NEW YORK COMMUNITY BANCORP INC
Form 10-K
March 01, 2007
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

Annual Report Pursuant to Section 13 or 15(d) of

the Securities Exchange Act of 1934

For the fiscal year ended: December 31, 2006	Commission File Number 1-31565

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) (Zip code)

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

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

Common Stock, $0.01 par value	New York Stock Exchange

and

Bifurcated Option Note Unit SecuritiES℠ **(Title of Class)**	**(Name of exchange on which registered)**
Haven Capital Trust II 10.25% Capital Securities **(Title of Class)**	**NASDAQ Global Market** **(Name of exchange on which registered)**

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

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

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

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

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

Large Accelerated Filer x Accelerated Filer ¨ Non-Accelerated Filer ¨

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

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

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

Documents Incorporated by Reference

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

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

FORWARD-LOOKING STATEMENTS AND ASSOCIATED RISK FACTORS

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

Forward-looking statements, which are based on certain assumptions and describe future plans, strategies, and expectations of the Company, are generally identified by use of the words anticipate, believe, estimate, expect, intend, plan, project, seek, strive, try, or future 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 and trends, either nationally or in some or all of the areas in which we and our customers conduct our respective businesses;
- Conditions in the securities markets or the banking industry;
- Changes in interest rates, which may affect our net income, prepayment penalties and other future cash flows, or the market value of our assets;
- Changes in deposit flows, and in the demand for deposit, loan, and investment products and other financial services in the markets we serve;
- Changes in the financial or operating performance of our customers businesses;
- Changes in real estate values, which could impact the quality of the assets securing the loans in our portfolio;
- Changes in the quality or composition of our loan or investment portfolios;
- Changes in competitive pressures among financial institutions or from non-financial institutions;
- Changes in our customer base;
- Potential exposure to unknown or contingent liabilities of companies we target for acquisition;

Our ability to retain key members of management;

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

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

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

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

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

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

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

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

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

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

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

War or terrorist activities; and

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

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

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

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

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

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GLOSSARY

BASIS POINT

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

BOOK VALUE PER SHARE

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

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

CHARGE-OFFS

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

CORE DEPOSIT INTANGIBLES

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

CORE DEPOSITS

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

COST OF FUNDS

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

DIVIDEND YIELD

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

DIVIDEND PAYOUT RATIO

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

EFFICIENCY RATIO

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

GAAP

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

GOODWILL

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

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INTEREST RATE SENSITIVITY

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

INTEREST RATE SPREAD

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

LOAN-TO-VALUE RATIO

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

MULTI-FAMILY LOAN

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

NET INTEREST INCOME

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

NET INTEREST MARGIN

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

NON-ACCRUAL LOAN

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

NON-PERFORMING ASSETS

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

RENT-CONTROLLED/RENT-STABILIZED BUILDINGS

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

REPURCHASE AGREEMENTS

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

RETURN ON AVERAGE ASSETS

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

RETURN ON AVERAGE STOCKHOLDERS EQUITY

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

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WHOLESALE BORROWINGS

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

YIELD

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

YIELD CURVE

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

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RECONCILIATION OF STOCKHOLDERS EQUITY AND TANGIBLE STOCKHOLDERS EQUITY,

TOTAL ASSETS AND TANGIBLE ASSETS, AND THE RELATED MEASURES

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

We calculate tangible stockholders equity by subtracting from stockholders equity the sum of our goodwill and core deposit intangibles (CDI), and calculate tangible assets by subtracting the same sum from our total assets. To calculate our ratio of tangible stockholders equity to tangible assets, we divide our tangible stockholders equity by our tangible assets, both of which include after-tax net unrealized losses on securities. We also calculate our ratio of tangible stockholders equity to tangible assets excluding our after-tax net unrealized losses on securities, as such losses are impacted by changes in market interest rates and therefore tend to change from day to day. This ratio is referred to below and in this report as the ratio of adjusted tangible stockholders equity to adjusted tangible assets.

Neither tangible stockholders equity, adjusted tangible stockholders equity, tangible assets, adjusted tangible assets, nor the related tangible capital measures should be considered in isolation or as a substitute for stockholders equity or any other capital measure prepared in accordance with GAAP. Moreover, the manner in which we calculate these non-GAAP capital measures may differ from that of other companies reporting measures of capital with similar names.

Reconciliations of our stockholders equity, tangible stockholders equity, and adjusted tangible stockholders equity; our total assets, tangible assets, and adjusted tangible assets; and the related measures at December 31, 2006 and 2005 follow:

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

Adjusted tangible stockholders equity to adjusted tangible assets	5.66%	5.41%

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PART I

ITEM 1. BUSINESS

General

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

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

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

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

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

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

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

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

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

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

Overview

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Market Area and Competition

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

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

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

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

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

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

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

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

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

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

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Environmental Issues

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

Subsidiary Activities

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

The 18 direct subsidiaries of the Community Bank are:

Name	Jurisdiction of Organization	Purpose
NYCB Community Development Corp.	Delaware	Formed to invest in community development activities
RSB Mt. Sinai Ventures, LLC	Delaware	Holding company for Mt. Sinai Ventures, LLC
RSB RNMC Re, Inc.	Delaware	Holding company for RNMC Re, Inc.
Roslyn National Mortgage Corporation	Delaware	Formerly operated as a mortgage loan originator and servicer and currently holds an interest in its former office space
Woodhaven Investments, Inc.	Delaware	Holding company for Roslyn Real Estate Asset Corp. and Ironbound Investment Company, Inc.
Pacific Urban Renewal, Inc.	New Jersey	Owns a branch building