S&P Capital IQ

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Flushing Financial Corporation NasdaqGS:FFIC

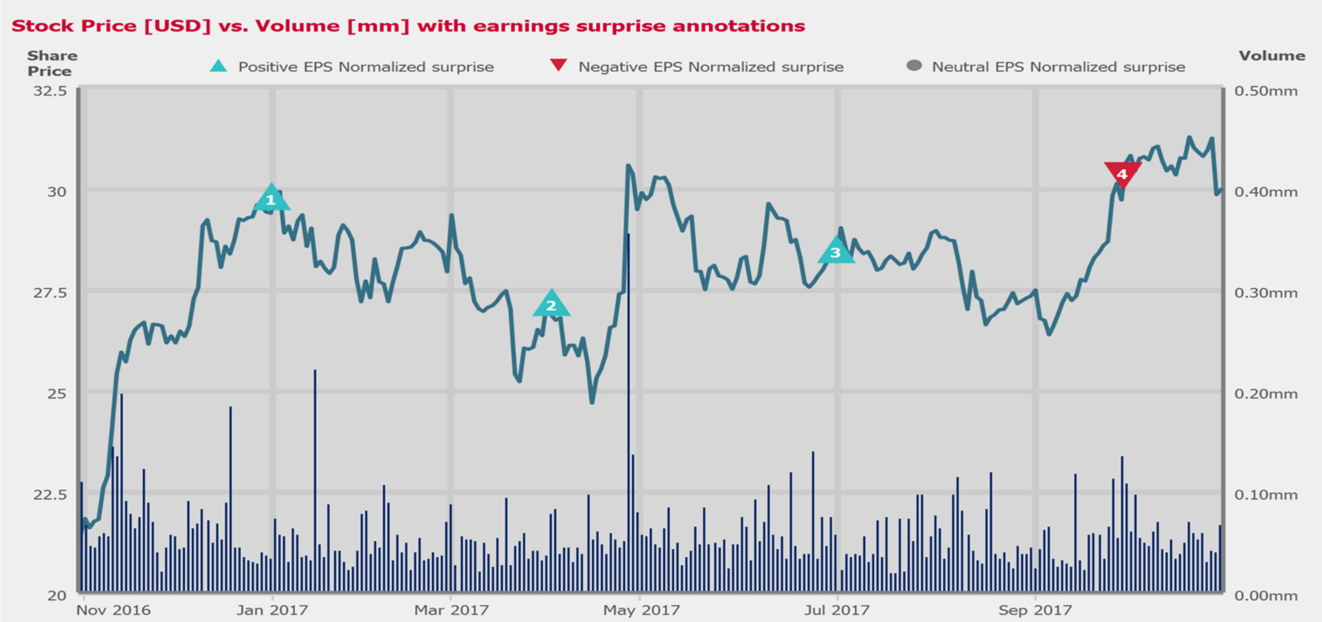
FQ4 2017 Earnings Call Transcripts

Wednesday, January 31, 2018 2:30 PM GMT

S&P Capital IQ Estimates

	-FQ4 2017-			-FQ1 2018-	-FY 2017-	
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL
EPS Normalized	0.42	0.33	▼(21.43 %)	0.43	1.67	1.57
Revenue (mm)	45.59	46.12	▲1.16	45.86	183.59	183.47

Currency: USD
Consensus as of Jan-22-2018 11:05 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ4 2016	0.38	0.40	▲1 2.56 %
FQ1 2017	0.32	0.40	▲2 21.21 %
FQ2 2017	0.40	0.46	▲3 12.20 %
FQ3 2017	0.44	0.37	▼4 (15.91 %)

Call Participants

EXECUTIVES

John R. Buran
President & CEO

Susan K. Cullen
Chief Financial Officer, Senior Executive Vice President and Treasurer

ANALYSTS

Collyn Bement Gilbert
Keefe, Bruyette, & Woods, Inc., Research Division

Steven Comery
G. Research, LLC

Unknown Analyst

Presentation

Operator

Welcome to Flushing Financial Corporation's 2017 Fourth Quarter Earnings Conference Call. Hosting the call today are John Buran, President and Chief Executive Officer; and Susan Cullen, Senior Executive Vice President, Treasurer and Chief Financial Officer. Today's call is being recorded. [Operator Instructions] A copy of the fourth quarter earnings release and slide presentation that the company will be referencing today are available on its Investor Relations website at www.flushingbank.com.

Before beginning, the company would like to remind you that discussions during this call contain forward-looking statements made under the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. Such statements are subject to risks, uncertainties and other factors that may cause actual results to differ materially from those contained in such statements. Such factors are included in our filings with the U.S. Securities and Exchange Commission. Flushing Financial Corporation does not undertake any obligation to update any forward-looking statements, except as required under applicable law.

During this call, references to several non-GAAP financial measures, as supplemental measures to review and assess operating performance, will be made. These non-GAAP financial measures are not intended to be considered in isolation or as a substitute for the financial information prepared and presented in accordance with U.S. GAAP. For any information about these non-GAAP measures and reconciliation to GAAP measures, please refer to the earnings release.

I'd now like to introduce John Buran, President and Chief Executive Officer, who will provide an overview of the strategy and results.

John R. Buran
President & CEO

Thank you. Good morning. And welcome to our fourth quarter earnings call. As part of our continuing effort to increase financial transparency and investor engagement, we hope to provide you with additional insight into our business strategy, earnings power and sustainable competitive advantages.

Our vision as a company remains the same and that is to be the preeminent community bank in our multicultural market. We create value and attract new customers by delivering a superior and consistent experience through quality service and personalized attention as we continue to execute and deliver profitable growth.

Today, I'll start with our fourth quarter and 2017 highlights, followed by a brief overview of the strategies that we're successfully executing to create long-term shareholder value. Then Susan Cullen, our CFO, will review our financial performance in greater detail. Susan and I will address your questions at the end of our prepared remarks as time permits.

We recognized record net interest income for the year as a result of executing our strategic initiative of focusing on loan yield as opposed to volume. Additionally during the quarter, we reduced future credit risk, reduced future interest rate risk and improved the scalability of branch network expenses.

Starting on Page 3. As announced in yesterday's press release, fourth quarter '17 GAAP diluted EPS was $0.21 and core diluted EPS was $0.33. Due to the U.S. federal tax reform, we recognized a charge of $3.8 million or $0.13 a share related to the revaluation of our net deferred tax assets. During the fourth quarter, we also recorded a provision for loan losses of $6.6 million, reducing EPS by $0.13 after tax as we reduced our taxi medallion portfolio by over 50% to a remaining conservative book value of $6.8 million and placed all taxi medallion loans on nonaccrual status. After observing 2 successive auctions resulting in sub $200,000 sales, we concluded this was the current valuation. As a result of those auctions, we believe the market on taxi medallion loans has bottomed out, putting any medallion credit concerns behind us. At December 31, 2017, our average exposure is $164,000 for New York City taxi medallion.

Credit quality on the remaining 99.9% of our portfolio remains strong. At year end, nonperforming loans were just 35 basis points of gross loans and we have no OREO properties. Nonperforming assets were 29 basis points of total assets. Given the low LTV associated with the nonperforming loans of just 40%, we do not foresee an increase in related expenses.

Our cost of funds increased 2 basis points versus the third quarter in 2017. Contrary to the normal historical patterns, government deposits did not replenish to the projected amount, which caused us to rely on higher costing short-term borrowings. We have seen that trend reverse as $327 million of government deposits returned through January 25, 2018. We took steps to improve our future interest rate position as we entered into forward swap contracts, totaling approximately $400 million during the recent quarter.

We continued to reap the benefits of our strategy of focusing our origination efforts on higher-yielding loans. This effort provided a 31 basis point year-over-year improvement in the yield received on new loans to 4.06%. Although we did experienced a decline of 10 basis points on new loans received in the fourth quarter compared to the third, the yield on the fourth quarter did exceed the fourth quarter of 2016 by 34 basis points. This quarterly yield is also 6 basis points greater than the quarterly net average yield of our total loan portfolio for the same period.

Expansion of loan yields with solid loan growth remains a focus for us. Our total loan portfolio grew 7% in 2017 while holding on to strong underwriting standards. The pipeline of $316 million remains strong and supports our expectation of solid loan growth in 2018.

During the year, we implemented two initiatives to enhance our brand in the marketplace. In the online space, and as mentioned during the third quarter, we launched BankPurely, our Internet-based eco-friendly, healthier lifestyle community brand. Our second initiative focused on the Asian community in the Flushing market which included the relocation of 3 branches into 2 modernized offices during the fourth quarter. Customer acceptance of our Universal Banker model, as well as our unique video banking service has been high, enabling us to gather more than $32 million in new deposits in the Flushing market.
We are improving scalability and efficiency by converting our branches to the Universal Banker model, which provides our customers with cutting-edge technology, including state-of-the-art ATMs and a higher quality service experience. We remain on track to complete all branch conversions by the end of 2019 and continue to anticipate seeing savings of 20% in compensation cost at the Universal Banker branches.

In the branches using the Universal Banker model for December, over 60% of customer transactions were completed at our high-powered ATMs. As you may recall, we've been piloting video banker, which gives customers face-to-face access from 7:00 a.m. to 11:00 p.m. 7 days a week via video link at our ATM terminals. As this enhancement has been positively received by our customers, we plan to roll out this feature further this year. These efforts, among others, contributed to controlling expenses resulting in an efficiency ratio of 55% in the fourth quarter of '17. We remain dedicated and will continue to execute to achieve our long-term goal of maintaining an efficiency ratio in the low to mid 50s.

Slide 4 provides similar highlights for 2017 as we had a record year in net interest income with core EPS up $0.05 or 3.3% year-over-year, including the impact from loan losses in the taxi medallion portfolio.

For those new to our story, Slide 5 provides a summary of our key focus areas which remained consistent with exceeding customer expectations, enhancing earnings power, strengthening our commercial bank balance sheet and maintaining our strong risk management philosophy. Our sustainable competitive advantages include having a branch staff that speaks more than 30 languages to serve our customers in the New York City metro area, one of the most ethnically diverse regions in the country. Additionally, we have a strong focus on the Asian community where we have more than $500 million in deposits. These deposits have a lower cost of funds, that our total cost of funds at 95 basis points. As many of you already know, the Asian market surrounding the Flushing branches have very attractive business dynamics. First, there's a high degree of saving available deposits and a significant number of small business owners. We are capitalizing on this business environment with the recent openings in November of our new remodeled and modernized Universal Banker branches.

We remain a preeminent commercial real estate lender, focused on the origination of multifamily mortgage, commercial business and commercial real estate loans while continuing to be nimble and responsive to industry shifts. Combining our customer focus and competitive strength as a relationship-oriented lender has enabled us to transform formerly transactional-based customers into deeper, long-term, full banking relationships. Our risk management philosophy remains constant and has proven to serve us well throughout all phases of the credit cycle. The loan-to-value on current quarter originations of multifamily commercial real estate and 1-to-4 family mixed-use loans was 50% with a debt coverage of 172%. Our conservative underwriting standards, loan-loss reserves and minimal delinquencies and low LTVs give us confidence that net charge-offs will remain below industry averages over the long-term.

Our strong balance sheet, liquidity, capital levels, ability to grow core deposits, investments in talent, innovation, technology and cybersecurity, as well as our risk management philosophy all position the company very well to deliver profitable growth and long-term value to our shareholders as we continue to execute our strategic objectives, which are on Slide 6: Increase core deposits and continue to improve funding mix; increase net interest income by leveraging loan pricing opportunities; enhance core earnings by improving scalability and efficiency; manage credit risk; and to remain well-capitalized under all stress test scenarios. We'll continue to focus on these strategic objectives to achieve profitable growth and maximize shareholder value.

As you may already know, we have consistently raised our dividend in the first quarter of each year since 2014 and have paid a dividend every quarter since September 1996. We recently announced that our Board of Directors approved a plan to increase the dividend in 2018 by $0.02 per quarter and provide a bonus for all nonexecutive employees as a result of the benefits derived from the recent tax reform. Each full-time and part-time nonexecutive employee received a one-time gross up bonus of $1,000 and $500, respectively. We continue to evaluate opportunities to invest additional tax savings into the business to position the company for future growth. We expect to further benefit from the tax reform and believe it is catalyst for economic activity and growth.

At this point, I'll turn it over to Susan to discuss the quarter's financial results in greater detail.

Susan K. Cullen
Chief Financial Officer, Senior Executive Vice President and Treasurer

Thank you, John. I'll start on Slide 7. Total loans were $5.2 billion, up 2% quarter-over-quarter and up 7% from December 31, 2016 as we continue to focus on the origination of multifamily, commercial real estate and commercial business loans with full banking relationships. We continue to diversify our loan portfolio as C&I originations for the quarter were 37% of total originations versus the existing portfolio totaling 14% of gross loans.

At December 31, our loan pipeline was strong and totaled $360 million which was down from the last quarter but up from a year ago. The interest rate on the real estate loans in the pipeline increased to 4.10% from an average rate of 4.04% for the linked quarter. The loan-to-value ratio on a real estate portfolio at quarter end remains at modest 39%.

On Slide 8, deposits increased 4% year-over-year but declined 1% quarter-over-quarter. As John noted, government deposits did not replenish as quickly as we expected during the fourth quarter, resulting in an increase in loan-to-deposit ratio. However, through January 25, 2018, we've already seen government deposits increase $327 million. Year-over-year growth in the deposit base is primarily driven by money market, non-interest-bearing and savings accounts. We continue to increase core deposits as represented by the year-over-year growth with an emphasis on non-interest-bearing deposits which increased 16% year-over-year. Non-interest-bearing deposits of $385 million represent 9% of total deposits.

Our internal initiative of using business development officers to gather deposits from loan customers has been successful as business deposits exceed $700 million at December 31, 2017. Funding is also gathered through the iGObanking.com channel. At December 31, its deposits totaled $339 million while the BankPurely balances were over $60 million.

We are beginning to see rate pressure with increased competition for deposits. The average cost of funds has increased 2 basis points during the quarter. We continue to remain disciplined in terms of deposit pricing while remaining competitive within our market.

Slide 9 depicts a composition of our funding mix. As funding has continued to grow, the percentage related to CDs and borrowings has decreased. However, when the need arises to access the wholesale funding market, there are advantages as we can ladder out the liabilities for longer terms where the consumer does not want to tie up money for much longer than 18 months.

Turning to Slide 10. Net interest income for the fourth quarter of 2017 was $43 million, up 2% year-over-year and flat quarter-over-quarter. The net interest margin at 2.90% decreased 6 basis points year-over-year, both flat quarter-over-quarter. Excluding the prepayment penalty income, accelerated accretion of discount and recovered interest from nonaccrual loans, the net interest margin for the linked quarter was flat at $2.77. Our overall cost of funds for the quarter was 1.17%, an increase of 16 basis points year-over-year and 2 basis points quarter-over-quarter driven by an increase in the rates paid on CDs, government deposits and short-term borrowings.

While the net interest margin will likely remain pressured, we will continue to focus on increasing net interest income by leveraging loan pricing opportunities and the portfolio mix. For the second consecutive time since the fourth quarter of 2008, the yield on quarterly loan originations exceeded the quarterly yield on the loan portfolio.

During the quarter, we executed $400 million of forward swap transactions through [indiscernible] effects of rising interest rates on our interest-bearing liabilities. These swaps begin at various points in 2018 and 2019 and expire in 2023 and 2024, respectively. We will continue to evaluate this strategy and have similar transactions if we believe it is prudent.

On Slide 11, we reported noninterest income for the fourth quarter of 2017 of $3.1 million while core net interest income was $3.7 million. Core noninterest income increased 44% compared to the fourth quarter of 2016 and 27% compared to the third quarter of '17. The year-over-year increase was driven largely by growth in banking service fee income, gain on sale of loans, [indiscernible] life insurance and other income.

Moving to Slide 12. Noninterest expense for the fourth quarter of 2017 was $26 million, slightly improving quarter-over-quarter and 4.5% year-over-year. The year-over-year improvement was driven by decreased salaries and benefits, lower foreclosure expense due to continued improvement in asset quality and a reduction in FDIC insurance expense. Lower expense associated with the FDIC insurance and the foreclosure should be sustainable.

Overall, the efficiency ratio was 55% in the fourth quarter of 2017 compared to 57% in the third quarter of 2017 and 60% in the fourth quarter of 2016. As John previously mentioned, our long-term goal is to maintain an efficiency ratio in the low to mid 50s. We are focused on continuous improvement and new opportunities in our operations through efficiency gains.

Regarding taxes. We anticipate an effective tax rate to be approximately 23% for 2018 as a result of the new federal tax rate of 21%. As a reminder, we have seasonality in our noninterest expense. And the first quarter 2018, we will see a large increase in our expenses.

Now turning to credit quality on Slide 13. Our credit metrics remained strong this quarter. Net charge-offs were $11.5 million for the quarter, primarily due to taxi medallion loans totaling $11.2 million resulting in a remaining book value of $6.8 million. Importantly, we continue to record charge-offs early in the delinquency process. As a reminder, we are a historical seller of nonperforming credits.

The average loan-to-value of our nonperforming real estate loans is 40% based upon the value of underlying collateral and origination and we did not adjust the appraised value for increases. The loan-to-value should be conservative based upon the methodology employed. Nonperforming loans totaled $18 million, down 15% year-over-year despite increase in quarter-over-quarter. The quarter-over-quarter increase is primarily due to loans past the maturity date that continue to make their scheduled payments. The taxi medallion loan portfolio totaled just 13 basis points of total loans, as comprised primarily of New

York City medallions which are carried at approximately $164,000 net of the allocated allowance for loan losses.

Slide 14 highlights the effects of our strong underwriting discipline with our history of minimal 90-day delinquencies as a percentage of loans originated by year. As you can see, there are only 4 loans delinquent greater than 90 days from vintage years after 2009, which is an impressive run for the last 8 years.

Moving to Slide 15. Our coverage ratio is at 112% and has been increasing year-over-year due to improving credit quality in our reserve building. As John highlighted, we recorded a provision for loan losses of $6.6 million as estimated fair value of the New York City taxi medallions were lower based on most recent sales data. The allowance to gross loans totaled 39 basis points at 12/31/17, down from 46 basis points as of December 31, 2016. With expected loan growth, we anticipate recording provision for loan losses proportionate with that growth in future quarters to maintain an adequate ratio. As always, we continue to monitor credit quality closely to ensure that we have an appropriate loan loss reserve.

With that, I'll turn it back to John for some more closing thoughts

John R. Buran
President & CEO

Thank you, Susan. Wrapping up, Slide 16 provides a summary of why we believe we remain well-positioned for continued strategic and profitable growth. To reiterate, our vision is to be the preeminent community financial services company in our multicultural market by exceeding customer expectations and leveraging our strong banking relationships. The New York City market continues to represent a significant opportunity for us. We remain focused on providing a superior and consistent experience at every touch point for our customers and maximizing shareholder value. Those of you who have held our stock for over the last 5 years know our total shareholder return has been 108%.

In conclusion, we have a strong foundation, a proven track record, a clear strategy and a seasonal leadership team with a commitment to drive continued profitable growth.
We will now take questions as the time permits. Operator, I'll turn it over to you.

Question and Answer

Operator

[Operator Instructions] The first question comes from Collyn Gilbert with KBW.

Collyn Bement Gilbert
Keefe, Bruyette, & Woods, Inc., Research Division

I apologize if -- I know you guys covered a lot in the slides. And unfortunately, I didn't have the slides for the call. So if I'm repeating things that you've already kind of laid out in there, I apologize. But if I could just kind of start with the NIM. And I know you had indicated that you expect continued compression but likely offset to hopefully increase the NII. Can you just talk about kind of the dynamics that are going on there? And I'm assuming obviously the loan mix is also what's impacting the loan yield declines. But just sort of your outlook for the NIM and then as well as outlook for loan growth.

John R. Buran
President & CEO

Right. So we did have a quarter-over-quarter decline in the new loans coming on board in terms of yield. But over the course of the year, we were up about 34 basis points. So I think that, that trend will be the type of trend that we'll continue to see as lower yielding loans roll off. It looks like we may actually start to see a little bit more benefit because the yield curve seems to be sloping upward a little bit. So you have that dynamic working which is a natural 20% or so of the loan portfolio rolling off, some of which is contractually set up to move up in rates to begin with. Secondly, we have a number of loans that are backed up by swaps and that's somewhere around...

Susan K. Cullen
Chief Financial Officer, Senior Executive Vice President and Treasurer

$280 million.

John R. Buran
President & CEO

$280 million. And in addition, we have this $400 million of liability hedges that we just recently -- we recently put in place, forward-looking hedges. So those are the dynamics that are tending to work in our favor. Obviously, the one that's not working in our favor is the continued increase in the short end of the curve by the Federal Reserve actions. But I do certainly see the loan portfolio starting to give us positive news and it has the last couple of quarters as new loans have come on at a better yield than the portfolio. And I expect that that trend will continue into the year, particularly as we put on a little bit more in the C&I world.

Collyn Bement Gilbert
Keefe, Bruyette, & Woods, Inc., Research Division

Okay, okay, that's helpful. And just specifically for the $400 million of swaps that you added, what do you anticipate the impact to be on the NIM for those or the funding cost for those?

John R. Buran
President & CEO

So obviously that's going to depend upon the movement in rates. We already know that they are already in the money, providing us a positive impact on NIM. I can't recall what the dollar amount is. It's small at this point in time.

Susan K. Cullen
Chief Financial Officer, Senior Executive Vice President and Treasurer

Because we entered into a middle to the latter part of December. But they are in the money, as John said. And given the size of them, we expect them to have some meaningful impact on our NIM going forward.

John R. Buran
President & CEO

So if you think in terms of, let's say, interest rate protection that we have, we might have about $700 million, roughly $300 million on the asset side of the balance sheet and $400 million on the liability side of the balance sheet that we think will help us stable some of the NIM pressure that we had experienced.

Collyn Bement Gilbert
Keefe, Bruyette, & Woods, Inc., Research Division

Okay, okay. And then outlook for loan growth? And may be what the mix of loans you're kind of expecting as the year progresses?

John R. Buran
President & CEO

I think we -- similar to our guidance last year, we talked about high single digits to low double digits. We clearly came in on high single digits this year. I think some of that is going to depend upon -- where we fall in the range is going to be dependent somewhat upon the activity in the multifamily market. We do know that one competitor appears to be pulling back a little bit on that market, possibly another competitor will be jumping in. So a little bit unknown in that category. But we do have a robust pipeline in our commercial space or business banking space, noncommercial real estate business banking space.

Collyn Bement Gilbert
Keefe, Bruyette, & Woods, Inc., Research Division

Okay, okay, that's helpful. And then just the impact of the government deposits rolling out in the fourth quarter. You said you had utilized borrowings and then now coming back on. Just curious of the cost differential between those roughly $327 million or so of the -- what you're paying the government deposits versus borrowings.

John R. Buran
President & CEO

Somewhere around 50 basis points.

Collyn Bement Gilbert
Keefe, Bruyette, & Woods, Inc., Research Division

Okay. So you got a 50 basis point pick up when they -- on the deposits versus the borrowings?

John R. Buran
President & CEO

Correct.

Collyn Bement Gilbert
Keefe, Bruyette, & Woods, Inc., Research Division

Okay, okay.

John R. Buran
President & CEO

Correct.

Collyn Bement Gilbert
Keefe, Bruyette, & Woods, Inc., Research Division

All right, that's helpful. Just on the reserves. So obviously resolution of taxi this quarter, how should I presume that the the drop in the allowance is because you had a specific reserve tied to the taxi. But how should we think about kind of the reserve levels trending from here?

Susan K. Cullen
Chief Financial Officer, Senior Executive Vice President and Treasurer

The reserve levels should trend upwards as our growth grows. So as I said in the remarks, the allowance should be commensurate with the growth in the loan portfolio. We don't anticipate changes in our methodology. Anytime soon, until we have to, under [indiscernible]. So we would expect it to remain relatively constant but growing for the loan portfolio growth.

Operator

The next question comes from Steven Comery with Gabelli.

Steven Comery
G. Research, LLC

I was wondering and Collyn kind of touched on this. But -- so the decline in the origination yields of 10 basis points, was that due to mix shift? I know you guys brought on more multifamily in the fourth quarter versus the third quarter. or is pricing actually coming down across the board?

John R. Buran
President & CEO

No, I think there's a little bit of a mix shift there. But the multifamily market has been kind of up and down over the course of the yield -- year. And in this particular quarter, we just had a little bit more multifamily than we had commercial real estate or C&I. So I think you'll see some differential swinging back and forth as we look for opportunities to either grow or where more opportunities to pick up yield. But I think the important thing to recognize is there's an overall trend that's taking place that's a result of the repricing of the multifamily and the commercial real estate portfolio, the contractual repricing of those loans going forward to the tune of 20% of the portfolio, 20 to -- in between 20% and 25% of the portfolio changing over the course of any given year. So we think that there's a baseline trend that is going to be net positive for the loan yields. And that will be either greater or lesser in any given quarter based upon the mix. That's probably the best way of putting it.

Steven Comery
G. Research, LLC

Okay, thanks for that. That's helpful. And then just on the C&I growth. I mean, you guys had a pretty good quarter there in the third quarter. You had a really good quarter in the fourth quarter as far as growing that. Are conditions improving there? Are you guys getting better approaching borrowers? Or what's going on there?

John R. Buran
President & CEO

I just think it's a natural result of our continued focus in this area. And we are always on the outlook for new lenders. So as those new lenders come on board, it sometimes takes them a little while to get, let's say, seasoned, to get their customers moved over. So there's this progression that takes place. And I think you've seen that in the last couple of quarters or so. And we are very pleased with the state of that pipeline at this point in time as well. So we are in very good shape for continued growth in C&I.

Steven Comery
G. Research, LLC

Okay, very good. And then one more for me. On the conversion of Universal Banker branches, you guys mentioned a 20% savings in comp cost. Can you give us an idea of kind of what the dollar amount of that is as far as what the total comp cost are? Or may be what that 20% is, if you have some idea of that magnitude?

John R. Buran
President & CEO

So let's say the typical branch might have...

Susan K. Cullen
Chief Financial Officer, Senior Executive Vice President and Treasurer

Six, 8.

John R. Buran
President & CEO

In AFTE, let's say, a typical branch might have 8 FTE. We might drop 2 of those FTE. The average salaries there might be around $50,000, $55,000 plus fringe. So I can't do that math in my head. But it's basically those 2 FTE and whatever we can garner in terms of -- on top of that, whatever we can garner in terms of smaller footprint has a positive impact as we -- we can figure the real estate as well.

Steven Comery
G. Research, LLC

Okay. Sounds like it's a good starting point anyway. Thanks, guys.

Operator

[Operator Instructions] The next question comes from Brody Preston with Piper Jaffray.

Unknown Analyst

I just -- let's start with the swaps. I just wanted to get an idea as to -- that must have been floating to fixed so I just wanted to get an idea as to what the rate is that you're paying on those?

Susan K. Cullen
Chief Financial Officer, Senior Executive Vice President and Treasurer

You're right, they are floating to fixed. They're LIBOR based. So they moved. [indiscernible] to be about $0.02 per share going forward.

Unknown Analyst

You estimate what?

Susan K. Cullen
Chief Financial Officer, Senior Executive Vice President and Treasurer

About $0.02 per share.

Unknown Analyst

Of pick up?

Susan K. Cullen
Chief Financial Officer, Senior Executive Vice President and Treasurer

Well, when we put them on, the interest rates being where they were at the time, the estimated cost will be $0.02. However, rates moved since we've put those on. And as John mentioned, we have seen a little bit of a pickup on those.

Unknown Analyst

Okay, okay, I got you. I got you. Thank you. And then just sort of touching on the core mortgage loan yields. So if you go x prepay on those, I have those declining by about 8 basis points. I just wanted to get a sense for, I guess, what current multifamily loan yields are? And sort of your feeling on the multifamily market, if you're seeing any pickup in transaction volumes if at all?

John R. Buran
President & CEO

I think transaction volumes have been relatively stable. The yields on that portfolio vary on what's going on in the markets. So at the -- for the largest products, we are probably getting about 3 75 or so. That's what the market is. For smaller multifamily, it can be into the 4s.

Steven Comery
G. Research, LLC

Okay, that's great.

John R. Buran
President & CEO

So we have 2 efforts on -- in that area. So one is directly focused against larger multifamily and then we have a separate group of salespeople that focus on the smaller multifamily. So even within the multifamily, there's a risk -- a mixed dynamic. Those numbers by the way are for our 5-year resets.

Unknown Analyst

Yes, yes, okay, got it. And then you mentioned earlier in your prepared remarks about the 20% of -- I get the CRE/multifamily portfolio rolling off and being replaced at a potentially higher yield. I just wanted to get a sense for what the yield differential was between, you said 3 75 to 4 for multifamily on average. I guess what's the yield pickup there from that 20% roll off?

John R. Buran
President & CEO

So contractually, they repriced -- they contractually scheduled to reprice 200 basis points over the Federal Home Loan Bank maturity -- Federal Home Loan Bank borrowing maturity. So what generally occurs is that the customer makes a decision at that point in time whether they want to go through the additional expense to move to another lender or do they want to pay an additional, that -- an additional 200 basis points over to the Federal Home Loan Bank level, which is part of the contractually [indiscernible]. So five-year FHLB rates right now are 2 85. So we are talking about 4 85 contractually. Sometimes, there's a little bit of negotiation going on. So we may not get the full 4 85. But the borrowers generally come back to us.

Unknown Analyst

Okay. Are they allowed to prepay and refi with you guys?

John R. Buran
President & CEO

Yes, they are. Usually, that also requires, at least on our part, some additional above market rate because clearly we have leverage at that point in time.

Unknown Analyst

Okay, that's good color. And I guess going back to the loan growth guide, high single to low double digits. Was the loan-to-deposit ratio at 118%, I know you said you had some inflows from government deposits. I guess, does that become a constraining factor on the growth at all? Or are you expecting that to trend down given the government deposit inflows in the first quarter so far?

John R. Buran
President & CEO

I'm sorry. Could you repeat the question?

Unknown Analyst

Yes, I guess, that was a bit of a two-parter, I guess. One, is the loan-to-deposit ratio, given where it is now at 118%, a constraining factor on growth moving forward at all? And do you expect that number to trend down given inflows that you've seen from government deposits so far in the first quarter?

John R. Buran
President & CEO

So we do not feel it's yet a constraint on our growth. As a matter fact, I think it, in some cases, our ability and our willingness to go out into the wholesale markets has enabled us to ladder out our liabilities to some degree. So we kind of look at it as an advantage to -- we are not concerned about the loan-to-deposit ratio being at this level. That said, we think that the influx of additional government deposits should be -- should help to bring that level down.

Unknown Analyst

Okay. And then one last question for me. I know you said that you're going to continue with the conversion of the Universal Banker. And it looks like, just based on the question earlier, it saves you about a little over $100,000 in compensation cost just given the FTE cuts that you outlined. So I guess just for the outlook for expenses moving forward, did I hear you say that you expect it to be flat moving forward in 2018?

Susan K. Cullen
Chief Financial Officer, Senior Executive Vice President and Treasurer

Yes, it would be flat. But remember, we have the seasonality which will give us an increase in G&A expenses in the first quarter.

Unknown Analyst

Yes. But for overall for the year?

Susan K. Cullen
Chief Financial Officer, Senior Executive Vice President and Treasurer

Overall, it will be relatively flat.

Operator

I'm showing no more questions in the queue. This will conclude our question-and-answer session. I would like to turn the conference back over to John Buran for any closing remarks.

John R. Buran
President & CEO

Well, we want to thank everybody for joining us today on our Fourth Quarter '17 Earnings Call and we appreciate your support of Flushing Financial Corporation. We look forward to talking with you next quarter. And thank you again for your attention and your questions.

Susan K. Cullen
Chief Financial Officer, Senior Executive Vice President and Treasurer

Thank you.

Operator
The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.