets acquired after the date of adoption and to indemnification assets existing as of the date of adoption arising from a government-assisted acquisition of a financial institution. The adoption of ASU 2013-02 on January 1, 2013 did not have an effect on the Company s consolidated statement of condition or results of operations.

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## ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS

## OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*For the purpose of this discussion and analysis, the words we, us, our, and the Company are used to refer to New York Community Bancorp, Inc. and our consolidated subsidiaries, including New York Community Bank (the Community Bank ) and New York Commercial Bank (the Commercial Bank ) (collectively, the Banks ).*

### FORWARD-LOOKING STATEMENTS AND ASSOCIATED RISK FACTORS

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

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

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

- general economic conditions, either nationally or in some or all of the areas in which we and our customers conduct our respective businesses;
- conditions in the securities markets and real estate markets or the banking industry;
- changes in real estate values, which could impact the quality of the assets securing the loans in our portfolio;
- changes in interest rates, which may affect our net income, prepayment penalty income, mortgage banking income, and other future cash flows, or the market value of our assets, including our investment securities;
- changes in the quality or composition of our loan or securities portfolios;
- changes in our capital management policies, including those regarding business combinations, dividends, and share repurchases, among others;
- our use of derivatives to mitigate our interest rate exposure;
- changes in competitive pressures among financial institutions or from non-financial institutions;
- changes in deposit flows and wholesale borrowing facilities;
- changes in the demand for deposit, loan, and investment products and other financial services in the markets we serve;
- our timely development of new lines of business and competitive products or services in a changing environment, and the acceptance of such products or services by our customers;
- changes in our customer base or in the financial or operating performances of our customers businesses;
- any interruption in customer service due to circumstances beyond our control;
- our ability to retain key personnel;
- potential exposure to unknown or contingent liabilities of companies we have acquired or may acquire in the future;
- the outcome of pending or threatened litigation, or of other matters before regulatory agencies, whether currently existing or commencing in the future;
- environmental conditions that exist or may exist on properties owned by, leased by, or mortgaged to the Company;
- any interruption or breach of security resulting in failures or disruptions in customer account management, general ledger, deposit, loan, or other systems;
- operational issues stemming from, and/or capital spending necessitated by, the potential need to adapt to industry changes in information technology systems, on which we are highly dependent;
- the ability to keep pace with, and implement on a timely basis, technological changes;
- changes in legislation, regulation, policies, or administrative practices, whether by judicial, governmental, or legislative action, including, but not limited to, the Dodd-Frank Wall Street Reform and Consumer Protection Act, and other changes pertaining to banking, securities, taxation, rent regulation and housing, financial accounting and reporting, environmental protection, and insurance,

and the ability to comply with such changes in a timely manner;
changes in the monetary and fiscal policies of the U.S. Government, including policies of the U.S. Department of the Treasury and the Board of Governors of the Federal Reserve System;
changes in accounting principles, policies, practices, or guidelines;

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- any breach in performance by the Community Bank under our loss sharing agreements with the FDIC;
- changes in our estimates of future reserves based upon the periodic review thereof under relevant regulatory and accounting requirements;
- changes in regulatory expectations relating to predictive models we use in connection with stress testing and other forecasting or in the assumptions on which such modeling and forecasting are predicated;
- the ability to successfully integrate any assets, liabilities, customers, systems, and management personnel of any banks we may acquire into our operations, and our ability to realize related revenue synergies and cost savings within expected time frames;
- changes in our credit ratings or in our ability to access the capital markets;
- war or terrorist activities; and
- other economic, competitive, governmental, regulatory, technological, and geopolitical factors affecting our operations, pricing, and services.

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

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

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

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

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

Although tangible stockholders equity, adjusted tangible stockholders equity, tangible assets, and adjusted tangible assets are not measures that are calculated in accordance with generally accepted accounting principles in the U.S. ( GAAP ), management uses these non-GAAP measures in their analysis of our performance. We believe that these non-GAAP measures are important indications of our ability to grow both organically and through business combinations and, with respect to tangible stockholders equity and adjusted tangible stockholders equity, our ability to pay dividends and to engage in various capital management strategies.

We calculate tangible stockholders equity by subtracting from stockholders equity the sum of our goodwill and core deposit intangibles ( CDI ), and calculate tangible assets by subtracting the same sum from our total assets. To calculate our ratio of tangible stockholders equity to tangible assets, we divide our tangible stockholders equity by our tangible assets, both of which include accumulated other comprehensive loss ( AOCL ). AOCL consists of after-tax net unrealized losses on securities and pension and post-retirement obligations, and is recorded in our Consolidated Statements of Condition. We also calculate our ratio of tangible stockholders equity to tangible assets excluding AOCL, as its components are impacted by changes in market conditions, including interest rates, which fluctuate. This ratio is referred to earlier in this report and below as the ratio of adjusted tangible stockholders equity to adjusted tangible assets.

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

Reconciliations of our stockholders equity, tangible stockholders equity, and adjusted tangible stockholders equity; our total assets, tangible assets, and adjusted tangible assets; and the related capital measures at March 31, 2013 and December 31, 2012 follow:

| (in thousands) | March 31, 2013 | December 31, 2012 |
|---|---|---|
| **Stockholders Equity** | $ 5,665,614 | $ 5,656,264 |
| Less: Goodwill | (2,436,131) | (2,436,131) |
| Core deposit intangibles | (27,603) | (32,024) |
| Tangible stockholders equity | $ 3,201,880 | $ 3,188,109 |
| **Total Assets** | $44,511,718 | $44,145,100 |
| Less: Goodwill | (2,436,131) | (2,436,131) |
| Core deposit intangibles | (27,603) | (32,024) |
| Tangible assets | $42,047,984 | $41,676,945 |
| Stockholders equity to total assets | 12.73% | 12.81% |
| Tangible stockholders equity to tangible assets | 7.61% | 7.65% |
| **Tangible Stockholders Equity** | $ 3,201,880 | $ 3,188,109 |
| Add back: Accumulated other comprehensive loss, net of tax | 62,528 | 61,705 |
| Adjusted tangible stockholders equity | $ 3,264,408 | $ 3,249,814 |
| **Tangible Assets** | $42,047,984 | $41,676,945 |
| Add back: Accumulated other comprehensive loss, net of tax | 62,528 | 61,705 |
| Adjusted tangible assets | $42,110,512 | $41,738,650 |

| | | |
|---|---|---|
| Adjusted stockholders equity to adjusted tangible assets | 7.75% | 7.79% |

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**Executive Summary**

New York Community Bancorp, Inc. is the holding company for New York Community Bank, a thrift, with 239 branches in Metro New York, New Jersey, Ohio, Florida, and Arizona; and New York Commercial Bank, with 35 branches in Metro New York. With assets of $44.5 billion at March 31, 2013, we rank among the 20 largest bank holding companies in the nation and, with deposits of $25.5 billion at that date, we rank among its 25 largest depositories.

Both of our banks are New York State-chartered and both are subject to regulation by the FDIC, the Consumer Financial Protection Bureau, and the New York State Department of Financial Services. In addition, the holding company is subject to regulation by the Federal Reserve Board, and to the requirements of the New York Stock Exchange, where shares of our common stock are traded under the symbol NYCB . With the enactment of the Dodd-Frank Wall Street Reform and Consumer Protection Act in 2010 and its subsequent implementation, the Company and the Banks have been subject to heightened regulation and scrutiny.

As a publicly traded company, our mission is to provide our shareholders with a solid return on their investment by producing a strong financial performance, maintaining a solid capital position, and engaging in corporate strategies that enhance the value of their shares. In furtherance of this mission, we maintain a business model that has been consistent over the course of decades, as described below:

- We originate multi-family loans on non-luxury apartment buildings in New York City that are subject to rent regulation and therefore feature below-market rents;
- We underwrite our loans in accordance with conservative credit standards in order to maintain a high level of asset quality;
- We grow through accretive acquisitions of other financial institutions, branches, and/or deposits; and
- We operate at a high level of efficiency.

In 2010, we added a fifth component to our business model, which has contributed in a meaningful way to our earnings and revenue stream:

- We originate one-to-four family mortgage loans throughout the U.S. through our mortgage banking business, and sell those loans, servicing retained, to government-sponsored enterprises.

The consistency of this business model over time has resulted in the following achievements:

- We are the leading producer of multi-family loans for portfolio in New York City;
- We have produced a consistent record of above-average asset quality;
- We rank among the 15 largest aggregators of one-to-four family mortgage loans in the nation;
- We consistently rank among the nation s most efficient bank holding companies; and

We have generated solid earnings and maintained a consistent position of capital strength.

Among the external factors that tend to influence our performance, the interest rate environment is key. Just as short-term interest rates affect the cost of our deposits and that of the funds we borrow, market interest rates affect the yields on the loans we produce and the securities in which we invest.

For example, when residential mortgage interest rates are low, refinancing activity will likely increase; as residential mortgage interest rates begin to rise, the refinancing of one-to-four family loans will typically decline. In the first three months of 2013, residential mortgage interest rates were higher than they were in the trailing-quarter and, as a result, our mortgage banking income declined, as fewer homeowners refinanced.

In our multi-family market niche, refinancing activity may be likely to rise as market interest rates move lower, but may also grow when market interest rates begin to rise. Because the multi-family and commercial real estate loans we produce generate prepayment penalty income when they refinance, the impact of such activity can be especially meaningful. For example, in the first quarter of 2013, prepayment penalty income contributed $19.9 million to interest income, in contrast to $17.5 million in the year-earlier first quarter, when market interest rates were not quite as low.

Economic factors also can influence a bank s financial performance, and particularly its asset quality. Because of our unique lending niche and our conservative underwriting standards, the losses we experienced in the years of and since the Great Recession were small in comparison to those of most other banks. In the current first quarter, for example, net charge-offs amounted to a mere $5.6 million, representing a modest 0.02% of average loans (non-annualized).

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While the markets we serve have experienced economic improvement, the pace of that improvement continues to be slow. The following table shows the downward trend in unemployment rates, as reported by the U.S. Department of Labor, both nationally and in the various markets that comprise our footprint, for the months indicated:

| | For the Month Ended | | |
|---|---|---|---|
| | March 31, 2013 | December 31, 2012 | March 31, 2012 |
| Unemployment rate: | | | |
| United States | 7.6% | 7.8% | 8.2% |
| New York City | 8.5 | 8.8 | 9.4 |
| Arizona | 7.8 | 7.9 | 8.4 |
| Florida | 7.0 | 7.9 | 8.6 |
| New Jersey | 8.9 | 9.3 | 9.3 |
| New York | 8.1 | 8.2 | 8.7 |
| Ohio | 7.3 | 6.6 | 7.8 |

As depicted in the following two tables, the changes in certain other local economic indices were mixed in their direction. For example, home prices have been steadily increasing in the U.S., and more specifically, in our local markets, according to the S&P/Case-Shiller Home Price Index. At the same time, and as reported by Jones Lang LaSalle, the level of office vacancy rates in Manhattan (where 36.9% of our multi-family loans and 55.4% of our commercial real estate credits are located) has been moving upward, while residential vacancy rates, as reported by the U.S. Department of Commerce, have, in general, been decreasing within the majority of states we serve.

| | For the Twelve Months Ended | | |
|---|---|---|---|
| | February 2013 | December 2012 | March 2012 |
| Change in home prices: | | | |
| U.S.* | 9.3% | 6.8% | (2.6)% |
| Greater Cleveland | 5.3 | 2.9 | (2.4) |
| Greater Miami | 10.4 | 10.6 | 2.5 |
| Metro New York | 1.9 | (0.5) | (2.8) |
| Greater Phoenix | 23.0 | 23.0 | 6.1 |

* 20-City Composite

| | For the Three Months Ended | | |
|---|---|---|---|
| | March 31, 2013 | December 31, 2012 | March 31, 2012 |
| Manhattan office vacancy rate: | 11.5% | 11.2% | 10.5% |
| | | | |
| Residential rental vacancy rates: | | | |
| Arizona | 13.6 | 10.8 | 12.7 |
| Florida | 10.0 | 11.9 | 13.6 |
| New Jersey | 8.9 | 11.7 | 11.6 |
| New York | 4.8 | 5.2 | 6.3 |
| Ohio | 9.1 | 9.8 | 9.3 |

Meanwhile, the volume of new home sales nationwide was at a seasonally adjusted annual rate of 417,000 in March 2013 more than 18% higher than the March 2012 level, according to the estimates set forth in a U.S. Commerce Department report.

In addition, the Consumer Confidence Index® was lower in March 2013 than it was in March 2012. An index level of 90 or more is considered indicative of a strong economy; the Consumer Confidence Index® was 59.7 in March 2013 and 70.2 in March 2012.

Against this backdrop, we generated earnings of $118.7 million, or $0.27 per diluted share, in the current first quarter, as compared to $122.8 million, or $0.28 per diluted share, in the trailing quarter and $118.3 million, or $0.27 per diluted share, in the first quarter of 2012. A detailed discussion and analysis of our first quarter 2013 performance follows.

## Recent Events

On April 23, 2013, the Board of Directors declared a quarterly cash dividend of $0.25 per share, payable on May 17, 2013 to shareholders of record at the close of business on May 7, 2013.

## Critical Accounting Policies

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

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

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

### *Allowances for Loan Losses*

*Allowance for Losses on Non-Covered Loans*

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

The allowance for losses on non-covered loans is established based on our evaluation of the probable inherent losses in our portfolio in accordance with GAAP, and are comprised of both specific valuation allowances and general valuation allowances.

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

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

We also follow a process to assign general valuation allowances to non-covered loan categories. General valuation allowances are established by applying our loan loss provisioning methodology, and reflect the inherent risk in outstanding held-for-investment loans. This loan loss provisioning methodology considers various factors in determining the appropriate quantified risk factors to use to determine the general

valuation allowances. The factors assessed begin with the historical loan

loss experience for each of the major loan categories we maintain. Our historical loan loss experience is then adjusted by considering qualitative or environmental factors that are likely to cause estimated credit losses associated with the existing portfolio to differ from historical loss experience, including, but not limited to:

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

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

In recognition of prevailing macroeconomic and real estate market conditions, the time periods considered for historical loss experience continue to be the last three years and the current period. We also evaluate the sufficiency of the overall allocations used for the allowance for losses on non-covered loans by considering the loss experience in the current and prior calendar year.

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

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

In order to determine their overall adequacy, each of the respective loan loss allowances is reviewed quarterly by management and by the Mortgage and Real Estate Committee of the Community Bank s Board of Directors (the Mortgage Committee ) or the Credit Committee of the Board of Directors of the Commercial Bank (the Credit Committee ), as applicable.

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

The level of future additions to the respective non-covered loan loss allowances is based on many factors, including certain factors that are beyond management s control such as changes in economic and local market conditions, including declines in real estate values, and increases in vacancy rates and unemployment. Management uses the best available information to recognize losses on loans or to make additions to the loan loss allowances; however, the Community Bank

and/or the Commercial Bank may be required to take certain charge-offs and/or recognize further additions to their loan loss allowances, based on the judgment of regulatory agencies with regard to information provided to them during their examinations of the Banks.

*Allowance for Losses on Covered Loans*

We have elected to account for the loans acquired in the AmTrust Bank ( AmTrust ) and Desert Hills Bank ( Desert Hills ) acquisitions (i.e., our covered loans) based on expected cash flows. This election is in accordance with Financial Accounting Standards Board ( FASB ) Accounting Standards Codification ( ASC ) Topic 310-30, Loans and Debt Securities Acquired with Deteriorated Credit Quality ( ASC 310-30 ). In accordance with ASC 310-30, we will maintain the integrity of a pool of multiple loans accounted for as a single asset and with a single composite interest rate and an aggregate expectation of cash flows.

Under our loss sharing agreements with the FDIC, covered loans 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 from these loans. Covered loans have been aggregated into pools of loans with common characteristics. In determining the allowance for losses on covered loans, we periodically perform an analysis to estimate the expected cash flows for each of the loan pools. We record a provision for losses on covered loans to the extent that the expected cash flows from a loan pool have decreased for credit-related items since the acquisition date. Accordingly, if there is a decrease in expected cash flows due to an increase in estimated credit losses compared to the estimates made at the respective acquisition dates, the decrease in the present value of expected cash flows will be recorded as a provision for covered loan losses charged to earnings, and the allowance for covered loan losses will be increased. A related credit to non-interest 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 sharing agreement percentages.

Please see Note 5, Allowances for Loan Losses for a further discussion of our allowance for losses on covered loans as well as additional information about our allowances for losses on non-covered loans.

***Loans Held for Sale***

We carry at fair value the one-to-four family mortgage loans we originate for sale to investors. The fair value of such loans is primarily based on quoted market prices for securities backed by similar types of loans. Changes in fair value, which are recorded as a component of mortgage banking income, are largely driven by changes in interest rates subsequent to loan funding and changes in the fair value of servicing associated with mortgage loans held for sale. In addition, we use various derivative instruments to mitigate the economic effect of changes in the fair value of the underlying loans.

***Investment Securities***

The securities portfolio primarily consists of mortgage-related securities and, to a lesser extent, debt and equity (together, other ) securities. Securities that are classified as available for sale are carried at their estimated fair value, with any unrealized gains or losses, net of taxes, reported as accumulated other comprehensive income or loss in stockholders equity. Securities that we have the intent and ability to hold to maturity are classified as held to maturity and carried at amortized cost, less the non-credit portion of other-than-temporary impairment ( OTTI ) recorded in AOCL.

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

In accordance with OTTI accounting guidance, unless we have the intent to sell, or it is more likely than not that we may be required to sell a security before recovery, OTTI is recognized as a realized loss in earnings to the extent that the decline in fair value is credit-related. If there is a decline in fair value of a security below its carrying amount and we have the intent to sell it, or it is more likely than not that we may be required to sell the security before recovery, the entire amount of the decline in fair value is charged to earnings.

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***Goodwill Impairment***

Goodwill is presumed to have an indefinite useful life and is tested for impairment, rather than amortized, at the reporting unit level, at least once a year. In addition to being tested annually, goodwill would be tested if there were a triggering event. During the three months ended March 31, 2013, no triggering events were identified. The goodwill impairment analysis is a two-step test. However, a company can, under Accounting Standards Update ( ASU ) No. 2011-08, Testing Goodwill for Impairment, first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. Under this amendment, an entity would not be required to calculate the fair value of a reporting unit unless the entity determined, based on a qualitative assessment, that it was more likely than not that its fair value was less than its carrying amount. The Company did not elect to perform a qualitative assessment in 2012. The first step ( Step 1 ) is used to identify potential impairment, and involves comparing each reporting segment s estimated fair value to its carrying amount, including goodwill. If the estimated fair value of a reporting segment exceeds its carrying amount, goodwill is considered not to be impaired. If the carrying amount exceeds the estimated fair value, there is an indication of potential impairment and the second step ( Step 2 ) is performed to measure the amount.

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

Quoted market prices in active markets are the best evidence of fair value and are used as the basis for measurement, when available. Other acceptable valuation methods include present-value measurements based on multiples of earnings or revenues, or similar performance measures. Differences in the identification of reporting units and in valuation techniques could result in materially different evaluations of impairment.

For the purpose of goodwill impairment testing, management has determined that the Company has two reporting segments: Banking Operations and Residential Mortgage Banking. All of our recorded goodwill has resulted from prior acquisitions and, accordingly, is attributed to Banking Operations. There is no goodwill associated with Residential Mortgage Banking, as this segment was acquired in our FDIC-assisted AmTrust acquisition, which resulted in a bargain purchase gain. In order to perform our annual goodwill impairment test, we determined the carrying value of the Banking Operations segment to be the carrying value of the Company and compared it to the fair value of the Company.

We performed our annual goodwill impairment test as of December 31, 2012 and found no indication of goodwill impairment at that date.

***Income Taxes***

In estimating income taxes, management assesses the relative merits and risks of the tax treatment of transactions, taking into account statutory, judicial, and regulatory guidance in the context of our tax position. In this process, management also relies on tax opinions, recent audits, and historical experience. Although we use the best available information to record income taxes, underlying estimates and assumptions can change over time as a result of unanticipated events or circumstances such as changes in tax laws and judicial guidance influencing our overall or transaction-specific tax position.

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

**Balance Sheet Summary**

In the first three months of 2013, our assets rose $366.6 million, to $44.5 billion at March 31, 2013. Loans represented $31.8 billion, or 71.4%, of total assets at the end of the quarter, up $222.5 million from the balance recorded at December 31, 2012. In addition, securities rose $550.7 million, or 11.2%, to $5.5 billion, representing 12.3% of total assets at March 31st.

Total deposits rose $600.2 million in the first three months of this year, to $25.5 billion at March 31, 2013. While certificates of deposit ( CDs ) fell $468.1 million during this time, to $8.7 billion, savings accounts rose $632.4 million to $4.8 billion and NOW and money market accounts rose $514.0 million to $9.3 billion, reflecting the effectiveness of a retail deposit marketing campaign. In addition, borrowed funds declined $251.6 million to $13.2 billion, representing 29.6% of total assets, at March 31, 2013.

Stockholders equity totaled $5.7 billion at the end of the current first quarter, exceeding the year-end balance by $9.4 million, and representing 12.73% of total assets and a book value of $12.85 per share. Tangible stockholders equity rose $13.8 million in the first three months of this year, to $3.2 billion, representing 7.61% of tangible assets and a tangible book value of $7.26 per share at March 31st. (Please see the discussion and reconciliations of stockholders equity and tangible stockholders equity, total assets and tangible assets, and the related capital measures that appear earlier in this report.)

**Loans**

Loans rose $222.5 million in the first three months of this year, to $31.8 billion at March 31, 2013. Included in this balance were covered loans of $3.2 billion; non-covered loans held for investment of $28.1 billion; and non-covered loans held for sale of $718.1 million, as more fully described below.

***Covered Loans***

Covered loans refers to the loans we acquired in our FDIC-assisted AmTrust Bank ( AmTrust ) and Desert Hills Bank ( Desert Hills ) acquisitions, and are referred to as such because they are covered by loss sharing agreements with the FDIC. At March 31, 2013, covered loans represented $3.2 billion, or 10.0%, of the total loan balance, a $117.2 million reduction from the balance at December 31, 2012. The reduction was primarily due to repayments of such loans.

One-to-four family loans represented $2.9 billion of total covered loans at the end of the current first quarter, with all other loan types representing $296.0 million, combined. Covered one-to-four family loans include both fixed and adjustable rate loans. Covered other loans consist of commercial real estate ( CRE ) loans; acquisition, development, and construction ( ADC ) loans; multi-family loans; commercial and industrial ( C&I ) loans; home equity lines of credit ( HELOCs ); and consumer loans.

At March 31, 2013, $2.3 billion, or 73.3%, of the loans in our covered loan portfolio were variable rate loans, with a weighted average interest rate of 3.79%. The remainder of the covered loan portfolio consisted of fixed rate loans.

At March 31, 2013, the interest rates on 90.2% of our covered variable rate loans were scheduled to reprice within twelve months and annually thereafter. We expect such loans to reprice at lower interest rates. The interest rates on the variable rate loans in the covered loan portfolio are indexed to either the one-year LIBOR or the one-year Treasury rate, plus a spread in the range of 2% to 5%, subject to certain caps.

The AmTrust and Desert Hills loss sharing agreements each require the FDIC to reimburse us for 80% of losses up to a specified threshold, and for 95% of losses beyond that threshold, with respect to covered loans and covered other real estate owned ( OREO ).

In the three months ended March 31, 2013, we recorded a provision for losses on covered loans of $4.5 million, in contrast to a recovery of $3.3 million in the three months ended December 31, 2012. The first quarter provision was largely offset by FDIC indemnification income of $3.6 million, while the trailing-quarter recovery was largely offset by FDIC indemnification expense of $2.6 million. The respective amounts were recorded in non-interest income in the corresponding periods.

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**Geographical Analysis of the Covered Loan Portfolio** [(1)]

The following table presents a geographical analysis of our covered loan portfolio at March 31, 2013:

| (in thousands) | |
|---|---|
| California | $ 559,713 |
| Florida | 551,523 |
| Arizona | 257,892 |
| Ohio | 202,367 |
| Massachusetts | 146,221 |
| Michigan | 141,769 |
| Illinois | 110,336 |
| New York | 104,096 |
| Nevada | 79,692 |
| Maryland | 78,105 |
| Texas | 76,903 |
| New Jersey | 73,493 |
| Colorado | 67,767 |
| Washington | 67,657 |
| All other states | 649,363 |
| Total covered loans | $3,166,897 |

(1) At March 31, 2013, $2.9 billion, or 90.6%, of the covered loan portfolio consisted of one-to-four family loans. The remaining $296.0 million, or 9.4%, of the covered loan portfolio consisted of multi-family, CRE, ADC, C&I, and consumer loans, and HELOCs.

***Non-Covered Loans Held for Investment***

At March 31, 2013, non-covered loans held for investment totaled $28.1 billion, representing 87.9% of total loans, 63.2% of total assets, and an $829.9 million, or 12.2% annualized, increase from the balance at December 31, 2012. In addition to multi-family loans and CRE loans, the held-for-investment portfolio included substantially smaller balances of ADC loans, one-to-four family loans, and other loans, with C&I loans comprising the bulk of the other loan portfolio. The vast majority of our non-covered loans held for investment consist of loans that we ourselves originated or, in some cases, acquired in business combinations prior to 2009. Originations of held-for-investment loans totaled $2.2 billion in the current first quarter, reflecting a linked-quarter reduction of $589.5 million and a year-over-year increase of $99.2 million.

*Multi-Family Loans*

Multi-family loans are our principal asset, and non-luxury residential apartment buildings with below-market rents in New York City constitute our primary lending niche. Consistent with our emphasis on multi-family lending, multi-family loan originations represented $1.5 billion, or 69.3%, of the loans we produced for investment in the current first quarter, down $256.2 million from the trailing-quarter volume and up $491.6 million from the year-earlier amount. In addition to seasonality, the linked-quarter reduction primarily reflects the high level of property transactions that took place in the trailing quarter as many of our borrowers anticipated changes being made to the U.S. tax code that could have an adverse impact on their investments in real estate.

At March 31, 2013, the balance of multi-family loans represented $19.2 billion, or 68.4%, of total non-covered loans held for investment, reflecting a three-month increase of $621.8 million, or 13.4% annualized. The average multi-family loan had a principal balance at that date of $4.2 million, as compared to $4.1 million at December 31, 2012.

The vast majority of our multi-family loans are made to long-term owners of buildings with apartments that are subject to rent regulation, and therefore feature below-market rents. Our borrowers typically use the funds we provide to make improvements to certain apartments, as a result of which they are able to increase the rents their tenants pay. In doing so, the borrower creates more cash flows to borrow against in future years. We also make loans to building owners seeking to expand their real estate holdings with the purchase of additional properties.

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

Our multi-family loans typically feature a term of ten or twelve years, with a fixed rate of interest for the first five or seven years of the loan, and an alternative rate of interest in years six through ten or eight through twelve. The rate charged in the first five or seven years is generally based on intermediate-term interest rates plus a spread. During the remaining years, the loan resets to an annually adjustable rate that is tied to the prime rate of interest, as reported in *The New York Times*, plus a

spread. Alternately, the borrower may opt for a fixed rate that is tied to the five-year fixed advance rate of the Federal Home Loan Bank ( FHLB ) of New York (the FHLB-NY ), plus a spread. The fixed-rate option also requires the payment of an amount equal to one percentage point of the then-outstanding loan balance. In either case, the minimum rate at repricing is equivalent to the rate in the initial five- or seven-year term.

As the rent roll increases, the typical property owner seeks to refinance the mortgage, and generally does so before the loan reprices in year six or eight. Notably, the expected weighted average life of the multi-family loan portfolio was 2.9 years at March 31, 2013, consistent with the expected weighted average life at December 31, 2012.

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

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

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

At March 31, 2013, the vast majority of our multi-family loans were secured by rental apartment buildings. In addition, 79.3% of our multi-family loans were secured by buildings in New York City, with Manhattan accounting for the largest share. Of the loans secured by buildings outside New York City, the State of New York was home to 4.9%, with New Jersey and Pennsylvania accounting for 7.2% and 3.7%, respectively. The remaining 4.9% of multi-family loans were secured by buildings outside these markets, including the three other states served by our retail branch offices.

Our emphasis on multi-family loans is driven by several factors, including their structure, which reduces our exposure to interest rate volatility to some degree. Another factor driving our focus on multi-family lending has been the comparative quality of the loans we produce. Reflecting the nature of the buildings securing our loans, our underwriting standards, and the generally conservative loan-to-value ( LTV ) ratios our multi-family loans feature at origination, a relatively small percentage of the multi-family loans that transitioned to non-performing status actually resulted in losses during and since the Great Recession, as well as historically.

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

Accordingly, while our multi-family lending niche has not been immune to downturns in the credit cycle, we continue to believe that the multi-family loans we produce involve less credit risk than certain other types of loans. In general, buildings that are subject to rent regulation have tended to be stable, with occupancy levels remaining more or less constant over time. Because the rents are typically below market and the buildings securing our loans are generally maintained in good condition, we believe that they are reasonably likely to retain their tenants in adverse economic times. In addition, we underwrite our multi-family loans on the basis of the current cash flows generated by the underlying properties, and exclude any partial property tax exemptions and abatement benefits the property owners receive.

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*Commercial Real Estate Loans*

In the first three months of 2013, CRE loans represented $386.4 million, or 17.3%, of loans originated for investment, down $277.8 million on a linked-quarter basis and $529.8 million year-over-year. While the linked-quarter decline was attributable to the same factors that influenced the decline in multi-family loan production, the year-over-year decline was primarily due to our having originated a small number of very large CRE loans in the first quarter of 2012.

CRE loans nonetheless rose $105.8 million in the first three months of the year to $7.5 billion, representing 26.8% of total held-for-investment loans at March 31, 2013. The average CRE loan had a principal balance of $4.7 million at the end of the current first quarter, as compared to $4.6 million at December 31, 2012.

The CRE loans we produce are secured by income-producing properties such as office buildings, retail centers, mixed-use buildings, and multi-tenanted light industrial properties. At March 31, 2013, 74.2% of our CRE loans were secured by properties in New York City, primarily in Manhattan, while properties on Long Island and in New Jersey accounted for 12.4% and 6.0%, respectively. Another 2.6% of CRE properties were located in Pennsylvania, while properties outside New York, New Jersey, and Pennsylvania accounted for 2.1%.

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

Prepayment penalties also apply to CRE loans, as they do our multi-family credits. Depending on the remaining term of the loan at the time of prepayment, the penalties normally range from five percentage points to one percentage point of the then-current loan balance. If a loan extends past the fifth or seventh year and the borrower selects the fixed rate option, the prepayment penalties typically reset to a range of five points to one point over years six through ten or eight through twelve. Our CRE loans tend to refinance within three to four years of origination; in fact, the expected weighted average life of the CRE portfolio was 3.4 years at both March 31, 2013 and December 31, 2012.

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

*Acquisition, Development, and Construction Loans*

In the interest of reducing our exposure to credit risk, we have limited our production of ADC loans to loans that have limited market risk and low LTV ratios, and that are made to reputable borrowers with significant development experience. In the first three months of 2013, ADC loans represented $33.4 million, or 1.5%, of the loans we produced for investment, and the portfolio of such loans rose $1.2 million from the year-end 2012 balance to $399.2 million, representing 1.4% of total held-for-investment loans, at March 31st.

At March 31, 2013, 62.8% of the loans in our ADC portfolio were for land acquisition and development; the remaining 37.2% consisted of loans that were provided for the construction of owner-occupied homes and commercial properties. Such loans are typically originated for terms of 18 to 24 months, and feature a floating rate of interest tied to prime, with a floor. They also generate origination fees that are recorded as interest income and amortized over the lives of the loans.

In addition, 81.8% of the loans in the ADC portfolio were for properties in New York City, with Manhattan accounting for more than half of New York City s share. Long Island accounted for 9.7% of our ADC loans, with New Jersey accounting for 5.3%. Reflecting the limited extent to which ADC loans have been originated beyond our immediate market, 3.3% of our ADC loans are secured by properties beyond New Jersey and New York.

Because ADC loans are generally considered to have a higher degree of credit risk, especially during a downturn in the credit cycle, borrowers are required to provide a guarantee of repayment and completion. In the three months ended March 31, 2013, we recovered losses against guarantees of $642,000, as compared to $134,000 and $1.2 million, respectively, in the trailing and year-earlier three months. The risk of loss on

an ADC loan is largely dependent upon the accuracy of the initial

appraisal of the property s value upon completion of construction; the estimated cost of construction, including interest; and the estimated time to complete and/or sell or lease such property. If the appraised value proves to be inaccurate, the cost of completion is greater than expected, or the length of time to complete and/or sell or lease the collateral property is greater than anticipated, the property could have a value upon completion that is insufficient to assure full repayment of the loan. At March 31, 2013, 2.2% of the loans in our ADC loan portfolio were non-performing, as compared to 3.0% at December 31, 2012.

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

*One-to-Four Family Loans*

To meet the needs of our customers, we originate agency-conforming one-to-four family loans through our mortgage banking business in Cleveland or, in some states, directly through the Community Bank. The vast majority of the one-to-four family loans we produce are aggregated for sale with others produced by our mortgage banking clients throughout the country. These loans are generally sold, servicing retained, to government-sponsored enterprises ( GSEs ). (For more detailed information about our production of one-to-four family loans for sale, please see Non-Covered Loans Held for Sale later in this section.)

Until 2012, the vast majority of the one-to-four family loans we held for investment were loans that we acquired in our merger transactions prior to 2009. However, we began last year to originate hybrid jumbo one-to-four family loans for our own portfolio. As a result, the balance of one-to-four family loans held for investment rose $101.9 million linked-quarter to $305.3 million, representing 1.1% of total held-for-investment loans, at March 31, 2013.

*Other Loans*

We originated other loans for investment of $158.9 million in the current first quarter, down $23.8 million on a linked-quarter basis and up $31.7 million year-over-year. C&I loans represented $157.4 million of first quarter 2013 originations, as compared to $181.1 million and $126.2 million, respectively, in the earlier periods. Other loans declined $2.3 million in the first three months of this year to $637.7 million, representing 2.3% of total loans held for investment at March 31, 2013. Included in the latter balance were C&I loans of $591.0 million, reflecting a $963,000 increase from the balance at December 31, 2012.

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

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

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

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

***Lending Authority***

The loans we originate for investment are subject to federal and state laws and regulations, and are underwritten in accordance with loan underwriting policies and procedures approved by the Mortgage Committee, the Credit Committee, and the respective Boards of Directors.

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In accordance with the Banks policies, all loans are presented to the Mortgage Committee or the Credit Committee, as applicable, for approval, and all loans of $10.0 million or more are reported to the respective Boards of Directors. At March 31, 2013, the largest amount of credit extended to a single borrower was $500.0 million; of this amount, $485.0 million had been funded at that date. The loan was originated by the Community Bank on July 28, 2011 to the owner of a commercial property located in Manhattan, and has been current since that date. The interest rate on the loan was 4.375% at March 31, 2013.

**Geographical Analysis of the Portfolio of Non-Covered Loans Held for Investment (1)**

The following table presents a geographical analysis of the multi-family, CRE, and ADC loans in our held-for-investment loan portfolio at March 31, 2013:

| | At March 31, 2013 | | | | | |
|---|---|---|---|---|---|---|
| | Multi-Family Loans | | Commercial Real Estate Loans | | Acquisition, Development, and Construction Loans | |
| (dollars in thousands) | Amount | Percent of Total | Amount | Percent of Total | Amount | Percent of Total |
| New York City: | | | | | | |
| Manhattan | $ 7,095,000 | 36.92% | $4,179,062 | 55.41% | $177,914 | 44.57% |
| Brooklyn | 3,585,959 | 18.66 | 509,853 | 6.76 | 87,407 | 21.90 |
| Bronx | 2,378,228 | 12.38 | 189,331 | 2.51 | 3,386 | 0.85 |
| Queens | 2,053,652 | 10.69 | 647,257 | 8.58 | 49,284 | 12.35 |
| Staten Island | 125,370 | 0.65 | 71,218 | 0.94 | 8,598 | 2.15 |
| Total New York City | $15,238,209 | 79.30% | $5,596,721 | 74.20% | $326,589 | 81.82% |
| Long Island | 394,849 | 2.06 | 937,308 | 12.43 | 38,605 | 9.67 |
| Other New York State | 550,332 | 2.86 | 199,791 | 2.65 | -- | -- |
| New Jersey | 1,392,138 | 7.24 | 455,808 | 6.04 | 21,012 | 5.26 |
| Pennsylvania | 707,621 | 3.68 | 196,961 | 2.61 | -- | -- |
| All other states | 934,468 | 4.86 | 155,848 | 2.07 | 12,962 | 3.25 |
| Total | $19,217,617 | 100.00% | $7,542,437 | 100.00% | $399,168 | 100.00% |

(1) The vast majority of other loans held for investment are secured by properties and/or businesses in the Metro New York region.

***Non-Covered Loans Held for Sale***

Although one-to-four family loans represented 1.1% of our total loans held for investment at the end of the current first quarter, we are actively engaged in the origination of one-to-four family loans for sale. Our mortgage banking business serves approximately 900 clients community banks, credit unions, mortgage companies, and mortgage brokers who utilize our proprietary web-accessible mortgage banking platform to originate full-documentation, prime credit one-to-four family loans in all 50 states.

In the first three months of 2013, we originated one-to-four family loans for sale of $2.4 billion, reflecting a linked-quarter decrease of $592.9 million and a year-over-year decrease of $125.7 million. In addition to seasonality, the linked-quarter decline was largely attributable to a reduction in refinancing activity as residential mortgage interest rates rose in the first quarter of this year. The vast majority of the held-for-sale loans we produced for sale were agency-conforming loans sold to GSEs. To a much lesser extent, we utilized our mortgage banking platform to originate fixed-rate jumbo loans under contract for sale to other financial institutions. Of the loans we originated for sale in the current first quarter, $2.4 billion, or 99.7%, were agency-conforming; the remaining $6.7 million, or 0.28%, were non-conforming jumbo loans.

At March 31, 2013 and December 31, 2012, the respective balances of one-to-four family loans held for sale were $718.1 million and $1.2 billion, representing 2.2% and 3.8%, respectively, of total loans at the corresponding dates.

To mitigate the risks inherent in originating and reselling residential mortgage loans, we utilize processes, proprietary technologies, and third-party software application tools that seek to ensure that the loans meet investors program eligibility, underwriting, and collateral requirements. In addition, compliance verification and fraud detection tools are utilized throughout the processing, underwriting, and loan closing stages to assist in the determination that the loans we originate and acquire are in compliance with applicable local, state, and federal laws and regulations. Controlling, auditing, and validating the data upon which the credit decision is made (and the loan documents created) substantially mitigates the risk of our originating or acquiring a loan that subsequently is deemed to be in breach of loan sale representations and warranties made by us to loan investors.

We require the use of our proprietary processes, origination systems, and technologies for all loans we close. Collectively, these tools and processes are known internally as our proprietary Gemstone system. By mandating usage of

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Gemstone for all table-funded loan originations, we are able to tightly control key risk aspects across the spectrum of loan origination activities. Our clients access Gemstone via secure Internet protocols, and initiate the process by submitting required loan application data and other required income, asset, debt, and credit documents to us electronically. Key data is then verified by a combination of trusted third-party validations and internal reviews conducted by our loan underwriters and quality control specialists. Once key data is independently verified, it is locked down within the Gemstone system to further ensure the integrity of the transaction.

In addition, all trusted source third-party vendors are directly connected to the Gemstone system via secure electronic data interfaces. Within the Gemstone system, these trusted sources provide key risk and control services throughout the origination process, including ordering and receipt of credit report information, independent collateral appraisals, and private mortgage insurance, automated underwriting and program eligibility determinations, flood insurance determination, fraud detection, local/state/federal regulatory compliance, predatory or high cost loan reviews, and legal document preparation services. Our employees augment the automated system controls by performing audits during the process, which include the final underwriting of the loan file (the credit decision), and various other pre-funding and post-funding quality control reviews.

Both the agency-conforming and non-conforming (i.e., jumbo) one-to-four family loans we originate for sale require that we make certain representations and warranties with regard to underwriting, documentation, and legal/regulatory compliance, and we may be required to repurchase a loan or loans if it is found that a breach of the representations and warranties has occurred. In such case, we would be exposed to any subsequent credit loss on the mortgage loans that might or might not be realized in the future.

As governed by our agreements with the GSEs and other third parties to whom we sell loans, the representations and warranties we make relate to several factors, including, but not limited to, the ownership of the loan; the validity of the lien securing the loan; the absence of delinquent taxes or liens against the property securing the loan as of its closing date; the process used to select the loan for inclusion in a transaction; and the loan s compliance with any applicable criteria, including underwriting standards, loan program guidelines, and compliance with applicable federal, state, and local laws.

We record a liability for estimated losses relating to these representations and warranties, which is included in other liabilities in the accompanying Consolidated Statements of Condition. The related expense is recorded in mortgage banking income in the accompanying Consolidated Statements of Income and Comprehensive Income. At March 31, 2013 and 2012, the respective liabilities for estimated possible future losses relating to these representations and warranties were $8.9 million and $6.2 million. The methodology used to estimate the liability for representations and warranties is a function of the representations and warranties given and considers a variety of factors, including, but not limited to, actual default experience, estimated future defaults, historical loan repurchase rates and the frequency and potential severity of defaults, probability that a repurchase request will be received, and the probability that a loan will be required to be repurchased.

**Representation and Warranty Reserve**

The following table sets forth the activity in our representation and warranty reserve during the periods indicated:

| | **For the Three Months Ended March 31,** | |
|---|---|---|
| | **2013** | **2012** |
| (in thousands) | | |
| Balance, beginning of period | $8,272 | $5,320 |
| Provision for repurchase losses: | | |
| Loan sales | 590 | 843 |
| Change in estimates | -- | -- |
| Balance, end of period | $8,862 | $6,163 |

Because the level of mortgage loan repurchase losses is dependent on economic factors, investor demand strategies, and other external conditions that may change over the lives of the underlying loans, the level of the liability for mortgage loan repurchase losses is difficult to estimate and requires considerable management judgment. However, we believe the amount and range of reasonably possible losses in excess of our reserve is not material to our operations or to our financial condition or results of operations.

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**Repurchase Request Activity**

The following table sets forth our GSE repurchase requests during the periods indicated:

| | For the Three Months Ended March 31, | | | |
|---|---|---|---|---|
| | 2013 | | 2012 | |
| (dollars in thousands) | Number of Loans | Amount [1] | Number of Loans | Amount [1] |
| Balance, beginning of period | 20 | $ 5,073 | 8 | $ 1,583 |
| New repurchase requests [2] | 29 | 6,470 | 29 | 6,720 |
| Successful rebuttal/rescission | (29) | (7,353) | (23) | (5,283) |
| Indemnifications [3] | (1) | (140) | (3) | (585) |
| Loan repurchases | (3) | (501) | (1) | (178) |
| Balance, end of period [4] | 16 | $ 3,549 | 10 | $ 2,257 |

(1) Represents the loan balance as of the repurchase request date.
(2) All requests are from GSEs and relate to one-to-four family loans originated for sale.
(3) An indemnification agreement is an arrangement whereby the Company protects the GSEs against future losses.
(4) Of the sixteen period-end requests as of March 31, 2013, fifteen were from Fannie Mae and one was from Freddie Mac. Effective January 1, 2013, both Fannie Mae and Freddie Mac allow 60 days to respond to a repurchase request. Failure to respond in a timely manner could result in the Company having an obligation to repurchase a loan.

**Indemnified and Repurchased Loan Activity**

| | For the Three months Ended March 31, | | | |
|---|---|---|---|---|
| | 2013 | | 2012 | |
| (dollars in thousands) | Number of Loans | Amount [1] | Number of Loans | Amount |
| Balance, beginning of period | 12 | $2,286 | 5 | $1,084 |
| Indemnifications | 1 | 140 | 3 | 585 |
| Repurchases | 3 | 501 | 1 | 178 |
| Principal payoffs | (1) | (106) | -- | -- |
| Principal payments | -- | (22) | -- | (16) |
| Balance, end of period [1] | 15 | $2,799 | 9 | $1,831 |

(1) Of the fifteen period-end loans, five were indemnifications and ten were repurchased loans that are now held for investment. All five indemnified loans are currently performing.

Please see   Asset and Liability Management and the Management of Interest Rate Risk   later in this report for a discussion of the strategies we employ to mitigate the interest rate risk associated with our production of one-to-four family loans for sale.

***Outstanding Loan Commitments***

At March 31, 2013, we had outstanding loan commitments of $2.6 billion, down $306.0 million from the December 31, 2012 volume and $2.1 million from the volume at March 31, 2012. Commitments to originate loans for investment represented 57.2% of the current first quarter-end total, and commitments to originate loans for sale represented the remaining 42.8%. At December 31, 2012, commitments to originate loans for investment and loans held for sale were $1.4 billion and $1.6 billion, respectively.

Multi-family and CRE loans together represented $931.5 million of held-for-investment loan commitments at the end of the current first quarter, while ADC and other loans represented $156.3 million and $424.5 million, respectively.

In addition to loan commitments, we had commitments to issue financial stand-by, performance, and commercial letters of credit totaling $140.7 million at March 31, 2013, as compared to $188.9 million and $177.4 million, respectively, at December 31, and March 31, 2012.

Financial stand-by letters of credit primarily are issued for the benefit of other financial institutions or municipalities, on behalf of certain of our current borrowers, and obligate us to guarantee payment of a specified financial obligation.

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

Commercial letters of credit act as a means of ensuring payment to a seller upon shipment of goods to a buyer. Although commercial letters of credit are used to effect payment for domestic transactions, the majority are used to settle payments in international trade. Typically, such letters of credit require the presentation of documents that describe the commercial transaction, and provide evidence of shipment and the transfer of title.

The fees we collect in connection with the issuance of letters of credit are included in fee income in the Consolidated Statements of Income and Comprehensive Income.

## Asset Quality

### *Non-Covered Loans Held for Investment and Non-Covered Other Real Estate Owned*

In the first three months of 2013, we continued to see improvement in our asset quality measures, as the balance of non-performing non-covered loans declined from the year-end balance, and the amount of loans 30 to 89 days past due also fell.

Specifically, non-performing non-covered loans declined 25.9% to $193.6 million at the end of the current first quarter from $261.3 million at December 31, 2012. The March 31st balance represented 0.69% of total non-covered loans, an improvement from 0.96% at year-end.

Non-performing multi-family loans accounted for $53.8 million of the $67.7 million improvement, having declined from $163.5 million at the end of December to $109.7 million at the end of March. However, most of the reduction was attributable to the migration of a $41.6 million multi-family loan from non-accrual status to OREO. The reduction in non-performing non-covered loans also was due to a $10.1 million decline in non-performing non-covered other loans to $7.9 million, and to more modest reductions in the balances of non-performing non-covered CRE and ADC loans. The benefit of the reductions in these non-covered loan categories was only slightly offset by a modest increase in the balance of non-performing non-covered one-to-four family loans to $11.3 million.

| (in thousands) | |
|---|---|
| Balance at December 31, 2012 | $261,330 |
| New non-accrual | 13,171 |
| Charge-offs | (6,499) |
| Transferred to other real estate owned | (43,671) |
| Loan payoffs, including dispositions and principal pay-downs | (28,498) |
| Restored to performing status | (2,220) |
| Balance at March 31, 2013 | $193,613 |

A loan generally is classified as a non-accrual loan when it is over 90 days past due. When a loan is placed on non-accrual status, we cease the accrual of interest owed, and previously accrued interest is reversed and charged against interest income. At March 31, 2013 and December 31, 2012, all of our non-performing non-covered loans were non-accrual loans. A loan is generally returned to accrual status when the loan is less than 90 days past due and we have reasonable assurance that the loan will be fully collectible.

We monitor non-accrual loans both within and beyond our primary lending area in the same manner. Monitoring loans generally involves inspecting and re-appraising the collateral properties; holding discussions with the principals and managing agents of the borrowing entities and/or retained legal counsel, as applicable; requesting financial, operating, and rent roll information; confirming that hazard insurance is in place or force-placing such insurance; monitoring tax payment status and advancing funds as needed; and appointing a receiver, whenever possible, to collect rents, manage the operations, provide information, and maintain the collateral properties.

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

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

Properties that are acquired through foreclosure are classified as OREO, and are recorded at the lower of the unpaid principal balance or fair value at the date of acquisition, less the estimated cost of selling the property. It is our policy to require an appraisal and environmental assessment of properties classified as OREO before foreclosure, and to re-appraise the properties on an as-needed basis until they are sold. We dispose of such properties as quickly and prudently as possible, given current market conditions and the property s condition.

At March 31, 2013, OREO totaled $70.3 million, reflecting a linked-quarter increase of $41.0 million. The increase was attributable to the $41.6 million multi-family loan that migrated to OREO from non-accrual status in the first quarter of this year. The net effect of the rise in OREO and the decline in non-performing non-covered loans was a $26.7 million decline in non-performing non-covered assets to $263.9 million, and a seven-basis point improvement in the ratio of non-performing non-covered assets to total non-covered assets to 0.64%.

The improvement in asset quality also was reflected in the improvement in non-covered loans 30 to 89 days past due over the first three months of 2013. At March 31st, non-covered loans 30 to 89 days past due declined to $19.8 million from $27.6 million at December 31, 2012. Although past due CRE loans rose $3.6 million linked-quarter, the impact was more than offset by an $8.8 million reduction in past due multi-family loans to $11.1 million, and more modest reductions in the balances of past due ADC, one-to-four family, and other loans. Notably, there were no past due ADC loans at March 31, 2013.

The reductions in non-covered loans 30 to 89 days past due were attributable to the migration of certain loans to non-accrual status, certain other loans being brought current, and the general improvement in the local economy. Reflecting the improvement in non-performing non-covered loans and the improvement in non-covered loans 30 to 89 days delinquent, total delinquencies declined $34.5 million, or 10.8%, on a linked-quarter basis, and $144.2 million, or 33.7%, year-over-year, to $283.7 million at March 31, 2013.

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

The condition of the collateral property is another critical factor. Multi-family buildings and CRE properties are inspected from rooftop to basement as a prerequisite to approval by management and the Mortgage or Credit Committee, as applicable. A member of the Mortgage or Credit Committee participates in inspections on multi-family loans to be originated in excess of $4.0 million. Similarly, a member of the Mortgage or Credit Committee participates in inspections on CRE loans to be originated in excess of $2.5 million. Furthermore, independent appraisers, whose appraisals are carefully reviewed by our experienced in-house appraisal officers, perform appraisals on collateral properties. When the amount of the loan exceeds $5.0 million, a second independent appraisal is performed.

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

To further manage our credit risk, our lending policies limit the amount of credit granted to any one borrower, and typically require a minimum debt service coverage ratio of 120% for multi-family loans and 130% for CRE loans. Although we typically will lend up to 75% of the appraised value on multi-family buildings and up to 65% on commercial properties, the average LTV ratios of such credits at origination were below those amounts at March 31, 2013. Exceptions to these LTV limitations are reviewed on a case-by-case basis, and require the approval of the Mortgage or Credit Committee, as applicable.

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

Although the reasons for a loan to default will vary from credit to credit, our multi-family and CRE loans, in particular, typically have not resulted in significant losses. Such loans are generally originated at conservative LTV ratios, as previously stated. Furthermore, in the case of multi-family loans, the cash flows generated by the properties generally have significant value.

The Boards of Directors also take part in the ADC lending process, with all ADC loans requiring the approval of the Mortgage or Credit Committee, as applicable. In addition, a member of the pertinent committee participates in inspections when the loan amount exceeds $2.5 million. ADC loans primarily have been made to well-established builders who have borrowed from us in the past. We typically lend up to 75% of the estimated as-completed market value of multi-family and residential tract projects; however, in the case of home construction loans to individuals, the limit is 80%. With respect to commercial construction loans, which are not our primary focus, we typically lend up to 65% of the estimated as-completed market value of the property. Credit risk is also managed through the loan disbursement process. Loan proceeds are disbursed periodically in increments as construction progresses, and as warranted by inspection reports provided to us by our own lending officers and/or consulting engineers.

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

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

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

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

While we strive to originate loans that will perform fully, changes in the economy and market conditions, among other factors, can adversely impact a borrower s ability to repay. Charge-offs totaled $7.6 million in the current first quarter, including a single C&I loan in the amount of $6.1 million, and were partly offset by recoveries of $2.0 million. At $5.6 million, net charge-offs were down $10.0 million from the year-earlier level and up $2.5 million from the trailing-quarter amount. In addition, net charge-offs represented 0.02% of average loans in the current first quarter, as compared to 0.05% and 0.01%, respectively, in the three months ended March 31, 2012 and December 31, 2012.

Other loans represented $6.2 million of charge-offs in the current first quarter, with multi-family, CRE, and one-to-four family loans representing far more modest amounts. No ADC loans were charged off in the first quarter of 2013.

Reflecting the difference between our first quarter net charge-offs and our first quarter provision for non-covered loan losses, the allowance for losses on non-covered loans fell $561,000 from the end of December to $140.4 million at March 31, 2013. The latter amount was equivalent to 72.51% of non-performing non-covered loans and 0.50% of total non-covered loans.

Based upon all relevant and available information as of March 31, 2013, management believes that the allowance for losses on non-covered loans was appropriate at that date.

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

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Reflecting the strength of the underlying collateral for these loans and the collateral structure, a relatively small percentage of our non-performing multi-family loans have resulted in losses over time. Low LTV ratios provide a greater likelihood of full recovery and reduce the possibility of incurring a severe loss on a credit. Furthermore, in many cases, low LTV ratios result in our having fewer loans with a potential for the borrower to walk away from the property. Although borrowers may default on loan payments, they have a greater incentive to protect their equity in the collateral property and to return their loans to performing status.

Given that our CRE loans are underwritten in accordance with underwriting standards that are similar to those that apply to our multi-family credits, an increase in non-performing CRE loans historically has not resulted in a corresponding increase in losses on such loans.

In addition, at March 31, 2013, ADC loans, other loans, and one-to-four family loans represented 1.42%, 2.27%, and 1.09%, respectively, of total non-covered loans held for investment, as compared to 1.46%, 2.34%, and 0.75%, respectively, at December 31, 2012. In addition, at March 31, 2013, 2.24%, 1.24%, and 3.71% of ADC loans, other loans, and one-to-four family loans, respectively, were non-performing loans.

In view of these factors, we do not believe that the level of our non-performing non-covered loans will result in a comparable level of loan losses and will not necessarily require a significant increase in our loan loss provision or allowance for non-covered loans in any given period. As indicated, non-performing non-covered loans represented 0.69% of total non-covered loans at March 31, 2013; the ratio of net charge-offs to average loans for the three months ended at that date was 0.02% (non-annualized).

The following tables present the number and amount of non-performing CRE and multi-family loans by originating bank at March 31, 2013 and December 31, 2012:

| **As of March 31, 2013** | Non-Performing Multi-Family Loans | | Non-Performing Commercial Real Estate Loans | |
|---|---|---|---|---|
| (dollars in thousands) | Number | Amount | Number | Amount |
| New York Community Bank | 58 | $108,742 | 37 | $44,299 |
| New York Commercial Bank | 2 | 946 | 8 | 11,436 |
| Total for New York Community Bancorp | 60 | $109,688 | 45 | $55,735 |

| **As of December 31, 2012** | Non-Performing Multi-Family Loans | | Non-Performing Commercial Real Estate Loans | |
|---|---|---|---|---|
| (dollars in thousands) | Number | Amount | Number | Amount |
| New York Community Bank | 73 | $162,513 | 37 | $45,418 |
| New York Commercial Bank | 2 | 947 | 8 | 11,445 |
| Total for New York Community Bancorp | 75 | $163,460 | 45 | $56,863 |

The following table presents information about our five largest non-performing loans at March 31, 2013, all of which are non-covered held-for-investment loans:

| | Loan No. 1 | Loan No. 2 | Loan No. 3 | Loan No. 4 | Loan No. 5 |
|---|---|---|---|---|---|
| Type of Loan | Multi-Family | CRE | CRE | Multi-Family | CRE |
| Origination Date | 6/30/04 | 9/11/08 | Various (1) | 6/30/04 | 12/19/06 |
| Origination Balance | $11,250,000 | $6,300,000 | $6,121,180 | $7,050,000 | $5,000,000 |
| Full Commitment Balance | $11,250,000 | $6,300,000 | $6,121,180 | $7,050,000 | $5,000,000 |
| Balance at March 31, 2013 | $9,371,972 | $6,197,016 | $6,121,180 | $5,605,000 | $4,869,286 |
| Associated Allowance | None | None | None | None | None |
| Non-Accrual Date | December 2012 | May 2010 | December 2010 | December 2012 | February 2010 |
| Origination LTV Ratio | 75% | 75% | 78% | 75% | 74% |
| Current LTV Ratio | 95% | 69% | 69% | 95% | 69% |
| Last Appraisal | October 2012 | April 2012 | October 2012 | October 2012 | October 2012 |

(1) Loan No. 3 includes three loans, one with an origination date of September 20, 2000 and two with an origination date of September 10, 2003. These loans were restructured into a non-accrual TDR on December 1, 2010.

The following is a description of the five loans identified in the preceding table:

No. 1 - The borrower is an owner of real estate and is based in Florida. This loan is collateralized by a multi-family complex with 248 residential units in Daytona, Florida. No allocation for the allowance for losses on non-covered loans was deemed necessary, as determined by using the fair value of collateral method in accordance with ASC 310-10/40.

No. 2 - The borrower is an owner of real estate and is based in New York. This loan is collateralized by an 11,000-square foot commercial building with excess development rights in Manhattan. No allocation for the allowance for losses on non-covered loans was deemed necessary, as determined by using the fair value of collateral method in accordance with ASC 310-10/40.

No. 3 - The borrower is an owner of real estate and is based in New York. This loan is collateralized by a 114,000-square foot commercial building in Plainview, New York. No allocation for the allowance for losses on non-covered loans was deemed necessary, as determined by using the fair value of collateral method in accordance with ASC 310-10/40.

No. 4 - The borrower is an owner of real estate and is based in Florida. This loan is collateralized by a multi-family complex with 232 residential units in Daytona, Florida. No allocation for the allowance for losses on non-covered loans was deemed necessary, as determined by using the fair value of collateral method in accordance with ASC 310-10/40.

No. 5 - The borrower is an owner of real estate and is based in New York. The loan is collateralized by an 11,000-square foot commercial building in Brooklyn, New York. No allocation for the allowance for losses on non-covered loans was deemed necessary, as determined by using the fair value of collateral method in accordance with ASC 310-10/40.

*Troubled Debt Restructurings*

In an effort to proactively manage delinquent loans, we have selectively extended to certain borrowers concessions such as rate reductions and extension of maturity dates, as well as forbearance agreements. As of March 31, 2013, loans on which concessions were made with respect to rate reductions and/or extension of maturity dates amounted to $158.5 million; loans in connection with which forbearance agreements were reached amounted to $19.8 million. At March 31, 2013, the Company had success rates for restructured multi-family, CRE, and all other loans (including ADC loans) of 90%, 91%, and 100%, respectively.

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

In accordance with GAAP, we are required to account for such loan modifications or restructurings as TDRs. In general, a modification or restructuring of a loan constitutes a TDR if we grant a concession to a borrower experiencing financial difficulty. Loans modified as TDRs are placed on non-accrual status until we determine that future collection of principal and interest is reasonably assured, which generally requires that the borrower demonstrate performance according to the restructured terms for at least six consecutive months.

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Loans modified as TDRs totaled $178.3 million at March 31, 2013, including accruing loans of $69.5 million and non-accrual loans of $108.8 million. At December 31, 2012, the balance of loans modified as TDRs was $260.3 million, including accruing loans and non-accrual loans of $105.0 million and $155.3 million, respectively.

**Analysis of Troubled Debt Restructurings**

The following table presents information regarding our TDRs as of March 31, 2013:

| (in thousands) | Accruing | Non-Accrual | Total |
|---|---|---|---|
| Multi-family | $65,830 | $ 68,944 | $134,774 |
| Commercial real estate | 2,255 | 38,750 | 41,005 |
| Acquisition, development, and construction | -- | -- | -- |
| Commercial and industrial | 1,410 | -- | 1,410 |
| One-to-four family | -- | 1,101 | 1,101 |
| Total | $69,495 | $108,795 | $178,290 |

The following table presents information regarding our TDRs as of December 31, 2012:

| (in thousands) | Accruing | Non-Accrual | Total |
|---|---|---|---|
| Multi-family | $ 66,092 | $114,556 | $180,648 |
| Commercial real estate | 37,457 | 39,127 | 76,584 |
| Acquisition, development, and construction | -- | 510 | 510 |
| Commercial and industrial | 1,463 | -- | 1,463 |
| One-to-four family | -- | 1,101 | 1,101 |
| Total | $105,012 | $155,294 | $260,306 |

The following table sets forth the changes in TDRs for the three months ended March 31, 2013:

| (in thousands) | Accruing | Non-Accrual | Total |
|---|---|---|---|
| Balance at December 31, 2012 | $105,012 | $155,294 | $260,306 |
| New loans | -- | 627 | 627 |
| Charge-offs | -- | (50) | (50) |
| Transferred to other real estate owned | -- | (42,443) | (42,443) |
| Loan payoffs, including dispositions and principal pay-downs | (35,517) | (4,633) | (40,150) |
| Balance at March 31, 2013 | $ 69,495 | $108,795 | $178,290 |

The decline in accruing loans reflected in the preceding table was primarily attributable to a $35.2 million CRE loan, as previously mentioned. The decline in non-accrual loans was primarily due to the aforementioned transfer of a $41.6 million multi-family loan to OREO.

On a limited basis, we may lend additional credit to a borrower after the loan has been placed on non-accrual status or modified as a TDR if, in management s judgment, the value of the property after the additional loan funding is greater than the initial value of the property plus the additional loan funding amount. During the three months ended March 31, 2013, no such additions were made. In addition, the terms of our restructured loans typically would not restrict us from cancelling outstanding commitments for other credit facilities in the event of non-payment of the restructured loan.

Except for the non-accrual loans, loans over 90 days past due and still accruing interest, and TDRs disclosed in this filing, we did not have any potential problem loans at March 31, 2013 that would have caused management to have serious doubts as to the ability of a borrower to comply with present loan repayment terms and that would have resulted in such disclosure if that were the case.

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**Asset Quality Analysis (Excluding Covered Loans, Covered OREO, and Non-Covered Loans Held for Sale)**

The following table presents information regarding our consolidated allowance for losses on non-covered loans, our non-performing non-covered assets, and our non-covered loans 30 to 89 days past due at March 31, 2013 and December 31, 2012. Covered loans are considered to be performing due to the application of the yield accretion method, as discussed elsewhere in this report. Therefore, covered loans are not reflected in the amounts or ratios provided in this table.

| (dollars in thousands) | At or For the Three Months Ended March 31, 2013 | At or For the Year Ended December 31, 2012 |
|---|---|---|
| Allowance for Losses on Non-Covered Loans: | | |
| Balance at beginning of period | $140,948 | $137,290 |
| Provision for losses on non-covered loans | 5,000 | 45,000 |
| Charge-offs: | | |
| Multi-family | (1,045) | (27,939) |
| Commercial real estate | (327) | (5,046) |
| Acquisition, development, and construction | -- | (5,974) |
| One-to-four family | (59) | (574) |
| Other loans | (6,173) | (6,685) |
| Total charge-offs | (7,604) | (46,218) |
| Recoveries | 2,043 | 4,876 |
| Net charge-offs | (5,561) | (41,342) |
| Balance at end of period | $140,387 | $140,948 |
| Non-Performing Non-Covered Assets: | | |
| Non-accrual non-covered mortgage loans: | | |
| Multi-family | $109,688 | $163,460 |
| Commercial real estate | 55,735 | 56,863 |
| Acquisition, development, and construction | 8,959 | 12,091 |
| One-to-four family | 11,317 | 10,945 |
| Total non-accrual non-covered mortgage loans | 185,699 | 243,359 |
| Other non-accrual non-covered loans | 7,914 | 17,971 |
| Total non-performing non-covered loans (1) | 193,613 | 261,330 |
| Other real estate owned (2) | 70,319 | 29,300 |
| Total non-performing non-covered assets | $263,932 | $290,630 |
| Asset Quality Measures: | | |
| Non-performing non-covered loans to total non-covered loans | 0.69% | 0.96% |
| Non-performing non-covered assets to total non-covered assets | 0.64 | 0.71 |
| Allowance for losses on non-covered loans to non-performing non-covered loans | 72.51 | 53.93 |
| Allowance for losses on non-covered loans to total non-covered loans | 0.50 | 0.52 |
| Net charge-offs during the period to average loans outstanding during during the period | 0.02(3) | 0.13 |

| | | |
|---|---|---|
| Loans 30-89 Days Past Due: | | |
| Multi-family | $11,099 | $19,945 |
| Commercial real estate | 5,305 | 1,679 |
| Acquisition, development, and construction | -- | 1,178 |
| One-to-four family | 1,726 | 2,645 |
| Other loans | 1,672 | 2,138 |
| Total loans 30-89 days past due [4] | $19,802 | $27,585 |

(1) The March 31, 2013 and December 31, 2012 amounts exclude loans 90 days or more past due of $296.0 million and $312.6 million, respectively, that are covered by FDIC loss sharing agreements.
(2) The March 31, 2013 and December 31, 2012 amounts exclude OREO totaling $46.9 million and $45.1 million, respectively, that is covered by FDIC loss sharing agreements.
(3) Presented on a non-annualized basis.
(4) The March 31, 2013 and December 31, 2012 amounts exclude loans 30 to 89 days past due of $62.4 million and $81.2 million, respectively, that are covered by FDIC loss sharing agreements.

**Covered Loans and Covered Other Real Estate Owned**

The credit risk associated with the assets acquired in our AmTrust and Desert Hills transactions has been substantially mitigated by our loss sharing agreements with the FDIC. Under the terms of the loss sharing agreements, the FDIC agreed to reimburse us for 80% of losses (and share in 80% of any recoveries) up to a specified threshold with respect to the loans and OREO acquired in the transactions, and to reimburse us for 95% of any losses (and share in 95% of any recoveries) with respect to the acquired assets beyond that threshold. The loss sharing (and reimbursement) agreements applicable to one-to-four family mortgage loans and HELOCs are effective for a ten-year period from the date of acquisition. Under the loss sharing agreements applicable to other loans and OREO, the FDIC will reimburse us for losses for a five-year period from the date of acquisition; the period for sharing in recoveries on other loans and OREO extends for a period of eight years.

We consider our covered loans to be performing due to the application of the yield accretion method under ASC 310-30, which allows us to aggregate credit-impaired loans acquired in the same fiscal quarter into one or more pools, provided that the loans have common risk characteristics. A pool is then accounted for as a single asset with a single composite interest rate and an aggregate expectation of cash flows. Accordingly, loans that may have been classified as non-performing loans by AmTrust or Desert Hills were no longer classified as non-performing at the respective dates of acquisition because we believed at that time that we would fully collect the new carrying value of those 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 ASC 310-30 as performing loans, and is dependent on having a reasonable expectation about the timing and amount of the cash flows to be collected, even if a loan is contractually past due.

In connection with the AmTrust and Desert Hills loss sharing agreements, we established FDIC loss share receivables of $740.0 million and $69.6 million, which were the acquisition date fair values of the respective loss sharing agreements (i.e., the expected reimbursements from the FDIC over the terms of the agreements). The loss share receivables may increase if the losses increase, and may decrease if the losses fall short of the expected amounts. Increases in estimated reimbursements will be recognized in income in the same period that they are identified and that the allowance for losses on the related covered loans is recognized. In the first three months of 2013, indemnification income of $3.6 million was recorded in non-interest income as a result of an increase in expected reimbursements from the FDIC under our loss sharing agreements. This benefit partially offset a provision for losses on covered loans of $4.5 million.

Decreases in estimated reimbursements from the FDIC, if any, will be recognized in income prospectively over the life of the related covered loans (or, if shorter, over the remaining term of the loss sharing agreement). Related additions to the accretable yield on the covered loans will be recognized in income prospectively over the lives of the loans. Gains and recoveries on covered assets will offset losses, or be paid to the FDIC at the applicable loss share percentage at the time of recovery.

The loss share receivables may also increase due to accretion, or decrease due to amortization. In the first three months of 2013, we recorded net amortization of $3.1 million; in the year-earlier three months, we recorded accretion of $1.3 million. Accretion of the FDIC loss share receivable relates to the difference between the discounted, versus the undiscounted, expected cash flows of covered loans subject to the FDIC loss sharing agreements. Amortization occurs when the expected cash flows from the covered loan portfolio improve, thus reducing the amounts receivable from the FDIC. These cash flows were discounted to reflect the uncertainty of the timing and receipt of the loss sharing reimbursements from the FDIC. In the three months ended March 31, 2013, we received FDIC reimbursements of $18.4 million, as compared to $38.1 million in the first three months of 2012.

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**Asset Quality Analysis (Including Covered Loans and Covered OREO)**

The following table presents information regarding our non-performing assets and loans 30 to 89 past due at March 31, 2013 and December 31, 2012, including covered loans and covered OREO (collectively, covered assets ):

| (dollars in thousands) | At or For the Three Months Ended March 31, 2013 | At or For the Year Ended December 31, 2012 |
|---|---|---|
| Covered Loans 90 Days or More Past Due: | | |
| Multi-family | $ 557 | $ -- |
| Commercial real estate | 1,629 | 2,501 |
| Acquisition, development, and construction | 1,340 | 1,249 |
| One-to-four family | 281,039 | 297,265 |
| Other | 11,475 | 11,558 |
| Total covered loans 90 days or more past due | 296,040 | 312,573 |
| Covered other real estate owned | 46,887 | 45,115 |
| Total covered non-performing assets | $ 342,927 | $ 357,688 |
| Total Non-Performing Assets (including covered assets): | | |
| Non-performing loans: | | |
| Multi-family | $ 110,245 | $ 163,460 |
| Commercial real estate | 57,364 | 59,364 |
| Acquisition, development, and construction | 10,299 | 13,340 |
| One-to-four family | 292,356 | 308,210 |
| Other non-performing loans | 19,389 | 29,529 |
| Total non-performing loans | 489,653 | 573,903 |
| Other real estate owned | 117,206 | 74,415 |
| Total non-performing assets (including covered assets) | $ 606,859 | $ 648,318 |
| Asset Quality Ratios (including covered loans and the allowance for losses on covered loans): | | |
| Total non-performing loans to total loans | 1.57% | 1.88% |
| Total non-performing assets to total assets | 1.36 | 1.47 |
| Allowance for loan losses to non-performing loans | 40.07 | 33.50 |
| Allowance for loan losses to total loans | 0.63 | 0.63 |
| Covered Loans 30-89 Days Past Due: | | |
| Multi-family | $ -- | $ 517 |
| Commercial real estate | -- | 137 |
| Acquisition, development, and construction | 55 | 463 |
| One-to-four family | 57,335 | 75,129 |
| Other loans | 4,991 | 4,940 |
| Total covered loans 30-89 days past due | $ 62,381 | $ 81,186 |

Total Loans 30-89 Days Past Due (including covered loans):

| | | |
|---|---|---|
| Multi-family | $ 11,099 | $ 20,462 |
| Commercial real estate | 5,305 | 1,816 |
| Acquisition, development, and construction | 55 | 1,641 |
| One-to-four family | 59,061 | 77,774 |
| Other loans | 6,663 | 7,078 |
| Total loans 30-89 days past due (including covered loans) | $ 82,183 | $ 108,771 |

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**Geographical Analysis of Total Non-Performing Loans (Covered and Non-Covered)**

The following table presents a geographical analysis of our non-performing loans at March 31, 2013:

| | Non-Performing Loans | | |
|---|---|---|---|
| (in thousands) | Covered Loan Portfolio | Non-Covered Loan Portfolio | Total |
| New York | $ 19,278 | $125,774 | $145,052 |
| Florida | 98,235 | 17,510 | 115,745 |
| New Jersey | 18,989 | 32,162 | 51,151 |
| California | 27,973 | 219 | 28,192 |
| Connecticut | 5,032 | 15,190 | 20,222 |
| Arizona | 16,541 | -- | 16,541 |
| Ohio | 15,711 | -- | 15,711 |
| Nevada | 13,232 | -- | 13,232 |
| Illinois | 10,346 | 2,549 | 12,895 |
| Massachusetts | 12,317 | -- | 12,317 |
| All other states | 58,386 | 209 | 58,595 |
| Total non-performing loans | $296,040 | $193,613 | $489,653 |

**Securities**

Securities represented $5.5 billion, or 12.3%, of total assets at the close of the current first quarter, as compared to $4.9 billion, representing 11.1% of total assets, at December 31, 2012.

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

Our general investment strategy is to purchase liquid investments with various maturities to ensure that our overall interest rate risk position stays within the required limits of our investment policies. We generally invest in GSE obligations (defined as GSE certificates; GSE collateralized mortgage obligations, or CMOs ; and GSE debentures). At March 31, 2013 and December 31, 2012, GSE obligations represented 92.2% and 91.3%, respectively, of total securities. The remainder of the portfolio was comprised of private label CMOs, corporate bonds, trust preferred securities, corporate equities, and municipal obligations. We have no investment securities that are backed by subprime or Alt-A loans.

Depending on management s intent at the time of purchase, securities are classified as either available for sale or held to maturity. While available-for-sale securities are intended to generate earnings, they also represent a significant source of cash flows and liquidity for future loan production and general operating activities. These cash flows stem from the repayment of principal and interest, in addition to the sale of such securities. Held-to-maturity securities also generate cash flows from repayments and serve as a source of earnings.

Securities that management intends to hold for an indefinite period of time are classified as available for sale. A decision to purchase or sell these securities is based on economic conditions, including changes in interest rates, liquidity, and our asset and liability management strategy. At March 31, 2013, available-for-sale securities represented $324.4 million, or 5.9%, of total securities, down from $429.3 million, or 8.7%, at December 31, 2012. Included in the respective period-end amounts were mortgage-related securities of $115.5 million and $177.3 million, and other securities of $208.8 million and $252.0 million, respectively. Primarily reflecting our expectation of certain securities being called, the estimated weighted average life of the available-for-sale securities portfolio was 8.5 years at the close of the current first quarter, as compared to 9.4 years at December 31, 2012.

Held-to-maturity securities, which are securities that management has the positive intent to hold to maturity, represented $5.1 billion, or 94.1%, of total securities at the close of the current first quarter, an increase from $4.5 billion, or 91.3%, at December 31, 2012. At March 31st, the fair value of securities held to maturity represented 103.51% of their carrying value, as compared to 104.94% at December 31, 2012. Mortgage-related securities accounted for $2.9 billion and $3.2 billion of securities held to maturity at the end of March and December, while other securities represented $2.2 billion and $1.3 billion at

the respective period-ends. Included in the March 31, 2013 and December 31, 2012 amounts were GSE obligations of $4.9 billion and $4.3 billion; capital trust notes of $108.9 million and $109.9 million; and corporate bonds of $72.6 million and $72.5 million, respectively. The estimated weighted average lives of the held-to-maturity securities portfolio were 4.2 years and 4.6 years at the corresponding dates.

**Federal Home Loan Bank Stock**

The Community Bank and the Commercial Bank are members of the FHLB-NY, one of 12 regional FHLBs comprising the FHLB system. Each regional FHLB manages its customer relationships, while the 12 FHLBs use their combined size and strength to obtain their necessary funding at the lowest possible cost.

As members of the FHLB-NY, the Community Bank and the Commercial Bank are required to acquire and hold shares of its capital stock. In addition, the Community Bank acquired shares of the capital stock of the FHLB-Cincinnati and the FHLB-San Francisco in connection with the AmTrust and Desert Hills acquisitions, respectively.

At March 31, 2013, the Community Bank held $448.5 million of FHLB stock, including $423.5 million of stock in the FHLB-NY, $23.1 million of stock in the FHLB-Cincinnati, and $1.9 million of stock in the FHLB-San Francisco. The Commercial Bank had $8.0 million of FHLB stock at March 31, 2013, all of which was with the FHLB-NY. All FHLB stock continued to be valued at par, with no impairment required at March 31, 2013.

In the three months ended March 31, 2013 and 2012, dividends from the FHLB to the Community Bank totaled $4.6 million and $5.3 million, respectively. Dividends from the FHLB-NY to the Commercial Bank were $95,000 and $98,000 respectively, in the corresponding periods.

**Bank-Owned Life Insurance**

At March 31, 2013, our investment in bank-owned life insurance ( BOLI ) was $873.5 million, as compared to $867.3 million at December 31, 2012. The increase reflects the rise in the cash surrender value of the underlying policies over the course of the year.

BOLI is recorded at the total cash surrender value of the policies in the Consolidated Statements of Condition, and the income generated by the increase in the cash surrender value of the policies is recorded in non-interest income in the Consolidated Statements of Income and Comprehensive Income.

**FDIC Loss Share Receivable**

In connection with our loss sharing agreements with the FDIC with respect to the loans and OREO acquired in the AmTrust and Desert Hills acquisitions, FDIC loss share receivables were $548.6 million and $566.5 million, respectively, at March 31, 2013 and December 31, 2012. The loss share receivables represent the present values of the reimbursements we expected to receive under the combined loss sharing agreements at those dates.

**Goodwill and Core Deposit Intangibles**

We record goodwill and CDI in our Consolidated Statements of Condition in connection with our various business combinations.

Goodwill totaled $2.4 billion at March 31, 2013, consistent with the balance at December 31, 2012. Reflecting amortization, CDI declined $4.4 million from the December 31, 2012 balance to $27.6 million at March 31, 2013.

**Sources of Funds**

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

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

Loan repayments and sales totaled $4.4 billion in the first three months of 2013, as compared to $4.2 billion in the first quarter of 2012. Repayments and sales accounted for $1.6 billion and $2.8 billion, respectively, of the current first quarter total and for $1.2 billion and $3.0 billion, respectively, of the total in the year-earlier three months.

In the three months ended March 31, 2013, cash flows from the repayment and sale of securities respectively totaled $362.2 million and $526.2 million, while purchases of securities totaled $1.4 billion. In the first three months of 2012, the cash flows from the repayment and sale of securities totaled $405.1 million and $240.2 million, respectively, and were partially offset by purchases of securities totaling $978.9 million.

In the first quarter of 2013, and consistent with our business model, the cash flows from loans and securities were primarily deployed into loan production and, to a lesser extent, the purchase of GSE obligations and other securities.

***Deposits***

Our ability to retain and attract deposits depends on numerous factors, including customer satisfaction, the rates of interest we pay, the types of products we offer, and the attractiveness of their terms. There are times we may choose not to compete aggressively for deposits, depending on our access to deposits through acquisitions, the availability of lower-cost funding sources, the competitiveness of the market and its impact on pricing, and our need for such deposits to fund our loan demand.

While the vast majority of our deposits have been retail deposits acquired through business combinations or gathered through our branch network, our mix of deposits has also included brokered deposits. Depending on the availability and pricing of such wholesale funding sources, we typically refrain from pricing our retail deposits at the higher end of the market, in order to contain or reduce our funding costs.

Deposits rose $600.2 million from the balance at the end of December to $25.5 billion, representing 57.2% of total assets, at March 31, 2013. The three-month increase was largely organic in nature, as savings accounts and NOW and money market accounts rose in response to a retail deposit campaign. Specifically, savings accounts rose $632.4 million in the first three months of this year, to $4.8 billion, while NOW and money market accounts rose $514.0 million to $9.3 billion. Included in the balance of NOW and money market accounts at the end of the current first quarter were brokered money market accounts of $3.8 billion, reflecting a $66.2 million increase from the balance at December 31, 2012.

The growth in savings and NOW and money market accounts was partly offset by a $78.2 million decline in non-interest-bearing accounts, to $2.7 billion, and by a $468.1 million reduction in CDs to $8.7 billion. The decline in non-interest bearing accounts was primarily due to a $77.0 million drop in brokered non-interest-bearing accounts to $112.2 million, while the decline in CDs was partly attributable to a $170.5 million decline in brokered CDs to $623.4 million. The remainder of the decline in CDs was largely attributable to the transfer of funds from maturing CDs into savings and NOW and money market accounts with the Banks.

Reflecting the decline in brokered non-interest-bearing accounts and brokered CDs, brokered deposits represented $4.5 billion of total deposits at the end of the current first quarter, down $181.2 million from the balance at December 31, 2012. The majority of the decline was attributable to the roll-off of brokered deposits that had been assumed in the transaction with Aurora Bank FSB in June 2012.

***Borrowed Funds***

Borrowed funds consist primarily of wholesale borrowings (i.e., FHLB advances, repurchase agreements, and fed funds purchased); junior subordinated debentures; and other borrowings (consisting of preferred stock of subsidiaries). At March 31, 2013, borrowed funds totaled $13.2 billion, down $251.6 million from the balance at December 31, 2012.

*Wholesale Borrowings*

Wholesale borrowings totaled $12.8 billion at the end of the current first quarter, representing 28.8% of total assets, and were down $251.7 million from the balance at December 31, 2012. FHLB advances accounted for $8.6 billion of the March 31st total, reflecting a $276.7 million decrease from the balance at year-end. In addition to FHLB-NY advances, the March 31st balance included FHLB-Cincinnati advances of $600.7 million that were acquired in the AmTrust acquisition in December 2009.

The Community Bank and the Commercial Bank are both members of, and have lines of credit with, the FHLB-NY. Pursuant to blanket collateral agreements with the Banks, our FHLB advances and overnight advances are secured by pledges of certain eligible collateral in the form of loans and securities.

Also included in wholesale borrowings at March 31, 2013 were repurchase agreements of $4.1 billion, consistent with the balance at December 31, 2012. Repurchase agreements are contracts for the sale of securities owned or borrowed by the Banks with an agreement to repurchase those securities at agreed-upon prices and dates. Our repurchase agreements are primarily collateralized by GSE obligations, and may be entered into with the FHLB-NY or certain brokerage firms. The brokerage firms we utilize are subject to an ongoing internal financial review to ensure that we borrow funds only from those dealers whose financial strength will minimize the risk of loss due to default. In addition, a master repurchase agreement must be executed and on file for each of the brokerage firms we use.

In the first quarter of 2013, we repositioned $2.4 billion of wholesale borrowings as part of an effort that began in December to reduce our funding costs. All told, borrowed funds of $6.0 billion were repositioned, reducing the weighted average cost of such funds by 117 basis points, and extending the weighted average call and maturity dates by approximately four years.

At March 31, 2013, $5.6 billion of our wholesale borrowings were callable in the next 12 months. Given the current interest rate environment, we do not expect our callable wholesale borrowings to be called.

*Junior Subordinated Debentures*

Junior subordinated debentures totaled $358.0 million at the close of the current first quarter, modestly higher than the balance at December 31, 2012.

*Other Borrowings*

At March 31, 2013, other borrowings totaled $4.3 million, consistent with the balance at December 31, 2012.

**Asset and Liability Management and the Management of Interest Rate Risk**

We manage our assets and liabilities to reduce our exposure to changes in market interest rates. The asset and liability management process has three primary objectives: to evaluate the interest rate risk inherent in certain balance sheet accounts; to determine the appropriate level of risk, given our business strategy, operating environment, capital and liquidity requirements, and performance objectives; and to manage that risk in a manner consistent with guidelines approved by the Boards of Directors of the Company, the Community Bank, and the Commercial Bank.

***Market Risk***

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

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

In the first three months of 2013, we continued to pursue the core components of our business model in order to reduce our interest rate risk: (1) We continued to emphasize the origination and retention of intermediate-term assets, primarily in the form of multi-family and CRE loans; (2) We continued to deploy the cash flows from loan and securities repayments and sales to fund our loan production, as well as our more limited investments in GSE obligations; and (3) We continued to capitalize on the historically low level of the target fed funds rate to reduce our retail funding costs. In addition, we continued the process of repositioning certain wholesale borrowings in order to reduce the interest rate on such funding and extended the weighted average call and maturity dates.

In connection with the activities of our mortgage banking operation, we enter into contingent commitments to fund residential mortgage loans by a specified future date at a stated interest rate and corresponding price. Such commitments, which are generally known as interest rate lock commitments ( IRLCs ), are considered to be financial derivatives and, as such, are carried at fair value.

To mitigate the interest rate risk associated with our IRLCs, we enter into forward commitments to sell mortgage loans or mortgage-backed securities ( MBS ) by a specified future date and at a specified price. These forward sale agreements are also carried at fair value. Such forward commitments to sell generally obligate us to complete the transaction as agreed, and therefore pose a risk to us if we are not able to deliver the loans or MBS pursuant to the terms of the applicable forward-sale agreement. For example, if we are unable to meet our obligation, we may be required to pay a fee to the counterparty.

When we retain the servicing on the loans we sell, we capitalize a mortgage servicing right ( MSR ) asset. MSRs are recorded at fair value, with changes in fair value recorded as a component of non-interest income. We estimate the fair value of the MSR asset based upon a number of factors, including current and expected loan prepayment rates, economic conditions, and market forecasts, as well as relevant characteristics of the associated underlying loans. Generally, when market interest rates decline, loan prepayments increase as customers refinance their existing mortgages to take advantage of more favorable interest rate terms. When a mortgage prepays, or when loans are expected to prepay earlier than originally expected, a portion of the anticipated cash flows associated with servicing these loans is terminated or reduced, which can result in a reduction in the fair value of the capitalized MSRs and a corresponding reduction in earnings.

To mitigate the prepayment risk inherent in MSRs, we could sell the servicing of the loans we produce, and thus minimize the potential for earnings volatility. Instead, we have opted to mitigate such risk by investing in exchange-traded derivative financial instruments that are expected to experience opposite and offsetting changes in fair value as related to the value of our MSRs.

***Interest Rate Sensitivity Analysis***

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

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

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

At March 31, 2013, our one-year gap was a negative 1.11%, as compared to a negative 3.69% at December 31, 2012. The difference in our one-year gap is attributable to our expectation of certain securities being called, and to a decline in the balance of CDs maturing within twelve months of the current first quarter-end.

The table on the following page sets forth the amounts of interest-earning assets and interest-bearing liabilities outstanding at March 31, 2013 which, based on certain assumptions stemming from our historical experience, are expected to reprice or mature in each of the future time periods shown. Except as stated below, the amounts of assets and liabilities shown as repricing or maturing during a particular time period were determined in accordance with the earlier of (1) the term to repricing, or (2) the contractual terms of the asset or liability.

The table provides an approximation of the projected repricing of assets and liabilities at March 31, 2013 on the basis of contractual maturities, anticipated prepayments, and scheduled rate adjustments within a three-month period and subsequent selected time intervals. For residential mortgage-related securities, prepayment rates are forecasted at a weighted average constant prepayment rate ( CPR ) of 37 percent per annum; for multi-family and CRE loans, prepayment rates are forecasted at weighted average CPRs of 22 and 17 percent per annum, respectively. Borrowed funds were not assumed to prepay. Savings, NOW, and money market accounts were assumed to decay based on a comprehensive statistical analysis that incorporates our historical deposit experience. Based on the results of this analysis, savings accounts were assumed to decay at 40% for the first five years, 15% for years five through ten, and 45% for the years thereafter. NOW accounts were assumed to decay at 41% for the first five years, 25% for years five through ten, and 34% for the years thereafter. Including those accounts having specified repricing dates, money market accounts were assumed to decay at 93% for the first five years and at 7% for years five through ten.

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**Interest Rate Sensitivity Analysis**

| | At March 31, 2013 | | | | | | |
|---|---|---|---|---|---|---|---|
| (dollars in thousands) | Three Months or Less | Four to Twelve Months | More Than One Year to Three Years | More Than Three Years to Five Years | More Than Five Years to 10 Years | More Than 10 Years | Total |
| INTEREST-EARNING ASSETS: | | | | | | | |
| Mortgage and other loans [1] | $ 4,379,167 | $5,274,930 | $10,258,131 | $7,444,317 | $ 3,920,846 | $ 528,365 | $31,805,756 |
| Mortgage-related securities [2][3] | 162,004 | 328,721 | 502,099 | 220,807 | 1,595,089 | 198,382 | 3,007,102 |
| Other securities and money market investments [2] | 1,306,721 | 1,258,159 | 25,245 | 62,439 | 31,358 | 234,897 | 2,918,819 |
| Total interest-earning assets | 5,847,892 | 6,861,810 | 10,785,475 | 7,727,563 | 5,547,293 | 961,644 | 37,731,677 |
| INTEREST-BEARING LIABILITIES: | | | | | | | |
| NOW and money market accounts | 4,106,999 | 630,857 | 1,014,514 | 1,658,675 | 1,076,142 | 810,640 | 9,297,827 |
| Savings accounts | 619,888 | 165,848 | 804,232 | 337,799 | 753,088 | 2,165,506 | 4,846,361 |
| Certificates of deposit | 1,901,685 | 3,043,022 | 2,999,935 | 649,806 | 49,246 | 9,134 | 8,652,828 |
| Borrowed funds | 2,735,510 | 746 | 300,984 | 1,875,438 | 8,121,805 | 144,085 | 13,178,568 |
| Total interest-bearing liabilities | 9,364,082 | 3,840,473 | 5,119,665 | 4,521,718 | 10,000,281 | 3,129,365 | 35,975,584 |
| Interest rate sensitivity gap per period [4] | $(3,516,190) | $3,021,337 | $ 5,665,810 | $3,205,845 | $(4,452,988) | $(2,167,721) | $ 1,756,093 |
| Cumulative interest rate sensitivity gap | $(3,516,190) | $(494,853) | $5,170,957 | $8,376,802 | $3,923,814 | $1,756,093 | |
| Cumulative interest rate sensitivity gap as a percentage of total assets | (7.90)% | (1.11)% | 11.62% | 18.82% | 8.82% | 3.95% | |
| Cumulative net interest-earning assets as a percentage of net interest-bearing liabilities | 62.45 % | 96.25 % | 128.22% | 136.67% | 111.95% | 104.88% | |

(1) For the purpose of the gap analysis, non-performing non-covered loans and the allowances for loan losses have been excluded.
(2) Mortgage-related and other securities, including FHLB stock, are shown at their respective carrying amounts.
(3) Expected amount based, in part, on historical experience.
(4) The interest rate sensitivity gap per period represents the difference between interest-earning assets and interest-bearing liabilities.

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

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

As of March 31, 2013, the impact of a 100-basis point decline in market interest rates would have increased our projected prepayment rates by a constant prepayment rate of two percent per annum. Conversely, the impact of a 100-basis point increase in market interest rates would have reduced our projected prepayment rates by a constant prepayment rate of two percent per annum.

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

Interest rate sensitivity is also monitored through the use of a model that generates estimates of the change in our net portfolio value ( NPV ) over a range of interest rate scenarios. NPV is defined as the net present value of expected cash flows from assets, liabilities, and off-balance sheet contracts. The NPV ratio, under any interest rate scenario, is defined as the NPV in that scenario divided by the market value of assets in the same scenario. The model assumes estimated loan prepayment rates, reinvestment rates, and deposit decay rates similar to those utilized in formulating the preceding Interest Rate Sensitivity Analysis.

Based on the information and assumptions in effect at March 31, 2013, the following table reflects the estimated percentage change in our NPV, assuming the changes in interest rates noted:

| **Change in Interest Rates (in basis points)[(1)]** | **Estimated Percentage Change in Net Portfolio Value** |
|---|---|
| +100 | (0.64)% |
| +200 | (4.35) |

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

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

As with the Interest Rate Sensitivity Analysis, certain shortcomings are inherent in the methodology used in the preceding interest rate risk measurements. Modeling changes in NPV requires that certain assumptions be made which may or may not reflect the manner in which actual yields and costs respond to changes in market interest rates. In this regard, the NPV Analysis presented above assumes that the composition of our interest rate sensitive assets and liabilities existing at the beginning of a period remains constant over the period being measured, and also assumes that a particular change in interest rates is reflected uniformly across the yield curve, regardless of the duration to maturity or repricing of specific assets and liabilities. Furthermore, the model does not take into account the benefit of any strategic actions we may take to further reduce our exposure to interest rate risk. Accordingly, while the NPV Analysis provides an indication of our interest rate risk exposure at a particular point in time, such measurements are not intended to, and do not, provide a precise forecast of the effect of changes in market interest rates on our net interest income, and may very well differ from actual results.

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

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Based on the information and assumptions in effect at March 31, 2013, the following table reflects the estimated percentage change in future net interest income for the next twelve months, assuming the changes in interest rates noted:

| Change in Interest Rates (in basis points) [1][2] | Estimated Percentage Change in Future Net Interest Income |
|---|---|
| +100 over one year | (0.80)% |
| +200 over one year | (2.16) |

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

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

In the event that our interest rate sensitivity gap analysis or net interest income simulation were to indicate a variance in our NPV in excess of our internal policy limits, we would undertake the following actions to ensure that appropriate remedial measures were put in place:

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

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

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

In connection with our net interest income simulation modeling, we also evaluate the impact of changes in the slope of the yield curve. At March 31, 2013, our analysis indicated that an immediate inversion of the yield curve would be expected to result in a 6.69% decrease in net interest income; conversely, an immediate steepening of the yield curve would be expected to result in a 5.34% increase.

## Liquidity, Contractual Obligations and Off-Balance Sheet Commitments, and Capital Position

### *Liquidity*

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

We monitor our liquidity daily to ensure that sufficient funds are available to meet our financial obligations. Our most liquid assets are cash and cash equivalents, which totaled $2.1 billion and $2.4 billion, respectively, at March 31, 2013 and December 31, 2012. As in the past, our portfolios of loans and securities were meaningful sources of liquidity in the current first quarter, with cash flows from the repayment and sale of

loans totaling $4.4 billion and cash flows from the repayment and sale of securities totaling $888.5 million.

Additional liquidity stems from the deposits we gather through our branches or acquire in business combinations, and from our use of wholesale funding sources, including brokered deposits and wholesale borrowings. We also have access to the Banks approved lines of credit with various counterparties, including the FHLB-NY. The availability of these wholesale funding sources is generally based on the amount of mortgage loan collateral available under a blanket lien we have pledged to the respective institutions and, to a lesser extent, the amount of available securities that may be pledged to collateralize our borrowings. At March 31, 2013, our available borrowing capacity with the FHLB-NY was $6.9 billion. In addition, the Community Bank and the Commercial Bank had $321.7 million in available-for-sale securities, combined, at that date.

Furthermore, the Community Bank has an agreement with the Federal Reserve Bank of New York (the FRB-NY ) that enables it to access the discount window as a further means of enhancing its liquidity if need be. In connection with this agreement, the Community Bank has pledged certain loans and securities to collateralize any funds it may borrow, up to a maximum limit of $213.7 million.

Our primary investing activity is loan production and, in the first three months of 2013, the volume of loans originated for sale and for investment totaled $4.6 billion. During this time, the net cash used in investing activities totaled $1.2 billion. Our financing activities provided net cash of $234.5 million and our operating activities provided net cash of $632.0 million.

CDs due to mature in one year or less from March 31, 2013 totaled $4.9 billion, representing 57.1% of total CDs at that date. Our ability to retain these CDs and to attract new deposits depends on numerous factors, including customer satisfaction, the rates of interest we pay on our deposits, the types of products we offer, and the attractiveness of their terms. However, there are times when we may choose not to compete for such deposits, depending on the availability of lower-cost funding, the competitiveness of the market and its impact on pricing, and our need for such deposits to fund loan demand.

On a stand-alone basis, the Company (the Parent Company ) is a separate legal entity from each of the Banks and must provide for its own liquidity. In addition to operating expenses and any share repurchases, the Parent Company is responsible for paying any dividends declared to our shareholders. As a Delaware corporation, the Parent Company is able to pay dividends either from surplus or, in case there is no surplus, from net profits for the fiscal year in which the dividend is declared and/or the preceding fiscal year. In addition, the Parent Company is not required to obtain prior Federal Reserve approval to pay a dividend unless the declaration and payment of a dividend could raise supervisory concerns about the safe and sound operation of the Company and the Banks, where the dividend declared for a period is not supported by earnings for that period, or where the Company plans to declare an increase in its dividend.

The Parent Company s ability to pay dividends may depend, in part, upon dividends it receives from the Banks. The ability of the Community Bank and the Commercial Bank to pay dividends and other capital distributions to the Parent Company is generally limited by New York State banking law and regulations, and by certain regulations of the FDIC. In addition, the Superintendent of the New York State Department of Financial Services (the Superintendent ), the FDIC, and the Federal Reserve, for reasons of safety and soundness, may prohibit the payment of dividends that are otherwise permissible by regulations.

Under New York State Banking Law, a New York State-chartered stock-form savings bank or commercial bank may declare and pay dividends out of its net profits, unless there is an impairment of capital. However, the approval of the Superintendent is required if the total of all dividends declared in a calendar year would exceed the total of a bank s net profits for that year, combined with its retained net profits for the preceding two years. In the three months ended March 31, 2013, the Banks paid dividends totaling $110.0 million to the Parent Company, leaving $89.6 million that they could dividend to the Parent Company without regulatory approval at that date. Additional sources of liquidity available to the Parent Company at March 31, 2013 included $104.8 million in cash and cash equivalents and $2.6 million of available-for-sale securities. If either of the Banks were to apply to the Superintendent for approval to make a dividend or capital distribution in excess of the dividend amounts permitted under the regulations, there can be no assurance that such application would be approved.

*Derivative Financial Instruments*

We use various financial instruments, including derivatives, in connection with our strategies to reduce market risk resulting from changes in interest rates. Our derivative financial instruments consist of financial forward and futures contracts, IRLCs, swaps, and options. These derivatives relate to our mortgage banking operation, MSRs, and other risk management activities, and seek to mitigate or reduce our exposure to losses from adverse changes in interest rates. These activities will vary in scope based on the level and volatility of interest rates, the types of assets held, and other changing market conditions. At March 31, 2013, we held derivative financial instruments with a notional value of $3.7 billion. (Please see Note 12, Derivative Financial Instruments, for a further discussion of our use of such financial instruments.)

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***Capital Position***

Stockholders equity totaled $5.7 billion at the end of the current first quarter, representing 12.73% of total assets and a book value of $12.85 per share. The March 31st balance was $9.4 million higher than the balance at the end of December, which represented 12.81% of total assets and a book value of $12.88 per share.

We calculate book value per share by dividing stockholders equity at the end of a period by the number of shares outstanding at the same date. At March 31, 2013, there were 440,867,068 shares outstanding; at December 31, 2012, the number of outstanding shares was 439,050,966.

Tangible stockholders equity rose $13.8 million in the first three months of this year, to $3.2 billion, after the distribution of $110.0 million in quarterly cash dividends. Tangible stockholders equity represented 7.61% and 7.65% of tangible assets at the end of March and December, while tangible book value per share was $7.26 at both period-ends. We calculate tangible stockholders equity by subtracting the amount of goodwill and CDI recorded at the end of a period from the amount of stockholders equity recorded at the same date. At March 31, 2013 and December 31, 2012, we recorded goodwill of $2.4 billion; CDI totaled $27.6 million and $32.0 million, respectively, at the corresponding dates.

Excluding AOCL from the calculations of tangible stockholders equity and tangible assets, the ratio of adjusted tangible stockholders equity to adjusted tangible assets was 7.75% at the end of the current first quarter, as compared to 7.79% at December 31, 2012. (Please see the discussion and reconciliations of stockholders equity and tangible stockholders equity, total assets and tangible assets, and the related capital measures that appear earlier in this report.)

AOCL rose $823,000 in the first three months of this year, to $62.5 million at March 31, 2013. The increase was the result of a $2.3 million decline in the net unrealized gain on available-for-sale securities to $10.3 million, and a $1.5 million decrease in the net unrealized loss on pension and post-retirement obligations, net of tax, to $59.3 million.

At March 31, 2013 and December 31, 2012, our capital measures continued to exceed the minimum federal requirements for a bank holding company. The following table sets forth our total risk-based, Tier 1 risk-based, and leverage capital amounts and ratios on a consolidated basis, as well as the respective minimum regulatory capital requirements, at the corresponding dates.

**Regulatory Capital Analysis (the Company)**

| | At March 31, 2013 | | | | | |
|---|---|---|---|---|---|---|
| | | | Risk-Based Capital | | | |
| | Leverage Capital | | Tier 1 | | Total | |
| (dollars in thousands) | Amount | Ratio | Amount | Ratio | Amount | Ratio |
| Total capital | $3,616,877 | 8.87% | $3,616,877 | 13.26% | $3,817,241 | 14.00% |
| Regulatory capital requirement | 1,630,359 | 4.00 | 1,090,962 | 4.00 | 2,181,924 | 8.00 |
| Excess | $1,986,518 | 4.87% | $2,525,915 | 9.26% | $1,635,317 | 6.00% |

In addition, the capital ratios for the Community Bank and the Commercial Bank continued to exceed the minimum levels required for classification as well capitalized institutions at March 31, 2013, as defined under the Federal Deposit Insurance Corporation Improvement Act of 1991, and as reflected in the following tables:

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

| | At March 31, 2013 | | | | | |
|---|---|---|---|---|---|---|
| | | | Risk-Based Capital | | | |
| | Leverage Capital | | Tier 1 | | Total | |
| (dollars in thousands) | Amount | Ratio | Amount | Ratio | Amount | Ratio |
| Total capital | $3,165,513 | 8.31% | $3,165,513 | 12.40% | $3,354,584 | 13.14% |
| Regulatory capital requirement | 1,523,434 | 4.00 | 1,021,501 | 4.00 | 2,043,001 | 8.00 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Excess | $1,642,079 | 4.31% | $2,144,012 | 8.40% | $1,311,583 | 5.14% |

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

| | At March 31, 2013 | | | | | |
|---|---|---|---|---|---|---|
| | | | Risk-Based Capital | | | |
| | Leverage Capital | | Tier 1 | | Total | |
| (dollars in thousands) | Amount | Ratio | Amount | Ratio | Amount | Ratio |
| Total capital | $351,053 | 11.26% | $351,053 | 16.53% | $362,250 | 17.05% |
| Regulatory capital requirement | 124,662 | 4.00 | 84,963 | 4.00 | 169,926 | 8.00 |
| Excess | $226,391 | 7.26% | $266,090 | 12.53% | $192,324 | 9.05% |

*Basel III Proposal*

In the summer of 2012, our primary federal regulators published two notices of proposed rulemaking (the 2012 Capital Proposals ) that would substantially revise the risk-based capital requirements applicable to bank holding companies and depository institutions, including the Company and the Banks, compared to the current U.S. risk-based capital rules, which are based on the international capital accords of the Basel Committee on Banking Supervision (the Basel Committee ) which are generally referred to as Basel I.

One of the 2012 Capital Proposals (the Basel III Proposal ) addresses the components of capital and other issues affecting the numerator in banking institutions regulatory capital ratios, and would implement the Basel Committee s December 2010 framework, known as Basel III, for strengthening international capital standards. The other proposal (the Standardized Approach Proposal ) addresses risk weights and other issues affecting the denominator in banking institutions regulatory capital ratios, and would replace the existing Basel I-derived risk weighting approach with a more risk-sensitive approach based, in part, on the standardized approach in the Basel Committee s 2004 Basel II capital accords. Although the Basel III Proposal was proposed to come into effect on January 1, 2013, the federal banking agencies jointly announced on November 9, 2012 that they did not expect any of the proposed rules to become effective on that date. As proposed, the Standardized Approach Proposal would come into effect on January 1, 2015.

The federal banking agencies have not proposed rules implementing the final liquidity framework of Basel III, and have not determined to what extent they will apply to U.S. banks that are not large, internationally active banks.

We believe that, as of March 31, 2013, the Company, the Community Bank, and the Commercial Bank would meet all their respective capital adequacy requirements under the Basel III and Standardized Approach Proposals on a fully phased-in basis if such requirements were currently effective. The regulations ultimately applicable to financial institutions may be substantially different from the Basel III final framework as published in December 2010 and the proposed rules issued in June 2012. Management will continue to monitor these and any future proposals submitted by our regulators.

**Earnings Summary for the Three Months Ended March 31, 2013**

We generated earnings of $118.7 million in the current first quarter, as compared to $122.8 million in the trailing quarter and $118.3 million in the year-earlier three months. The first quarter 2013 amount was equivalent to $0.27 per diluted share, a penny lower than the trailing-quarter level and consistent with the level in the first quarter of 2012.

Largely reflecting a $19.4 million decline in prepayment penalty income to $19.9 million, net interest income fell $14.8 million on a linked-quarter basis to $275.2 million in the first quarter of this year. In the fourth quarter of 2012, net interest income included prepayment penalty income of $17.9 million that stemmed from the prepayment of a single $545.5 million loan relationship. While net interest income declined year-over-year by $13.2 million, the reduction was primarily attributable to a decrease in average asset yields as market interest rates declined.

Non-interest income rose $20.1 million and $13.6 million, respectively, to $75.6 million in the current first quarter from the levels recorded in the trailing and year-earlier three months. The increases were due to current first quarter pre-tax securities gains of $16.6 million, and an increase in other income to $13.2 million. Included in the latter amount was the recovery of $3.9 million on a security that previously had been recorded as other than temporarily impaired.

Mortgage banking income contributed $26.1 million to non-interest income in the current first quarter, down $6.5 million and $9.1 million, respectively, from the levels recorded in the trailing and year-earlier three months. The declines in mortgage banking income were largely due to a slowing down of refinancing activity as residential mortgage interest rates increased; the linked-quarter decrease was also due to seasonality.

Operating expenses totaled $151.7 million in the current first quarter, rising $1.8 million from the trailing-quarter level and $6.7 million from the year-earlier amount. Compensation and benefits expense accounted for $8.3 million and $9.9 million of the respective increases, having risen to $83.5 million in the first three months of this year. The bulk of the increase

was attributable to retirement and severance expenses of $6.0 million. The linked-quarter rise in compensation and benefits expense was partly offset by a $7.4 million reduction in general and administrative ( G&A ) expense, to $44.6 million, as FDIC deposit insurance premiums decreased and legal and other professional fees declined. Year-over-year, the decline in G&A expense was $4.9 million.

At $5.0 million, our provision for losses on non-covered loans was comparable to the trailing-quarter level and $10.0 million less than the provision recorded in the first quarter of 2012. We also recorded a $4.5 million provision for losses on covered loans in the current first quarter, in contrast to a $3.3 million recovery in the fourth quarter of last year. No provision or recovery was recorded in the first quarter of 2012.

Income tax expense totaled $66.5 million in the current first quarter, modestly higher than the trailing-quarter level and $526,000 lower than the level recorded in the first quarter of 2012.

## Net Interest Income

Net interest income is our primary source of income. Its level is a function of the average balance of our interest-earning assets, the average balance of our interest-bearing liabilities, and the spread between the yield on such assets and the cost of such liabilities. These factors are influenced by both the pricing and mix of our interest-earning assets and our interest-bearing liabilities which, in turn, are impacted by various external factors, including the local economy, competition for loans and deposits, the monetary policy of the Federal Open Market Committee of the Federal Reserve Board of Governors (the FOMC ), and market interest rates.

The cost of our deposits and borrowed funds is largely based on short-term rates of interest, the level of which is partially impacted by the actions of the FOMC. The FOMC reduces, maintains, or increases the target fed funds rate (the rate at which banks borrow funds overnight from one another) as it deems necessary. The target fed funds rate has been maintained at a range of zero to 0.25% since the fourth quarter of 2008.

While the target fed funds rate generally impacts the cost of our short-term borrowings and deposits, the yields on our held-for-investment loans and other interest-earning assets are typically impacted by intermediate-term market interest rates. In the first quarter of 2013, the five- and ten-year Constant Maturity Treasury ( CMT ) rates averaged 0.82% and 1.95%, respectively, as compared to 0.69% and 1.71%, respectively, in the trailing quarter and 0.90% and 2.04%, respectively, in the first quarter of 2012.

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

In the first three months of 2013, we generated net interest income of $275.2 million, reflecting a $14.8 million, or 5.1%, linked-quarter reduction and a year-over-year reduction of $13.2 million, or 4.6%. While interest expense fell $19.1 million linked-quarter and $20.6 million year-over-year, to $137.6 million, interest income fell $34.0 million and $33.8 million, respectively, over the corresponding periods to $412.8 million in the first quarter of 2013. In addition, our net interest margin was 2.95% in the current first quarter, down from 3.15% in the trailing quarter and 3.24% in the three months ended March 31, 2012.

The following factors contributed to the declines in our net interest income and margin:

- Prepayment penalty income accounted for $19.9 million of the interest income recorded in the current first quarter, as compared to $39.3 million and $17.5 million, respectively, in the three months ended December 31, 2012 and March 31, 2012. The primary reason for the linked-quarter decline was the prepayment of a $545.5 million loan relationship in the trailing quarter, which generated $17.9 million, or 45.5% of the prepayment penalty income received, in the three months ended December 31, 2012.
- In addition, prepayment penalty income contributed 26 and 22 basis points, respectively, to the average yields on our loans and interest-earning assets in the current first quarter, which were 4.65% and 4.46%, respectively. In the fourth quarter of 2012, the average yields on interest-earning assets and loans were 4.84% and 5.08%, respectively, including 43 and 50 basis points contributed by prepayment penalties. In addition to the linked-quarter decline in prepayment penalty income, the reduction in the average yields on loans and interest-earning assets was attributable to the replenishment of our balance sheet with lower-yielding loans and securities.
- Prepayment penalty income contributed 21 basis points to our margin in the current first quarter, as compared to 43 basis points in the trailing quarter and 20 basis points in the year-earlier three months. Included in the trailing-quarter amount were 19 basis points stemming from the prepayment of the aforementioned $545.5 million loan relationship.
- To a far lesser extent, the linked-quarter declines in our net interest income and margin reflect modest increases in the average balances of interest-bearing deposits and borrowed funds.

The linked-quarter declines in our net interest income and margin were tempered by two primary factors:

- a $122.4 million increase in the average balance of interest-earning assets to $37.1 billion, as a $287.4 million increase in average loans to $31.6 billion exceeded the impact of a $165.0 million reduction in average securities to $5.4 billion; and
- a 20-basis point decline in the average cost of interest-bearing liabilities to 1.61% in the current first quarter, as the average cost of borrowed funds fell 55 basis points to 3.35% and the average cost of interest-bearing deposits dropped a single basis point, to 0.64%. The linked-quarter reduction in the average cost of borrowed funds was attributable to the repositioning of $6.0 billion of borrowed funds that began in the latter part of December and continued in the first two weeks of 2013.

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

Furthermore, the level of prepayment penalty income recorded when a loan prepays is a function of the remaining principal balance, as well as the number of years remaining on the loan. The number of years dictates the number of prepayment penalty points that are charged on the remaining principal balance, based on a sliding scale of five percentage points to one, as discussed under Multi-Family Loans and Commercial Real Estate Loans earlier in this report.

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

(dollars in thousands)

| | For the Three Months Ended | | | | | |
|---|---|---|---|---|---|---|
| | March 31, 2013 | | | December 31, 2012 | | |
| | Average Balance | Interest | Average Yield/ Cost | Average Balance | Interest | Average Yield/ Cost |
| **Assets:** | | | | | | |
| Interest-earning assets: | | | | | | |
| Mortgage and other loans, net [1] | $31,615,006 | $366,999 | 4.65% | $31,327,597 | $397,904 | 5.08% |
| Securities and money market investments[2][3] | 5,441,285 | 45,808 | 3.37 | 5,606,278 | 48,868 | 3.49 |
| Total interest-earning assets | 37,056,291 | 412,807 | 4.46 | 36,933,875 | 446,772 | 4.84 |
| Non-interest-earning assets | 6,186,968 | | | 6,153,971 | | |
| Total assets | $43,243,259 | | | $43,087,846 | | |
| **Liabilities and Stockholders Equity:** | | | | | | |
| Interest-bearing deposits: | | | | | | |
| NOW and money market accounts | $ 8,969,149 | $ 9,175 | 0.41% | $ 8,884,441 | $ 9,413 | 0.42% |
| Savings accounts | 4,509,093 | 4,021 | 0.36 | 4,163,544 | 3,328 | 0.32 |
| Certificates of deposit | 8,860,679 | 22,235 | 1.02 | 9,066,441 | 23,155 | 1.02 |
| Total interest-bearing deposits | 22,338,921 | 35,431 | 0.64 | 22,114,426 | 35,896 | 0.65 |
| Borrowed funds | 12,381,287 | 102,200 | 3.35 | 12,336,991 | 120,875 | 3.90 |
| Total interest-bearing liabilities | 34,720,208 | 137,631 | 1.61 | 34,451,417 | 156,771 | 1.81 |
| Non-interest-bearing deposits | 2,673,879 | | | 2,815,353 | | |
| Other liabilities | 218,295 | | | 323,036 | | |
| Total liabilities | 37,612,382 | | | 37,589,806 | | |
| Stockholders equity | 5,630,877 | | | 5,498,040 | | |
| Total liabilities and stockholders equity | $43,243,259 | | | $43,087,846 | | |
| Net interest income/interest rate spread | | $275,176 | 2.85% | | $290,001 | 3.03% |
| Net interest margin | | | 2.95% | | | 3.15% |
| Ratio of interest-earning assets to interest-bearing liabilities | | | 1.07x | | | 1.07x |

(1) Amounts are net of net deferred loan origination costs/(fees) and the allowance for loan losses, and include loans held for sale and non-performing loans.
(2) Amounts are at amortized cost.
(3) Includes FHLB stock.

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**Net Interest Income Analysis (Year-Over-Year Comparison)**

(dollars in thousands)

| | For the Three Months Ended March 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2013 | | | 2012 | | |
| | Average Balance | Interest | Average Yield/ Cost | Average Balance | Interest | Average Yield/ Cost |
| **Assets:** | | | | | | |
| Interest-earning assets: | | | | | | |
| Mortgage and other loans, net [1] | $31,615,006 | $366,999 | 4.65% | $30,595,529 | $398,184 | 5.21% |
| Securities and money market investments[2][3] | 5,441,285 | 45,808 | 3.37 | 4,934,593 | 48,454 | 3.93 |
| Total interest-earning assets | 37,056,291 | 412,807 | 4.46 | 35,530,122 | 446,638 | 5.03 |
| Non-interest-earning assets | 6,186,968 | | | 6,244,891 | | |
| Total assets | $43,243,259 | | | $41,775,013 | | |
| **Liabilities and Stockholders Equity:** | | | | | | |
| Interest-bearing deposits: | | | | | | |
| NOW and money market accounts | $ 8,969,149 | $ 9,175 | 0.41% | $ 8,800,787 | $ 8,733 | 0.40% |
| Savings accounts | 4,509,093 | 4,021 | 0.36 | 3,983,234 | 3,496 | 0.35 |
| Certificates of deposit | 8,860,679 | 22,235 | 1.02 | 7,420,769 | 23,720 | 1.29 |
| Total interest-bearing deposits | 22,338,921 | 35,431 | 0.64 | 20,204,790 | 35,949 | 0.72 |
| Borrowed funds | 12,381,287 | 102,200 | 3.35 | 13,419,550 | 122,275 | 3.66 |
| Total interest-bearing liabilities | 34,720,208 | 137,631 | 1.61 | 33,624,340 | 158,224 | 1.89 |
| Non-interest-bearing deposits | 2,673,879 | | | 2,377,534 | | |
| Other liabilities | 218,295 | | | 244,843 | | |
| Total liabilities | 37,612,382 | | | 36,246,717 | | |
| Stockholders equity | 5,630,877 | | | 5,528,296 | | |
| Total liabilities and stockholders equity | $43,243,259 | | | $41,775,013 | | |
| Net interest income/interest rate spread | | $275,176 | 2.85% | | $288,414 | 3.14% |
| Net interest margin | | | 2.95% | | | 3.24% |
| Ratio of interest-earning assets to interest-bearing liabilities | | | 1.07x | | | 1.06x |

(1) Amounts are net of net deferred loan origination costs/(fees) and the allowance for loan losses, and include loans held for sale and non-performing loans.
(2) Amounts are at amortized cost.
(3) Includes FHLB stock.

**Provisions for Loan Losses**

***Provision for Losses on Non-Covered Loans***

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

As a result of management s assessment of these factors, including the aforementioned declines in non-performing non-covered loans and assets, our provision for losses on non-covered loans was $5.0 million in the current first quarter, consistent with the trailing-quarter level and $10.0 million below the level recorded in the first quarter of 2012. Reflecting the $5.0 million provision and net charge-offs of $5.6 million, the allowance for losses on non-covered loans was $140.4 million at the close of the current first quarter, as compared to $140.9 million at December 31, 2012.

***Provision for Losses on Covered Loans***

A provision for losses on covered loans is recorded when the cash flows from certain loan portfolios acquired in our FDIC-assisted acquisitions are expected to be less than the cash flows we expected at the time of acquisition, as a result of a deterioration in credit quality. If we had reason to believe that the cash flows from acquired loans would exceed our original expectations, we would reverse the previously established covered loan loss allowance and increase our interest income as a prospective yield adjustment over the remaining life of the loan or pool of loans.

In the first quarter of 2013, we recorded a provision for losses on covered loans of $4.5 million, in contrast to recording a recovery of $3.3 million in the fourth quarter of 2012. The current first quarter provision was largely offset by FDIC indemnification income of $3.6 million, while the trailing-quarter recovery was largely offset by $2.6 million of FDIC indemnification expense. No provision or recovery was recorded in the first quarter of 2012.

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

**Non-Interest Income**

We have four recurring sources of non-interest income: mortgage banking income, which consists of income from originations and servicing income; fee income (in the form of retail deposit fees and charges on loans); income from our investment in BOLI; and other income, which is derived from various sources, including the sale of third-party investment products in our branches, and the revenues from our wholly-owned subsidiary, Peter B. Cannell & Co., Inc., an investment advisory firm. From time to time, these recurring sources of non-interest income are supplemented by FDIC indemnification income (in any quarter when a provision for losses on covered loans is recorded) and gains on the sale of securities, which depend on market conditions and our corporate strategies.

In the first quarter of 2013, non-interest income totaled $75.6 million, reflecting a linked-quarter increase of $20.1 million and a year-over-year increase of $13.6 million. While FDIC indemnification income, as discussed above, contributed to these increases, the primary contributors were securities gains and other income, as further discussed below:

- We recorded securities gains of $16.6 million in the current first quarter, in contrast to $672,000 and $718,000, respectively, in the trailing and year-earlier three months.
- In addition, other income rose $3.1 million and $6.4 million, respectively, to $13.2 million, from the levels recorded in the three months ended December 31, 2012 and March 31, 2012. The respective increases were primarily due to the recovery of $3.9 million on a security that previously had been classified as other-than- temporarily impaired.

The increase in non-interest income was tempered by a decline in mortgage banking income, to $26.1 million, from $32.6 million in the trailing quarter and $35.2 million in the first quarter of 2012. While the linked-quarter and year-over-year declines were both attributable to a decrease in refinancing activity as residential mortgage interest rates rose in the current first quarter, the linked-quarter decline also reflects seasonality. Income from originations accounted for $25.9 million of mortgage banking income in the current first quarter, as compared to $33.7 million and $40.0 million, respectively, in the trailing and year-earlier three months. Servicing income accounted for the remaining $226,000 of mortgage banking income in the current first quarter, in contrast to servicing losses of $1.1 million and $4.8 million, respectively, in the earlier periods. The servicing losses reflect declines in the fair value of MSRs due to the accelerated refinancing of residential mortgage loans during the earlier quarters, and were partially offset by a gain on derivatives and servicing fee income.

To a lesser extent, the rise in non-interest income was tempered by modest declines in fee income and BOLI income, to $8.8 million and $7.3 million, respectively, in the first three months of this year.

Together, mortgage banking income, fee income, BOLI income, and other income totaled $55.3 million in the current first quarter, as compared to $59.8 million in the trailing quarter and $61.3 million in the first quarter of 2012.

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The following table summarizes the components of non-interest income for the three months ended March 31, 2013, December 31, 2012, and March 31, 2012:

| | For the Three Months Ended | | |
|---|---|---|---|
| (in thousands) | March 31, 2013 | December 31, 2012 | March 31, 2012 |
| Mortgage banking income | $26,109 | $32,574 | $35,165 |
| Fee income | 8,772 | 9,730 | 9,758 |
| BOLI income | 7,253 | 7,334 | 9,585 |
| Gain on sale of securities | 16,622 | 672 | 718 |
| FDIC indemnification income (expense) | 3,602 | (2,625) | -- |
| Loss on debt redemption | -- | (2,313) | -- |
| Other income: | | | |
| Peter B. Cannell & Co., Inc. | 3,907 | 3,669 | 3,759 |
| Third-party investment product sales | 3,773 | 3,863 | 3,871 |
| Other | 5,513 | 2,591 | (860) |
| Total other income | 13,193 | 10,123 | 6,770 |
| Total non-interest income | $75,551 | $55,495 | $61,996 |

While we expect mortgage banking income to remain our single largest source of non-interest income, it should be noted that the amount of mortgage banking income we produce is likely to vary from one year or quarter to the next. Mortgage banking income in large part depends on the volume of loans originated which, in turn, depends on a variety of factors, including changes in market interest rates and economic conditions, competition, refinancing activity, and loan demand.

## Non-Interest Expense

Non-interest expense has two primary components: operating expenses, which include compensation and benefits, occupancy and equipment, and G&A expenses; and the amortization of the CDI stemming from certain of our business combinations prior to 2009. In the first quarter of 2013, non-interest expense totaled $156.1 million, reflecting a linked-quarter increase of $1.5 million and a year-over-year increase of $5.9 million. The linked-quarter increase was the net effect of a $1.8 million rise in operating expenses to $151.7 million and a $289,000 reduction in the amortization of CDI to $4.4 million. The year-over-year increase was the net effect of a $6.7 million increase in operating expenses and a $738,000 reduction in the amortization of CDI.

Primarily reflecting severance and retirement costs of $6.0 million, compensation and benefits expense totaled $83.5 million in the current first quarter, up $8.3 million and $9.9 million, respectively, from the levels recorded in the three months ended December 31, and March 31, 2012. The remainder of the increases were due to higher payroll taxes, normal year-end salary increases, and the granting of incentive stock awards.

The increases in compensation and benefits expense were partially tempered by declines in G&A expense. In the first three months of 2013, G&A expense totaled $44.6 million, down $7.4 million on a linked-quarter basis and $4.9 million year-over-year. The declines in G&A expense were primarily due to lower FDIC deposit insurance premiums, declines in OREO market value write-downs, and reductions in legal and other professional fees.

Occupancy and equipment expense totaled $23.6 million in the current first quarter, and was up $1.0 million linked-quarter and $1.7 million year-over-year.

## Income Tax Expense

Income tax expense includes federal, New York State, and New York City income taxes, as well as non-material income taxes from other jurisdictions where we have branch operations and/or conduct our mortgage banking business.

In the three months ended March 31, 2013, income tax expense totaled $66.5 million, only slightly higher than the trailing-quarter level and $526,000 below the year-earlier amount. Pre-tax income totaled $185.1 million in the current first quarter, $4.1 million below the trailing-quarter level and only slightly below the level recorded in the first quarter of 2012. The effective tax rate was 35.9% in the current first quarter, as compared to 35.1% in the trailing quarter and 36.2% in the year-earlier three months. The linked-quarter increase in the effective tax rate was due to a decrease in projected tax credits and an increase in state and local tax expense.

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

Quantitative and qualitative disclosures about the Company s market risk were presented on pages 90-95 of our 2012 Annual Report on Form 10-K, filed with the U.S. Securities and Exchange Commission (the SEC ) on March 1, 2013. Subsequent changes in the Company s market risk profile and interest rate sensitivity are detailed in the discussion entitled Asset and Liability Management and the Management of Interest Rate Risk earlier in this quarterly report.

## ITEM 4. CONTROLS AND PROCEDURES

***(a) Disclosure Controls and Procedures***

As of the end of the period covered by this report, the Company carried out an evaluation, under the supervision and with the participation of the Company s management, including the Company s Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company s disclosure controls and procedures pursuant to Rule 13a-15(b), as adopted by the SEC under the Securities Exchange Act of 1934 (the Exchange Act ). Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company s disclosure controls and procedures were effective as of the end of the period covered by this report in ensuring that information required to be disclosed by the Company in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Commission s rules and forms.

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

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

# PART II OTHER INFORMATION

### Item 1. Legal Proceedings

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

### Item 1A. Risk Factors

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, Item 1A. Risk Factors, in the Company s Annual Report on Form 10-K for the year ended December 31, 2012, as such factors could materially affect the Company s business, financial condition, or future results. There have been no material changes to the risk factors disclosed in the Company s 2012 Annual Report on Form 10-K. The risks described in the 2012 Annual Report on Form 10-K are not the only risks that the Company faces. Additional risks and uncertainties not currently known to the Company, or that the Company currently deems to be immaterial, also may have a material adverse impact on the Company s business, financial condition, or results of operations.

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

***Share Repurchase Program***

During the three months ended March 31, 2013, the Company allocated $4.1 million toward the repurchase of shares of its common stock, as outlined in the following table:

| Period | (a) Total Number of Shares (or Units) Purchased[1] | (b) Average Price Paid per Share (or Unit) | (c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs | (d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs[2] |
|---|---|---|---|---|
| Month #1: January 1, 2013 through January 31, 2013 | 298,450 | $13.38 | 298,450 | 186,452 |
| Month #2: February 1, 2013 through February 28, 2013 | 4,517 | 13.38 | 4,517 | 181,935 |
| Month #3: March 1, 2013 through March 31, 2013 | 1,863 | 14.14 | 1,863 | 180,072 |
| Total | 304,830 | $13.38 | 304,830 | |

(1) All shares were purchased in privately negotiated transactions.
(2) On April 20, 2004, the Board authorized the repurchase of up to an additional five million shares. Of this amount, 180,072 shares were still available for repurchase at March 31, 2013. Under said authorization, shares may be repurchased on the open market or in privately negotiated transactions.

**Item 3. Defaults Upon Senior Securities**

Not applicable.

**Item 4. Mine Safety Disclosures**

Not applicable.

**Item 5. Other Information**

Not applicable

**Item 6. Exhibits**

| | |
|---|---|
| Exhibit 3.1: | Amended and Restated Certificate of Incorporation [1] |
| Exhibit 3.2: | Certificates of Amendment of Amended and Restated Certificate of Incorporation [2] |
| Exhibit 3.3: | Bylaws, as amended and restated [3] |
| Exhibit 4.1: | Specimen Stock Certificate [4] |
| Exhibit 4.2: | Registrant will furnish, upon request, copies of all instruments defining the rights of holders of long-term debt instruments of the registrant and its consolidated subsidiaries. |
| Exhibit 31.1: | Certification pursuant to Rule 13a-14(a)/15d-14(a) |
| Exhibit 31.2: | Certification pursuant to Rule 13a-14(a)/15d-14(a) |
| Exhibit 32: | Certifications pursuant to 18 U.S.C. 1350 |
| Exhibit 101: | The following materials from the Company s Quarterly Report on Form 10-Q for the quarter ended March 31, 2013, formatted in XBRL (Extensible Business Reporting Language): (i) the Consolidated Statements of Condition, (ii) the Consolidated Statements of Income and Comprehensive Income, (iii) the Consolidated Statement of Changes in Stockholders Equity, (iv) the Consolidated Statements of Cash Flows and (v) the Notes to the Consolidated Financial Statements. |

(1) Incorporated by reference to Exhibits filed with the Company s Form 10-Q filed with the Securities and Exchange Commission on May 11, 2001 (File No. 000-22278).
(2) Incorporated by reference to Exhibits filed with the Company s Form 10-K for the year ended December 31, 2003 (File No. 001-31565).
(3) Incorporated by reference to Exhibits filed with the Company s Form 8-K filed with the Securities and Exchange Commission on August 27, 2012 (File No. 001-31565).
(4) Incorporated by reference to Exhibits filed with the Company s Registration Statement on Form S-1 (Registration No. 333-66852).

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**NEW YORK COMMUNITY BANCORP, INC.**

## SIGNATURES

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

| | | |
|---|---|---|
| | | New York Community Bancorp, Inc.<br>(Registrant) |
| DATE: May 10, 2013 | BY: | /s/ Joseph R. Ficalora<br>Joseph R. Ficalora<br>President, Chief Executive Officer,<br>and Director |
| DATE: May 10, 2013 | BY: | /s/ Thomas R. Cangemi<br>Thomas R. Cangemi<br>Senior Executive Vice President<br>and Chief Financial Officer |