

New York State Banking Department
Hearings on the Banking Development District Program - April 2, 2009

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Good Afternoon. My name is Andrew Kaplan and I am Executive Vice President and Director of the Financial Solutions Group of New York Community Bancorp, Inc. With assets of \$32.5 billion at the end of December, New York Community Bancorp is the 25th largest bank holding company in the nation, and a leading producer of multi-family loans in New York City, with an emphasis on rent-regulated properties.

The Company operates two bank subsidiaries—New York Community Bank and New York Commercial Bank.

New York Community Bank is a New York State-chartered thrift with 178 locations in New York City, Long Island, and Westchester County in New York and seven counties in central and northern New Jersey. Reflecting our growth through a series of acquisitions, the Community Bank currently operates through five local divisions: Queens County Savings Bank in Queens, Roslyn Savings Bank on Long Island, Richmond County Savings Bank on Staten Island, Roosevelt Savings Bank in Brooklyn, and Garden State Community Bank in New Jersey. Founded on April 14, 1859, our Queen County Savings Bank Division is celebrating its 150th anniversary this year.

New York Commercial Bank is a New York State-chartered commercial bank with 37 branches in New York City, Westchester County, and Long Island, including 18 branches that operate as the Atlantic Bank division of New York Commercial Bank.

I am very pleased to be a participant in today's hearings, and would like to begin my testimony by commending the New York State Banking Department and your staff on your efforts to bring your vision of a Banking Development District program to life.

The State Banking Department has recognized that numerous communities exist where neither their residents nor their businesses have ample access to needed products, programs, loans, and other financial services that are usually provided by a regulated financial institution. Often, these under-banked communities coincide with the State's more income-challenged neighborhoods. The residents of these communities may find themselves outside of the financial mainstream, and may be subject to predatory practices in their quest for banking solutions.

By encouraging a bank that is subject to regulatory oversight to establish a branch in such a community, the State does much more than ensure that needed products, programs, loans, and other financial services are provided. A new branch also provides a foundation for economic stimulation, by providing access to capital, promoting long-term economic development, fostering job creation, and promoting the stability and revitalization of the community. In essence, the branch can become a cornerstone in a community.

For example, in March 2005, New York Community Bank sought, and obtained, approval for a community where its Corona Heights branch office was located to be designated as a Banking Development District, and for the branch to be designated as a BDD branch. Subsequent to our receiving the State's approval, we expanded the branch facility and our menu of services.

Effectively, the designation of the Corona Heights branch as a participating BDD branch enabled New York Community Bank to further increase that branch's participation in community events and activities in the area designated as a BDD. Furthermore, the designation as a participating BDD branch enabled us to expand the branch's hours of operation, to hire local residents, and to enhance our service opportunities.

In fact, since its designation as a BDD branch, the Corona Heights branch's staff has grown from an initial eight people to a current headcount of 16. Six of our current employees are community residents and 13 are bilingual, including employees who assist customers in Spanish, Mandarin, Chinese, Cantonese, and various Indian dialects. The Corona Heights branch has opened nearly 4,500 new accounts, including 130 business accounts, since receiving its BDD designation, and also provides access to credit markets through conduit relationships with third party providers that are contracted with, and vetted by, New York Community Bank.

The Corona Heights branch also maintains a very high level of community interaction, and continues to provide seminars, educational and financial literacy programs; participate in street fairs; sponsor local community events; and make monetary donations to local community groups. Employees of the branch continue to participate actively in community activities and organizations, often in leadership roles.

We believe that the initiatives implemented by the Corona Heights branch in connection with its becoming a BDD branch have greatly contributed to the revitalization of that local community. As a direct result of these initiatives, there has been an increase in the usage of the branch, and an increased patronage of nearby businesses. This has led, both directly and indirectly, to the creation of still more new businesses and jobs in the neighborhood.

We value our participation in the BDD program, and welcome the opportunity presented by this hearing to discuss ways that it could be improved upon. In today's economic environment, this is especially important, as banks are called upon to balance two competing objectives: the first, serving the under-banked and assisting in the revitalization of struggling communities and the second, maintaining and growing capital, making prudent investments, and satisfying our shareholders.

Clearly, the deposit of below-market interest rate municipal deposits in a new or existing branch to be designated as a BDD assists a regulated financial institution in its efforts as it strives to fulfill each of these goals. Such support can provide us with the means to make the necessary expansions. For example, a building may be built or retrofitted to allow for the establishment of a branch where one did not previously exist. Where a branch already exists, the expansion need not be physical. Expansions can take the form of increased staff, expanded services, greater hours, and additional community outreach participation, thus allowing us to provide much needed resources to the community. However, it is sometimes difficult for a bank to commit to assuming the expenses necessary to accomplish such expansion if it is unclear that, at the end of the process, deposits will be received and retained.

To enable us to address both of these competing objectives, we believe that there are five areas where the BDD program could be improved. They are:

1. Providing a mechanism for an earlier determination of whether an area would qualify to be a BDD;
2. Adding greater flexibility in defining the parameters of what would qualify as a BDD;
3. Making it easier to gain access to multiple sources of municipal deposits;
4. Guaranteeing the continued maintenance of municipal deposits at a branch previously designated as a BDD Branch and currently meeting its commitments to the BDD Program; and
5. Streamlining the process for filing applications for additional BDD branches by regulated financial institutions that have previously qualified to participate in the BDD Program.

Knowing beforehand that a branch which opened in a designated BDD area would be able obtain such deposits would better allow the bank to model these opportunities to an earlier financial break-even point. It would be helpful to know whether or not the branch would be able to obtain the level of municipal deposits that would allow it to break even, prior to investing in the development of a new branch or the expansion of an existing branch. Additionally, it would be helpful to know that these deposits would continue to be provided for the foreseeable future. Accordingly, we suggest that an abbreviated pre-approval process be implemented in addition to the current BDD application process, to enable the bank to properly plan and commit to the creation of a branch in an under-banked area.

We also would recommend that more flexibility be built into defining the parameters of a “BDD.” Presently, the emphasis appears to be on identifying census tracts for a certain population. Perhaps other kinds of parameters could be considered. For example, local government authorities and agencies can attest to the need to assist, or otherwise revitalize, a challenged community that may be a subset of an otherwise wealthier census tract, or an area that falls on the seam of a census tract that may pull in wealth from its outer borders, thus skewing the data and omitting communities that would otherwise be worthy of consideration for designation as BDDs.

We also would recommend that access to municipal deposits in addition to State deposits be facilitated. State deposits alone are not often enough of an incentive. For example, in the case of Corona Heights, and in the case of another area we are currently exploring, we have gone to other local municipalities to see if they also can provide us with deposits in order for us to have the safety net necessary to make a commitment. Of course, larger deposits from the State would help, as well.

We would like to make it clear that we are *not* suggesting that once a branch is designated as a BDD, the New York State Banking Department discontinue its current program of monitoring, nor that it discontinue its practice of carefully insuring that banks seeking BDD branch designation have a carefully formulated plan, well-developed programs, and the ability to track results, in order to avoid institutions simply looking to use their current infrastructure without expanding their services to the under-banked. Clearly, we believe that the designated bank should continue to be required to demonstrate that it is meeting the goals of the BDD program, namely, assisting in the revitalization of the community designated as a BDD, by stabilizing existing businesses and creating new ones; supporting job creation; targeting immigrants and low- to moderate-income residents for banking services; and providing financial literacy programs.

However, while the initial promise by the State and local municipalities of low-cost deposits may serve as an initial incentive to build or expand in these communities, the State and the municipality should also guarantee that these deposits will be renewed so long as the branch maintains its continued commitment to the BDD program.

Finally, once a bank becomes known to the State Banking Department for fulfilling its commitment to the BDD program, we suggest that the bank should have access to a pre-approval process for future BDD endeavors. In addition to providing comfort to the bank before it embarks on a new or expanded branch project, such a process would provide comfort to the State Banking Department that it is supporting a qualified and experienced institution with a record of success.

Thank you for your time and consideration of our remarks. I welcome the opportunity to respond to any questions you may have.