NEW YORK COMMUNITY BANCORP INC
Form 10-Q
November 08, 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 SEPTEMBER 30, 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

440,868,525
Number of shares of common stock outstanding at

November 1, 2013

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NEW YORK COMMUNITY BANCORP, INC.

FORM 10-Q

Quarter Ended September 30, 2013

**Exhibits**

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## NEW YORK COMMUNITY BANCORP, INC.

## CONSOLIDATED STATEMENTS OF CONDITION

(in thousands, except share data)

| | September 30, 2013 (unaudited) | December 31, 2012 |
|---|---|---|
| **Assets:** | | |
| Cash and cash equivalents | $ 1,253,562 | $ 2,427,258 |
| Securities: | | |
| Available for sale ($81,840 and $196,300 pledged, respectively) | 305,703 | 429,266 |
| Held to maturity ($5,055,199 and $4,084,380 pledged, respectively) (fair value of $6,627,256 and $4,705,960, respectively) | 6,777,715 | 4,484,262 |
| Total securities | 7,083,418 | 4,913,528 |
| Non-covered loans held for sale | 281,289 | 1,204,370 |
| Non-covered loans held for investment, net of deferred loan fees and costs | 29,173,396 | 27,284,464 |
| Less: Allowance for losses on non-covered loans | (141,314) | (140,948) |
| Non-covered loans held for investment, net | 29,032,082 | 27,143,516 |
| Covered loans | 2,898,803 | 3,284,061 |
| Less: Allowance for losses on covered loans | (69,897) | (51,311) |
| Covered loans, net | 2,828,906 | 3,232,750 |
| Total loans, net | 32,142,277 | 31,580,636 |
| Federal Home Loan Bank stock, at cost | 552,830 | 469,145 |
| Premises and equipment, net | 264,470 | 264,149 |
| FDIC loss share receivable | 516,008 | 566,479 |
| Goodwill | 2,436,131 | 2,436,131 |
| Core deposit intangibles, net | 19,305 | 32,024 |
| Mortgage servicing rights | 228,105 | 144,713 |
| Bank-owned life insurance | 887,022 | 867,250 |
| Other real estate owned (includes $34,565 and $45,115, respectively, covered by loss sharing agreements) | 107,056 | 74,415 |
| Other assets | 273,949 | 369,372 |
| Total assets | $ 45,764,133 | $ 44,145,100 |
| **Liabilities and Stockholders Equity:** | | |
| Deposits: | | |
| NOW and money market accounts | $ 9,949,689 | $ 8,783,795 |
| Savings accounts | 5,838,552 | 4,213,972 |
| Certificates of deposit | 7,140,653 | 9,120,914 |
| Non-interest-bearing accounts | 2,380,456 | 2,758,840 |
| Total deposits | 25,309,350 | 24,877,521 |
| Borrowed funds: | | |
| Wholesale borrowings: | | |
| Federal Home Loan Bank advances | 10,678,070 | 8,842,974 |
| Repurchase agreements | 3,425,000 | 4,125,000 |
| Fed funds purchased | 100,000 | 100,000 |
| Total wholesale borrowings | 14,203,070 | 13,067,974 |
| Other borrowings | 362,372 | 362,217 |

| | | |
|---|---|---|
| Total borrowed funds | 14,565,442 | 13,430,191 |
| Other liabilities | 192,296 | 181,124 |
| Total liabilities | 40,067,088 | 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; 440,873,285 and 439,133,951 shares issued, and 440,868,895 and 439,050,966 shares outstanding, respectively) | 4,409 | 4,391 |
| Paid-in capital in excess of par | 5,339,501 | 5,327,111 |
| Retained earnings | 412,742 | 387,534 |
| Treasury stock, at cost (4,390 and 82,985 shares, respectively) | (65) | (1,067) |
| Accumulated other comprehensive loss, net of tax: | | |
| Net unrealized gain on securities available for sale, net of tax | 2,762 | 12,614 |
| Net unrealized loss on the non-credit portion of other-than-temporary impairment ( OTTI ) losses on securities, net of tax | (5,968) | (13,525) |
| Net unrealized loss on pension and post-retirement obligations, net of tax | (56,336) | (60,794) |
| Total accumulated other comprehensive loss, net of tax | (59,542) | (61,705) |
| Total stockholders equity | 5,697,045 | 5,656,264 |
| Total liabilities and stockholders equity | $ 45,764,133 | $ 44,145,100 |

See accompanying notes to the unaudited consolidated financial statements.

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## NEW YORK COMMUNITY BANCORP, INC.

## CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

(in thousands, except per share data)

(unaudited)

| | For the Three Months Ended September 30, | | For the Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| **Interest Income:** | | | | |
| Mortgage and other loans | $370,341 | $394,935 | $1,125,496 | $1,199,600 |
| Securities and money market investments | 57,334 | 47,776 | 151,560 | 144,729 |
| Total interest income | 427,675 | 442,711 | 1,277,056 | 1,344,329 |
| **Interest Expense:** | | | | |
| NOW and money market accounts | 8,613 | 9,106 | 27,565 | 27,196 |
| Savings accounts | 6,285 | 3,288 | 15,512 | 10,349 |
| Certificates of deposit | 20,206 | 23,516 | 64,223 | 70,725 |
| Borrowed funds | 98,340 | 121,851 | 300,465 | 366,039 |
| Total interest expense | 133,444 | 157,761 | 407,765 | 474,309 |
| Net interest income | 294,231 | 284,950 | 869,291 | 870,020 |
| Provision for losses on non-covered loans | 5,000 | 10,000 | 15,000 | 40,000 |
| Provision for losses on covered loans | 9,467 | 2,820 | 18,587 | 21,268 |
| Net interest income after provisions for loan losses | 279,764 | 272,130 | 835,704 | 808,752 |
| **Non-Interest Income:** | | | | |
| Mortgage banking income | 16,205 | 52,581 | 65,530 | 146,069 |
| Fee income | 9,799 | 9,427 | 28,532 | 28,618 |
| Bank-owned life insurance | 7,916 | 6,781 | 22,506 | 23,168 |
| Gain on sales of securities | 1,019 | 510 | 17,764 | 1,369 |
| FDIC indemnification income | 7,573 | 2,256 | 14,869 | 17,015 |
| Other | 8,212 | 10,102 | 30,819 | 25,619 |
| Total non-interest income | 50,724 | 81,657 | 180,020 | 241,858 |
| **Non-Interest Expense:** | | | | |
| Operating expenses: | | | | |
| Compensation and benefits | 77,083 | 74,416 | 237,989 | 221,624 |
| Occupancy and equipment | 24,342 | 22,956 | 72,101 | 68,089 |
| General and administrative | 44,785 | 51,094 | 135,279 | 154,280 |
| Total operating expenses | 146,210 | 148,466 | 445,369 | 443,993 |
| Amortization of core deposit intangibles | 4,117 | 4,855 | 12,719 | 14,934 |
| Total non-interest expense | 150,327 | 153,321 | 458,088 | 458,927 |

| | | | | |
|---|---|---|---|---|
| Income before income taxes | 180,161 | 200,466 | 557,636 | 591,683 |
| Income tax expense | 65,961 | 71,668 | 202,244 | 213,420 |
| Net income | $114,200 | $128,798 | $355,392 | $378,263 |
| Other comprehensive income, net of tax: | | | | |
| Change in net unrealized gain/loss on securities available for sale, net of tax of $1,770; $3,498; $4,152; and $6,971, respectively | (2,625) | 5,198 | (6,143) | 10,383 |
| Change in the non-credit portion of OTTI losses recognized in other comprehensive income, net of tax of $10; $17; $4,795; and $48, respectively | 16 | 26 | 7,557 | 75 |
| Change in pension and post-retirement obligations, net of tax of $1,008; $1,042; $3,024; and $3,128, respectively | 1,486 | 1,537 | 4,458 | 4,611 |
| Less: Reclassification adjustment for sales of available-for-sale securities, net of tax of $405; $204; $2,503; and $536, respectively | (614) | (306) | (3,709) | (833) |
| Total other comprehensive (loss) income, net of tax | (1,737) | 6,455 | 2,163 | 14,236 |
| Total comprehensive income, net of tax | $112,463 | $135,253 | $357,555 | $392,499 |
| **Basic earnings per share** | $0.26 | $0.29 | $0.80 | $0.86 |
| **Diluted earnings per share** | $0.26 | $0.29 | $0.80 | $0.86 |

See accompanying notes to the unaudited consolidated financial statements.

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## NEW YORK COMMUNITY BANCORP, INC.

## CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS EQUITY

(in thousands, except share data)

(unaudited)

| | For the Nine Months Ended September 30, 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 |
| Shares issued for exercise of stock options (9,384 shares) | -- |
| 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 | 16,626 |
| Stock options exercised | 60 |
| Tax effect of stock plans | 797 |
| Balance at end of period | 5,339,501 |
| **Retained Earnings:** | |
| Balance at beginning of year | 387,534 |
| Net income | 355,392 |
| Dividends paid on common stock ($0.75 per share) | (330,172) |
| Exercise of stock options | (12) |
| Balance at end of period | 412,742 |
| **Treasury Stock:** | |
| Balance at beginning of year | (1,067) |
| Purchase of common stock (324,110 shares) | (4,352) |
| Exercise of stock options (20,234 shares) | 279 |
| Shares issued for restricted stock awards (382,471 shares) | 5,075 |
| Balance at end of period | (65) |
| **Accumulated Other Comprehensive Loss, net of tax:** | |
| Balance at beginning of year | (61,705) |
| Other comprehensive income, net of tax | 2,163 |
| Balance at end of period | (59,542) |

| | | |
|---|---|---|
| Total stockholders equity | $ | 5,697,045 |

See accompanying notes to the unaudited consolidated financial statements.

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## NEW YORK COMMUNITY BANCORP, INC.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

| | For the Nine Months Ended September 30, 2013 | 2012 |
|---|---|---|
| **Cash Flows from Operating Activities:** | | |
| Net income | $ 355,392 | $ 378,263 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Provisions for loan losses | 33,587 | 61,268 |
| Depreciation and amortization | 21,057 | 18,699 |
| Amortization of discounts and premiums, net | (2,098) | (2,263) |
| Amortization of core deposit intangibles | 12,719 | 14,934 |
| Gain on sales of securities | (17,764) | (1,369) |
| Net gain on sale of loans | (48,809) | (159,511) |
| Stock plan-related compensation | 16,626 | 15,514 |
| Deferred tax expense | 32,430 | 28,344 |
| Changes in operating assets and liabilities: | | |
| (Increase) decrease in other assets | (20,473) | 93,341 |
| Increase in other liabilities | 15,630 | 112,006 |
| Origination of loans held for sale | (5,510,041) | (7,971,638) |
| Proceeds from sale of loans originated for sale | 6,440,377 | 7,950,220 |
| **Net cash provided by operating activities** | 1,328,633 | 537,808 |
| **Cash Flows from Investing Activities:** | | |
| Proceeds from repayment of securities held to maturity | 617,351 | 1,838,793 |
| Proceeds from repayment of securities available for sale | 54,709 | 457,808 |
| Proceeds from sale of securities held to maturity | 191,142 | -- |
| Proceeds from sale of securities available for sale | 593,551 | 561,369 |
| Purchase of securities held to maturity | (3,075,597) | (2,785,758) |
| Purchase of securities available for sale | (535,347) | (656,115) |
| Net (purchase) redemption of Federal Home Loan Bank stock | (83,685) | 16,599 |
| Net increase in loans | (1,476,755) | (969,820) |
| Purchase of premises and equipment, net | (21,378) | (21,344) |
| **Net cash used in investing activities** | (3,736,009) | (1,558,468) |
| **Cash Flows from Financing Activities:** | | |
| Net increase in deposits | 431,829 | 2,247,493 |
| Net increase (decrease) in short-term borrowed funds | 1,925,000 | (262,000) |
| Net decrease in long-term borrowed funds | (789,749) | (97,028) |
| Tax effect of stock plans | 797 | 340 |
| Cash dividends paid on common stock | (330,172) | (328,879) |
| Treasury stock purchases | (4,352) | (2,713) |
| Net cash received from stock option exercises | 327 | -- |
| **Net cash provided by financing activities** | 1,233,680 | 1,557,213 |

| | | |
|---|---|---|
| Net (decrease) increase in cash and cash equivalents | (1,173,696) | 536,553 |
| Cash and cash equivalents at beginning of period | 2,427,258 | 2,001,737 |
| Cash and cash equivalents at end of period | $ 1,253,562 | $ 2,538,290 |
| Supplemental information: | | |
| Cash paid for interest | $415,399 | $469,664 |
| Cash paid for income taxes | 118,322 | 196,761 |
| Non-cash investing and financing activities: | | |
| Transfers to other real estate owned from loans | 96,729 | 77,080 |

See accompanying notes to the unaudited consolidated financial statements.

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## NEW YORK COMMUNITY BANCORP, INC.

## NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

### Note 1. 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 236 branches, four of which operate directly under the Community Bank name. The remaining 232 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 therefore 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 September 30,** | | **Nine Months Ended September 30,** | |
|---|---|---|---|---|
| (in thousands, except share and per share data) | **2013** | **2012** | **2013** | **2012** |
| Net income | $114,200 | $128,798 | $355,392 | $378,263 |
| Less: Dividends paid on and earnings allocated to participating securities | (723) | (1,213) | (2,248) | (3,552) |
| Earnings applicable to common stock | $113,477 | $127,585 | $353,144 | $374,711 |
| Weighted average common shares outstanding | 439,435,579 | 437,787,688 | 439,199,487 | 437,692,411 |
| Basic earnings per common share | $0.26 | $0.29 | $0.80 | $0.86 |
| Earnings applicable to common stock | $113,477 | $127,585 | $353,144 | $374,711 |
| Weighted average common shares outstanding | 439,435,579 | 437,787,688 | 439,199,487 | 437,692,411 |
| Potential dilutive common shares(1) | -- | 5,664 | 3,971 | 5,026 |
| Total shares for diluted earnings per share computation | 439,435,579 | 437,793,352 | 439,203,458 | 437,697,437 |
| Diluted earnings per common share and common share equivalents | $0.26 | $0.29 | $0.80 | $0.86 |

(1) Options to purchase 62,040 shares of the Company s common stock that were outstanding in the three and nine months ended September 30, 2013, at a weighted average exercise price of $17.95, were excluded from the respective computations of diluted EPS because their inclusion would have had an antidilutive effect. Options to purchase 2,579,585 shares of the Company s common stock that were outstanding in the three and nine months ended September 30, 2012, at a weighted average exercise price of $16.86, were excluded from the respective computations of diluted EPS because their inclusion also would have had an antidilutive effect.

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

| (in thousands) | For the Nine Months Ended September 30, 2013 | |
|---|---|---|
| Details about Accumulated Other Comprehensive Loss ( AOCL ) | 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 | $ 6,212 | Gain on sales of securities |
| | (2,503) | Tax expense |
| | $ 3,709 | Net gain on sales of securities, net of tax |
| Amortization of defined benefit pension items: | | |
| Prior-service costs | $ 187 | (2) |
| Actuarial losses | (7,547) | (2) |
| | (7,360) | Total before tax |
| | 2,975 | Tax benefit |
| | $ (4,385) | Amortization of defined benefit pension items, net of tax |
| Total reclassifications for the period | $ (676) | |

(1) Amounts in parentheses indicate expense items.
(2) These components of AOCL 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 September 30, 2013:

| | September 30, 2013 | | | |
|---|---|---|---|---|
| (in thousands) | Amortized Cost | Gross Unrealized Gain | Gross Unrealized Loss | Fair Value |
| Mortgage-Related Securities: | | | | |
| GSE[1] certificates | $ 25,345 | $ 1,378 | $ 3 | $ 26,720 |
| GSE CMOs [2] | 62,122 | 772 | 691 | 62,203 |
| Private label CMOs | 12,317 | -- | 62 | 12,255 |
| Total mortgage-related securities | $ 99,784 | $ 2,150 | $ 756 | $ 101,178 |
| Other Securities: | | | | |
| Municipal bonds | $ 1,079 | $ 86 | $ -- | $ 1,165 |
| Capital trust notes | 32,275 | 5,530 | 2,003 | 35,802 |
| Preferred stock | 118,206 | 1,364 | 4,339 | 115,231 |
| Common stock | 49,744 | 3,332 | 749 | 52,327 |
| Total other securities | $ 201,304 | $ 10,312 | $ 7,091 | $ 204,525 |
| Total securities available for sale [3] | $ 301,088 | $ 12,462 | $ 7,847 | $ 305,703 |

(1) Government-sponsored enterprise
(2) Collateralized mortgage obligations
(3) At September 30, 2013, the non-credit portion of OTTI recorded in AOCL was $570,000 (before taxes).

As of September 30, 2013, the fair value of marketable equity securities included corporate preferred stock of $115.2 million and common stock of $52.3 million, with the latter primarily consisting of an investment in a large cap equity fund and certain other funds that are Community Reinvestment Act ( CRA ) eligible.

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 September 30, 2013 and December 31, 2012:

| | September 30, 2013 | | | | |
|---|---|---|---|---|---|
| (in thousands) | Amortized Cost | Carrying Amount | Gross Unrealized Gain | Gross Unrealized Loss | Fair Value |
| Mortgage-Related Securities: | | | | | |
| GSE certificates | $ 2,221,859 | $ 2,221,859 | $ 37,756 | $ 48,066 | $ 2,211,549 |
| GSE CMOs | 1,718,497 | 1,718,497 | 38,437 | 12,890 | 1,744,044 |
| Other mortgage-related securities | 3,016 | 3,016 | -- | -- | 3,016 |
| Total mortgage-related securities | $ 3,943,372 | $ 3,943,372 | $ 76,193 | $ 60,956 | $ 3,958,609 |
| Other Securities: | | | | | |
| GSE debentures | $ 2,624,773 | $ 2,624,773 | $ 7,681 | $ 170,695 | $ 2,461,759 |
| Corporate bonds | 72,799 | 72,799 | 10,898 | -- | 83,697 |
| Municipal bonds | 61,123 | 61,123 | 29 | 3,710 | 57,442 |
| Capital trust notes | 84,865 | 75,648 | 1,288 | 11,187 | 65,749 |
| Total other securities | $ 2,843,560 | $ 2,834,343 | $ 19,896 | $ 185,592 | $ 2,668,647 |
| Total securities held to maturity (1) | $ 6,786,932 | $ 6,777,715 | $ 96,089 | $ 246,548 | $ 6,627,256 |

(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 September 30, 2013, the non-credit portion of OTTI recorded in AOCL was $9.2 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 $552.8 million and $469.1 million of Federal Home Loan Bank ( FHLB ) stock, at cost, at September 30, 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 nine months ended September 30, 2013 and 2012:

| | **For the Nine Months Ended September 30,** | |
|---|---|---|
| (in thousands) | **2013** | **2012** |
| Gross proceeds | $593,551 | $561,369 |
| Gross realized gains | 6,212 | 1,369 |
| Gross realized losses | -- | -- |

In addition, during the nine months ended September 30, 2013, the Company sold held-to-maturity securities with gross proceeds of $191.1 million and gross realized gains of $11.6 million. These sales occurred because the Company had collected a substantial portion (at least 85%) of the initial principal balance.

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The $101.6 million market value of the capital trust note portfolio at September 30, 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 September 30, 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 | $ 407 |
| Fair value | 19,977 | 1,005 | 953 |
| Unrealized gain | 5,013 | 452 | 546 |
| Lowest credit rating assigned to security | CCC | C | C |
| Number of banks/insurance companies currently performing | 19 | 54 | 10 |
| Actual deferrals and defaults as a percentage of original collateral | 9% | 12% | 26% |
| Expected deferrals and defaults as a percentage of remaining performing collateral | 22 | 25 | 46 |
| Expected recoveries as a percentage of remaining performing collateral | -- | -- | -- |
| Excess subordination as a percentage of remaining performing collateral | 15 | -- | -- |

As of September 30, 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 15%. 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.

In the following table, the beginning balance represents the credit loss component for debt securities for which OTTI occurred prior to January 1, 2013. 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 Nine Months Ended September 30, 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 | 4,256 |
| Ending credit loss amount as of September 30, 2013 | | $215,722 |

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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 September 30, 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 September 30, 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 | -- | -- | 60,441 | 4.17 | 1,384 | 2.96 | -- | -- | 68,735 |
| Due from five to ten years | 2,705,808 | 3.22 | 2,048,292 | 2.63 | -- | -- | 46,913 | 3.15 | 4,666,410 |
| Due after ten years | 1,237,564 | 3.55 | 516,040 | 2.87 | 59,739 | 2.85 | 101,535 | 5.80 | 1,892,111 |
| Total debt securities held to maturity | $ 3,943,372 | 3.32% | $ 2,624,773 | 2.72% | $ 61,123 | 2.85% | $ 148,448 | 4.97% | $ 6,627,256 |
| Available-for-Sale Securities: (3) | | | | | | | | | |
| Due within one year | $ 31 | 2.26% | $ -- | --% | $ 125 | 5.90% | $ -- | --% | $ 157 |
| Due from one to five years | 6,863 | 6.90 | -- | -- | 534 | 6.36 | -- | -- | 7,860 |
| Due from five to ten years | 19,113 | 3.64 | -- | -- | 420 | 6.59 | -- | -- | 20,529 |
| Due after ten years | 73,777 | 3.83 | -- | -- | -- | -- | 32,275 | 4.23 | 109,598 |
| Total debt securities available for sale | $ 99,784 | 4.01% | $ -- | --% | $ 1,079 | 6.39% | $ 32,275 | 4.23% | $ 138,144 |

(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 $407,000 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 September 30, 2013, the Company had commitments to purchase $51.0 million of securities, all of which were GSE obligations.

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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 September 30, 2013:

| **At September 30, 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 | $2,344,708 | $170,695 | $ -- | $ -- | $2,344,708 | $170,695 |
| GSE Certificates | 1,087,114 | 48,066 | -- | -- | 1,087,114 | 48,066 |
| GSE CMOs | 500,367 | 12,890 | -- | -- | 500,367 | 12,890 |
| Municipal notes/bonds | 56,029 | 3,710 | -- | -- | 56,029 | 3,710 |
| Capital trust notes | 24,581 | 419 | 35,393 | 10,768 | 59,974 | 11,187 |
| Total temporarily impaired held-to-maturity debt securities | $4,012,799 | $235,780 | $35,393 | $10,768 | $4,048,192 | $246,548 |
| Temporarily Impaired Available-for-Sale Securities: | | | | | | |
| Debt Securities: | | | | | | |
| GSE certificates | $ -- | $ -- | $ 167 | $ 3 | $ 167 | $ 3 |
| Private label CMOs | 12,255 | 62 | -- | -- | 12,255 | 62 |
| GSE CMOs | 45,883 | 691 | | | 45,883 | 691 |
| Capital trust notes | 1,966 | 33 | 5,446 | 1,970 | 7,412 | 2,003 |
| Total temporarily impaired available-for-sale debt securities | $ 60,104 | $ 786 | $ 5,613 | $ 1,973 | $ 65,717 | $ 2,759 |
| Equity securities | 75,517 | 4,458 | 1,046 | 630(1) | 76,563 | 5,088 |
| Total temporarily impaired available-for-sale securities | $ 135,621 | $ 5,244 | $ 6,659 | $ 2,603 | $ 142,280 | $ 7,847 |

(1) The twelve months or longer unrealized losses on equity securities of $630,000 at September 30, 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.

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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.

Securities in unrealized loss positions are analyzed as part of the Company s ongoing assessment of OTTI. When the Company intends to sell such 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 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 September 30, 2013, the Company did not intend to sell the securities with an unrealized loss position, 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 were not other-than-temporarily impaired as of September 30, 2013.

Other factors considered in determining whether or not an impairment 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 unrealized losses on the Company s GSE mortgage-related securities and GSE debentures at September 30, 2013 were primarily caused by movements in market interest rates and spread volatility, rather than credit risk. The Company purchased these investments either at par or at a discount or premium relative to their face amount, and the contractual cash flows of these investments are guaranteed by the GSEs. Accordingly, it is expected that these securities will not be settled at a price that is less than the amortized cost of the Company s investment. Because the Company does not have the intent to sell the investments, and it is not more likely than not that the Company will be required to sell them before the anticipated recovery of fair value, which may be at maturity, the Company did not consider these investments to be other-than-temporarily impaired at September 30, 2013.

The Company reviews quarterly financial information related to its investments in municipal bonds and capital trust notes, as well as other information that is released by each of the issuers of such bonds and 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 September 30, 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. Future events that could trigger material unrecoverable declines in the fair values of the Company s investments, and result in potential OTTI losses, include, but are not limited to, government intervention; deteriorating asset quality and credit metrics; significantly higher levels of default and loan loss provisions; losses in value on the underlying collateral; deteriorating credit enhancement; net operating losses; and further illiquidity in the financial markets.

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At September 30, 2013, the Company s equity securities portfolio consisted of perpetual preferred stock, 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 at the end of September 2013 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 September 30, 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 value as presently forecasted by management. This would cause 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 September 30, 2013 consisted of six capital trust notes, two mortgage-backed securities, 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 September 30, 2013 and December 31, 2012, the combined market value of the respective securities represented unrealized losses of $13.4 million and $21.1 million. At September 30, 2013, the fair value of securities having a continuous loss position for twelve months or more was 24.2% below the collective amortized cost of $55.4 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 September 30, 2013 and December 31, 2012:

| | **September 30, 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 | $ 20,183,746 | 69.22% | $ 18,595,833 | 68.18% |
| Commercial real estate | 7,244,862 | 24.85 | 7,436,598 | 27.27 |
| One-to-four family | 490,829 | 1.68 | 203,435 | 0.75 |
| Acquisition, development, and construction | 403,160 | 1.38 | 397,917 | 1.46 |
| Total mortgage loans held for investment | 28,322,597 | 97.13 | 26,633,783 | 97.66 |
| Other Loans: | | | | |
| Commercial and industrial[1] | 792,029 | 2.72 | 590,044 | 2.16 |
| Other | 43,246 | 0.15 | 49,880 | 0.18 |
| Total other loans held for investment | 835,275 | 2.87 | 639,924 | 2.34 |
| Total non-covered loans held for investment | $ 29,157,872 | 100.00% | $ 27,273,707 | 100.00% |
| Net deferred loan origination costs | 15,524 | | 10,757 | |
| Allowance for losses on non-covered loans | (141,314) | | (140,948) | |
| Non-covered loans held for investment, net | $ 29,032,082 | | $ 27,143,516 | |
| Covered loans | 2,898,803 | | 3,284,061 | |
| Allowance for losses on covered loans | (69,897) | | (51,311) | |

| | | |
|---|---|---|
| Total covered loans, net | $ 2,828,906 | $ 3,232,750 |
| Loans held for sale | 281,289 | 1,204,370 |
| Total loans, net | $ 32,142,277 | $ 31,580,636 |

(1) The balance at September 30, 2013 includes $46.2 million of lease financing, net of unearned income.

***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, one-to-four family loans, and commercial and industrial ( C&I ) 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 in-market C&I loans are made to small and mid-size businesses in New York City, on Long Island, in New Jersey, and, to a lesser extent, in Arizona. In-market C&I loans are typically made for working capital, business expansion, and the purchase of machinery and equipment. In June 2013, the Company began the funding of asset-based, equipment lease financing, and dealer floor plan loans to nationally recognized borrowers throughout the U.S. All of these C&I loans are senior debt-secured.

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 in-market 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 an in-market 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.

To minimize the risk involved in specialty finance C&I lending, the Company participates in broadly syndicated asset-based loans, equipment loan and lease financing, and dealer floor plan loans that are presented by an approved list of select, nationally recognized sources with whom it has established long-term funding relationships. The loans, which are secured by a perfected first security interest in the underlying collateral and structured as senior debt, are made to large corporate obligors, the majority of which are publicly traded, carry investment grade or near-investment grade ratings, participate in stable industries, and are located nationwide. To further minimize the risk involved in specialty finance lending, the Company re-underwrites each transaction; in addition, it retains outside counsel to conduct a further review of the underlying documentation.

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 economic weakness in its local markets as a result of higher 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. Such loans feature conservative loan-to-value ratios and are made to borrowers with a strong record of repaying their debt.

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*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 throughout the U.S. These loans are generally sold, servicing retained, to 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 insignificant 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 $21.4 billion at September 30, 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 September 30, 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 | $ 3,141 | $ 69,016 | $ -- | $ 72,157 | $ 20,111,589 | $ 20,183,746 |
| Commercial real estate | 4,409 | 34,475 | -- | 38,884 | 7,205,978 | 7,244,862 |
| One-to-four family | 1,730 | 10,663 | -- | 12,393 | 478,436 | 490,829 |
| Acquisition, development, and construction | -- | 3,629 | -- | 3,629 | 399,531 | 403,160 |
| Commercial and industrial | -- | 5,197 | -- | 5,197 | 786,832 | 792,029 |
| Other | 605 | 1,384 | -- | 1,989 | 41,257 | 43,246 |
| Total | $ 9,885 | $ 124,364 | $ -- | $ 134,249 | $ 29,023,623 | $ 29,157,872 |

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 |
| One-to-four family | 2,645 | 10,945 | -- | 13,590 | 189,845 | 203,435 |
| Acquisition, development, and construction | 1,178 | 12,091 | -- | 13,269 | 384,648 | 397,917 |
| 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 portfolio of non-covered held-for-investment loans by credit quality indicator at September 30, 2013:

| (in thousands) | Multi-Family | Commercial Real Estate | One-to-Four Family | Acquisition, Development, and Construction | Total Mortgage Loans | Commercial and Industrial | Other | Total Other Loans |
|---|---|---|---|---|---|---|---|---|
| Credit Quality Indicator: | | | | | | | | |
| Pass | $20,001,264 | $ 7,168,850 | $ 484,618 | $ 396,764 | $ 28,051,496 | $ 773,544 | $ 41,863 | $ 815,407 |
| Special mention | 83,086 | 31,384 | 268 | 2,448 | 117,186 | 11,888 | -- | 11,888 |
| Substandard | 94,964 | 44,128 | 5,943 | 3,948 | 148,983 | 6,428 | 1,383 | 7,811 |
| Doubtful | 4,432 | 500 | -- | -- | 4,932 | 169 | -- | 169 |
| Total | $20,183,746 | $ 7,244,862 | $ 490,829 | $ 403,160 | $ 28,322,597 | $ 792,029 | $ 43,246 | $ 835,275 |

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

| (in thousands) | Multi-Family | Commercial Real Estate | One-to-Four Family | Acquisition, Development, and Construction | Total Mortgage Loans | Commercial and Industrial | Other | Total Other Loans |
|---|---|---|---|---|---|---|---|---|
| Credit Quality Indicator: | | | | | | | | |
| Pass | $18,285,333 | $ 7,337,315 | $ 195,232 | $ 383,557 | $ 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 | 7,909 | 11,277 | 345,240 | 18,292 | 599 | 18,891 |
| Doubtful | 1,426 | 500 | -- | 3,083 | 5,009 | -- | -- | -- |
| Total | $18,595,833 | $ 7,436,598 | $ 203,435 | $ 397,917 | $ 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*

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.

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 September 30, 2013, loans on which concessions were made with respect to rate reductions and/or extension of maturity dates amounted to $74.7 million; loans on which forbearance agreements were reached amounted to $7.5 million.

The following table presents information regarding the Company s TDRs as of September 30, 2013 and December 31, 2012:

| | September 30, 2013 | | | December 31, 2012 | | |
|---|---|---|---|---|---|---|
| (in thousands) | Accruing | Non-Accrual | Total | Accruing | Non-Accrual | Total |
| Loan Category: | | | | | | |
| Multi-family | $10,558 | $50,778 | $61,336 | $ 66,092 | $114,556 | $180,648 |
| Commercial real estate | 2,216 | 16,349 | 18,565 | 37,457 | 39,127 | 76,584 |
| Acquisition, development, and construction | -- | 1,058 | 1,058 | -- | 510 | 510 |
| Commercial and industrial | 1,248 | -- | 1,248 | 1,463 | -- | 1,463 |
| One-to-four family | -- | -- | -- | -- | 1,101 | 1,101 |
| Total | $14,022 | $68,185 | $82,207 | $105,012 | $155,294 | $260,306 |

The $55.5 million decline in accruing multi-family loans noted in the preceding table was due to a $49.6 million loan that was transferred to non-accrual in the second quarter of 2013. 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.

The $63.8 million decline in non-accrual multi-family loans primarily reflects two loan relationships totaling $50.6 million that were repaid during the second and third quarters of 2013, and a $41.6 million transfer to other real estate owned during the first quarter of 2013. These decreases were partially offset by the aforementioned $49.6 million loan that was transferred from accruing TDR to non-accrual TDR. The $22.8 million decline in non-accrual CRE loans was primarily due to the pay-off of a $22.0 million loan relationship during the second quarter of 2013.

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 nine months ended September 30, 2013, the Company classified two CRE loans and one ADC loan totaling $2.8 million as non-accrual TDRs. While other concessions were granted to the borrowers, the interest rates on the loans were maintained. As a result, these TDRs did not have a financial impact on the Company s results of operations.

During the nine months ended September 30, 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 was partially charged off subsequent to modification.

***Covered Loans***

The following table presents the carrying value of covered loans acquired in the AmTrust and Desert Hills acquisitions as of September 30, 2013:

| (dollars in thousands) | **Amount** | **Percent of Covered Loans** |
|---|---|---|
| Loan Category: | | |
| One-to-four family | $ 2,631,042 | 90.8% |
| All other loans | 267,761 | 9.2 |
| Total covered loans | $ 2,898,803 | 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 September 30, 2013 and December 31, 2012, the unpaid principal balances of covered loans were $3.5 billion and $3.9 billion, respectively. The carrying values of such loans were $2.9 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.

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Changes in the accretable yield for covered loans for the nine months ended September 30, 2013 were as follows:

| (in thousands) | Accretable Yield |
|---|---|
| Balance at beginning of period | $1,201,172 |
| Reclassification to non-accretable difference | (166,560) |
| Accretion | (118,522) |
| Balance at end of period | $ 916,090 |

In the preceding table, the line item reclassification to non-accretable difference includes changes in cash flows that the Company expects to collect due to changes in prepayment assumptions, changes in interest rates on variable loans, and changes in loss assumptions. As of the Company s most recent periodic evaluation, prepayment assumptions increased and, accordingly, future expected interest cash flows decreased. In addition, coupon rates on variable rate loans reset lower which also resulted in a decrease in future expected interest cash flows. These two decreases caused a reduction in the accretable yield. Partially offsetting the effect of these decreases was an improvement in underlying credit assumptions. As the underlying credit assumptions improved, the projected loss assumptions on defaulting loans decreased, which, in turn, resulted in an increase in accretable yield.

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 that were 90 days or more past due at September 30, 2013 and December 31, 2012:

| (in thousands) | September 30, 2013 | December 31, 2012 |
|---|---|---|
| Covered Loans 90 Days or More Past Due: | | |
| One-to-four family | $227,758 | $297,265 |
| Other loans | 10,817 | 15,308 |
| Total covered loans 90 days or more past due | $238,575 | $312,573 |

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

| (in thousands) | September 30, 2013 | December 31, 2012 |
|---|---|---|
| Covered Loans 30-89 Days Past Due: | | |
| One-to-four family | $48,039 | $75,129 |
| Other loans | 4,432 | 6,057 |
| Total covered loans 30-89 days past due | $52,471 | $81,186 |

At September 30, 2013, the Company had $52.5 million of covered loans that were 30 to 89 days past due, and covered loans of $238.6 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 $2.6 billion at September 30, 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.

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

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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 provisions for losses on covered loans of $9.5 million and $18.6 million, respectively, in the three and nine months ended September 30, 2013. These provisions were largely due to credit deterioration in the acquired portfolios of one-to-four family and home equity loans, and were largely offset by FDIC indemnification income of $7.6 million and $14.9 million, respectively, recorded in non-interest income for the three and nine months ended September 30, 2013.

## Note 6. Allowances for Loan Losses

The following tables provide 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 September 30, 2013: | | | |
| Loans individually evaluated for impairment | $ 828 | $ -- | $ 828 |
| Loans collectively evaluated for impairment | 124,821 | 15,665 | 140,486 |
| Acquired loans with deteriorated credit quality | 59,926 | 9,971 | 69,897 |
| Total | $ 185,575 | $ 25,636 | $ 211,211 |

| (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 tables provide 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 September 30, 2013: | | | |
| Loans individually evaluated for impairment | $ 133,469 | $ 6,391 | $ 139,860 |
| Loans collectively evaluated for impairment | 28,189,128 | 828,884 | 29,018,012 |
| Acquired loans with deteriorated credit quality | 2,631,042 | 267,761 | 2,898,803 |
| Total | $ 30,953,639 | $ 1,103,036 | $ 32,056,675 |

| (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 |

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

The following table summarizes activity in the allowance for losses on non-covered loans, by segment, for the nine months ended September 30, 2013 and 2012:

| | **For the Nine Months Ended September 30,** | | | | | |
|---|---|---|---|---|---|---|
| | **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 | (12,716) | (7,039) | (19,755) | (35,542) | (6,217) | (41,759) |
| Recoveries | 3,580 | 1,541 | 5,121 | 735 | 2,749 | 3,484 |
| Provision for losses on non-covered loans | 6,851 | 8,149 | 15,000 | 38,506 | 1,494 | 40,000 |
| Balance, end of period | $125,649 | $15,665 | $141,314 | $125,694 | $13,321 | $139,015 |

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

The following table presents additional information regarding the Company s impaired non-covered loans at September 30, 2013:

| (in thousands) | Recorded Investment | Unpaid Principal Balance | Related Allowance | Average Recorded Investment | Interest Income Recognized |
|---|---|---|---|---|---|
| Impaired loans with no related allowance: | | | | | |
| Multi-family | $ 85,843 | $ 96,852 | $ -- | $ 130,020 | $ 1,991 |
| Commercial real estate | 42,126 | 46,770 | -- | 47,882 | 1,604 |
| One-to-four family | -- | -- | -- | 367 | -- |
| Acquisition, development, and construction | 2,451 | 2,451 | -- | 4,815 | 89 |
| Commercial and industrial | 6,391 | 22,702 | -- | 6,855 | 366 |
| Total impaired loans with no related allowance | $ 136,811 | $ 168,775 | $ -- | $ 189,939 | $ 4,050 |
| Impaired loans with an allowance recorded: | | | | | |
| Multi-family | $ 3,049 | $ 3,049 | $ 828 | $ 3,256 | $ -- |
| Commercial real estate | -- | -- | -- | 1,200 | -- |
| One-to-four family | -- | -- | -- | -- | -- |
| Acquisition, development, and construction | -- | -- | -- | -- | -- |
| Commercial and industrial | -- | -- | -- | -- | -- |
| Total impaired loans with an allowance recorded | $ 3,049 | $ 3,049 | $ 828 | $ 4,456 | $ -- |
| Total impaired loans: | | | | | |
| Multi-family | $ 88,892 | $ 99,901 | $ 828 | $ 133,276 | $ 1,991 |
| Commercial real estate | 42,126 | 46,770 | -- | 49,082 | 1,604 |
| One-to-four family | -- | -- | -- | 367 | -- |
| Acquisition, development, and construction | 2,451 | 2,451 | -- | 4,815 | 89 |
| Commercial and industrial | 6,391 | 22,702 | -- | 6,855 | 366 |
| Total impaired loans | $ 139,860 | $ 171,824 | $ 828 | $ 194,395 | $ 4,050 |

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 |
| One-to-four family | 1,101 | 1,147 | -- | 1,114 | -- |
| Acquisition, development, and construction | 10,203 | 14,297 | -- | 20,954 | 790 |
| 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 |
| One-to-four family | -- | -- | -- | -- | -- |
| Acquisition, development, and construction | 1,216 | 1,494 | 29 | 1,877 | -- |
| 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 |
| One-to-four family | 1,101 | 1,147 | -- | 1,114 | -- |
| Acquisition, development, and construction | 11,419 | 15,791 | 29 | 22,831 | 790 |
| 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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***Allowance for Losses on 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 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 percentage.

The following table summarizes activity in the allowance for losses on covered loans for the nine months ended September 30, 2013 and 2012:

| | For the Nine Months Ended September 30, | |
|---|---|---|
| (in thousands) | 2013 | 2012 |
| Balance, beginning of period | $ 51,311 | $ 51,771 |
| Provision for covered loan losses | 18,586 | 2,820 |
| Balance, end of period | $ 69,897 | $ 54,591 |

**Note 7. Borrowed Funds**

The following table summarizes the Company s borrowed funds at September 30, 2013 and December 31, 2012:

| (in thousands) | September 30, 2013 | December 31, 2012 |
|---|---|---|
| Wholesale borrowings: | | |
| FHLB advances | $ 10,678,070 | $ 8,842,974 |
| Repurchase agreements | 3,425,000 | 4,125,000 |
| Fed funds purchased | 100,000 | 100,000 |
| Total wholesale borrowings | $ 14,203,070 | $ 13,067,974 |
| Other borrowings: | | |
| Junior subordinated debentures | 358,072 | 357,917 |
| Preferred stock of subsidiaries | 4,300 | 4,300 |
| Total other borrowings | 362,372 | 362,217 |
| Total borrowed funds | $ 14,565,442 | $ 13,430,191 |

At September 30, 2013 and December 31, 2012, the Company had $358.1 million and $357.9 million, respectively, of junior subordinated deferrable interest debentures ( junior subordinated debentures ) held by wholly-owned statutory business trusts (the Trusts ) that issued guaranteed capital securities.

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

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The following junior subordinated debentures were outstanding at September 30, 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[SM] Units) | 6.000% | $144,146 | $137,795 | Nov. 4, 2002 | Nov. 1, 2051 | Nov. 4, 2007 (1) |
| New York Community Capital Trust X | 1.854 | 123,712 | 120,000 | Dec. 14, 2006 | Dec. 15, 2036 | Dec. 15, 2011(2) |
| PennFed Capital Trust III | 3.504 | 30,928 | 30,000 | June 2, 2003 | June 15, 2033 | June 15, 2008 (2) |
| New York Community Capital Trust XI | 1.898 | 59,286 | 57,500 | April 16, 2007 | June 30, 2037 | June 30, 2012 (2) |
| Total junior subordinated debentures | | $358,072 | $345,295 | | | |

(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, a $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 $228.1 million and $144.7 million, respectively, at September 30, 2013 and December 31, 2012. The September 30th balance consisted entirely of residential MSRs, whereas the December 31st balance consisted of both residential MSRs and securitized MSRs, for which the economic risk was separately managed.

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. The effects of changes in the fair value of the derivatives are recorded in non-interest income. 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 were carried at the lower of the initial carrying value, adjusted for amortization or fair value, and were amortized in proportion to, and over the period of, estimated net servicing income. Such MSRs were periodically evaluated for impairment, based on the difference between their carrying amount and their current fair value.

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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 | | | |
|---|---|---|---|---|
| | September 30, 2013 | | September 30, 2012 | |
| (in thousands) | Residential | Securitized | Residential | Securitized |
| Carrying value, beginning of year | $214,959 | $ 97 | $136,176 | $386 |
| Additions | 18,725 | -- | 28,178 | -- |
| Increase (decrease) in fair value: | | | | |
| Due to changes in valuation assumptions | 6,589 | -- | (23,720) | -- |
| Due to other changes[(1)] | (12,168) | -- | (18,394) | -- |
| Amortization | -- | (97) | -- | (96) |
| Carrying value, end of period | $228,105 | $ -- | $122,240 | $290 |

(1) Includes net servicing cash flows, including loan payoffs, and the passage of time.

| | For the Nine Months Ended | | | |
|---|---|---|---|---|
| | September 30, 2013 | | September 30, 2012 | |
| (in thousands) | Residential | Securitized | Residential | Securitized |
| Carrying value, beginning of year | $144,520 | $193 | $116,416 | $596 |
| Additions | 73,398 | -- | 85,977 | -- |
| Increase (decrease) in fair value: | | | | |
| Due to changes in valuation assumptions | 54,437 | -- | (31,255) | -- |
| Due to other changes[(1)] | (44,250) | -- | (48,898) | -- |
| Amortization | -- | (193) | -- | (306) |
| Carrying value, end of period | $228,105 | $ -- | $122,240 | $290 |

(1) Includes net servicing cash flows, including loan payoffs, 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:

| | September 30, 2013 | December 31, 2012 |
|---|---|---|
| Expected Weighted Average Life | 90 months | 64 months |
| Constant Prepayment Speed | 9.1% | 15.4% |
| Discount Rate | 10.5 | 10.5 |

| | | |
|---|---|---|
| Primary Mortgage Rate to Refinance | 4.3 | 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 |
| 120 days or more delinquent | 553 | 553 |

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

**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 September 30,** | | | |
|---|---|---|---|---|
| | **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 loss | -- | (62) | -- | (62) |
| Amortization of net actuarial loss | 2,351 | 164 | 2,434 | 126 |
| Net periodic (credit) expense | $ (432) | $274 | $ 591 | $226 |

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| | For the Nine Months Ended September 30, | | | |
|---|---|---|---|---|
| | 2013 | | 2012 | |
| (in thousands) | Pension Benefits | Post-Retirement Benefits | Pension Benefits | Post-Retirement Benefits |
| Components of net periodic (credit) expense: | | | | |
| Interest cost | $ 4,092 | $ 512 | $ 4,414 | $ 481 |
| Service cost | -- | 3 | -- | 5 |
| Expected return on plan assets | (12,441) | -- | (9,943) | -- |
| Amortization of prior-service loss | -- | (187) | -- | (187) |
| Amortization of net actuarial loss | 7,054 | 493 | 7,303 | 379 |
| Net periodic (credit) expense | $ (1,295) | $ 821 | $ 1,774 | $ 678 |

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 September 30, 2013, the Company had 16,763,551 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 2,317,522 shares of restricted stock in the nine months ended September 30, 2013, with an average fair value of $13.63 per share on the date of grant and a vesting period of five years. The nine-month amount includes 37,500 shares that were granted in the third quarter with an average fair value of $14.91 per share on the date of grant. Compensation and benefits expense related to the restricted stock grants is recognized on a straight-line basis over the vesting period, and totaled $16.6 million and $15.5 million, respectively, in the nine months ended September 30, 2013 and 2012, including $5.7 million and $5.1 million, respectively, in the three months ended at those dates.

A summary of activity with regard to restricted stock awards in the nine months ended September 30, 2013 is presented in the following table:

| | For the Nine Months Ended September 30, 2013 | |
|---|---|---|
| | Number of Shares | Weighted Average Grant Date Fair Value |
| Unvested at beginning of year | 4,386,245 | $ 14.73 |
| Granted | 2,317,522 | 13.63 |
| Vested | (1,079,705) | 15.21 |
| Cancelled | (294,620) | 14.09 |
| Unvested at end of period | 5,329,442 | 14.19 |

As of September 30, 2013, unrecognized compensation cost relating to unvested restricted stock totaled $60.9 million. This amount will be recognized over a remaining weighted average period of 3.3 years.

In addition, the Company had the following stock option plans at September 30, 2013: the 1998 Richmond County Financial Corp. Stock Compensation Plan; the 1998 Long Island Financial Corp. Stock Option Plan; and the 2004 Synergy Financial Group Stock Option Plans (all 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 nine months ended September 30, 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 September 30, 2013, there were 128,561 stock options outstanding. The number of shares available for future issuance under the Stock Option Plans was 11,453 at that date.

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The status of the Stock Option Plans at September 30, 2013, and changes that occurred during the nine months ended at that date, are summarized below:

| | For the Nine Months Ended September 30, 2013 | |
|---|---|---|
| | Number of Stock Options | Weighted Average Exercise Price |
| Stock options outstanding, beginning of year | 2,641,344 | $ 16.68 |
| Granted | -- | -- |
| Exercised | (29,618) | 11.05 |
| Expired/forfeited | (2,483,165) | 16.82 |
| Stock options outstanding, end of period | 128,561 | 15.23 |
| Options exercisable, end of period | 128,561 | 15.23 |

The intrinsic value of stock options outstanding and exercisable at September 30, 2013 was $156,000. The intrinsic value of options exercised during the nine months ended September 30, 2013 was $106,000. There were no stock options exercised during the nine months ended September 30, 2012.

**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.

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The following tables present assets and liabilities that were measured at fair value on a recurring basis as of September 30, 2013 and December 31, 2012, and that were included in the Company s Consolidated Statements of Condition at those dates:

| | Fair Value Measurements at September 30, 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 |
| Assets: | | | | | |
| Mortgage-Related Securities Available for Sale: | | | | | |
| GSE certificates | $ -- | $ 26,720 | $ -- | $ -- | $ 26,720 |
| GSE CMOs | -- | 62,203 | -- | | 62,203 |
| Private label CMOs | -- | 12,255 | -- | | 12,255 |
| Total mortgage-related securities | $ -- | $ 101,178 | $ -- | $ -- | $ 101,178 |
| Other Securities Available for Sale: | | | | | |
| GSE debentures | $ -- | $ -- | $ -- | $ -- | $ -- |
| Municipal bonds | -- | 1,165 | -- | -- | 1,165 |
| Capital trust notes | -- | 14,820 | 20,982 | -- | 35,802 |
| Preferred stock | 88,359 | 26,872 | -- | -- | 115,231 |
| Common stock | 49,780 | 2,547 | -- | -- | 52,327 |
| Total other securities | $ 138,139 | $ 45,404 | $ 20,982 | $ -- | $ 204,525 |
| Total securities available for sale | $ 138,139 | $ 146,582 | $ 20,982 | $ -- | $ 305,703 |
| Other Assets: | | | | | |
| Loans held for sale | $ -- | $ 281,289 | $ -- | $ -- | $ 281,289 |
| Mortgage servicing rights | -- | -- | 228,105 | -- | 228,105 |
| Interest rate lock commitments | | | 6,190 | -- | 6,190 |
| Derivative assets-other(2) | 3,276 | 13,532 | -- | (12,961) | 3,847 |
| Liabilities: | | | | | |
| Derivative liabilities | $ -- | $ (11,743) | $ -- | $ 9,512 | $ (2,231) |

(1) Includes cash collateral received and pledged.
(2) Includes $1.5 million to purchase Treasury options.

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| (in thousands) | Fair Value Measurements at December 31, 2012 Using<br>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 |
|---|---|---|---|---|---|
| Assets: | | | | | |
| 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 | $ -- | $ -- | $ -- | $ -- | $ -- |
| 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 for a fair value measurement may result in a reclassification from one hierarchy level to another.

A description of the methods and significant assumptions utilized in estimating the fair values of 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. Changes in the 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.

**Fair Value Option**

*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, 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 of mortgage-backed securities comprised of loans with similar features to those of loans held for sale, where available, for mortgage-backed securities comprised of loans with similar features to those of loans held for sale, and adjusted as necessary for such items as servicing value, guaranty fee premiums, and credit spread adjustments.

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The following table reflects the difference between the fair value carrying amount of loans held for sale for which the Company has elected the fair value option, and the unpaid principal balance:

| | September 30, 2013 | | | December 31, 2012 | | |
|---|---|---|---|---|---|---|
| (in thousands) | Fair Value Carrying Amount | Aggregate Unpaid Principal | Fair Value Carrying Amount Less Aggregate Unpaid Principal | Fair Value Carrying Amount | Aggregate Unpaid Principal | Fair Value Carrying Amount Less Aggregate Unpaid Principal |
| Loans held for sale | $281,289 | $270,361 | $10,928 | $1,204,370 | $1,159,071 | $45,299 |

*Gains and Losses Included in Income for Assets Where the Fair Value Option Has Been Elected*

The assets accounted for under the fair value option are initially measured at fair value. Gains and losses from the initial measurement and subsequent changes in fair value are recognized in earnings. For loans held for sale and mortgage servicing rights, the changes in fair value related to initial measurement and the subsequent changes in fair value included in earnings are shown for the periods indicated, below:

| | Gain (Loss) Included in Mortgage Banking Income from Changes in Fair Value(1) | | | |
|---|---|---|---|---|
| | For the Three Months Ended September 30, | | For the Nine Months Ended September 30, | |
| (in thousands) | 2013 | 2012 | 2013 | 2012 |
| Loans held for sale | $ 6,892 | $ 46,915 | $ (7,873) | $ 80,589 |
| Mortgage servicing rights | (5,579) | (42,114) | 10,187 | (80,153) |
| Total gain | $ 1,313 | $ 4,801 | $ 2,314 | $ 436 |

(1) Does not include the effect of hedging activities.

The Company has determined that there is no instrument-specific credit risk related to its loans held for sale, due to the short duration of such assets.

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**Changes in Level 3 Fair Value Measurements**

The following tables present, for the nine months ended September 30, 2013 and 2012, a roll-forward of the balance sheet amounts (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/ Loss | Comprehensive (Loss) Income | Issuances | Settlements | Transfers to/(from) Level 3 | Fair Value at Sept. 30, 2013 | Change in Unrealized Gains/ (Losses) Related to Instruments Held at September 30, 2013 |
|---|---|---|---|---|---|---|---|---|
| Available-for-sale capital securities | $ 18,569 | $ -- | $ 2,413 | $ -- | $ -- | $ -- | $ 20,982 | $ 2,413 |
| Mortgage servicing rights | 144,520 | 10,187 | -- | 73,398 | -- | -- | 228,105 | 54,437 |
| Interest rate lock commitments | 21,446 | (15,256) | -- | -- | -- | -- | 6,190 | 6,190 |

| (in thousands) | Fair Value January 1, 2012 | Total Realized/Unrealized Gains/(Losses) Recorded in Income/ Loss | Comprehensive (Loss) Income | Issuances | Settlements | Transfers to/(from) Level 3 | Fair Value at Sept. 30, 2012 | Change in Unrealized Gains/ (Losses) Related to Instruments Held at September 30, 2012 |
|---|---|---|---|---|---|---|---|---|
| Available-for-sale capital securities and preferred stock | $ 18,078 | $ -- | $ 2,351 | $ -- | $ -- | $ (3,054) | $ 17,375 | $ 2,222 |
| Mortgage servicing rights | 116,416 | (80,153) | -- | 85,977 | -- | -- | 122,240 | (29,890) |
| Interest rate lock commitments | 15,633 | 40,446 | -- | -- | -- | -- | 56,079 | 55,304 |

The Company s policy is to recognize transfers in and out of Levels 1, 2, and 3 at the end of the reporting period. There were no transfers in or out of Level 3 during the nine months ended September 30, 2013. During the nine months ended September 30, 2013, the Company transferred certain preferred stock to Level 2 from Level 1 as a result of decreased observable market activity for these securities. During the nine months ended September 30, 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 nine months ended September 30, 2013 or 2012. There were no transfers of securities between Levels 1 and 2 for the nine months ended September 30, 2012.

For Level 3 assets and liabilities measured at fair value on a recurring basis as of September 30, 2013, the significant unobservable inputs used in the fair value measurements were as follows:

| (dollars in thousands) | Fair Value at Sept. 30, 2013 | Valuation Technique | Significant Unobservable Inputs | Significant Unobservable Input Value |
|---|---|---|---|---|
| Capital Trust Notes | $ 20,982 | Discounted Cash Flow | Weighted Average Discount Rate (1) | 4.84% |
| Mortgage Servicing Rights | 228,105 | Discounted Cash Flow | Weighted Average Constant Prepayment Rate (2) | 9.10 |
| | | | Weighted Average Discount Rate | 10.50 |
| Interest Rate Lock Commitments | 6,190 | Pricing Model | Weighted Average Closing Ratio | 76.19 |

(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 noted 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 or 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 generally will 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., a 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.

***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 September 30, 2013 and December 31, 2012, and that were included in the Company s Consolidated Statements of Condition at those dates:

| | **Fair Value Measurements at September 30, 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 | $-- | $ -- | $56,917 | $56,917 |
| Other assets [(1)] | -- | 20,519 | -- | 20,519 |
| Total | $-- | $20,519 | $56,917 | $77,436 |

(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***

FASB guidance also 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.

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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 September 30, 2013 and December 31, 2012:

| | | | September 30, 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 | $ 1,253,562 | $ 1,253,562 | $ 1,253,562 | $ -- | $ -- |
| Securities held to maturity | 6,777,715 | 6,627,256 | -- | 6,621,991 | 5,265 |
| FHLB stock(1) | 552,830 | 552,830 | -- | 552,830 | -- |
| Loans, net | 32,142,277 | 32,140,712 | -- | -- | 32,140,712 |
| Financial Liabilities: | | | | | |
| Deposits | $ 25,309,350 | $ 25,356,713 | $ 18,168,697(2) | $ 7,188,016(3) | $ -- |
| Borrowed funds | 14,565,442 | 15,674,839 | -- | 15,674,839 | -- |

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

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

*Cash and Cash Equivalents*

Cash and cash equivalents include cash and due from banks and 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 (mortgage 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 Sub-topic 820-10, Fair Value Measurements.

*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 loans and 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 September 30, 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 $2.0 billion at September 30, 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 September 30, 2013:

| | **September 30, 2013** | | |
|---|---|---|---|
| | Notional | Unrealized [1] | |
| (in thousands) | Amount | Gain | Loss |
| Treasury options | $ 220,000 | $ 1,821 | $ -- |
| Forward commitments to sell loans/mortgage-backed securities | 725,000 | -- | 11,743 |
| Forward commitments to buy loans/mortgage-backed securities | 640,000 | 13,532 | -- |
| Interest rate lock commitments | 371,603 | 6,190 | -- |
| Total derivatives | $ 1,956,603 | $ 21,543 | $ 11,743 |

(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 September 30, | | For the Nine Months Ended September 30, | |
| (in thousands) | 2013 | 2012 | 2013 | 2012 |
| Treasury options | $ (641) | $ (600) | $(7,597) | $ 4,198 |
| Eurodollar futures | -- | (283) | 4 | (1,516) |
| Forward commitments to buy/sell loans/mortgage-backed securities | (15,070) | (14,471) | 15,814 | (16,648) |
| Total (loss) gain | $(15,711) | $(15,354) | $ 8,221 | $(13,966) |

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:

| | September 30, 2013 | | | | | |
|---|---|---|---|---|---|---|
| | | | | Gross Amounts Not Offset in the Consolidated Statement of Condition | | |
| (in thousands) | 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 | $22,998 | $12,961 | $10,037 | $-- | $-- | $10,037 |

| | December 31, 2012 | | | | | |
|---|---|---|---|---|---|---|
| | | | | Gross Amounts Not Offset in the Consolidated Statement of Condition | | |
| (in thousands) | 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 | $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 dates indicated:

| | September 30, 2013 | | | | | |
|---|---|---|---|---|---|---|
| | | | | Gross Amounts Not Offset in the Consolidated Statement of Condition | | |
| (in thousands) | 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 | $ 11,743 | $ 9,512 | $ 2,231 | $ -- | $ -- | $ 2,231 |

| | December 31, 2012 | | | | | |
|---|---|---|---|---|---|---|
| | | | | Gross Amounts Not Offset in the Consolidated Statement of Condition | | |
| (in thousands) | 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.

***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 September 30, 2013, on an internally managed accounting basis:

| | For the Three Months Ended September 30, 2013 | | |
|---|---|---|---|
| (in thousands) | Banking Operations | Residential Mortgage Banking | Total Company |
| Net interest income | $ 289,198 | $ 5,033 | $ 294,231 |
| Provisions for loan losses | 14,467 | -- | 14,467 |
| Non-Interest Income: | | | |
| Third party[1] | 33,699 | 17,025 | 50,724 |
| Inter-segment | (4,578) | 4,578 | -- |
| Total non-interest income | 29,121 | 21,603 | 50,724 |
| Non-interest expense[2] | 132,391 | 17,936 | 150,327 |
| Income before income tax expense | 171,461 | 8,700 | 180,161 |
| Income tax expense | 62,674 | 3,287 | 65,961 |
| Net income | $ 108,787 | $ 5,413 | $ 114,200 |
| Identifiable segment assets (period-end) | $ 45,073,642 | $ 690,491 | $ 45,764,133 |

(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 nine months ended September 30, 2013, on an internally managed accounting basis:

| | For the Nine Months Ended September 30, 2013 | | |
|---|---|---|---|
| (in thousands) | Banking Operations | Residential Mortgage Banking | Total Company |
| Net interest income | $ 850,939 | $ 18,352 | $ 869,291 |
| Provisions for loan losses | 33,587 | -- | 33,587 |
| Non-interest income: | | | |
| Third party[1] | 112,256 | 67,764 | 180,020 |
| Inter-segment | (12,795) | 12,795 | -- |
| Total non-interest income | 99,461 | 80,559 | 180,020 |

| | | | |
|---|---|---|---|
| Non-interest expense(2) | 398,519 | 59,569 | 458,088 |
| Income before income tax expense | 518,294 | 39,342 | 557,636 |
| Income tax expense | 187,341 | 14,903 | 202,244 |
| Net income | $ 330,953 | $ 24,439 | $ 355,392 |
| Identifiable segment assets (period-end) | $ 45,073,642 | $ 690,491 | $ 45,764,133 |

(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 September 30, 2012, on an internally managed accounting basis:

| | For the Three Months Ended September 30, 2012 | | |
|---|---|---|---|
| (in thousands) | Banking Operations | Residential Mortgage Banking | Total Company |
| Net interest income | $ 276,255 | $ 8,695 | $ 284,950 |
| Provisions for loan losses | 12,820 | -- | 12,820 |
| Non-interest income: | | | |
| Third party[1] | 28,451 | 53,206 | 81,657 |
| Inter-segment | (3,558) | 3,558 | -- |
| Total non-interest income | 24,893 | 56,764 | 81,657 |
| Non-interest expense[2] | 133,855 | 19,466 | 153,321 |
| Income before income tax expense | 154,473 | 45,993 | 200,466 |
| Income tax expense | 54,145 | 17,523 | 71,668 |
| Net income | $ 100,328 | $ 28,470 | $ 128,798 |
| Identifiable segment assets (period-end) | $ 42,600,483 | $ 1,493,312 | $ 44,093,795 |

(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 nine months ended September 30, 2012, on an internally managed accounting basis:

| | For the Nine Months Ended September 30, 2012 | | |
|---|---|---|---|
| (in thousands) | Banking Operations | Residential Mortgage Banking | Total Company |
| Net interest income | $ 846,709 | $ 23,311 | $ 870,020 |
| Provisions for loan losses | 61,268 | -- | 61,268 |
| Non-interest income: | | | |
| Third party[1] | 93,839 | 148,019 | 241,858 |
| Inter-segment | (10,782) | 10,782 | -- |
| Total non-interest income | 83,057 | 158,801 | 241,858 |
| Non-interest expense[2] | 400,952 | 57,975 | 458,927 |
| Income before income tax expense | 467,546 | 124,137 | 591,683 |
| Income tax expense | 166,124 | 47,296 | 213,420 |

| | | | |
|---|---|---|---|
| Net income | $ 301,422 | $ 76,841 | $ 378,263 |
| Identifiable segment assets (period-end) | $ 42,600,483 | $ 1,493,312 | $ 44,093,795 |

(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 the 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 for 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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## NEW YORK COMMUNITY BANCORP, INC.

## 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;
- 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 gains (losses) on securities and losses on 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 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 September 30, 2013 and December 31, 2012 follow:

| (in thousands) | **September 30, 2013** | **December 31, 2012** |
|---|---|---|
| **Stockholders Equity** | $ 5,697,045 | $ 5,656,264 |
| Less: Goodwill | (2,436,131) | (2,436,131) |
| Core deposit intangibles | (19,305) | (32,024) |