NEW YORK COMMUNITY BANCORP INC
Form 10-Q
May 10, 2016
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2016

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

487,016,052
Number of shares of common stock outstanding at

May 4, 2016

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NEW YORK COMMUNITY BANCORP, INC.

CONSOLIDATED STATEMENTS OF CONDITION

(in thousands, except share data)

	March 31, 2016 (unaudited)	December 31, 2015
Assets:		
Cash and cash equivalents	$ 650,880	$ 537,674
Securities:		
Available-for-sale	152,249	204,255
Held-to-maturity ($1,889,548 and $2,152,939 pledged, respectively) (fair value of $4,304,161 and $6,108,529, respectively)	4,068,750	5,969,390
Total securities	4,220,999	6,173,645
Non-covered loans held for sale	471,276	367,221
Non-covered loans held for investment, net of deferred loan fees and costs	36,175,882	35,763,204
Less: Allowance for losses on non-covered loans	(150,778)	(147,124)
Non-covered loans held for investment, net	36,025,104	35,616,080
Covered loans	1,986,054	2,060,089
Less: Allowance for losses on covered loans	(28,498)	(31,395)
Covered loans, net	1,957,556	2,028,694
Total loans, net	38,453,936	38,011,995
Federal Home Loan Bank stock, at cost	551,247	663,971
Premises and equipment, net	325,017	322,307
FDIC loss share receivable	296,953	314,915
Goodwill	2,436,131	2,436,131
Core deposit intangibles, net	1,753	2,599
Mortgage servicing rights	213,268	247,734
Bank-owned life insurance	933,498	931,627
Other real estate owned (includes $24,455 and $25,817, respectively, covered by loss sharing agreements)	39,869	39,882
Other assets	392,021	635,316
Total assets	$ 48,515,572	$ 50,317,796
Liabilities and Stockholders Equity:		
Deposits:		
NOW and money market accounts	$ 13,337,556	$ 13,069,019
Savings accounts	6,020,058	7,541,566

Certificates of deposit	6,788,712	5,312,487
Non-interest-bearing accounts	2,835,986	2,503,686
Total deposits	28,982,312	28,426,758
Borrowed funds:		
Wholesale borrowings:		
Federal Home Loan Bank advances	10,933,100	13,463,800
Repurchase agreements	1,500,000	1,500,000
Fed funds purchased	553,000	426,000
Total wholesale borrowings	12,986,100	15,389,800
Junior subordinated debentures	358,672	358,605
Total borrowed funds	13,344,772	15,748,405
Other liabilities	203,688	207,937
Total liabilities	42,530,772	44,383,100
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; 486,931,184 and 484,968,024 shares issued, and 486,929,814 and 484,943,308 shares outstanding, respectively)	4,869	4,850
Paid-in capital in excess of par	6,023,421	6,023,882
Retained earnings (accumulated deficit)	11,135	(36,568)
Treasury stock, at cost (1,370 and 24,716 shares, respectively)	(21)	(447)
Accumulated other comprehensive loss, net of tax:		
Net unrealized gain on securities available for sale, net of tax of $2,899 and $2,153, respectively	4,093	3,031
Net unrealized loss on the non-credit portion of other-than-temporary impairment (OTTI) losses on securities, net of tax of $3,388 and $3,400, respectively	(5,299)	(5,318)
Net unrealized loss on pension and post-retirement obligations, net of tax of $36,334 and $37,279, respectively	(53,398)	(54,734)
Total accumulated other comprehensive loss, net of tax	(54,604)	(57,021)
Total stockholders equity	5,984,800	5,934,696
Total liabilities and stockholders equity	$ 48,515,572	$ 50,317,796

See accompanying notes to the 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 March 31,	
	2016	**2015**
Interest Income:		
Mortgage and other loans	$ 360,723	$ 364,504
Securities and money market investments	63,087	64,409
Total interest income	423,810	428,913
Interest Expense:		
NOW and money market accounts	14,619	11,052
Savings accounts	10,208	12,333
Certificates of deposit	15,890	17,116
Borrowed funds	55,227	95,644
Total interest expense	95,944	136,145
Net interest income	327,866	292,768
Provision for (recovery of) losses on non-covered loans	2,721	(870)
(Recovery of) provision for losses on covered loans	(2,897)	877
Net interest income after provisions for (recoveries) loan losses	328,042	292,761
Non-Interest Income:		
Mortgage banking income	4,138	18,406
Fee income	7,923	8,394
Bank-owned life insurance	9,336	6,704
Net gain on sales of securities	163	211
FDIC indemnification (expense) income	(2,318)	702
Other income	15,995	17,817
Total non-interest income	35,237	52,234
Non-Interest Expense:		
Operating expenses:		

Compensation and benefits	89,304	87,209
Occupancy and equipment	25,815	25,299
General and administrative	41,270	42,744
Total operating expenses	156,389	155,252
Amortization of core deposit intangibles	846	1,584
Merger-related expenses	1,213	
Total non-interest expense	158,448	156,836
Income before income taxes	204,831	188,159
Income tax expense	74,922	68,900
Net income	$ 129,909	$ 119,259
Other comprehensive income, net of tax:		
Change in net unrealized gain on securities available for sale, net of tax of $746 and $1,161, respectively	1,062	1,715
Change in the non-credit portion of OTTI losses recognized in other comprehensive income, net of tax of $12 and $11, respectively	19	17
Change in pension and post-retirement obligations, net of tax of $945 and $844, respectively	1,336	1,248
Total other comprehensive income, net of tax	2,417	2,980
Total comprehensive income, net of tax	$ 132,326	$ 122,239
Basic earnings per share	$ 0.27	$ 0.27
Diluted earnings per share	$ 0.27	$ 0.27

See accompanying notes to the consolidated financial statements.

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NEW YORK COMMUNITY BANCORP, INC.

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS EQUITY

(in thousands, except share data)

(unaudited)

	For the Three Months Ended March 31, 2016
Common Stock (Par Value: $0.01):	
Balance at beginning of year	$ 4,850
Shares issued for restricted stock awards (1,963,160 shares)	19
Balance at end of period	4,869
Paid-in Capital in Excess of Par:	
Balance at beginning of year	6,023,882
Shares issued for restricted stock awards, net of forfeitures	(8,668)
Compensation expense related to restricted stock awards	8,207
Balance at end of period	6,023,421
Retained Earnings:	
Balance at beginning of year	(36,568)
Net income	129,909
Dividends paid on common stock ($0.17 per share)	(82,618)
Effect of adopting Accounting Standards Update (ASU) No. 2016-09 [1]	412
Balance at end of period	11,135
Treasury Stock:	
Balance at beginning of year	(447)
Purchase of common stock (535,546 shares)	(8,222)
Shares issued for restricted stock awards (558,892 shares)	8,648
Balance at end of period	(21)
Accumulated Other Comprehensive Loss, net of tax:	
Balance at beginning of year	(57,021)
Other comprehensive income, net of tax	2,417
Balance at end of period	(54,604)

Total stockholders equity	$	5,984,800

(1) See Note 14, Impact of Recent Accounting Pronouncements for a discussion of the Company s adoption of ASU No. 2016-09.

See accompanying notes to the consolidated financial statements.

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NEW YORK COMMUNITY BANCORP, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

(unaudited)

	For the Three Months Ended March 31,	
	2016	**2015**
Cash Flows from Operating Activities:		
Net income	$ 129,909	$ 119,259
Adjustments to reconcile net income to net cash provided by operating activities:		
(Recovery of) provision for loan losses	(176)	7
Depreciation and amortization	8,053	7,645
Amortization of discounts and premiums, net	(8,470)	(1,670)
Amortization of core deposit intangibles	846	1,584
Net gain on sales of securities	(163)	(211)
Gain on sales of loans	(19,386)	(21,461)
Stock plan-related compensation	8,207	7,165
Deferred tax expense	18,027	9,419
Changes in assets and liabilities:		
Decrease in other assets	293,865	12,625
(Decrease) increase in other liabilities	(21,286)	29,606
Origination of loans held for sale	(899,100)	(1,492,222)
Proceeds from sales of loans originated for sale	801,347	1,404,595
Net cash provided by operating activities	311,673	76,341
Cash Flows from Investing Activities:		
Proceeds from repayment of securities held to maturity	1,923,149	139,544
Proceeds from repayment of securities available for sale	49,959	886
Proceeds from sales of securities available for sale	104,663	135,211
Purchase of securities held to maturity	(10,086)	
Purchase of securities available for sale	(104,500)	(135,000)
Net redemption of Federal Home Loan Bank stock	112,724	50,385
Proceeds from sales of loans	585,616	559,261
Other changes in loans, net	(910,243)	(321,684)
Purchase of premises and equipment, net	(10,763)	(10,682)
Net cash provided by investing activities	1,740,519	417,921
Cash Flows from Financing Activities:		
Net increase in deposits	555,554	602,653

Net decrease in short-term borrowed funds	(2,403,700)	(1,161,000)
Proceeds from long-term borrowed funds		200,000
Repayments of long-term borrowed funds		(1,085)
Tax effect of stock plans [1]		996
Cash dividends paid on common stock	(82,618)	(110,851)
Payments relating to treasury shares received for restricted stock award tax payments [1]	(8,222)	(6,567)
Net cash used in financing activities	(1,938,986)	(475,854)
Net increase in cash and cash equivalents	113,206	18,408
Cash and cash equivalents at beginning of period	537,674	564,150
Cash and cash equivalents at end of period	$ 650,880	$ 582,558
Supplemental information:		
Cash paid for interest	$ 91,079	$ 139,220
Cash paid for income taxes	2	10,698
Non-cash investing and financing activities:		
Transfers to other real estate owned from loans	9,456	17,098
Transfer of loans from held for investment to held for sale	579,841	553,315
Transfer of loans from held for sale to held for investment		153,578
Shares issued for restricted stock awards	8,668	7,694

(1) See Note 14, Impact of Recent Accounting Pronouncements for a discussion of the Company s adoption of ASU No. 2016-09.

See accompanying notes to the consolidated financial statements.

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NEW YORK COMMUNITY BANCORP, INC.

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Organization and Basis of Presentation

Organization

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

The Community Bank is the primary banking subsidiary of the Company. Founded on April 14, 1859 and formerly known as Queens County Savings Bank, the Community Bank converted from a state-chartered mutual savings bank to the capital stock form of ownership on November 23, 1993, at which date the Company issued its initial offering of common stock (par value: $0.01 per share) at a price of $25.00 per share ($0.93 per share on a split-adjusted basis, reflecting the impact of nine stock splits between 1994 and 2004). The Commercial Bank was established on December 30, 2005.

Reflecting its growth through acquisitions, the Community Bank currently operates 226 branches, two of which operate directly under the Community Bank name. The remaining 224 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 30 branches in Manhattan, Queens, Brooklyn, Westchester County, and Long Island (all in New York), including 18 branches that operate under the name Atlantic Bank.

On September 17, 2015, the Company submitted an application to the FDIC and the New York State Department of Financial Services requesting approval to merge the Commercial Bank with and into the Community Bank. The merger of the Company s two bank subsidiaries is not expected to impact either bank s customers or employees.

On October 29, 2015, the Company announced the signing of a definitive merger agreement with Astoria Financial Corporation (Astoria Financial). The merger was approved by shareholders of both companies on April 26, 2016. Pending receipt of the necessary regulatory approvals and subject to the terms of the Agreement and Plan of Merger, Astoria Financial will merge with and into the Company, and Astoria Bank will merge with and into the Community 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 mortgage servicing rights (MSRs); 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 accompanying 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. The Company currently has certain 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, certain reclassifications are made to prior-year amounts to conform to the current-year presentation. The presentation of long-term borrowings in the Consolidated Statements of Cash Flows for the three months ended March 31, 2015 is presented on a gross basis to conform to the presentation of long-term borrowings in the three months ended March 31, 2016.

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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, 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:

(in thousands, except share and per share amounts)	Three Months Ended March 31, 2016	2015
Net income	$ 129,909	$ 119,259
Less: Dividends paid on and earnings allocated to participating securities	(979)	(872)
Earnings applicable to common stock	$ 128,930	$ 118,387
Weighted average common shares outstanding	484,605,397	441,990,338
Basic earnings per common share	$ 0.27	$ 0.27
Earnings applicable to common stock	$ 128,930	$ 118,387
Weighted average common shares outstanding	484,605,397	441,990,338
Potential dilutive common shares [1]		
Total shares for diluted earnings per share computation	484,605,397	441,990,338
Diluted earnings per common share and common share equivalents	$ 0.27	$ 0.27

(1) At March 31, 2016, there were no stock options outstanding. Options to purchase 32,400 shares of the Company s common stock that were outstanding as of March 31, 2015 at weighted average exercise prices of $18.15 per share were excluded from the computation of diluted EPS because their inclusion would have had an antidilutive effect.

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Note 3. Reclassifications Out of Accumulated Other Comprehensive Loss

(in thousands)	For the Three Months Ended March 31, 2016	
Details about Accumulated Other Comprehensive Loss	Amount Reclassified from Accumulated Other Comprehensive Loss [1]	Affected Line Item in the Consolidated Statement of Operations and Comprehensive (Loss) Income
Amortization of defined benefit pension plan items:		
Prior-service costs	$ 62	Included in the computation of net periodic (credit) expense [2]
Actuarial losses	(2,343)	Included in the computation of net periodic (credit) expense [2]
	(2,281)	Total before tax
	945	Tax benefit
	(1,336)	Amortization of defined benefit pension plan items, net of tax
Total reclassifications for the period	$ (1,336)	

(1) Amounts in parentheses indicate expense items.
(2) Please see Note 9, Pension and Other Post-Retirement Benefits, for additional information.

Note 4. Securities

The following tables summarize the Company s portfolio of securities available for sale at March 31, 2016 and December 31, 2015:

	March 31, 2016			
(in thousands)	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value
Municipal bonds	$ 727	$ 73	$	$ 800
Capital trust notes	9,448		2,607	6,841
Preferred stock	118,205	9,184	275	127,114
Mutual funds and common stock [1]	16,876	618		17,494
Total securities available for sale	$ 145,256	$ 9,875	$ 2,882	$ 152,249

(1) Primarily consists of mutual funds that are Community Reinvestment Act-qualified investments.

	December 31, 2015			
(in thousands)	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value
Mortgage-Related Securities:				
GSE certificates [1]	$ 53,820	$ 33	$ 1	$ 53,852
Other Securities:				
Municipal bonds	$ 725	$ 70	$	$ 795
Capital trust notes	9,444		2,480	6,964
Preferred stock	118,205	7,415	248	125,372
Common stock	16,877	470	75	17,272
Total other securities	$ 145,251	$ 7,955	$ 2,803	$ 150,403
Total securities available for sale	$ 199,071	$ 7,988	$ 2,804	$ 204,255

(1) Government-sponsored enterprise.

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The following tables summarize the Company s portfolio of securities held to maturity at March 31, 2016 and December 31, 2015:

(in thousands)	March 31, 2016 Amortized Cost	Carrying Amount	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value
Mortgage-Related Securities:					
GSE certificates	$ 2,256,996	$ 2,256,996	$ 140,529	$ 54	$ 2,397,471
GSE CMOs [1]	1,229,105	1,229,105	76,401		1,305,506
Total mortgage-related securities	$ 3,486,101	$ 3,486,101	$ 216,930	$ 54	$ 3,702,977
Other Securities:					
GSE debentures	$ 368,784	$ 368,784	$ 19,461	$	$ 388,245
Municipal bonds	74,419	74,419	1,661		76,080
Corporate bonds	73,871	73,871	11,049		84,920
Capital trust notes	74,262	65,575	3,058	16,694	51,939
Total other securities	$ 591,336	$ 582,649	$ 35,229	$ 16,694	$ 601,184
Total securities held to maturity [2]	$ 4,077,437	$ 4,068,750	$ 252,159	$ 16,748	$ 4,304,161

(1) Collateralized mortgage obligations.
(2) Held-to-maturity securities are reported at a carrying amount equal to amortized cost less the non-credit portion of OTTI recorded in Accumulated Other Comprehensive Loss (AOCL). At March 31, 2016, the non-credit portion of OTTI recorded in AOCL was $8.7 million, pre-tax.

(in thousands)	December 31, 2015 Amortized Cost	Carrying Amount	Gross Unrealized Gain	Gross Unrealized Loss	Fair Value
Mortgage-Related Securities:					
GSE certificates	$ 2,269,828	$ 2,269,828	$ 76,827	$ 4,722	$ 2,341,933
GSE CMOs [1]	1,325,033	1,325,033	53,236	57	1,378,212
Total mortgage-related securities	$ 3,594,861	$ 3,594,861	$ 130,063	$ 4,779	$ 3,720,145
Other Securities:					
GSE debentures	$ 2,159,856	$ 2,159,856	$ 23,892	$ 7,568	$ 2,176,180
Municipal bonds	75,317	75,317	262	1,084	74,495
Corporate bonds	73,756	73,756	10,503		84,259
Capital trust notes	74,317	65,600	3,750	15,900	53,450

Total other securities	$ 2,383,246	$ 2,374,529	$ 38,407	$ 24,552	$ 2,388,384
Total securities held to maturity [2]	$ 5,978,107	$ 5,969,390	$ 168,470	$ 29,331	$ 6,108,529

(1) Collateralized mortgage obligations.
(2) 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 December 31, 2015, the non-credit portion of OTTI recorded in AOCL was $8.7 million, pre-tax.

At March 31, 2016 and December 31, 2015, respectively, the Company had $551.2 million and $664.0 million of Federal Home Loan Bank of New York (FHLB-NY) stock, at cost. In order to have access to the funding provided by the FHLB-NY, the Company is required to maintain an investment in FHLB-NY stock.

The following table summarizes the gross proceeds and gross realized gains from the sale of available-for-sale securities during the three months ended March 31, 2016 and 2015:

	For the Three Months Ended March 31,	
(in thousands)	**2016**	**2015**
Gross proceeds	$ 104,663	$ 135,211
Gross realized gains	163	211

There were no gross realized losses from the sale of available-for-sale securities during the three months ended March 31, 2016 or 2015.

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In the following table, the beginning balance represents the credit loss component for debt securities on which OTTI occurred prior to January 1, 2016. For credit-impaired debt securities, OTTI recognized in earnings after that date is presented as an addition in two components, based upon whether the current period is the first time a debt security was credit-impaired (initial credit impairment) or is not the first time a debt security was credit-impaired (subsequent credit impairment).

(in thousands)	For the Three Months Ended March 31, 2016
Beginning credit loss amount as of January 1, 2016	$ 198,766
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	
Increase in expected cash flows on debt securities	
Ending credit loss amount as of March 31, 2016	$ 198,766

The following table summarizes the carrying amounts and estimated fair values of held-to-maturity mortgage-backed securities and debt securities, and the amortized costs and estimated fair values of available-for-sale securities, at March 31, 2016, by contractual maturity.

	At March 31, 2016								
(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	$	%	$	%	$ 327	2.96%	$	%	$ 328
Due from one to five years	358,897	3.74	59,792	4.17					452,138
Due from five to ten years	2,709,236	3.23	308,992	3.14			64,211	4.74	3,279,755
Due after ten years	417,968	2.93			74,092	2.89	75,235	5.14	571,940
Total securities held to maturity	$ 3,486,101	3.25%	$ 368,784	3.31%	$ 74,419	2.89%	$ 139,446	4.96%	$ 4,304,161
Available-for-Sale Securities: (3)									
Due within one year	$	%	$	%	$ 149	6.39%	$	%	$ 154
Due from one to five years					578	6.56			646
Due from five to ten years									
Due after ten years							9,448	4.46	6,841
Total securities available for sale	$	%	$	%	$ 727	6.52%	$ 9,448	4.46%	$ 7,641

(1) Not presented on a tax-equivalent basis.
(2) Includes corporate bonds and capital trust notes
(3) As equity securities have no contractual maturity, they have been excluded from this table.

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The following table presents held-to-maturity and available-for-sale securities having a continuous unrealized loss position for less than twelve months and for twelve months or longer as of March 31, 2016:

At March 31, 2016	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 Securities:						
GSE certificates	$ 7,769	$ 14	$ 5,069	$ 40	$ 12,838	$ 54
GSE CMOs						
Municipal bonds						
Capital trust notes	24,753	247	19,770	16,447	44,523	16,694
Total temporarily impaired held-to-maturity securities	$ 32,522	$ 261	$ 24,839	$ 16,487	$ 57,361	$ 16,748
Temporarily Impaired Available-for-Sale Securities:						
Capital trust notes	1,980	20	4,861	2,587	6,841	2,607
Equity securities	15,017	275			15,017	275
Total temporarily impaired available-for-sale securities	$ 16,997	$ 295	$ 4,861	$ 2,587	$ 21,858	$ 2,882

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The following table presents held-to-maturity and available-for-sale securities having a continuous unrealized loss position for less than twelve months and for twelve months or longer as of December 31, 2015:

At December 31, 2015	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 Securities:						
GSE debentures	$ 547,484	$ 728	$ 1,176,949	$ 6,840	$ 1,724,433	$ 7,568
GSE certificates	299,019	4,608	3,899	114	302,918	4,722
GSE CMOs	9,943	57			9,943	57
Municipal bonds	42,083	1,084			42,083	1,084
Capital trust notes	24,601	399	20,710	15,501	45,311	15,900
Total temporarily impaired held-to-maturity securities	$ 923,130	$ 6,876	$ 1,201,558	$ 22,455	$ 2,124,688	$ 29,331
Temporarily Impaired Available-for-Sale Securities:						
GSE certificates	$ 51,959	$ 1	$	$	$ 51,959	$ 1
Capital trust notes	1,968	32	4,997	2,448	6,965	2,480
Equity securities	51,775	323			51,775	323
Total temporarily impaired available-for-sale securities	$ 105,702	$ 356	$ 4,997	$ 2,448	$ 110,699	$ 2,804

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 of impairment relating to factors other than credit losses are recorded in AOCL.

At March 31, 2016, the Company had unrealized losses on certain GSE mortgage-related securities, capital trust notes, and equity securities.

The unrealized losses on the Company s GSE mortgage-related securities were primarily caused by movements in market interest rates and spread volatility, rather than credit risk. These securities are not expected to be settled at a price that is less than the amortized cost of the Company s investment.

The Company reviews quarterly financial information related to its investments in capital trust notes, as well as other information that is released by each of the issuers of such notes, to determine their continued creditworthiness. 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. 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 thus 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 illiquidity in the financial markets.

The Company considers a decline in the fair value of 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 March 31, 2016 were primarily caused by market volatility. The Company evaluated the near-term prospects of recovering the fair value of these securities, together with the severity and duration of impairment to date, and determined that they were not other than temporarily impaired. Nonetheless, it is possible that these equity securities will perform worse than is currently expected, which could lead to adverse changes in their fair value, or the failure of the securities to fully recover in value as currently forecasted by management. Either event could cause the Company to record an OTTI loss in a future period. Events that could trigger a material decline in the fair value of these securities include, but are not limited to, deterioration in the equity markets; a decline in the quality of the loan portfolio of the issuer in which the Company has invested; and the recording of higher loan loss provisions and net operating losses by such issuer.

The investment securities designated as having a continuous loss position for twelve months or more at March 31, 2016 consisted of five capital trust notes and three agency mortgage-backed securities. At December 31, 2015, the investment securities designated as having a continuous loss position for twelve months or more consisted of seven agency debt securities, five capital trust notes, and two agency mortgage-backed securities. At March 31, 2016 and December 31, 2015, the combined market value of the respective securities represented unrealized losses of $19.1 million and $24.9 million. At March 31, 2016, the fair value of securities having a continuous loss position for twelve months or more was 39.1% below the collective amortized cost of $48.8 million. At December 31, 2015, the fair value of such securities was 2.0% below the collective amortized cost of $1.2 billion.

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Note 5: Loans

The following table sets forth the composition of the loan portfolio at March 31, 2016 and December 31, 2015:

	March 31, 2016		December 31, 2015	
(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	$ 26,406,585	73.04%	$ 25,971,629	72.67%
Commercial real estate	7,676,793	21.23	7,857,204	21.98
Acquisition, development, and construction	344,645	0.95	311,676	0.87
One-to-four family	186,033	0.52	116,841	0.33
Total mortgage loans held for investment	$ 34,614,056	95.74	$ 34,257,350	95.85
Other Loans:				
Commercial and industrial [(1)]	1,140,835	3.16	1,085,529	3.04
Lease financing, net of unearned income of $43,964 and $43,553, respectively	369,674	1.02	365,027	1.02
Total commercial and industrial loans	1,510,509	4.18	1,450,556	4.06
Purchased credit-impaired loans	6,474	0.02	8,344	0.02
Other	22,629	0.06	24,239	0.07
Total other loans held for investment	1,539,612	4.26	1,483,139	4.15
Total non-covered loans held for investment	$ 36,153,668	100.00%	$ 35,740,489	100.00%
Net deferred loan origination costs	22,214		22,715	
Allowance for losses on non-covered loans	(150,778)		(147,124)	
Non-covered loans held for investment, net	$ 36,025,104		$ 35,616,080	
Covered loans	1,986,054		2,060,089	
Allowance for losses on covered loans	(28,498)		(31,395)	
Covered loans, net	$ 1,957,556		$ 2,028,694	
Loans held for sale	471,276		367,221	
Total loans, net	$ 38,453,936		$ 38,011,995	

(1) Includes specialty finance loans of $895.9 million and $880.7 million and other C&I loans of $614.7 million and $569.9 million, respectively, at March 31, 2016 and December 31, 2015.

Non-Covered Loans

Non-Covered Loans Held for Investment

The 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 are rent-regulated and feature below-market rents. In addition, the Company originates commercial real estate (CRE) loans, most of which are collateralized by income-producing properties such as office buildings, retail centers, mixed-use buildings, and multi-tenanted light industrial properties that are located in New York City and on Long Island.

The Company also originates acquisition, development, and construction (ADC) 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. C&I loans consist of asset-based loans, equipment loans and leases, and dealer floor-plan loans (together, specialty finance loans and leases) that generally are made to large corporate obligors, many of which are publicly traded, carry investment grade or near-investment grade ratings, and participate in stable industries nationwide; and other C&I loans that primarily are made to small and mid-size businesses in Metro New York. Other C&I loans are typically made for working capital, business expansion, and the purchase of machinery and equipment.

The repayment of multi-family and CRE loans generally depends on the income produced by the underlying properties which, in turn, depends on their successful operation and management. To mitigate the potential for credit losses, the Company underwrites its loans in accordance with credit standards it considers to be prudent, looking first at the consistency of the cash flows being produced by the underlying property. In addition, multi-family buildings and CRE properties are inspected as a prerequisite to approval, and independent appraisers, whose appraisals are carefully reviewed by the Company s in-house appraisers, perform appraisals on the collateral properties. In many cases, a second independent appraisal review is performed. To further manage its credit risk, the Company s lending policies limit the amount of credit granted to any one borrower and

typically require conservative debt service coverage ratios and loan-to-value ratios. Nonetheless, 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. Accordingly, 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 Company seeks to minimize the credit risk on ADC loans 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, or the length of time to complete and/or sell or lease the collateral property is greater than anticipated, the property could have a value upon completion that is insufficient to assure full repayment of the loan. This could have a material adverse effect on the quality of the ADC loan portfolio, and could result in losses or delinquencies.

To minimize the risk involved in specialty finance lending and leasing, the Company participates in syndicated loans that are brought to it, and equipment loans and leases that are assigned to it, by a select group of nationally recognized sources who have had long-term relationships with its experienced lending officers. Each of these credits is secured with a perfected first security interest or outright ownership in the underlying collateral, and structured as senior debt or as a non-cancelable lease. To further minimize the risk involved in specialty finance lending and leasing, each transaction is re-underwritten. In addition, outside counsel is retained to conduct a further review of the underlying documentation.

To minimize the risks involved in other C&I lending, the Company underwrites such loans on the basis of the cash flows produced by the business; requires that such loans be collateralized by various business assets, including inventory, equipment, and accounts receivable, among others; and requires personal guarantees. However, the capacity of a borrower to repay such a C&I loan is substantially dependent on the degree to which the 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.

Included in non-covered loans held for investment at March 31, 2016 and December 31, 2015 were loans to executive officers, directors, and their related interests and parties of $92.4 million and $105.6 million, respectively. There were no loans to principal shareholders at either of those dates.

Non-covered purchased credit-impaired (PCI) loans, which had a carrying value of $6.5 million and an unpaid principal balance of $8.1 million at March 31, 2016, are loans that had been covered under an FDIC loss sharing agreement that expired in March 2015 and that now are included in non-covered loans. Such loans continue to be accounted for under Accounting Standards Codification (ASC) 310-30 and are 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.

Loans Held for Sale

The Community Bank s mortgage banking division originates, aggregates, and services one-to-four family loans. 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 to GSEs, servicing retained. To a much lesser extent, the Community Bank uses its mortgage banking

platform to originate jumbo loans which it typically sells to other financial institutions. Such loans have not represented, nor are they expected to represent, a material portion of the held-for-sale loans originated by the Community Bank. In addition, the Community Bank services mortgage loans for various third parties, primarily including GSEs.

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Asset Quality

The following table presents information regarding the quality of the Company s non-covered loans held for investment (excluding non-covered PCI loans) at March 31, 2016:

(in thousands)	Loans 30-89 Days Past Due	Non-Accrual Loans (1)	Loans 90 Days or More Delinquent and Still Accruing Interest	Total Past Due Loans	Current Loans	Total Loans Receivable
Multi-family	$ 760	$ 15,900	$	$ 16,660	$ 26,389,925	$ 26,406,585
Commercial real estate		11,863		11,863	7,664,930	7,676,793
One-to-four family	380	11,172		11,552	174,481	186,033
Acquisition, development, and construction					344,645	344,645
Commercial and industrial (2)	1,880	8,940		10,820	1,499,689	1,510,509
Other	165	1,358		1,523	21,106	22,629
Total	$ 3,185	$ 49,233	$	$ 52,418	$ 36,094,776	$ 36,147,194

(1) Excludes $954,000 of non-covered PCI loans that were 90 days or more past due.
(2) Includes lease financing receivables, all of which were current.

The following table presents information regarding the quality of the Company s non-covered loans held for investment at December 31, 2015:

(in thousands)	Loans 30-89 Days Past Due	Non-Accrual Loans (1)	Loans 90 Days or More Delinquent and Still Accruing Interest	Total Past Due Loans	Current Loans	Total Loans Receivable
Multi-family	$ 4,818	$ 13,904	$	$ 18,722	$ 25,952,907	$ 25,971,629
Commercial real estate	178	14,920		15,098	7,842,106	7,857,204
One-to-four family	1,117	12,259		13,376	103,465	116,841
Acquisition, development, and construction		27		27	311,649	311,676
Commercial and industrial (2)		4,473		4,473	1,446,083	1,450,556
Other	492	1,242		1,734	22,505	24,239

Total	$ 6,605	$ 46,825	$	$ 53,430	$ 35,678,715	$ 35,732,145

(1) Excludes $969,000 of non-covered PCI loans that were 90 days or more past due.
(2) Includes lease financing receivables, all of which were current.

The following table summarizes the Company s portfolio of non-covered loans held for investment (excluding non-covered PCI loans) by credit quality indicator at March 31, 2016:

(in thousands)	**Multi-Family**	**Commercial Real Estate**	**One-to-Four Family**	**Acquisition, Development, and Construction**	**Total Mortgage Loans**	**Commercial and Industrial[1]**	**Other**	**Total Other Loan Segment**
Credit Quality Indicator:								
Pass	$ 26,371,966	$ 7,635,582	$ 174,862	$ 343,835	$ 34,526,245	$ 1,483,734	$ 21,271	$ 1,505,005
Special mention	5,992	30,058		810	36,860	1,632		1,632
Substandard	28,627	11,153	11,171		50,951	25,143	1,358	26,501
Doubtful								
Total	$ 26,406,585	$ 7,676,793	$ 186,033	$ 344,645	$ 34,614,056	$ 1,510,509	$ 22,629	$ 1,533,138

(1) Includes lease financing receivables, all of which were classified as pass.

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The following table summarizes the Company s portfolio of non-covered loans held for investment by credit quality indicator at December 31, 2015:

(in thousands)	Multi-Family	Commercial Real Estate	One-to-Four Family	Acquisition, Development, and Construction	Total Mortgage Loans	Commercial and Industrial[(1)]	Other	Total Other Loan Segment
Credit Quality Indicator:								
Pass	$ 25,936,423	$ 7,839,127	$ 104,582	$ 309,039	$ 34,189,171	$ 1,433,778	$ 22,996	$ 1,456,774
Special mention	6,305	3,883			10,188	11,771		11,771
Substandard	28,901	14,194	12,259	2,637	57,991	5,007	1,243	6,250
Doubtful								
Total	$ 25,971,629	$ 7,857,204	$ 116,841	$ 311,676	$ 34,257,350	$ 1,450,556	$ 24,239	$ 1,474,795

(1) Includes lease financing receivables, all of which were classified as pass.

The preceding classifications are the most current ones available and generally have been updated within the last twelve months. In addition, they follow regulatory guidelines and can generally be 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 loans are classified based on the duration of the delinquency.

Troubled Debt Restructurings

The Company is required to account for certain held-for-investment loan modifications and 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. A loan modified as a TDR generally is placed on non-accrual status until the Company determines that future collection of principal and interest is reasonably assured, which requires, among other things, 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 March 31, 2016, loans on which concessions were made with respect to rate reductions and/or extension of maturity dates amounted to $17.0 million; loans on which forbearance agreements were reached amounted to $2.9 million.

The following table presents information regarding the Company s TDRs as of March 31, 2016 and December 31, 2015:

	March 31, 2016			December 31, 2015		
(in thousands)	Accruing	Non-Accrual	Total	Accruing	Non-Accrual	Total
Loan Category:						
Multi-family	$ 2,008	$ 10,986	$ 12,994	$ 2,017	$ 635	$ 2,652
Commercial real estate		2,558	2,558	115	6,255	6,370
One-to-four family		1,512	1,512		987	987
Acquisition, development, and construction					27	27
Commercial and industrial	624	1,959	2,583	627	1,279	1,906
Other		211	211		213	213
Total	$ 2,632	$ 17,226	$ 19,858	$ 2,759	$ 9,396	$ 12,155

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

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The financial effects of the Company s TDRs for the three months ended March 31, 2016 and the twelve months ended December 31, 2015 are summarized as follows:

	For the Three Months Ended March 31, 2016				
		Weighted Average Interest Rate			
(dollars in thousands)	Number of Loans	Pre-Modification	Post-Modification	Charge-off Amount	Capitalized Interest
Loan Category:					
Multi-family	1	4.63%	4.00%	$	$
One-to-four family	2	3.52	3.29		4
Commercial and industrial	1	3.30	3.10	47	
Total	4			$ 47	$ 4

There were no financial effects of the Company s TDRs in the three months ended March 31, 2015, as there were no new TDRs arranged during the quarter.

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 were 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 March 31, 2016:

(dollars in thousands)	Amount	Percent of Covered Loans
Loan Category:		
One-to-four family	$ 1,853,643	93.3%
Other loans	132,411	6.7
Total covered loans	$ 1,986,054	100.0%

The Company refers to certain loans acquired in the AmTrust and Desert Hills transactions 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 ASC 310-30 and are initially measured at fair value, which includes estimated future credit losses expected to be incurred over the lives of the loans. Under ASC 310-30, purchasers are permitted to aggregate acquired loans into one or more pools, provided that the loans have common risk characteristics. A pool is then accounted for as a single asset with a single composite interest rate and an

aggregate expectation of cash flows.

At March 31, 2016 and December 31, 2015, the unpaid principal balance of covered loans was $2.4 billion and $2.5 billion, respectively. The carrying value of such loans was $2.0 billion and $2.1 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 values, 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 by actions that may be taken with borrowers.

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On a quarterly basis, the Company 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 quarterly 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.

In the three months ended March 31, 2016, changes in the accretable yield for covered loans were as follows:

(in thousands)	Accretable Yield
Balance at beginning of period	$ 803,145
Reclassification from non-accretable difference	25,261
Accretion	(33,320)
Balance at end of period	$ 795,086

In the preceding table, the line item Reclassification from non-accretable difference includes changes in cash flows that the Company does not expect to collect due to changes in prepayment assumptions, changes in interest rates on variable rate loans, and changes in loss assumptions. As of the Company s most recent quarterly evaluation, prepayment assumptions decreased, which resulted in an increase in future expected interest cash flows and, consequently, an increase in the accretable yield. The effect of this increase was augmented by a slight improvement in the underlying credit assumptions coupled with coupon rates on variable rate loans resetting slightly higher, which also resulted in an increase in future expected interest cash flows and, consequently, an increase in the accretable yield.

Reflecting the foreclosure of certain loans acquired in the AmTrust and Desert Hills acquisitions, the Company owns certain other real estate owned (OREO) that is covered under the Company s loss sharing agreements with the FDIC (covered OREO). Covered OREO was initially recorded at its estimated fair value on the respective dates of acquisition, based on independent appraisals, less the estimated selling costs. Any subsequent write-downs due to declines in fair value have been charged to non-interest expense, and have been partially offset by loss reimbursements under the FDIC loss sharing agreements. Any recoveries of previous write-downs have been credited to non-interest expense and partially offset by the portion of the recovery that was due to the FDIC.

The FDIC loss share receivable represents the present value of the estimated losses 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 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 is reduced by amortization to interest income.

The following table presents information regarding the Company s covered loans that were 90 days or more past due at March 31, 2016 and December 31, 2015:

(in thousands)	March 31, 2016	December 31, 2015
Covered Loans 90 Days or More Past Due:		
One-to-four family	$ 131,876	$ 130,626

Other loans		6,859		6,556
Total covered loans 90 days or more past due	$	138,735	$	137,182

The following table presents information regarding the Company s covered loans that were 30 to 89 days past due at March 31, 2016 and December 31, 2015:

(in thousands)		**March 31, 2016**		**December 31, 2015**
Covered Loans 30-89 Days Past Due:				
One-to-four family	$	26,849	$	30,455
Other loans		1,158		2,369
Total covered loans 30-89 days past due	$	28,007	$	32,824

At March 31, 2016, the Company had $28.0 million of covered loans that were 30 to 89 days past due, and covered loans of $138.7 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 $1.8 billion at March 31, 2016 and was considered current at that date.

Loans that may have been classified as non-performing loans by AmTrust or Desert Hills were no longer classified as non-performing by the Company because, at the respective dates of acquisition, the Company believed that it would fully collect the new carrying value of these loans. The new carrying value represents the contractual balance, reduced by the portion that is expected to be uncollectible (i.e., the non-accretable difference) and by an accretable yield (discount) that is recognized as interest income. It is important to note that management s judgment is required in reclassifying loans subject to ASC 310-30 as performing loans, and such judgment is dependent on having a reasonable expectation about the timing and amount of the cash flows to be collected, even if the loan is contractually past due.

The primary credit quality indicator for covered loans is the expectation of underlying cash flows. In the three months ended March 31, 2016, the Company recorded recoveries of losses on covered loans of $2.9 million. The recoveries were largely due to an increase in expected cash flows in the acquired portfolios of one-to-four family and home equity loans, and were partly offset by FDIC indemnification expense of $2.3 million that was recorded in Non-interest income .

The Company recorded a provision for losses on covered loans of $877,000 in the three months ended March 31, 2015. The provision was largely due to credit deterioration in the acquired portfolios of one-to-four family and home equity loans, and was partly offset by FDIC indemnification income of $702,000 that was recorded in Non-interest income in the corresponding period.

Note 6. Allowances for Loan Losses

The following tables provide additional information regarding the Company s allowances for losses on non-covered and covered loans, based upon the method of evaluating loan impairment:

(in thousands)	**Mortgage**	**Other**	**Total**
Allowances for Loan Losses at March 31, 2016:			
Loans individually evaluated for impairment	$	$	$
Loans collectively evaluated for impairment	124,639	24,422	149,061
Acquired loans with deteriorated credit quality	13,425	16,790	30,215
Total	$ 138,064	$ 41,212	$ 179,276

(in thousands)	**Mortgage**	**Other**	**Total**
Allowances for Loan Losses at December 31, 2015:			
Loans individually evaluated for impairment	$	$	$
Loans collectively evaluated for impairment	122,712	22,484	145,196
Acquired loans with deteriorated credit quality	14,583	18,740	33,323

Total	$ 137,295	$ 41,224	$ 178,519

The following tables provide additional information regarding the methods used to evaluate the Company s loan portfolio for impairment:

(in thousands)	**Mortgage**	**Other**	**Total**
Loans Receivable at March 31, 2016:			
Loans individually evaluated for impairment	$ 27,063	$ 9,071	$ 36,134
Loans collectively evaluated for impairment	34,586,993	1,524,067	36,111,060
Acquired loans with deteriorated credit quality	1,859,486	133,042	1,992,528
Total	$ 36,473,542	$ 1,666,180	$ 38,139,722

(in thousands)	**Mortgage**	**Other**	**Total**
Loans Receivable at December 31, 2015:			
Loans individually evaluated for impairment	$ 47,480	$ 4,474	$ 51,954
Loans collectively evaluated for impairment	34,209,870	1,470,321	35,680,191
Acquired loans with deteriorated credit quality	1,924,255	144,178	2,068,433
Total	$ 36,181,605	$ 1,618,973	$ 37,800,578

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Allowance for Losses on Non-Covered Loans

The following table summarizes activity in the allowance for losses on non-covered loans for the three months ended March 31, 2016 and 2015:

	March 31,					
	2016			2015		
(in thousands)	Mortgage	Other	Total	Mortgage	Other	Total
Balance, beginning of period	$ 124,478	$ 22,646	$ 147,124	$ 122,616	$ 17,241	$ 139,857
Charge-offs	(46)	(148)	(194)	(485)	(313)	(798)
Recoveries	879	248	1,127	1,400	163	1,563
Transfer from the allowance for losses on covered loans (1)				2,250	166	2,416
Provision for (recovery of) non-covered loan losses	874	1,847	2,721	(6,603)	5,733	(870)
Balance, end of period	$ 126,185	$ 24,593	$ 150,778	$ 119,178	$ 22,990	$ 142,168

(1) Represents the allowance associated with $14.2 million of loans acquired in the Desert Hills transaction that were transferred from covered loans to non-covered loans upon expiration of the related FDIC loss sharing agreement.

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

The following tables present additional information about the Company s impaired non-covered loans at March 31, 2016 and December 31, 2015:

(in thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
Impaired loans with no related allowance:					
Multi-family	$ 13,002	$ 15,054	$	$ 20,233	$ 208
Commercial real estate	11,203	16,899		12,599	54
One-to-four family	2,859	3,373		3,122	23
Acquisition, development, and construction				1,318	
Other	9,070	9,475		6,772	50
Total impaired loans	$ 36,134	$ 44,801	$	$ 44,044	$ 335

(in thousands)	Recorded Investment	Unpaid Principal	Related Allowance	Average Recorded	Interest Income

		Balance		Investment	Recognized
Impaired loans with no related allowance:					
Multi-family	$ 27,464	$ 29,379	$	$ 30,965	$ 1,320
Commercial real estate	13,995	15,480		25,066	383
One-to-four family	3,384	8,929		2,302	75
Acquisition, development, and construction	2,637	3,035		1,086	148
Other	4,474	4,794		8,386	118
Total impaired loans	$ 51,954	$ 61,617	$	$ 67,805	$ 2,044

As indicated in the preceding tables, the Company had no impaired non-covered loans with an allowance recorded at March 31, 2016 or December 31, 2015.

Allowance for Losses on Covered Loans

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 pools of loans. The Company records a provision for (recovery of) losses on covered loans to the extent that the expected cash flows from a loan pool have decreased or increased since the acquisition date.

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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.

If there is an increase in expected cash flows due to a decrease in estimated credit losses (as compared to the estimates made at the respective acquisition dates), the increase in the present value of expected cash flows is recorded as a recovery of the prior-period impairment charged to earnings, and the allowance for covered loan losses is reduced. A related debit to non-interest income and a decrease 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 three months ended March 31, 2016 and 2015:

	March 31,	
(in thousands)	**2016**	**2015**
Balance, beginning of period	$ 31,395	$ 45,481
(Recovery of) provision for losses on covered loans	(2,897)	877
Transfer to the allowance for losses on non-covered loans [(1)]		(2,416)
Balance, end of period	$ 28,498	$ 43,942

(1) Represents the allowance associated with $14.2 million of loans acquired in the Desert Hills transaction that were transferred from covered loans to non-covered loans upon expiration of the related FDIC loss sharing agreement.

Note 7. Borrowed Funds

The following table summarizes the Company s borrowed funds at March 31, 2016 and December 31, 2015:

(in thousands)	**March 31, 2016**	**December 31, 2015**
Wholesale borrowings:		
FHLB advances	$ 10,933,100	$ 13,463,800
Repurchase agreements	1,500,000	1,500,000
Fed funds purchased	553,000	426,000
Total wholesale borrowings	$ 12,986,100	$ 15,389,800
Junior subordinated debentures	358,672	358,605
Total borrowed funds	$ 13,344,772	$ 15,748,405

The following table summarizes the Company s repurchase agreements accounted for as secured borrowings at March 31, 2016:

	Remaining Contractual Maturity of the Agreements			
(in thousands)	Overnight and Continuous	Up to 30 Days	30 90 Days	Greater than 90 Days
GSE debentures and mortgage-related securities	$	$	$	$ 1,500,000

At March 31, 2016 and December 31, 2015, the Company had $358.7 million and $358.6 million, respectively, of outstanding junior subordinated deferrable interest debentures (junior subordinated debentures) held by 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 March 31, 2016:

Issuer	Interest Rate of Capital Securities and Debentures	Junior Subordinated Debentures Amount Outstanding	Capital Securities Amount Outstanding	Date of Original Issue	Stated Maturity	First Optional Redemption Date
		(dollars in thousands)				
New York Community Capital Trust V (BONUSES℠ Units)	6.000%	$ 144,746	$ 138,395	Nov. 4, 2002	Nov. 1, 2051	Nov. 4, 2007(1)
New York Community Capital Trust X	2.234	123,712	120,000	Dec. 14, 2006	Dec. 15, 2036	Dec. 15, 2011(2)
PennFed Capital Trust III	3.884	30,928	30,000	June 2, 2003	June 15, 2033	June 15, 2008(2)
New York Community Capital Trust XI	2.279	59,286	57,500	April 16, 2007	June 30, 2037	June 30, 2012(2)
Total junior subordinated debentures		$ 358,672	$ 345,895			

(1) Callable subject to certain conditions as described in the prospectus filed with the U.S. Securities and Exchange Commission (the SEC) on November 4, 2002.
(2) Callable from this date forward.

Note 8. Mortgage Servicing Rights

In accordance with ASC 860-50, the Company records a separate servicing asset representing the right to service third-party loans. MSRs are initially recorded at their fair value as a component of the sale proceeds. The fair value of the MSRs are based on an analysis of discounted cash flows that incorporates estimates of (1) market servicing costs, (2) market-based estimates of ancillary servicing revenue, (3) market-based prepayment rates, and (4) market profit margins.

MSRs are subsequently measured at either fair value or amortized in proportion to, and over the period of, estimated net servicing income. The Company elects one of those methods on a class basis. A class is determined based on (1) the availability of market inputs used in determining the fair value of servicing assets, and/or (2) our method for managing the risks of servicing assets.

The Company had MSRs of $213.3 million and $247.7 million, respectively, at March 31, 2016 and December 31, 2015. Both period-end balances consisted of two classes of MSRs for which the Company separately managed the economic risk: residential MSRs and participation MSRs (i.e., MSRs on loans sold through participations).

The total unpaid principal balance of loans serviced for others was $24.6 billion and $24.2 billion at March 31, 2016 and December 31, 2015, respectively.

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 in the Consolidated Statements of Income and Comprehensive Income. MSRs do not trade in an active open market with readily observable prices. Accordingly, the Company utilizes a third-party valuation specialist to determine the fair value of its MSRs. This specialist determines fair value based on the present value of estimated future net servicing income cash flows, and incorporates 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 specialist and the Company evaluate, and periodically adjust, as necessary, these underlying inputs and assumptions to reflect market conditions and changes in the assumptions that a market participant would consider in valuing MSRs.

The value of residential MSRs at any given time is significantly affected by the mortgage interest rates that are then available in the marketplace; these, in turn, influence mortgage loan prepayment speeds. The rate of prepayment of residential loans serviced is the most significant estimate involved in the measurement process. Actual prepayment rates differ from those projected by management due to changes in a variety of economic factors, including prevailing interest rates and the availability of alternative financing sources to borrowers.

During periods of declining interest rates, the value of residential MSRs generally declines as an increase in mortgage refinancing activity results in an increase in prepayments and a decrease in the carrying value of residential MSRs through a charge to earnings in the current period. Conversely, during periods of rising interest rates, the value of residential MSRs generally increases as mortgage refinancing activity declines and actual prepayments of the loans being serviced occurs more slowly than had been projected, resulting in increases in the carrying value of residential MSRs and servicing income than previously projected amounts. Accordingly, the residential MSRs actually realized, could differ from the amounts initially recorded.

Participation MSRs are initially carried at fair value and are subsequently amortized and carried at the lower of their fair value or amortized amount. The amortization is recorded in proportion to, and over the period of, estimated net servicing income, with impairment of those servicing assets evaluated through an assessment of the fair value of those assets via a discounted cash-flow method. The net carrying value is compared to its discounted estimated future net cash flows to determine whether adjustments should be made to carrying values or amortization schedules. Impairment of participation MSRs is recognized through a valuation allowance and a charge to current-period earnings if it is considered to be temporary or through a direct write-down of the asset and a charge to current-period earnings if it is considered other than temporary. The predominant risk characteristics of the underlying loans that are used to stratify the participation MSRs for measurement purposes generally include the (1) loan origination date, (2) loan rate, (3) loan type and size, (4) loan maturity date, and (5) geographic location. Changes in the carrying value of participation MSRs due to amortization or declines in fair value (i.e., impairment), if any, are reported in Other income in the period during which such changes occur. In the three months ended March 31, 2016, there was no impairment related to the Company s participation MSRs.

The following table sets forth the changes in the balances of residential MSRs and participation MSRs for the periods indicated:

	For the Three Months Ended March 31,			
	2016		**2015**	
(in thousands)	Residential	Participation	Residential	Participation
Carrying value, beginning of year	$ 243,389	$ 4,345	$ 227,297	$
Additions	7,948	1,250	15,017	
Increase (decrease) in fair value:				
Due to changes in interest rates	(24,286)		(11,098)	
Due to model assumption changes [1]	(8,838)			
Due to loan payoffs	(8,750)		(10,216)	
Due to passage of time and other changes	(1,376)		(629)	
Amortization		(414)		
Carrying value, end of period	$ 208,087	$ 5,181	$ 220,371	$

(1) Represents changes in fair value driven by changes to the inputs to the valuation model related to assumed prepayment speeds.

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

	March 31, 2016	December 31, 2015
Expected Weighted Average Life	80 months	92 months
Constant Prepayment Speed	9.68%	7.35%
Discount Rate	10.02	10.01
Primary Mortgage Rate to Refinance	3.72	4.03
Cost to Service (per loan per year):		
Current	$ 63	$ 63
30-59 days or less delinquent	213	213
60-89 days delinquent	313	313
90-119 days delinquent	413	413
120 days or more delinquent	563	563

As indicated in the preceding table, there were no changes in the assumed servicing costs over the three months ended March 31, 2016.

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Note 9. Pension and Other Post-Retirement Benefits

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

	For the Three Months Ended March 31,			
	2016		2015	
(in thousands)	Pension Benefits	Post-Retirement Benefits	Pension Benefits	Post-Retirement Benefits
Components of net periodic (credit) expense:				
Interest cost	$ 1,470	$ 160	$ 1,516	$ 175
Service cost		1		1
Expected return on plan assets	(3,906)		(4,390)	
Amortization of prior-service costs		(62)		(62)
Amortization of net actuarial loss	2,262	81	2,052	96
Net periodic (credit) expense	$ (174)	$ 180	$ (822)	$ 210

The Company expects to contribute $1.3 million to its post-retirement plan to pay premiums and claims for the fiscal year ending December 31, 2016. The Company does not expect to make any contributions to its pension plan in 2016.

Note 10. Stock-Based Compensation

At March 31, 2016, the Company had 9,695,260 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 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. The Company granted 2,571,452 shares of restricted stock during the three months ended March 31, 2016. The shares had an average fair value of $15.23 per share on the date of grant and a vesting period of five years. Compensation and benefits expense related to the restricted stock grants is recognized on a straight-line basis over the vesting period, and totaled $8.2 million and $7.2 million, respectively, for the three months ended March 31, 2016 and 2015.

The following table provides a summary of activity with regard to restricted stock awards in the three months ended March 31, 2016:

	For the Three Months Ended March 31, 2016	
	Number of Shares	Weighted Average Grant Date Fair Value
Unvested at beginning of year	6,362,117	$ 15.44
Granted	2,571,452	15.23
Vested	(1,893,003)	15.38

Canceled	(36,600)	15.27
Unvested at end of period	7,003,966	15.38

As of March 31, 2016, unrecognized compensation cost relating to unvested restricted stock totaled $101.3 million. This amount will be recognized over a remaining weighted average period of 3.6 years.

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The following table summarizes the changes that occurred during the three months ended at March 31, 2016 with regard to the Company s outstanding stock options:

	For the Three Months Ended March 31, 2016	
	Number of Stock Options	Weighted Average Exercise Price
Stock options outstanding, beginning of year	2,400	$ 16.88
Exercised		
Expired/forfeited	(2,400)	16.88
Stock options outstanding, end of period		
Options exercisable, end of period		

There were no stock options outstanding at March 31, 2016 and no options exercised during the three months ended at that date.

Note 11. Fair Value Measurements

GAAP sets forth a definition of fair value, establishes a consistent framework for measuring fair value, and requires disclosure for each major asset and liability category measured at fair value on either a recurring or non-recurring basis. GAAP also clarifies 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, GAAP establishes 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 March 31, 2016 and December 31, 2015, and that were included in the Company s Consolidated Statements of Condition at those dates:

	Fair Value Measurements at March 31, 2016				
(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:					
Securities Available for Sale:					
Municipal bonds	$	$ 800	$	$	$ 800
Capital trust notes		6,841			6,841
Preferred stock	97,908	29,206			127,114
Mutual funds and common stock		17,494			17,494
Total securities available for sale	$ 97,908	$ 54,341	$	$	$ 152,249
Other Assets:					
Loans held for sale	$	$ 471,276	$	$	$ 471,276
Mortgage servicing rights			208,087		208,087
Interest rate lock commitments			6,689		6,689
Derivative assets-other [2]	6,259	4,008		(845)	9,422
Liabilities:					
Derivative liabilities	$ (78)	$ (7,182)	$	$ 5,760	$ (1,500)

(1) Includes cash collateral received from, and paid to, counterparties.
(2) Includes $3.7 million to purchase Treasury options.

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	Fair Value Measurements at December 31, 2015				
(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	$	$ 53,852	$	$	$ 53,852
Total mortgage-related securities	$	$ 53,852	$	$	$ 53,852
Other Securities Available for Sale:					
Municipal bonds	$	$ 795	$	$	$ 795
Capital trust notes		6,964			6,964
Preferred stock	96,641	28,731			125,372
Mutual funds and common stock		17,272			17,272
Total other securities	$ 96,641	$ 53,762	$	$	$ 150,403
Total securities available for sale	$ 96,641	$ 107,614	$	$	$ 204,255
Other Assets:					
Loans held for sale	$	$ 367,221	$	$	$ 367,221
Mortgage servicing rights			243,389		243,389
Interest rate lock commitments			2,526		2,526
Derivative assets-other [2]	1,875	1,342		(1,024)	2,193
Liabilities:					
Derivative liabilities	$ (1,539)	$ (2,783)	$	$ 3,986	$ (336)

(1) Includes cash collateral received from, and paid to, counterparties.
(2) Includes $1.9 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 a 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.

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 service valuations that appear to be unusual or unexpected.

The Company carries loans held for sale originated by its mortgage banking operation at fair value. The fair value of loans held for sale 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.

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Mortgage servicing rights (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 a third-party valuation specialist. The specialist 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 periodically adjusts the underlying inputs and assumptions 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 values of interest rate lock commitments (IRLCs) for residential mortgage loans that the Company intends to sell are 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 a 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 was 90 days or more past due at March 31, 2016. Management believes that 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 the Company s loans held for sale, where available, and adjusted as necessary for such items as servicing value, guaranty fee premiums, and credit spread adjustments.

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:

	March 31, 2016			December 31, 2015		
(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	$ 471,276	$ 456,339	$ 14,937	$ 367,221	$ 359,587	$ 7,634

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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.

The following table presents the changes in fair value related to initial measurement, and the subsequent changes in fair value included in earnings, for loans held for sale and MSRs for the periods indicated:

	(Loss) Gain Included in Mortgage Banking Income from Changes in Fair Value[1]	
	For the Three Months Ended March 31,	
(in thousands)	2016	2015
Loans held for sale	$ 6,900	$ 4,369
Mortgage servicing rights	(43,250)	(21,943)
Total loss	$ (36,350)	$ (17,574)

(1) Does not include the effect of hedging activities, which is included in Other non-interest income.

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 three months ended March 31, 2016 and 2015, 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, 2016	Total Realized/Unrealized Gains/(Losses) Recorded in Income (Loss)	Comprehensive (Loss) Income	Issuances	Settlements	Transfers to/(from) Level 3	Fair Value at Mar. 31, 2016	Change in Unrealized Gains/ (Losses) Related to Instruments Held at March 31, 2016
Mortgage servicing rights	$ 243,389	$ (43,250)	$	$ 7,948	$	$	$ 208,087	$ (37,093)
Interest rate lock commitments	2,526	4,163					6,689	6,586

(in thousands)	Fair Value January 1, 2015	Total Realized/Unrealized Gains/(Losses) Recorded in Income (Loss)	Comprehensive (Loss) Income	Issuances	Settlements	Transfers to/(from) Level 3	Fair Value at Mar. 31, 2015	Change in Unrealized Gains/ (Losses) Related to Instruments Held at March 31, 2015
Mortgage servicing rights	$ 227,297	$ (21,943)	$	$ 15,017	$	$	$ 220,371	$ (6,448)
Interest rate lock commitments	4,397	4,465					8,862	8,807

The Company s policy is to recognize transfers in and out of Levels 1, 2, and 3 as of the end of the reporting period. There were no transfers in or out of Levels 1, 2, or 3 during the three months ended March 31, 2016 or 2015.

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For Level 3 assets and liabilities measured at fair value on a recurring basis as of March 31, 2016, the significant unobservable inputs used in the fair value measurements were as follows:

(dollars in thousands)	Fair Value at Mar. 31, 2016	Valuation Technique	Significant Unobservable Inputs	Significant Unobservable Input Value
Mortgage servicing rights	$ 208,087	Discounted Cash Flow	Weighted Average Constant Prepayment Rate [1]	9.68%
			Weighted Average Discount Rate	10.02
Interest rate lock commitments	6,689	Discounted Cash Flow	Weighted Average Closing Ratio	75.99

(1) Represents annualized loan repayment rate assumptions.

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 either 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 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 an interest rate 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 interest 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 March 31, 2016 and December 31, 2015, and that were included in the Company s Consolidated Statements of Condition at those dates:

	Fair Value Measurements at March 31, 2016 Using			
(in thousands)	Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value

	(Level 1)				
Certain impaired loans [1]	$	$	$	1,657	$ 1,657
Other assets [2]		$		9,251	9,251
Total	$	$	$	10,908	$ 10,908

(1) Represents the fair value of certain impaired loans, based on the value of the collateral.
(2) 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, 2015 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 [1]	$	$	$ 3,930	$ 3,930
Other assets [2]			7,982	7,982
Total	$	$	$ 11,912	$ 11,912

(1) Represents the fair value of certain impaired loans, based on the value of the collateral.
(2) 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.

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Other Fair Value Disclosures

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

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

The following tables summarize the carrying values, estimated fair values, and fair value measurement levels of financial instruments that were not carried at fair value on the Company s Consolidated Statements of Condition at March 31, 2016 and December 31, 2015: