MARKETWATCH

NYCB's stock plunges 45% after report it's exploring a stock sale, highlighting uncertainty about its future

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Troubled regional lender has asked banks to gauge investor interest in buying its stock, the Wall Street Journal reported

New York Community Bancorp's stock cratered 45% on Wednesday following a report that the troubled regional lender is seeking to raise equity capital, underscoring the uncertainty about the bank's future.

The stock - on track for its worst single-session decline ever - had been halted for volatility several times, after a steep slide that continued after it resumed trading. The stock was halted for news pending at 12.34 p.m. Shares are now down 82% to date in 2024 and are trading below $2.

A company spokesperson did not reply to an email from MarketWatch.

The news sent other regional bank stocks lower and highlighted investor concerns about the dilutive impact of a stock sale.

NYCB (NYCB) has sent bankers to evaluate investors' interest in buying its stock, as it seeks to shore up its finances, the Wall Street Journal reported, citing people described as familiar with the matter. There's no guarantee a deal can or will happen.

Executives in the banking business have been expecting New York Community Bancorp to right itself, given that its new Chief Executive Alessandro DiNello has a solid reputation as a problem solver.

"He's quite a good guy," one major bank financial chief told MarketWatch. "They need to assure the market that they have their credit risks understood."

The executive and industry analysts agree that the bank needs to raise capital to protect against potential loan losses in its portfolio, which includes stressed loans in the multifamily sector.

An effort to issue stock to raise capital was one that led to the collapse of Silicon Valley Bank a year ago and contributed to the collapse of Signature Bank and First Republic.

Brian Mulberry, client portfolio manager at Zacks Investment Research, said it's been known that NYCB "is looking to raise capital as soon as possible" but he's not aware of any fresh funding lined up by the bank.

Another option would be to tap the Federal Reserve's Bank Term Funding Program set up after the collapse of Silicon Valley Bank last year. That program expires on March 11. A spokesperson for the Federal Reserve declined to comment.

Also read: First Citizens' stock notches largest one-day rally ever on deal for Silicon Valley Bridge Bank

NYCB and its operating unit Flagstar Bank moved in to buy Signature Bank, a deal that seemed initially successful when the bank reported a 150% jump in second-quarter profit over the summer.

Also read: Flagstar Bank to take over most of Signature Bank's deposits, FDIC says

But then on Jan. 31, NYCB slashed its dividend and signaled stress on a multifamily loan and an office loan, triggering the biggest one-day equity-market slide in its history equal to a third of its market value.

Background: New York Community Bancorp's stock crushed on surprise loss, dividend cut and cost of two loans

One of the major issues facing the bank is exposure to multifamily properties under rent-stabilization and rent-control laws in New York City, as DA Davidson analysts flagged recently in a Moody's downgrade of the bank.

About half of NYCB's loans on multifamily residential properties are subject to rent restrictions. That means landlords can't raise rents to combat the effect of higher interest rates.

"Lower rates are not going to solve this problem, there needs to be changes to the law and unfortunately, the wheels of justice move very slowly," DA Davidson said.

Also read: New York Community Bancorp may attract buyers for mortgage-servicing rights

There was more bad news in early March when the bank disclosed "material weaknesses" in its accounting and other financial-reporting issues. The bank said the weakness related to its loan review in an evaluation of its internal financial controls.

Internal-control deficiencies were the result of "ineffective oversight, risk-assessment and monitoring activities," said NYCB.

Moody's downgraded the bank for a second time this year on the news, pushing its credit rating further into junk territory.

The bank named DiNello as its new president and chief executive last week, after Thomas Cangemi resigned from those roles after 27 years at the company. DiNello, the former chief executive of Flagstar, was appointed as the bank's executive chair last month, having previously served as nonexecutive chair of its board.

Last Friday, it named George F. Buchanan III as vice president and chief risk officer, a position that had been vacant before the bank's troubles this year. Buchanan comes to the bank with more than 30 years of experience including at First Union, which is now part of Wells Fargo & Co. (WFC), and at AmSouth Bancorporation, US Bank and Regions Bank.

The bank named Colleen McCullum as its chief audit executive with 20 years of experience in that role.

Investors are now worried about the risk that other banks might be swept up in the fallout from NYCB's woes.

Against that backdrop, Customers Bancorp Inc. (CUBI) dropped 1% on Wednesday, Valley National Bancorp (VLY) moved lower by 3%, Webster Financial Corp. (WBS) dropped 2%, Citizens Financial Group Inc. (CFG) fell 1%, Axos Financial Inc. (AX) shed 1.7%, BankUnited Inc. (BKU) was down by 3% and Flushing Financial Corp. (FFIC) moved lower by 2.4%.

The SPDR S&P Regional Banking ETF KRE was down 2.1%.

Read on: NYCB's stock continues its slide despite analyst's vote of confidence

Joy Wiltermuth and Tomi Kilgore contributed.

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