S&P Global
Market Intelligence

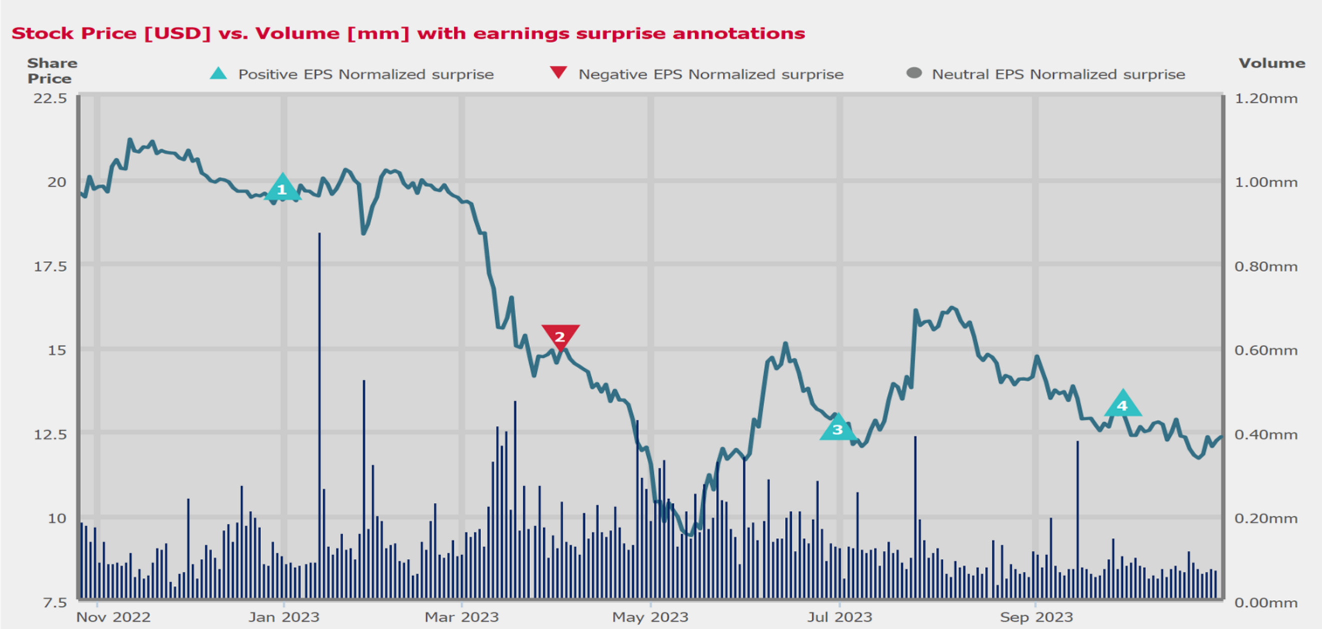
Flushing Financial Corporation NasdaqGS:FFIC FQ3 2023 Earnings Call Transcripts

Wednesday, November 1, 2023 1:30 PM GMT

S&P Global Market Intelligence Estimates

	-FQ3 2023-			-FQ4 2023-	-FY 2023-	-FY 2024-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.24	0.31	▲29.17	0.23	0.88	NA
Revenue (mm)	45.81	49.23	▲7.47	45.93	194.00	NA

Currency: USD
Consensus as of Nov-01-2023 3:12 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ4 2022	0.50	0.57	▲1 14.00 %
FQ1 2023	0.32	0.10	▼2 (68.75 %)
FQ2 2023	0.19	0.26	▲3 36.84 %
FQ3 2023	0.24	0.31	▲4 29.17 %

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Call Participants

EXECUTIVES

Francis W. Korzekwinski
Senior EVP & Chief of Real Estate Lending

John R. Buran
President, CEO & Director

Susan K. Cullen
Senior EVP, Treasurer & CFO

ANALYSTS

Christopher Thomas O'Connell
Keefe, Bruyette, & Woods, Inc., Research Division

Manuel Antonio Navas
D.A. Davidson & Co., Research Division

Mark Thomas Fitzgibbon
Piper Sandler & Co., Research Division

Stephen M. Moss
Raymond James & Associates, Inc., Research Division

Presentation

Operator

Good day, and welcome to Flushing Financial Corporation's Third Quarter 2023 Earnings Conference Call. Hosting the call today are John Buran, President and Chief Executive Officer; and Susan Cullen, Senior Executive Vice President, Chief Financial Officer and Treasurer; and Franc Korzekwinski, Senior Executive Vice President and Chief of Real Estate Lending. Today's call is being recorded. [Operator Instructions]

I would now like to turn the conference over to John Buran. Please go ahead.

John R. Buran
President, CEO & Director

Thank you, operator. Good morning, and thank you for joining us for our Third Quarter 2023 Earnings Call. Following my prepared remarks, Susan will review the financial trends, and we will then answer any questions. During the first quarter, the company instituted a 6-step action plan to enhance the resilience of our business model and strengthen our financial performance. We continue to take significant steps forward in this plan during the third quarter and are pleased with the progress we've made so far.

First, we added $100 million of interest rate hedges during the quarter to continue our move towards interest rate neutral, while emphasizing more floating rate loans, which approximate 60% of the loan pipeline at the end of the quarter. These actions have significantly reduced our interest rate sensitivity position while providing additional income.

Second, we continue to focus on risk-adjusted returns and overall profitability. Yields on the loan pipeline rose 54 basis points quarter-over-quarter and yields on loan closings increased 288 basis points year-over-year. It will take time for new and reprice loans to have a significant impact on overall loan yields, but we're encouraged by the results so far.

Third, we expanded noninterest-bearing deposits by $47 million quarter-over-quarter or 6%, which compares favorably to the overall weaker industry trends. Net loans increased $63 million quarter-over-quarter as well. Our strong deposit and loan performance is driven by our initiatives to expand our client base and build loyalty through our excellent brand of customer service and deep community relationships.

Fourth, credit quality remains solid with net recoveries during the quarter. Minimal exposure to Manhattan office buildings and strong debt service coverage ratios.

Fifth, available liquidity is $3.7 billion or 43% of assets. Tangible common capital declined slightly quarter-over-quarter to 7.6%. We will continue to take action to maintain strong liquidity and capital.

Sixth, our GAAP and core noninterest expenses were down 3% year-over-year and 2% quarter-over-quarter. Overall, we expect that these decisive actions will result in an improved financial profile over time.

In addition to our action plan, Slide 4 outlines our 4 areas of focus for long-term success. First, interest rate risk is a priority and the actions we've taken have resulted in a 66% reduction in this risk over the past year. This is important given the uncertain outlook on rates.

Second, we're focused on maintaining our credit quality. Our loan portfolio comprises low-risk loans to stable borrowers. Over 88% of the loan portfolio was secured by real estate with an average loan-to-value of 36% with solid debt service coverage ratios.

The third area of focus is liquidity, which I just covered and remained strong.

The last area of focus is customer experience. Our ties with local communities is central to our ability to deliver exceptional service. With the opening of the Bensonhurst branch at the end of the quarter, 1/3 of our branches are in Asian markets. This is a population we know well and we have had great success fostering long-standing relationships with customers in the Asian community. We are also experiencing increased usage in our digital banking platforms. We're confident that these 4 areas of focus will position the company to achieve long-term success.

Our loan portfolio is outlined on Slide 5. We're a conservative lender with 88% of the portfolio secured by real estate. Our high-quality multifamily and investor commercial real estate comprises 66% of the total portfolio. As a reminder, these 2 portfolios have weighted average debt service coverage ratios of 1.8x and a weighted average loan-to-value less than 50%. Manhattan office buildings are approximately 0.6% of net loans.

In general, the real estate portfolio has strong sponsor support and excellent credit performance. With these metrics, we remain very comfortable with the quality of our loan portfolio and our stress tests have indicated that our borrowers are resilient and our portfolio is positioned to perform well if a stressed environment occurs.

I want to add some context on how we approach our real estate portfolio and why we're so confident in its stability. Slide 6 shows 2 types of multifamily buildings which you can see are on opposite ends of the spectrum. The picture on the left is like a typical multifamily building in our portfolio. This is a building that has a mix of rent-regulated apartments and market rents. The average monthly rent in our portfolio is approximately $1,650 compared with over $3,000 for market rents. What this means is this type of building is stable, low-risk and resilient to market volatility.

Contrast this with the building on the right, which does not match our risk profile. While this building might look flashy, it's more upmarket and has greater swings in monthly rent rates. This is the type of multifamily building that is more exposed to market cycles.

We have a history of conservative underwriting on multifamily properties. When interest rates were low during the pandemic in 2020, we underwrote the loans at with cap rates at 5% or higher, which provide a cushion when rates rise and cap rates increase. Also, we underwrite loans at origination to absorb higher interest rates and each loan is stress test. This is one of the reasons why our debt service coverage ratios are at 1.8x.

Annually, we review the cash flows of the buildings. Average monthly rents per unit from 2018 to 2023 increased at a 4% compounded annual growth rate, while the average monthly expenses increased a similar amount.

As I mentioned, many of our buildings have a mix of market and rent regulated rent. Regulated apartment rents are subject to Rent Guidelines Standards Board, with approved annual increases, and that's why it's important to have buildings with a mix of market and rent-regulated units.

Loans that include rent-regulated apartments are about 65% of multifamily loans. Our multifamily portfolio has strong sponsorship with equity greater than 60% and the average multifamily loan is only $1.2 million. We believe these metrics will continue to serve us well, especially in a more stressed environment.

Slide 7 shows the types of office properties we lend on and the types we don't. We lend on medical and health care facilities and largely outer borough single and multi-tenanted properties. Again, these types of properties have much more stability through market cycles.

We do not lend on high-rise office buildings that have much more volatility. Our average office loan is about $3.2 million with a weighted average LTV of 50% and a weighted average debt service coverage ratio of 1.8x. No office loans are nonaccrual and about 26% of the portfolio will have upward rate adjustments through 2024, given today's interest rates.

Slide 8 shows examples of retail commercial real estate that we lend to and the types of properties we don't. The Retail CRE portfolio is about $900 million. with significant portions located in Queens, Brooklyn and the Bronx. These are typically strip malls and not large shopping malls. These businesses are usually vital to the communities they serve. The portfolio has a weighted average LTV of 53% and debt service coverage ratios over 1.9x. The average loan is about $2.4 million. Credit performance is solid and less than 20% of the portfolio has rate resets through the end of 2024.

We believe this portfolio is high quality, servicing the needs of local communities that rely upon these services on a day-to-day basis. As you can see, across our real estate portfolio, we prioritize the same key factors: limited risk exposure, resilience and strong and stable borrowers. We're comfortable with the level of risk in our real estate portfolio and remain confident in the long-term benefits of our approach.

Slide 9 provides detail on our Asian markets. With the opening of our Bensonhurst branch in Brooklyn, 1/3 of our branches are in Asian markets. We have $1.2 billion of deposits and $766 million of loans in these markets. These deposits are 19% of our total deposits, and we have only 3% of the market share. So there's substantial room for growth. Our approach to this market is supported by our multilingual staff, our Asian advisory board and support of cultural activities. This market, which has total deposits of $41 billion, continues to be an important opportunity for us.

Slide 10 outlines the growth of our digital banking platforms. We continue to see double-digit growth rates in monthly mobile deposit users, users with active online banking status and digital banking enrollment. The numerator platform, which digitally originate smaller dollar loans as quickly as 48 hours. continues to grow. We originated approximately $16 million of commitments year-to-date, and these loans have an average rate greater than the overall loan portfolio yield.

We continue to explore other fintech product offerings and partnerships to further enhance our digital banking platform and customer experience.

During the third quarter, we also continued to participate in community events to strengthen our ties to our core Asian customer base. Community involvement is a hallmark of this company. The third quarter had several notable events to highlight, as you can see on Slide 11.

Our employees were active participants in the Dragon Boat festivals, and we are a strong competitor in the races. We also participated in the India Day Parade and the Moon Festival. Participating in these types of initiatives builds our already strong ties with our local communities and drives customer loyalty.

I'll now turn it over to Susan to provide more detail on our key financial metrics. Susan?

Susan K. Cullen
Senior EVP, Treasurer & CFO

Thank you, John. I will begin on Slide 12. The company reported third quarter 2023 GAAP earnings per share of $0.32 and core earnings per share of $0.31. Average total deposits increased 9% year-over-year, but declined 1% during the quarter. Noninterest-bearing deposits increased 6% quarter-over-quarter, while average CDs expanded to 34% of total average deposits. The cost of deposits totaled 2.94% or the cost of funds was 3.13%.

Loans increased nearly 1% quarter-over-quarter, and our loan pipeline totaled $363 million at the end of the quarter with approximately 60% of floating rate. Nonperforming assets decreased slightly quarter-over-quarter. Overall, third quarter results reflect our execution on our action plan to improve profitability.

Slide 13 depicts our deposit portfolio. Average deposits increased 9% year-over-year, but declined 1% quarter-over-quarter. The quarterly decline was primarily due to seasonality, timing and pricing decisions. Growth in noninterest-bearing deposits is a top priority for us, so we are pleased noninterest-bearing deposits increased quarter-over-quarter and now comprise 12.5% of total average deposits. This growth occurred despite continued Fed action to reduce liquidity in the market.

Average CDs increased to $2.3 billion from $1.1 billion a year ago. Our loan-to-deposit ratio has improved to 103% from 113% a year ago.

Slide 14 outlines our loan portfolio and yields. Net loans decreased less than 1% year-over-year but increased about 1% quarter-over-quarter. Loan closings were $241 million, a 52% improvement quarter-over-quarter. Core loan yields increased 27 basis points during the quarter, and for the fourth consecutive quarter, yields on loan closings exceeded yields on satisfactions.

Prepayment penalty income was elevated in the third quarter at $662,000 compared to $278,000 in the previous quarter. The loan pipeline was $363 million at the end of the quarter, while yields on the pipeline increased 54 basis points during the quarter.

Slide 15 provides more detail on the contractual repricing of the loan portfolio. approximately $1.2 billion or 17% of loans repriced with each Fed move. Our hedge position on these increases, the percentage of the loans repricing with each Fed moved to 25%. We -- For the remainder of 2023, another $225 million is due to reprice at 182 basis points higher than the current yield. In 2024 and 2025, combined $1.5 billion of loans will reprice 250 to 270 basis points higher. These values are based on underlying index value as of September 30, 2023, and do not consider any future rate moves. This repricing should drive net interest margin expansion once funding costs stabilize.

Slide 16 outlines the net interest income and margin trends. The GAAP net interest margin expanded 4 basis points to 2.22% during the quarter, while the core net interest margin compressed only 3 basis points. This is the lowest amount of core NIM compression over the past 4 quarters. Prepayment penalty income and interest recoveries on nonaccrual loans were elevated at $857,000 compared to the previous quarter. We expect the NIM to remain under pressure as long as the Fed raises rates. but the pressure should be more manageable based on current forecasted rate hikes through the rest of the year. After a lag, we would expect the NIM would begin to expand as the pressure on funding costs, ease and loans continue to reprice higher.

Turning to Slide 17. As John mentioned, one of our goals for 2023 is to significantly move towards a more interest rate neutral. The goal for the balance sheet is to better match the duration of our assets, which is about 2.5 to 3 years, more closely to the duration of our funding, which is about 1.5 to 2 years. We've made considerable progress over the past year. For an immediate rise of 100 basis points in rates, our net interest income would decline by 3%, a 66% improvement.

The addition of interest rate hedges and more floating rate assets are the key drivers to the reduce sensitivity. The interest rate hedges are particularly important as they provide immediate income in addition to moving the balance sheet more towards neutral. The bottom line is we execute well on this strategy, which helps mitigate NIM compression from rising rates.

Slide 18 provides more detail on our CD portfolio. Total CDs are over $2 billion or 35% of total deposits at September 30. CDs helped to lengthen the duration of our funding to match the duration of our assets more closely. We expect to retain a high percentage of our CDs. Currency rates range from 5% to 5.45%. All else equal, we expect the CD repricing to pressure our net interest margin.

Our net charge-off history is on Slide 19. As you can see, we have a long history of below industry level of net charge-offs. In fact, we had a small net recoveries in the third quarter. We are a conservative underwriter of credit. We expect minimal losses in the loan portfolio if there's an economic downturn given the large percentage of our loan portfolio secured by real estate with a low average loan to value.

Additionally, the weighted average debt service coverage ratio is 1.8x on a multifamily and investor real estate portfolios and 1.2x in a stress scenario consisting of a 200 basis point increase in rates and a 10% increase in operating expenses. These factors contribute to our expectation of minimal loss content within the loan portfolio.

Slide 20 shows our other credit metrics with declines in nonperforming assets and an increase in the nonperforming loan coverage ratio. Criticized and classified assets increased during the quarter from a low base and we expect the criticized and classified assets to loans ratio to remain below peer levels. Our allowance for credit losses is presented by loan segment at the bottom right chart. Overall, the allowance for credit losses to loans ratio was stable at 57 basis points during the quarter. We remain very comfortable with our credit risk profile.

Our capital position is shown on Slide 21. Book value and tangible book value per share increased year-over-year. We repurchased approximately 59,000 shares at an average price of $15.88, which is a 29% discount to tangible book value. The tangible common equity ratio declined slightly to 7.59% quarter-over-quarter. Overall, we view our capital base as a source of strength and a bio component of our conservative balance sheet.

Slide 22 provides our outlook. While we do not provide guidance, we want to share a high-level perspective on performance in the current environment. We continue to expect stable loan balances given the challenging environment. However, we expect to increase the amount of floating rate loans. Certain deposits experienced typical seasonality in summer months and should level out before increasing by year-end. There are several other factors that will affect the net interest margin versus the pressure from the Fed raising rates and the natural shift in the deposit mix.

Second is the size and growth of the loan portfolio. Third is the repricing of both CDs and certain loans. Fourth is our interest rate hedges, which were favorable in the third quarter. Finally, any increase in the rates by the Fed will benefit this portfolio, offsetting some margin risk.

Overall, we expect continued pressure on the net interest margin as Fed increases rates, but all else being equal, the pressure should be more like what was experienced over the most recent 2 quarters versus the prior 3.

For modeling purposes, the core net interest margin was 2.11% for the month of September after adjusting for a more normal level of prepayment penalty income. Noninterest income should benefit from the back-to-back swap loan closings. Noninterest expenses were well controlled in the third quarter and the extra scrutiny is placed on all expenses. However, the third quarter included a $3.1 million CAREs Act benefit, which may not repeat in the fourth quarter. Lastly, the effective tax rate should approximate 26% to 28% for 2023.

I will now turn it back over to John.

John R. Buran
President, CEO & Director

Thank you, Susan. On Slide 23, I'll wrap up with our key takeaways. We continue to execute our action plan, which is improving our profitability in the short and medium term and establishing a foundation for long-term success. We moved our interest rate positioning more towards neutral, which has helped to limit net interest margin compression. While we continue to expect some compression with additional Fed rate increases, the pressure is expected to be similar to the past 2 quarters.

Our asset quality continues to be a strength. We have solid liquidity and capital. We continue to serve our clients and deepen relationships. We remain cautious given the environment but are executing on our plan to navigate this difficult environment. The decisive actions we are taking will allow us to improve overall performance.

Operator, I'll turn it over to you to open the lines for questions.

Question and Answer

Operator

[Operator Instructions] Our first question comes from Mark Fitzgibbon with Piper Sandler.

Mark Thomas Fitzgibbon
Piper Sandler & Co., Research Division

Susan, I was wondering when you feel like the Fed is done raising rates, is it likely that you'll take some of the interest rate hedges off the balance sheet to try to benefit as rates go down? Or is this sort of the new sort of rate sensitivity positioning and you'll likely keep a bunch of interest rate hedges on to synthetically create the rate sensitivity you're looking for?

Susan K. Cullen
Senior EVP, Treasurer & CFO

Well, we're using the hedges to create that sensitivity until we get the loan books and the security books where we want them to be to have that rate sensitivity. So it's going to depend on how quickly we can move and fully implement the back-to-back swap program. We had great success with that this quarter. We had $132 million of loans that originated collecting fees of $1.6 million this quarter, and our hedges have an average life of 3 years. So all of those things come into play with the -- with our strategy concerning those.

Mark Thomas Fitzgibbon
Piper Sandler & Co., Research Division

Okay. And then secondly, of the $76 million of multifamily loans and $70 million of CRE loans you closed this quarter, what are the LTVs and debt service coverage ratios on those new loans look like?

Francis W. Korzekwinski
Senior EVP & Chief of Real Estate Lending

I would say the LTVs are still coming in below 70%. The debt coverage ratios are down a bit from where we've been historically, and that's generally because of the increased cost of borrowing. I really don't have a an average number. I don't think -- Susan, if you maybe look that up or get back later, but it's in excess of our minimum requirement, which is $125 million. I would say probably closer to $135 million to $140 million.

Mark Thomas Fitzgibbon
Piper Sandler & Co., Research Division

Okay. Great. And then it looked like criticizing classifieds rose a fair bit this quarter. What was driving that?

Susan K. Cullen
Senior EVP, Treasurer & CFO

That was basically one relationship, Mark, that was -- is very well secured. It was evaluated for any potential loss to the CECL modeling and none was identified, as I said, it's very well secured. It was mostly macroeconomic environmental factors that caused that downgrade the loan as current. and has always been current. It's not missed a payment. It's just some macroeconomics affecting that particular loan relationship.

Mark Thomas Fitzgibbon
Piper Sandler & Co., Research Division

Okay. And then last question I had. Credit trends were great this quarter and charge-offs and what have you. But optically, your reserve looks a little light given where we are in the credit cycle and the complexion of your loan book. How do you think about that in terms of building provisioning? And obviously, you have some flexibility with the qualitative factors. How should we think about provisioning going forward?

Susan K. Cullen
Senior EVP, Treasurer & CFO

Well, we think our provision is appropriate mark given our loan -- our conservative balance sheet. So that's the first thing. We had some things that got cleaned up this quarter, some other assets that affected that. Our coverage ratio increased from a little over 200

-- from less than 210% to about 250%. So the allowance is -- we should be thinking about it in terms of the economy and what the composition of our loan portfolio is. So we're very comfortable with it.

John R. Buran
President, CEO & Director

So I'll reference one of our slides, Mark, and that gives a breakdown. Obviously, areas like multifamily the loss content has been so minimal over the years, and we're not expecting anything different there. Same way with the CRE portfolio. And of course, we're over 1% in terms of the C&I business banking portfolio.

Operator

Our next question comes from Steve Moss with Raymond James.

Stephen M. Moss
Raymond James & Associates, Inc., Research Division

Maybe just start more than just -- maybe starting on the loan side here. I hear your expectations for a roughly stable balance sheet. Pipeline is still at a reasonably decent pacing those down a little bit quarter-over-quarter. Just kind of curious on the dynamics there, maybe there's some payoffs or -- and just maybe overall business activity.

John R. Buran
President, CEO & Director

So the payoffs have been relatively stable the last couple of quarters. In addition, the pipeline, I guess, has been certainly impacted by the continuing rise of -- in rates and our focus -- we've been trying to work with customers with a back-to-back swap program to give them better at least initial rate while maintaining our flexibility with respect to interest rate risk.

So I think there's a number of dynamics taking place. And in addition, I think the -- what we're seeing is maybe a little bit of a slowdown of activity in terms of overall market.

Stephen M. Moss
Raymond James & Associates, Inc., Research Division

Okay. Great. Appreciate that color. And then in terms of just the -- on the expense side here with the benefit from the CAREs Act, just kind of curious how much of a step up, if you can give any color there, Susan, around that aspect? Is maybe $35 million, $36 million a better run rate for the fourth quarter to think about?

Susan K. Cullen
Senior EVP, Treasurer & CFO

So the CAREs Act was about $3 million, $3.3 million to be exact. So yes, if I take the run rate that's in the earnings release and at the $3.3 million, that would be about right.

Stephen M. Moss
Raymond James & Associates, Inc., Research Division

Okay. And in terms of maybe going up to '24 a little bit. I'm sure you guys are in budgeting process right now, but just kind of curious of the inflationary environment, I know you guys are trying to control expenses. Any early thoughts on 2024 you could share with us?

Susan K. Cullen
Senior EVP, Treasurer & CFO

You're right, we're beginning to work on our budget. As we've said, given the rate environment, we expect some additional increases, but the compression in our NIM won't be as great as what we've seen. We are focusing on our expenses, but we will invest in the company where we think it's prudent going forward for 2024.

Operator

Our next question is from Chris O'Connell with KBW.

Christopher Thomas O'Connell
Keefe, Bruyette, & Woods, Inc., Research Division

I was hoping to start off with the margin. So I hear the Fed keeps raising, there's pressure, and it sounds like for next quarter, kind of that mid-single-digit core pressure for the last 2 quarters is reasonable. If there's no more Fed hikes from here, what do you think the timing is for bottom? I mean, is this -- do you think that similar compression in 4Q continues into the first quarter? Or do you think we're getting to a point of inflection? Yes.

Susan K. Cullen
Senior EVP, Treasurer & CFO

So Chris, what we've said is if the Fed has stopped raising rates. And so let's say, the last rate was, I think, in September. So take 2 quarters for us to start expanding the NIM after the Fed stops raising right? So there would be a little bit of compression in the 2 quarters subsequent to stopping increasing rates and then expansion.

Christopher Thomas O'Connell
Keefe, Bruyette, & Woods, Inc., Research Division

Okay. Great. And so the read in there would be maybe the rate of compression would slow into the first quarter from the fourth quarter as well?

Susan K. Cullen
Senior EVP, Treasurer & CFO

Correct. That would be my assumption.

Christopher Thomas O'Connell
Keefe, Bruyette, & Woods, Inc., Research Division

Great. And then you mentioned some of the seasonal factors. Can you just remind us what are the seasonal trends for your deposit base into the fourth quarter?

John R. Buran
President, CEO & Director

Sure. So we'll see the movement in the government banking portfolio, which will reduced somewhat toward the end of the year. And then at the very beginning of the -- very, very tail end of the year into the beginning of the year, will expand again. So we'll see some movement in that government portfolio of a seasonal nature that is kind of starting now, and we'll continue into the -- into December. And then as I said, it starts to expand again. The balances start to expand again in the first quarter of the year, actually January on. That's typical.

Christopher Thomas O'Connell
Keefe, Bruyette, & Woods, Inc., Research Division

Yes. And given the strong swap pipeline that you guys have up a little bit quarter-over-quarter, I think. Should we read into that as the banking service fees line, should say, at pretty strong levels going forward?

Susan K. Cullen
Senior EVP, Treasurer & CFO

Like I said, we closed $132 million from $1.7 million. So I would expect to be -- look, I can't speak this morning, I'm sorry. I will continue to stay strong with that, yes.

Christopher Thomas O'Connell
Keefe, Bruyette, & Woods, Inc., Research Division

Great -- and then -- just to circle back and confirm on the expenses, so backing out the $3.3 million from the CAREs, get to like 37.7% for this quarter. And then is there a little bit of an uptick in the next quarter from the new brand chat? Or should we think about it more as kind of a flattish quarter for next quarter?

John R. Buran
President, CEO & Director

I think you can think of our base somewhere around 38%.

Christopher Thomas O'Connell

Keefe, Bruyette, & Woods, Inc., Research Division

Okay. That's helpful. And then last one for me, just a little bit of share repurchases. You guys are moving toward your TCE target. Do you think that -- how are you balancing out moving toward that target and doing any share repurchases going forward? Do you have any appetite for that now or more in capital preservation mode?

Susan K. Cullen
Senior EVP, Treasurer & CFO

So we'll still opportunistically go into the market this quarter. We deploy our capital on our loan originations. They were up about $100 million from the previous quarter. So as we've always said, Chris, that our capital goals are to redeploy it into the company profitably, then return it to the shareholders via dividend and finally, the share repurchase, our philosophy has not changed on that.

Operator

Our next question comes from Manuel Navas with D.A. Davidson.

Manuel Antonio Navas
D.A. Davidson & Co., Research Division

I just want to clarify on the near-term NIM. On a core basis, it was down 3 basis points this quarter and 8 basis points last quarter. So that's roughly the range for this coming quarter. And just what would be the difference on the reported side, if we have a Fed rate hike?

Susan K. Cullen
Senior EVP, Treasurer & CFO

So if the Fed raises rates, again, we believe the compression will be greater than what we saw last quarter. But that 3 to 8 basis points is probably a good range, everything else being equal.

Manuel Antonio Navas
D.A. Davidson & Co., Research Division

Do your hedges have -- Will they only help you in another hike? Like how should -- comparison to this current...

Susan K. Cullen
Senior EVP, Treasurer & CFO

They'll help us even more than they have to date. So as interest rates go up, the hedges become more valuable.

Manuel Antonio Navas
D.A. Davidson & Co., Research Division

Awesome. Okay. And you said that the rough duration on them is about 3 years?

Susan K. Cullen
Senior EVP, Treasurer & CFO

About 3 years, yes.

John R. Buran
President, CEO & Director

Some roll off in '24, some begin to roll off in '25, but the average is about 3 years.

Manuel Antonio Navas
D.A. Davidson & Co., Research Division

I would hope you be opportunistic if you see Fed about to come back down to kind of delay some of those re-upping of the hedges?

John R. Buran
President, CEO & Director

So I think we'll have that opportunity because despite the fact that there's a 3-year average, there is a roll-off taking place over time. So we'll be assessing while we still want to remain in a very, very neutral range, and that's part of the strategy overall. We will see opportunities going forward to either accelerate or decelerate that movement based upon what's happening in the rate environment. But our intention is to operate an institution that is much more interest rate neutral going forward.

Manuel Antonio Navas
D.A. Davidson & Co., Research Division

Very fair, very fair. On the funding side, I understand...

John R. Buran
President, CEO & Director

I mean, by the way, let me just elaborate on that for a second because eventually what we want to be able to do is get that neutrality off of the balance sheet with fewer and fewer hedges. So for example, what we're doing on the floating rate side, whether it is the back-to-back swap program, which is not a portfolio hedged or our emphasis on floating rate loans in general will start to move us in that direction.

Manuel Antonio Navas
D.A. Davidson & Co., Research Division

Here at the year-end with some of the seasonality you're having on deposits, is that the main driver on kind of increasing your CD rates a bit?

Susan K. Cullen
Senior EVP, Treasurer & CFO

It's part of it, but it's also growing our customer base across all the new branches that we've opened. There's a lot of specials in there as well.

Manuel Antonio Navas
D.A. Davidson & Co., Research Division

Can you walk through some of your channels that are seeing the best inflows? Is it the new branches? Is it the CD product? Your digital is up to 3% of deposits. Is that -- how is that growing? Just kind of where are you seeing the best inflows at the moment?

John R. Buran
President, CEO & Director

I would say our branch network is doing quite well. We did note that we had a very nice increase in non-interest-bearing. That's a result of a focus that we put in place beginning in July to put in place a very special incentive program. That incentive program has really done very well in terms of getting the organization very much focused on developing a stronger noninterest-bearing DDA base.

Branches are doing well. The digital seems to be doing well. And then business banking, our ability to garner more deposits from our business banking customers and our commercial real estate customers has continued to grow.

So all of those pieces are pulling together to give us what we think is a favorable direction, particularly with respect to noninterest-bearing, which, of course, as you know, moved opposite the direction of the industry in this quarter.

Manuel Antonio Navas
D.A. Davidson & Co., Research Division

Is the pipeline for that to continue first half of next year? How do you feel about that with the incentives you've added?

John R. Buran
President, CEO & Director

We're working to do that, no guarantees in this market and that's for sure.

Manuel Antonio Navas
D.A. Davidson & Co., Research Division

It's lumpy. I'm sure it's unpredictable.

Susan K. Cullen
Senior EVP, Treasurer & CFO

Yes.

John R. Buran
President, CEO & Director

Yes. But we put in place some significant changes in the incentive structure to do that.

Operator

This concludes 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 & Director

Well, I want to thank you all for your attention, and we're looking forward to continuing these conversations and engaging with our investors and our customers on a continued basis. So thank you very much, and everybody, have a good weekend. Bye now.

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