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NYCB Stock Climbs After $1 Billion Lifeline. We Do the Math.

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A $1 billion infusion from investors greatly increases New York Community Bancorp ↑ NYCB 4.83% 's odds of surviving, even if existing shareholders will see their investment diluted.

After a 45% drop in its stock Wednesday and a trading halt, the stumbling NYCB announced it was getting an equity injection from the investment firm run by former Treasury Secretary Steven Mnuchin and other funds.

The deal dilutes current holders, but should reassure depositors and employees—helping ensure the bank's survival as a stand-alone institution.

The bank also will get a new chief executive: Joseph Otting, previously a comptroller of the currency and head of OneWest Bank.

Shares reversed course after the halt was lifted, doubling from an intraday low of $1.70, to $3.48, on the news—closing 7.5% up for the day. On Thursday, the stock was up 7.4% at $3.72.

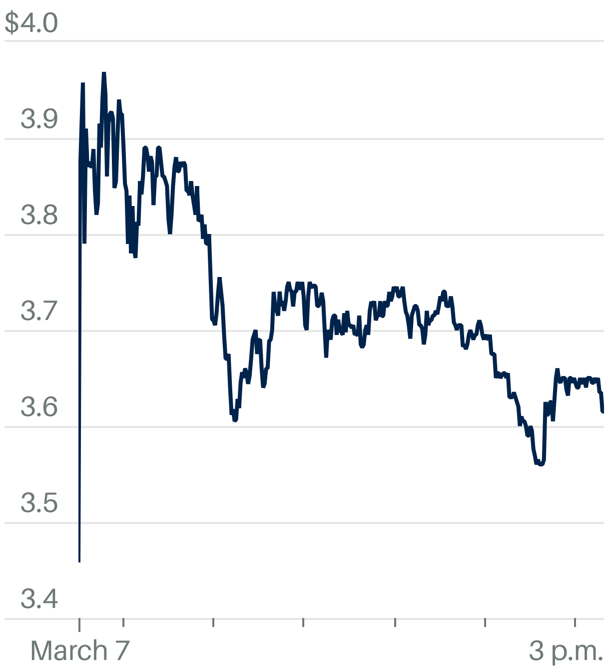
After trading for a month at a severe discount to the bank's tangible book value, the bounce in Wednesday's price leaves the stock at more than half the roughly $5.80 a share in book value that NYCB would have after the deal.

With NYCB under pressure to boost reserves on its loans to rent-regulated apartments in New York City, it will sell common and preferred stock, plus warrants, to the investment firms.

Mnuchin's Liberty Strategic Capital will invest $450 million. Hudson Bay Capital, led by Allen Puwalski, will put in $250 million. Reverence Capital, led by Milton Berlinski, will invest $200 million. The rest of the $1.05 billion total will come from institutions that include Ken Griffin's Citadel Securities. The deal is expected to close by March 11.

The bank is selling common and convertible-preferred stock to the investor group at $2 a share. That dilutive deal will give the group voting control of the bank, with a potential 44% of NYCB stock, fully diluted. The investors also get stock warrants, exercisable at $2.50 a share, for each of 60% of the shares they buy. While nonvoting, the resulting shares would further dilute the economic interest of current stockholders. Before the rescue deal, however, the stock was headed toward pennies.

New York Community Bancorp



As of March 7, 3:19 p.m. ET

Source: FactSet

“We were mindful of the bank’s credit risk profile,” said Mnuchin, in the Wednesday afternoon announcement. “With the over $1 billion of capital invested in the Bank, we believe we now have sufficient capital should reserves need to be increased in the future to be consistent with or above the coverage ratio of NYCB’s large bank peers.”

If the new investors exercise their warrants, they will add another $750 million to the bank’s coffers. That would bring their total injection to $1.8 billion and lift NYCB's tangible book value above $9 billion. With about 1.6 billion shares, pro forma for the deal, the bank would have more than $5.80 a share in tangible book value—by *Barron's* rough calculation.

The deal drew the praise of Christopher McGratty, who follows NYCB for the bank-focused broker Keefe, Bruyette & Woods. He figures that cash from the investors will get the bank's regulatory capital above the 10% of assets that regulators desire, since mergers pushed its assets above $100 billion. The visible availability of private capital is good for the broader banking system and the new management provides NYCB with instant investor credibility, he wrote in a note.

"While painful for existing shareholders," said McGratty, "it should quiet systemic concerns for NYCB, and this should help broader sentiment for the bank group." He rates NYCB stock as Neutral.

NYCB's Board Chairman Sandro DiNello had taken charge of the bank last month from its then-chief executive Tom Cangemi, after the stock collapsed with a surprise jump in the bank's loan loss reserves. Cangemi remained a director, but Wednesday's announcement signals he will leave the board.

The Wall Street Journal reported early Wednesday that NYCB had sent bankers to explore whether investors are interested in purchasing shares.

Last week, NYCB—the lender perhaps most exposed to apartment buildings with rent controls in New York City—surprised markets by changing its CEO and saying it found “material weaknesses” in its loan-review process, *Barron’s* reported. It also took a $2.4 billion charge to write down goodwill it had carried from past bank mergers.

Wall Street didn’t take kindly to that, with several stock analysts cutting their rating on shares and Fitch downgrading NYCB’s short- and long-term bonds to BB from BBB, putting it just below investment grade, with a Negative rating outlook.

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