

New York Community Bancorp: Fundamentally Sound

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New York Community Bancorp's (NYCB) 4Q23 loss is not a material worry, in our opinion, as it is driven by the bank's need to take actions to make its balance sheet more reflective of its new status as a Category IV (>\$100 billion) bank. Spectrum's view is that NYCB is fundamentally sound.

NYCB merged with Flagstar, another regional bank, in late 2022, expanding NYCB's footprint, diversifying its loan mix and strengthening its funding. In March 2023, Signature Bank failed, and NYCB bought a significant percentage of the failed bank's assets and assumed many of its deposits. This sudden and unexpected deal catapulted NYCB into a new regulatory classification (Category IV), and with it a host of new and more stringent rules, including ones covering capital, liquidity, risk management and periodic stress tests. Furthermore, these rules could be strengthened under proposed regulations as a part of the so-called Basel 3 Endgame. NYCB's new, lower common dividend will help it boost its CET1 capital from around 9% now to its YE24 goal of 10% -- closer to its new peer median. The bank's strengthened loan loss reserve also moves its levels closer to peers, and demonstrates its caution on commercial real estate (CRE). That said, we note that NYCB's CRE concentration excluding multifamily is below that of peers, and that its nonperforming assets (NPAs) as a percentage of assets are a manageable 38 bps. More than two-thirds of its deposits are insured or collateralized.

Spectrum acknowledges that NYCB has much on its plate: Managing two transformational deals – one very unexpected – a new regulator, new rules to follow, and new peers against which it will be judged. However, its sound track record, decent asset quality and core earnings, and adequate capital should provide substantial credit support for the bank as it moves forward. Spectrum also notes its belief that the FDIC-led sale of Signature's assets and deposits to NYCB doubtless implies that the regulators have confidence in NYCB's strength and capacity to manage its new businesses.

Spectrum also notes that NYCB's common stock price has come under pressure, and this constrains the bank's capacity to raise equity, should it desire to do so. In addition, the market tone on regional banks remains cautious.

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