NYCB Got A $1B Lifeline, But Multifamily Borrowers Are Still Adrift

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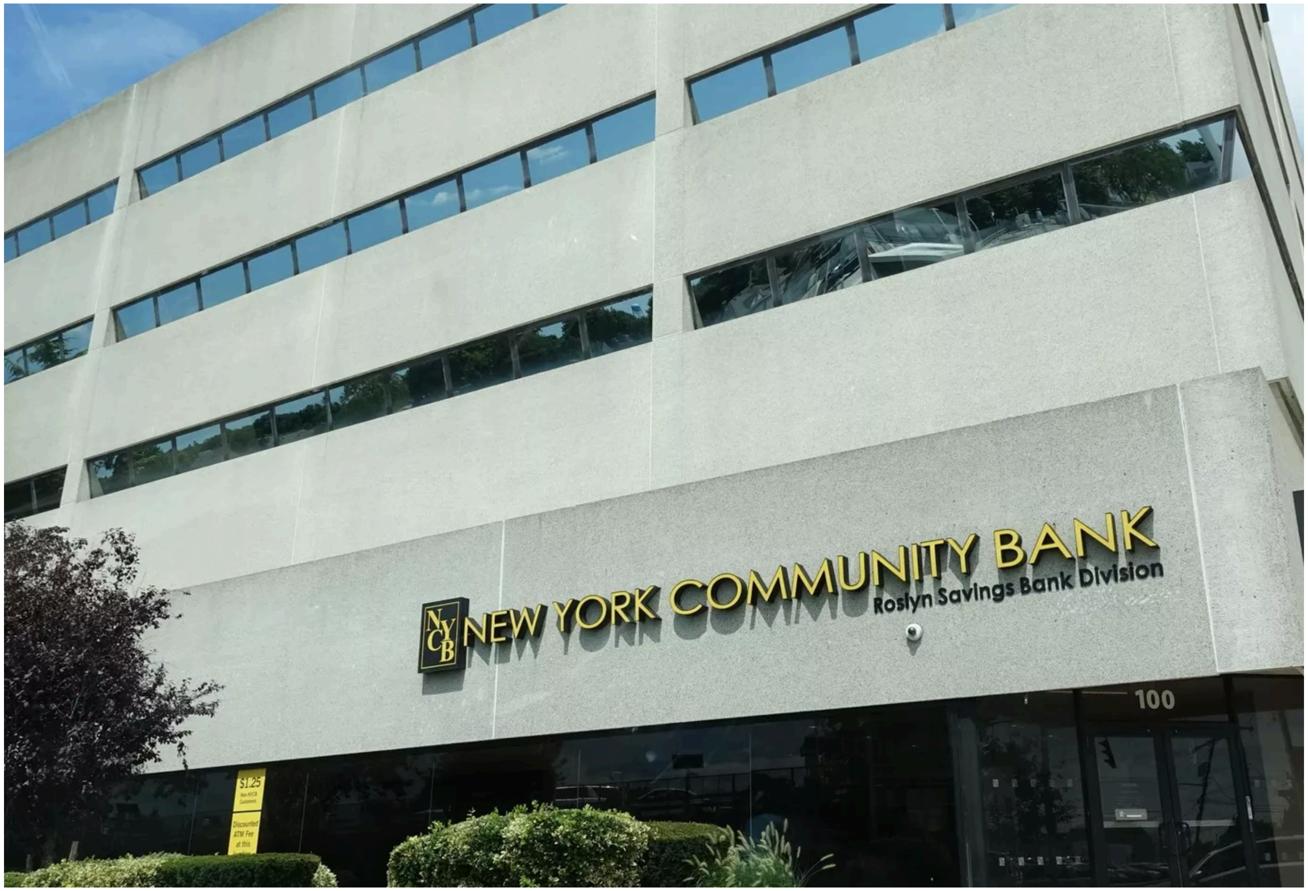
New York Community Bancorp (https://www.bisnow.com/tags/new-york-community-bank)'s Thursday morning conference call followed a chaotic Wednesday that began with its stock dropping 40% before its trading was halted. It ended with a $1B cash infusion (https://www.bisnow.com/new-york/news/capital-markets/nycb-stock-halts-trading-123208) and takeover from a group of investment funds, led by the firm founded by former Treasury Secretary Steven Mnuchin (https://www.bisnow.com/tags/steven-mnuchin).

The call was a few minutes late to start, and while investors, analysts and curious minds alike waited for the Long Island-based bank's new leadership to give an update on its rescue, an instrumental version of Bruno Mars' *Grenade* played over the webcast.

If there were any lyrics playing, listeners would have heard, "I'd catch a grenade for ya, throw my hand on a blade for ya" — appropriate for a bank that the real estate world feared was on the verge of collapse before its white knight rode in.

But while Mnuchin's equity investment stopped NYCB from exploding, its near-collapse coming almost a year to the day after the failures of Silicon Valley Bank (https://www.bisnow.com/tags/silicon-valley-bank) and Signature Bank (https://www.bisnow.com/tags/signature-bank) triggered a kind of post-traumatic stress response among property owners in New York City, particularly apartment landlords.



“Capital can definitely get people out of problems,” said Alan Purser, the global head of capital formation at New York City-focused lender S3 Capital. “It solves a lot of problems, but it doesn't solve deep, underlying issues. And that takes time to see how it plays out.”

NYCB has grown rapidly and, as a result, was sent into a spiral. In March 2023, months after merging with Flagstar Bank, it acquired a portion of Signature’s assets, including $13B in loans (https://ir.mynycb.com/news-and-events/news-releases/press-release-details/2023/NEW-YORK-COMMUNITY-BANCORP-INC.-THROUGH-ITS-BANK-SUBSIDIARY-FLAGSTAR-BANK-N.A.-ACQUIRES-CERTAIN-ASSETS-AND-ASSUMES-CERTAIN-LIABILITIES-OF-SIGNATURE-

BRIDGE-BANK-FROM-THE-FDIC/default.aspx), from the Federal Deposit Insurance Corp. As a result, the bank became subject to new regulations that required it to set aside more capital to cover for potential losses.

At the end of January, it disclosed that delinquent property loans on its books were on the rise and slashed its dividend by 70% (https://www.bisnow.com/new-york/news/capital-markets/nycb-stocks-plunge-after-70-dividend-cut-announced-122659) to 5 cents a share in a bid to boost capital, which triggered a huge sell-off in its stock. It reduced that dividend again Thursday to 1 cent per share.

Fitch Ratings affirmed (https://www.fitchratings.com/research/banks/fitch-affirms-new-york-community-bancorp-at-bb-on-capital-infusion-announcement-07-03-2024) NYCB's credit rating at a BB+, below investment grade, and kept its outlook negative.

“The benefits of the capital infusion is balanced by continued uncertainty related to the company's long-term ability to generate and defend business volumes and earnings while appropriately controlling risks,” Fitch analysts wrote in the ratings action.

Much depends on the analysis of loans that NYCB plans to undertake leading up to its next earnings report, as the bank told investors on Thursday.

The effort will be heralded by NYCB’s new CEO, former Comptroller of the Currency Joseph Otting, who takes over April 1. The bank’s board is getting an overhaul, with all of the longest-serving directors removed and the number of members shrinking from 12 to nine.

Mnuchin, whose firm, Liberty Strategic Capital, agreed to invest $400M to shore up NYCB, will get a seat on the board, as will executives from Hudson Bay Capital Management and Reverence Capital Partners, which agreed to invest $250M and $200M, respectively.

The new investors now own more than 40% of the company and have already seen a sizable return on investment.

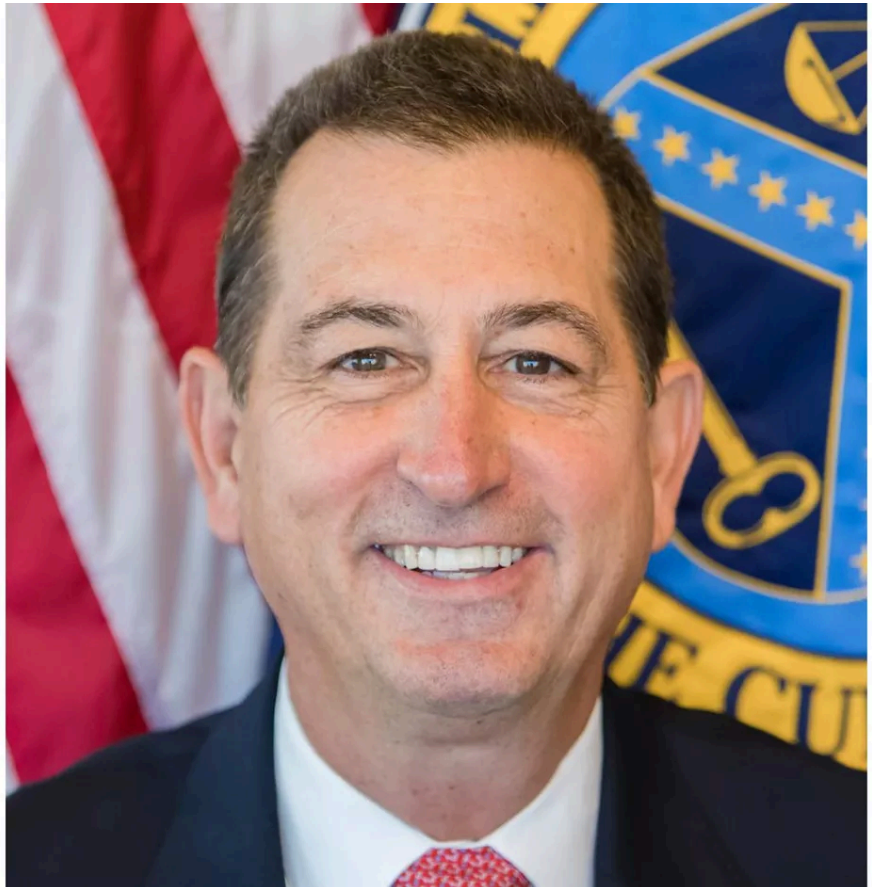
When trading was halted Wednesday before the deal's announcement, NYCB's stock sat at $1.86. Mnuchin's group agreed to buy $1.05B in newly issued common stock and convertible preferred stock priced at $2 per share. After Thursday's market close, the stock was trading at $3.66 per share.

On Thursday's call, Otting acknowledged the uncertainty tied to NYCB's multifamily loan book, saying that the incoming investors have spent a "significant amount of time with the team, in the bank, going through the large exposures in the portfolio."

"Market conditions continue to change, cap rates continue to change, interest rates have volatility and those affect valuations in the portfolio. But we'll continue to do that due diligence as we move forward and continue to manage the credit risk aspects of the portfolio," Otting said. "But I'm confident that at this point, we have a good vision into that portfolio."

NYCB management disclosed last week (https://www.bisnow.com/new-york/news/capital-markets/new-york-community-bank-internal-controls-issue-leadership-change-123138) that it "identified material weaknesses" in the company's internal loan review process and risk management.

The bank had $18B of loans covering rent-regulated properties, with 14% at risk of default as of the end of January. Overall, multifamily loans make up 44% of NYCB's loan book, and around 8% of those are marked as criticized or in probability of default.



Otting signaled on the call that he intends to reduce the bank's exposure to commercial property, saying that the "right balance sheet" for a regional bank is to have a third of its loans in real estate.

For owners of rent-stabilized apartments, which roughly half (https://www.wsj.com/finance/new-york-community-bancorp-seeks-cash-infusion-6e4c0083) of NYCB's portfolio of multifamily loans serves, the turmoil at NYCB only adds to the years-long reckoning (https://www.bisnow.com/new-york/news/multifamily/a-reckoning-is-coming-for-nycs-rent-stabilized-multifamily-landlords-121686) they have been facing.

When New York enacted the 2019 Housing Stability and Tenant Protection Act (https://www.bisnow.com/tags/housing-stability-and-tenant-protection-act), it eliminated landlords' ability to raise rents by 20% when stabilized units become vacant, as well as reduced the renovation costs that owners can recover to just $15K over 15 years.

Many landlords say that the $15K cap is not enough to cover the costs of bringing an apartment back to habitable conditions (https://therealdeal.com/magazine/national-july-2022/that-empty-feeling/). A study conducted by HR&A Advisors for the Real Estate Board of New York (https://www.bisnow.com/tags/real-estate-board-of-new-york) and the Rent Stabilization Association (https://www.bisnow.com/tags/rent-stabilization-association) released last week found that 25% of rent-stabilized buildings with 11 units or less are currently vacant (https://www.politico.com/news/2024/02/29/new-york-real-estate-lobby-pushes-to-roll-back-2019-rent-changes-with-new-data-00144003).

NYCB grew exponentially (https://www.bloomberg.com/news/articles/2024-03-05/nycb-stock-dive-bank-ballooned-despite-real-estate-market-warnings?itm_source=record&itm_campaign=NYCB&itm_content=What_Happened-0&sref=xjLu1klR) in the years following the law's passage with the acquisitions of Flagstar Bank (https://www.bisnow.com/tags/flagstar-bank) and Signature.

“There's a fundamental question that needs to be asked. Why were they doing business as usual, and billions and billions of dollars kept being lent and underwritten as if nothing changed, when the whole world changed on the business model?” said Jay Martin (https://www.bisnow.com/tags/jay-martin), executive director of apartment landlord group Community Housing Improvement Program (https://www.bisnow.com/tags/community-housing-improvement-program).

With rents more stringently restricted amid increasing costs, delinquencies have risen. Skyrocketing interest rates and the collapse of Signature, one of the market's most active lenders, haven't helped borrowers either. Martin said his conversations with regional lenders show they continue to be out of step with what borrowers are facing.

Generally, property lenders are faced with a lag, Terra Strategies Managing Partner Shlomo Chopp said. That especially becomes an issue in a quickly evolving market.

"Borrowers and developers naturally are sunny people," Chopp said. "You have this disconnect where everyone is moping and complaining, then the lender calls. They don't want the lender to get upset at them, so they give one story."

"Then it becomes a problem," Chopp added.

Though NYCB wasn't victim to the same bank run that doomed Signature and SVB last year, the bank's red flags did lead to withdrawals. It disclosed Thursday that it held deposits of $77.2B, down from $83B on Feb. 5, Reuters reported (https://www.reuters.com/markets/us/nycb-total-deposits-drop-7-772-billion-shares-fall-2024-03-07/).

During the call, Otting claimed that the size of the dip demonstrates "resilience and the relationship-driven nature of the deposit base." He later noted his background building out the commercial industrial portfolio of middle-market companies as a way to drive deposits to the bank.

While Otting and Mnuchin work to turn around NYCB, a strategy they successfully executed during the Global Financial Crisis (https://www.bisnow.com/tags/global-financial-crisis) at mortgage lender IndyMac (https://www.bloomberg.com/news/articles/2024-03-07/mnuchin-leaps-into-bank-turmoil-with-familiar-playbook-and-ally?srnd=deals&sref=xjLu1klR), the multifamily borrowing business continues to shift.

Historically, for multifamily brokerage Alpha Realty, NYCB and Signature were the “go-to banks,” founder and principal Lev Mavashev said. But in the past year, he did almost no deals with NYCB, with the exception of a few refinances.

“Going forward? I don't know,” Mavashev said. “I think it's going to be CMBS — they seem popular right now — and agency for rent-stabilized multifamily.”

Though Dime Bank, Valley Bank and Apple Bank (https://www.bisnow.com/tags/apple-bank) also serve multifamily borrowers, Terra Strategies’ Chopp said market players are skeptical that other banks that have been active in New York can escape the fallout.

“Everybody's got the same problems,” Chopp said. “I don't think that any other bank is better than NYCB.”

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See Also: NYC Lawmakers Zero In On Real Estate Deals, Cushman Broker In Oversight Hearing (/new-york/news/office/nyc-lawmakers-zero-in-on-leasing-process-cushman-broker-in-oversight-hearing-126545)

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