

June 17, 2009

Research Update:

Valley National Bancorp Outlook Revised To Negative From Stable; 'A-' Rating Affirmed

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Overview

- We have increased our assumptions about industry loan losses, given the severity of the national recession.
- We are revising our outlook on Valley National Bancorp to negative from stable and affirming our 'A-' counterparty credit rating.
- We believe Valley may face significant asset-quality and earnings challenges in its local markets.

Rating Action

On June 17, 2009, Standard & Poor's Ratings Services affirmed its 'A-' long-term counterparty credit rating on Valley National Bancorp (Valley) and its 'A/A-1' counterparty credit rating on Valley's main bank subsidiary, Valley National Bank. The outlook is revised to negative from stable.

Rationale

The ratings affirmations take into account Valley's strong credit culture and its maintenance so far of asset quality that is better than that of its peers, despite the very challenging economic environment. Even amidst the recent banking industry crisis, Valley has so far lived up to its track record of good asset quality, illustrated by its ratio of nonperforming assets to loans plus repossessed assets of only 0.79% as of March 31, 2009. The rating incorporates our expectation that the company's loan credit performance will continue to be better than that of its peers because of its relatively conservative underwriting.

With about \$14.4 billion in assets, Valley is primarily focused on gathering deposits from and lending to small/midsize businesses and consumers in northern New Jersey, and to a lesser degree in Manhattan, Brooklyn, and Queens, N.Y. Although higher loan-loss provisions and some investment write-downs crimped Valley's earnings in 2008, the company has been consistently profitable with above-average earnings generation. Capital measures, such as the 5.50% tangible common equity ratio as of March 31, 2009, are adequate in our view, but not strong for the rating category when compared to peers.

We believe management is likely to continue to focus on building its common equity capital ratios in the current uncertain economic environment, as illustrated by Valley's recently announced intention to sell up to about \$75 million in common stock. Unlike peers, Valley has not cut its common stock dividend, and given its constrained earnings, its dividend payout rate is very high. If earnings come under more pressure, we may see the company to reduce its dividend to preserve and/or build capital. Valley has redeemed \$75 million

of its initial \$300 million of preferred stock issued under the U.S. Treasury's Capital Purchase Program (CPP), and the company is likely to seek to repay the rest of the CPP preferred over time.

Outlook

Our revision of the outlook to negative from stable addresses the asset quality and earnings risks imposed by Valley's loan concentration in northern New Jersey and New York City, where the local economies have recently softened considerably. A particular risk is Valley's moderate exposure to commercial real estate (CRE), predominantly in New Jersey, but also in New York City. If Valley's asset quality deteriorates more than we expect so that its credit trends are no longer better than those of its regional peers, or if capital ratios decline, then we may lower the ratings. Likewise, we may lower the ratings if the New York metropolitan-area CRE market to which Valley is exposed shows signs of sharp decline. Alternatively, we may revise the outlook to stable if Valley's earnings and asset-quality metrics remain relatively resilient during the next several quarters.

Related Research

- "Credit Stress Testing For Financial Institutions," April 29, 2009
- "Methodology And Assumptions: Risk-Adjusted Capital Framework For Financial Institutions," April 21, 2009
- "Stress Testing U.S. Financial Institutions," April 29, 2009

Ratings List

Ratings Affirmed; Outlook Action

	To	From
Valley National Bancorp Counterparty Credit Rating	A-/Negative/--	A-/Stable/--
Valley National Bank Counterparty Credit Rating	A/Negative/A-1	A/Stable/A-1

Ratings Affirmed

Valley National Bank Certificate Of Deposit Local Currency	A/A-1
Valley National Bancorp VNB Capital Trust I Preferred Stock	BBB-
Valley National Bank Subordinated	A-

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