

New York Community Bancorp

Taking its medicine: Takeaways following meeting with senior leadership

Reiterate Rating: NEUTRAL | PO: 5.00 USD | Price: 4.90 USD

Leadership has the playbook to turn things around

On Friday we met with the senior leadership, including Executive Chairman Sandro DiNello, CEO Tom Cangemi, CFO John Pinto and IR Head Sal DiMartino. Mr. DiNello appears firmly in control of the go forward strategy and we consider him as a credible executive with a proven track record of turning around a troubled bank and working with banking regulators (the OCC). We note that Lee Smith (President of Mortgage business) and Peter Schoels (Board member, private equity background, instrumental in appointing Mr. DiNello as CEO at Flagstar) both worked with Mr. DiNello on the Flagstar turnaround and will likely play an important role in driving the strategic direction at NYCB.

Credit reserves reflect market stress

Mgmt. believes that the loan loss reserve at YE23 appropriately reflects its assessment of the inherent credit risk in the commercial real estate (CRE) portfolio. That said, price discovery in the office-CRE market (\$3.4bn or 4% of loans) could lead to additional reserves (not dissimilar to peers; Exhibits 1-2). On NYC rent-regulated multi-family loans (\$18.3bn or 21%), 4Q reserve actions were driven by factoring-in the potential repricing risk due to higher interest rates. Mgmt. has yet to see any material deterioration in this book (97% occupancy rate, not seeing cash flow degradation). Exposure to multi-family CRE loans should decline over time with the appetite from the GSEs (affordable housing mandate) seen as a potential avenue for clients who are looking to refi at maturity.

Focused on building capital

Mgmt. believes that it can achieve its CET1 capital target of 10% (vs. 9.1% at YE23) via retained earnings and select strategic actions (potentially exiting certain non-relationship lending portfolios). While mgmt. did not rule-out the potential for a capital raise if things worsen relative to its expectations, our sense is that at this point it is a low probability event. In a show of confidence, multiple insiders bought shares on Friday, driving a +17% move in the stock vs. +2% regional bank index.

Deposit franchise resilient

Mgmt. highlighted the relationship driven and diversified nature of the deposit franchise (420 branches spread across nine states) which led to the relative stability in depositor behavior despite the elevated headline risk in recent days. While NYCB is not immune to deposit pricing pressures, mgmt's recent update noted relatively stable balances and limited impact on deposit pricing vs. prior expectations. This suggests that the bank has weathered the post-earnings storm better than what was feared by certain investors.

Our view: Visibility on capital, credit needed

No change to our neutral rating on the stock. While mgmt. appears to have stabilized the situation for now, investors will need visibility on EPS power, feel confident that the bank can achieve its capital target without an external raise and gain comfort on CRE credit quality/reserve levels before stepping-in. Lower interest rates could also serve as a catalyst for turning around sentiment on the stock. Maintain Neutral rating.

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Timestamp: 12 February 2024 05:30AM EST

12 February 2024

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Stock Data

Price	4.90 USD
Price Objective	5.00 USD
Date Established	7-Feb-2024
Investment Opinion	B-2-8
52-Week Range	3.60 USD -14.22 USD
Mrkt Val / Shares Out (mn)	3,538 USD / 722.1
Free Float	97.4%
Average Daily Value	150.48 USD
BofA Ticker / Exchange	NYCB / NYS
Bloomberg / Reuters	NYCB US / NYCB.N
ROE (2024E)	5.4%
ESGMeter™	Medium

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Relevant research

[NYCB: Management update, leadership change should instill confidence 07 February 2024](#)

[NYCB: EPS power, strategic outlook muddled 07 February 2024](#)

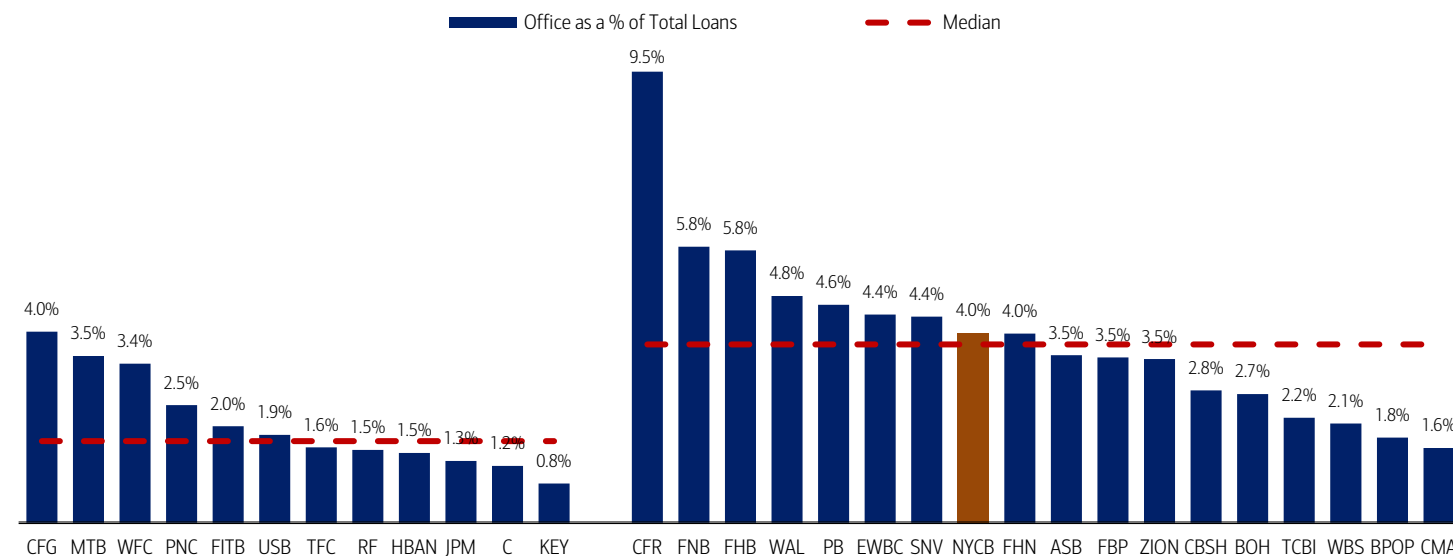
[NYCB: Top questions asked \(and answered\) 02 February 2024](#)

[NYCB: Heavy lifting ahead 31 January 2024](#)

Reserves held against office CRE loans 8%; 22% if applied to criticized loans; 38% of office CRE classified as criticized (~\$1.29bn). Assuming all criticized loans default (not our expectation), property values declined by 50% (~60% weighted average LTV at origination), the current reserves would cover the entire loss.

Exhibit 1: Office exposure as a % of total loans: 1.7% at large caps, 3.8% at mid caps*

Office CRE loans as a % of total loans



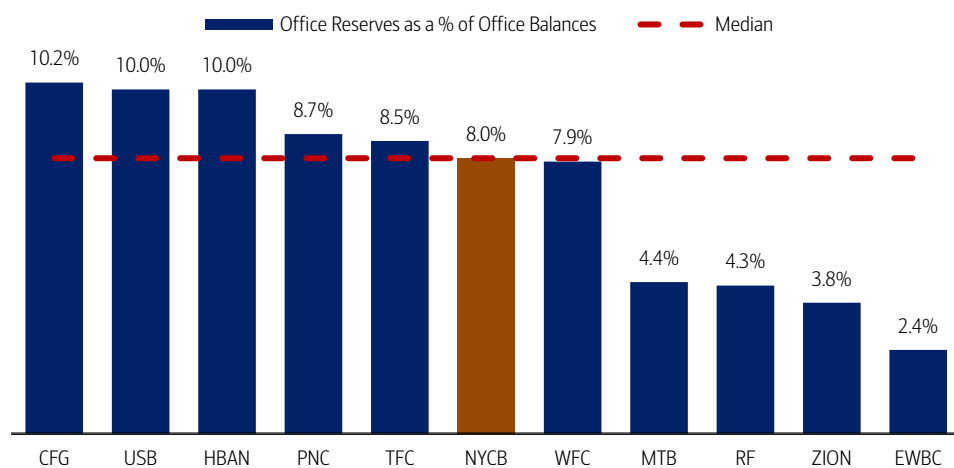
Source: BofA Global Research, company filings

*JPM/C/FPB represent 3Q exposure

BofA GLOBAL RESEARCH

Exhibit 2: Banks held 8% in reserves against office CRE on average

Office reserves as a % of total office CRE loans



Source: BofA Global Research, company filings

BofA GLOBAL RESEARCH

Abbreviations:

CFG: Citizens Financial Group
 MTB: M&T Bank Corp
 WFC: Wells Fargo & Co
 PNC: PNC Financial Services
 FITB: Fifth Third Bancorp
 USB: US Bancorp
 TFC: Truist Financial Corp
 RF: Regions Financial Corp
 HBAN: Huntington Bancshares Inc
 JPM: JPMorgan Chase & Co
 C: Citigroup Inc
 KEY: Keycorp
 CFR: Cullen/Frost Bankers Inc
 FNB: FNB Corp
 FHB: First Hawaiian Inc
 WAL: Western Alliance Bancorp
 PB: Prosperity Bancshares Inc
 EWBC: East West Bancorp Inc
 SNV: Synovus Financial Corp
 NYCB: New York Community Bancorp
 FHN: First Horizon Corp
 ASB: Associated Banc-Corp
 FBP: First Bancorp Puerto Rico
 ZION: Zions Bancorp
 CBSH: Commerce Bancshares
 BOH: Bank of Hawaii Corp
 TCBI: Texas Capital Bancshares
 WBS: Webster Financial Corp
 BPOP: Popular Inc
 CMA: Comerica Inc

Price objective basis & risk**New York Community Bancorp (NYCB)**

Our \$5.0 PO is based on a 50%/50% weighting between our 2024e EPS and 2024e TBV. We assign 5.0x/0.5x multiples, respectively, below the bank's 5 year pre pandemic median of 15.1x/1.7x given heightened uncertainty surrounding EPS/ROTCE outlooks, owing to the macro backdrop. Upside risks to our price objective are: better than expected growth, faster than expected decline in market interest rates that would provide relief in funding costs and to its CRE borrowers, and better than expected deal synergies. Downside risks to our price objective are: worse than expected credit losses, higher deposit costs, severe downturn in the NYC economy and the NYC commercial real estate market.

Analyst Certification

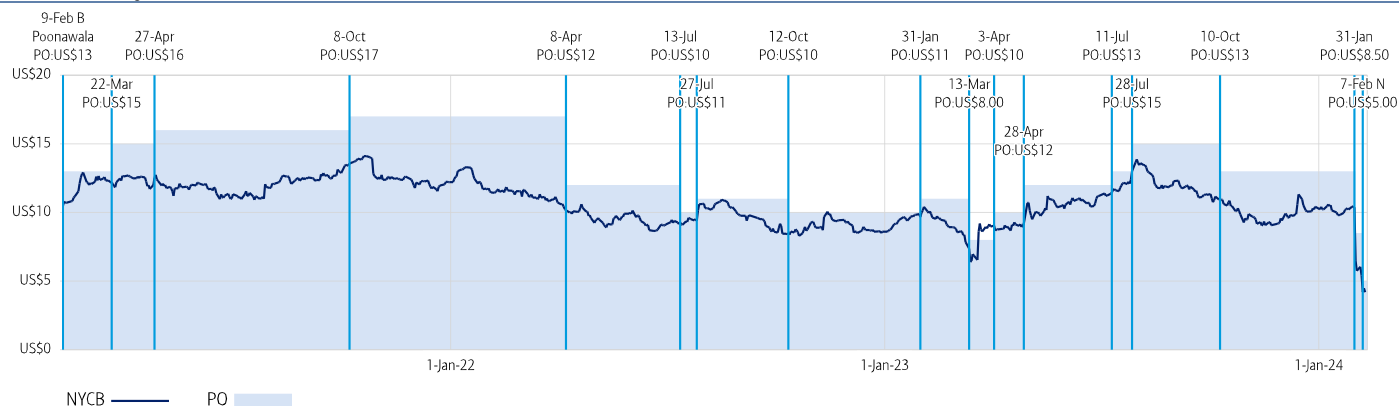
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New York Community (NYCB) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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Equity Investment Rating Distribution: Banks Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	100	49.75%	Buy	84	84.00%
Hold	54	26.87%	Hold	41	75.93%
Sell	47	23.38%	Sell	35	74.47%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

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Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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