S&P Global
Market Intelligence

Flushing Financial Corporation NasdaqGS:FFIC

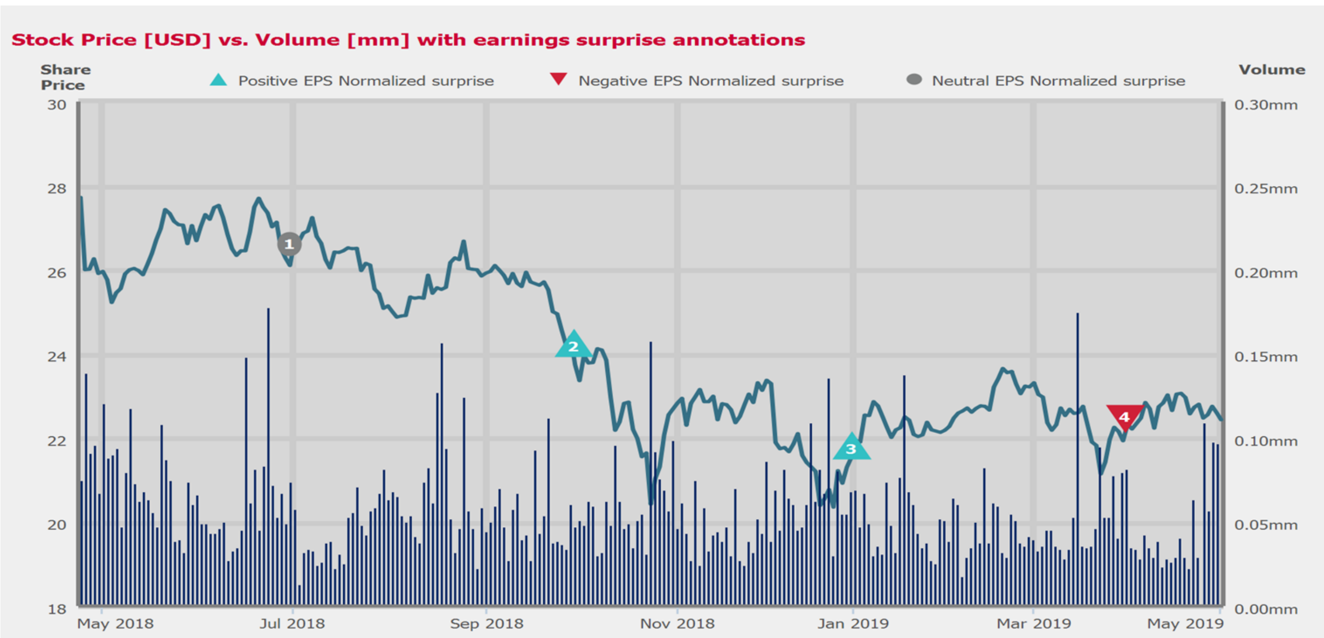
FQ1 2019 Earnings Call Transcripts

Wednesday, May 01, 2019 1:30 PM GMT

S&P Global Market Intelligence Estimates

	-FQ1 2019-			-FQ2 2019-	-FY 2019-	-FY 2020-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.39	0.33	(15.38 %)	0.47	1.77	1.87
Revenue (mm)	43.89	42.75	(2.60 %)	43.88	178.98	186.26

Currency: USD
Consensus as of Apr-30-2019 11:25 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ2 2018	0.48	0.49	0.00 %
FQ3 2018	0.48	0.54	12.50 %
FQ4 2018	0.48	0.54	12.50 %
FQ1 2019	0.39	0.33	(15.38 %)

Table of Contents

Call Participants

EXECUTIVES

John R. Buran
President, CEO & Director

Susan K. Cullen
Senior EVP, Treasurer & CFO

ANALYSTS

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

Mark Thomas Fitzgibbon
Sandler O'Neill + Partners, L.P., Research Division

Matthew M. Breese
Piper Jaffray Companies, Research Division

Steven Comery
G. Research, LLC

Presentation

Operator

Welcome to Flushing Financial Corporation's First Quarter 2019 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 earnings press release and slide presentation that the company will be referencing today are available on its Investor Relations website at flushingbank.com.

Before we begin, 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 any such statements. Such factors are included in the company's 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 will be made to non-GAAP financial measures as supplemental measures to review and assess operating performance. 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 information about these non-GAAP measures and for a reconciliation to GAAP, 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 & Director

Thank you. Good morning, everyone, and thank you for joining us for our first quarter 2019 earnings call. On today's call, as always, we hope to provide additional insight into our consistent positive earnings power, business strategy and sustainable competitive advantage.

I'll begin with our first quarter highlights and then provide an overview of the strategies we are executing to continue to create long-term shareholder value. Then, our CFO, Susan Cullen, will review our financial performance in greater detail. Following our prepared remarks, Susan and I will address your questions.

Beginning on Slide 3. The first quarter of 2019 GAAP diluted EPS was $0.25, and core diluted EPS was $0.33. Included in GAAP diluted EPS is $3 million in seasonal expenses, $2 million of fair value adjustments, $500,000 of one-time expenses related to the death of an officer, and a $1 million provision for loan losses.

Core diluted EPS excludes the fair value adjustments and the one-time expenses related to the death of an officer. The result is an $0.08 difference between GAAP and core diluted earnings per share. A detailed reconciliation between GAAP and core diluted EPS can be found on pages 18 and 19 of the slide presentation.

While quarterly results were impacted by seasonal expenses, fair market value adjustments and provision expense, we were pleased to see several positive trends, including net interest margin stabilization, loan yield improvement, loan pipeline growth, continued growth in the C&I portfolio; and deposits, particularly in the Flushing market.

The most significant positive trend was the stabilization of the net interest margin, which was flat in the first quarter of 2019 compared to the prior quarter; while core net interest margin increased 3 basis points, the first such increase since the first quarter of 2017. Importantly, the pace of the increase in the cost of funds has slowed by 23 basis points compared to the increase recognized between the second and third quarters of 2018. The yield on interest-earning assets has increased gradually over the same periods as a result of our strategic initiative of focusing on rate over volume.

Contributing to the continuation of the NIM stabilization is the $2 billion of loans contractually scheduled to upwardly re-price through 2021. As a result, we expect to earn a premium to market rates on these real estate loans.

Our swap strategy helped in stabilizing the net interest margin. For the first quarter of 2019, the swaps totaling $726 million provided a benefit of 6 basis points. Our strategy on loan growth is to move our balance sheet toward more floating rate C&I business while simultaneously focusing on yield over volume on our mortgage business.

During the first quarter of 2019, our C&I loan closings totaled over $130 million, representing over 65% of our total loan closings. This performance was part of a trend that we've seen over the past 4 quarters. During that time, C&I loans, which are primarily adjustable rate, represented 43% of new loan closings.

Additionally, the loan pipeline improved significantly in the first quarter of 2019, growing 40% to $275 million. The loan pipeline has an average yield of 4.8%, providing for additional yield growth in the portfolio. 53% of our pipeline is adjustable rate loans at March 31, 2019.

Our strategic focus on yield over volume in loan pricing continues to aid in stabilizing the net interest margin, as the yield on loan closings increased 12 basis points during the first quarter of 2019 and 75 basis points from the first quarter of 2018.

On the mortgage side, the yield on loan closings increased 35 basis points in the first quarter of 2019 from the fourth quarter of 2018 and 99 basis points from the first quarter of 2018. Mortgage loan closings were down in the first quarter of 2019, primarily due to the pipeline at December 31, 2018, being lower than historical norms, particularly in commercial real estate.

Total deposits increased $94 million or approximately 2% non-annualized quarter-over-quarter. The majority of this increase was transaction deposits, which increased approximately 4%; again, non-annualized quarter-over-quarter.

The Win Flushing program, which focuses on increasing our deposit market share in the Asian community of Flushing, Queens was a centerpiece of our retail deposit growth of $72 million quarter-over-quarter. At the end of the first quarter, we've captured $175 million of deposits, exceeding our target of $160 million.

The program was predicated on the conversion of Flushing branches to the Universal Banker model, which allows staff to spend more time with customers, increasing sales opportunities. In the branches that have been converted, we experienced an increase of approximately 100% in transactions processed at ATMs to almost 55% of all branch transactions, reducing our customers' reliance on tellers.

As a result, branch sales have increased over 30%, as sales per employee increased approximately 50% due to our branch staff focusing more time on sales opportunities. As previously discussed, we expect to have the remaining branches converted to the Universal Banker model by the end of 2019. At the end of the quarter, we had 15 out of our 19 total branches operating under this model.

Credit quality remained strong, as nonaccrual and nonperforming loans decreased by 3% in the first quarter of 2019. The quarter's $900,000 in charge-offs were mainly isolated to one commercial business loan relationship. The loan-to-value on our nonperforming real estate loans at the end of the quarter remained conservative at approximately 34%.

Referring now to Slide 4. We remain focused on these key areas: exceeding customer expectations, enhancing earnings power, strengthening our commercial bank balance sheet and maintaining our strong risk management philosophy. Our sustainable competitive advantage includes our ongoing focus on developing and maintaining a multilingual branch staff to serve our diverse customers in the New York City market area.

The Asian banking market surrounding our branches has very attractive business dynamics, including a high degree of savings, available deposits, and a significant number of small business owners. We have a strong focus on this community, where we have over $650 million in deposits. These deposits have a lower cost of funds than our total cost of funds.

Overall, we remain very well positioned to further deliver profitable growth and long-term value to our shareholders as we continue to execute on our strategic objectives, which are summarized on Slide 5: increase core deposits and continue to improve funding mix, manage net loan growth and focus on yield versus volume, enhance core earnings power by improving scalability and efficiency, profitable growth and expansion through new distribution channels and business lines, manage credit risk, and to remain well-capitalized under all stress test scenarios. Overall, our focus on our strategic objectives enables us to further deliver profitable growth and long-term value to shareholders.

Now I'll turn the call over to Susan to discuss the quarter's financial results in greater detail.

Susan K. Cullen
Senior EVP, Treasurer & CFO

Thank you, John. I'll begin on Slide 6.

Total loans were $5.6 billion, up approximately 1% quarter-over-quarter and 5% year-over-year as we continue to focus on the origination of commercial business loans with a full banking relationship. These originations totaled over 65% of loan production for the quarter and over 43% for the past year.

Commercial business balances have grown 22% year-over-year to approximately 17% of gross loans as of March 31. The growth in the C&I portfolio continues to offer several advantages to the company, primarily continued diversification of the loan portfolio. And as these are primarily adjustable rate loans, the yield offers more stability to the net interest margin.

At March 31, our loan pipeline totaled $275 million, which is up 40% from the last quarter. The composition of the pipeline was 53% adjustable rate product. The interest rate on the mortgage loans in the pipeline decreased from last quarter but increased in the prior year to 4.80%.

Loan-to-value on our real estate portfolio at quarter end remains a modest 39%, and the debt service coverage ratio for the current quarter's originations of multifamily, commercial real estate and 1-to-4-family mixed use loans in the 171%. We continue to underwrite and stress test each individual loan using a cap rate in excess of the mid-5s.

Slide 7 highlights the evolution of our funding mix. As funding has grown over the years, the percentage related to CDs and borrowings has decreased. When the need arises to access the wholesale funding market, we can advantageously ladder our liabilities for longer terms. Core deposits increased 4% quarter-over-quarter and 12% year-over-year, totaling 70% of all deposits at March 31; compared to 37% at December 31, 2006.

On Slide 8, you'll see that deposits increased 2% quarter-over-quarter and 8% year-over-year. We continue to focus on the growth of core deposits, with an emphasis on noninterest-bearing deposit accounts, which increased 6% year-over-year.

Noninterest-bearing deposits of nearly $400 million represent 8% of total deposits. Although we've seen some easing in the pace of the cost deposits, we continue to encounter strong competition. The quarterly cost of funds increased 3 basis points from the prior quarter. We remain disciplined in terms of pricing. Our deposits will remain competitive within our market.

Turning to Slide 9. Net interest income for the first quarter of 2019 was nearly $42 million, up 3% quarter-over-quarter. The net interest margin at 2.57 was flat quarter-over-quarter. Core net interest margin was 2.52, an increase of 3 basis points quarter-over-quarter.

On Slide 10, we discuss the strategies we're using to continue the NIM stabilization. One component of the NIM stabilization is related to the increasing yield on the loan portfolio. As John highlighted, over $2 billion of loans are scheduled to upwardly re-price through 2021 at an average rate of 96 basis points. However, given the current rate environment, we have recognized that the full contractual re-pricing may not be recognized. But we expect a rate between the contractual rate and the current market rate.

A second component of the yield stabilization relates to our swap strategy. As John highlighted, the net interest margin was also aided in the first quarter by interest rate swaps totaling $726 million by 6 basis points. As a result of the slowing pace of the cost of deposits, our overall cost of funds for the quarter was 1.80%, an increase of 3 basis points quarter-over-quarter. This was the smallest increase in the cost of funds in 2 years.

As a result of our strategic objectives, the NIM has stabilized for this quarter. For the seventh consecutive quarter, the yield on loan originations has exceeded the quarterly yield on loan portfolio net of [prepay of] penalties from loans, recovered interest from delinquent loans and losses from fair value adjustments on qualifying hedges. Loan origination yields have increased 12 basis points from the fourth quarter of 2018. And originations of commercial business loans, which are primarily adjustable rate loans, totaled over 65% of the current quarter's originations and now comprise 17% of the loan portfolio.

Although we have seen NIM stabilize for one quarter, we actively manage funding costs and continue to evaluate strategies to mitigate our liability-sensitive balance sheet. While the net interest margin is showing signs of stabilizing, we will continue to focus on driving net interest income by executing our mitigation strategy against the cost of funds, coupled with leveraging loan pricing opportunities and portfolio mix.

Moving to Slide 11. First quarter expenses increased approximately 4% year-over-year, driven by increase in salary employee benefits, occupancy and equipment, and depreciation expense due to the growth of the bank. The first quarter of 2019 includes seasonal expenses totaling $3 million and one-time expenses totaling $500,000, and the acceleration of employee benefits due to an officer's death.

The ratio of noninterest expense to average assets is 1.89% in the first quarter of 2019, compared to 1.54% in the fourth quarter of 2018 and 1.95% in the first quarter of 2018. The company has historically maintained relatively stable ratio of noninterest expense to average assets. The efficiency ratio was 70% in the first quarter of 2019, compared to 59% in the fourth quarter of 2018 and 69% in the first quarter of 2018. Increasing the net interest margin will assist us in achieving our long-term goal of annual efficiency ratio in the low to mid-50s. We remain focused on continuous improvement and new opportunities in our operation's efficiency gains.

Regarding taxes. The effective tax rate was approximately 25% in the first quarter of 2019, which includes divesting of restricted stock warrants, which are treated as discrete items. Excluding that, the effective tax rate was approximately 24% in the first quarter. And for 2019, we approximate an effective tax rate between 22% and 25%.

Now turning to credit quality on Slide 12. Our credit metrics remained excellent this quarter. As a reminder, we are a historical seller of nonperforming credits and record charge-offs early in the delinquency process. Our strong credit quality metrics result in coverage ratio increasing to 134% from 129% as of December 31, 2018.

Looking forward with expected loan growth. We anticipate recording provision for loan losses in proportion with that growth in future quarters in order to maintain an adequate reserve level.

On Slide 13, nonperforming loans were under $16 million, down 3% from the over $16 million at December 31, 2018, as credit quality remains one of our core strengths. The average loan-to-value of our nonperforming real estate loans was approximately 34% based upon the value of underlying collateral and origination, and we did not adjust the appraised values for increases. Given our low loan-to-value associated with our nonperforming real estate loans, we do not foresee an increase in related expenses.

In the first quarter, we recorded provision of $1 million and net charge-offs of $900,000, which includes a charge-off totaling $1.1 million from one commercial business relationship. After charge-offs, the remaining book balance of this one relationship was $900,000 at March 31, 2019.

Slide 14 shows 90-day delinquencies as a percentage of loans originated by year. You can see the results of our strong underwriting discipline, as there are just 9 loans delinquent greater than 90 days for the last 10 vintage years. Overall, our credit quality remains pristine.

I'll now turn it back to John for some closing comments.

John R. Buran
President, CEO & Director

Thank you, Susan.

On Slide 15, I would like to conclude by reviewing why we believe we are well positioned for continued consistent and profitable growth. We articulated our strategic objective to focus on yield rather than volume in the loan portfolio. The yield on our new loan originations for the first quarter of 2019 increased 12 basis points from the fourth quarter of 2018 and 75 basis points from the first quarter of 2018.

We have talked about controlling net interest margin pressure. The core net interest margin increased 3 basis points from the core net interest margin recorded in the fourth quarter of 2018. We have targeted reducing the loan-to-deposit ratio through deposit growth. The increase in the deposit balances, especially in the retail sector, resulted in an improvement of the loan-to-deposit ratio to 110% from 112% in the prior quarter and 113% in the prior year.

We have contained noninterest expenses in this low-rate environment. The ratio of noninterest expense to average assets was 1.89% in the first quarter of 2019 compared to 1.54% in the fourth quarter of 2018 and 1.95% in the first quarter of 2018.

The Win Flushing program, established to increase our market share in our home market, has been very successful, as we've gathered to date $175 million of new deposits, exceeding our original target of $160 million.

The investment in the Universal Banker model is paying dividends. The Universal Bankers are spending more time with customers. The additional time has resulted in brand sales increasing over 30% and approximately 50% per branch employee.

Our vision remains the same. And that 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, with its strong Asian customer base, continues to represent a significant opportunity for us.

In summary. Our strong balance sheet, risk management philosophy, capital levels, ability to grow deposits; investments in talent, innovation and cybersecurity all position the company very well to deliver consistent profitable growth and long-term value to our shareholders.
We will now open it up for questions. Operator, I'll turn it over to you.

Question and Answer

Operator

[Operator Instructions] The first question comes from Mark Fitzgibbon of Sandler O'Neill + Partners.

Mark Thomas Fitzgibbon
Sandler O'Neill + Partners, L.P., Research Division

First, Susan a couple of questions related to modeling stuff. The expense run rate presumably comes back down next quarter to sort of roughly, am I right, at around $28.5 million?

Susan K. Cullen
Senior EVP, Treasurer & CFO

I didn't model it out by quarter, Mark. I just know that it'll be about 3% to 5% greater than it was in 2018, all in. There's the $3.5 million worth of one-time expenses in the salaries and the other expense line items combined. That will not be repeated.

Mark Thomas Fitzgibbon
Sandler O'Neill + Partners, L.P., Research Division

And then, your comments about provisioning -- so the $1 million provision you had this quarter was largely a function of that one charge-off, commercial charge-off, that you had of $1.1 million. Should we assume provisioning is going to come back down to sort of a couple hundred thousand dollars a quarter sort of level, which is where you've been providing for loan growth previously?

Susan K. Cullen
Senior EVP, Treasurer & CFO

Yes. Yes, I would anticipate that.

Mark Thomas Fitzgibbon
Sandler O'Neill + Partners, L.P., Research Division

And it sounds like the core margin is bottoming. What are your thoughts on prepayment penalty income over the next couple quarters?

John R. Buran
President, CEO & Director

We don't see a great upsurge in prepayment penalty income. I think it's going to be relatively consistent with what we saw last year.

Mark Thomas Fitzgibbon
Sandler O'Neill + Partners, L.P., Research Division

And then, lastly, it looked like C&I volumes were really strong this quarter. Could you share with us maybe, is that coming from a particular industry or niche or type of company?

John R. Buran
President, CEO & Director

No, we've remained pretty well diversified in our focus on the C&I business.

Operator

The next question comes from Steven Comery of G. Research.

Steven Comery
G. Research, LLC

So looking at Slide 10, it looks like a lot of the re-pricing opportunity is, to some extent, front loaded to 2019? Just with that in mind, and kind of the smaller increase in deposit pricing you saw this quarter, how do you think about previous comments about NIM declining throughout 2019?

Susan K. Cullen
Senior EVP, Treasurer & CFO

Well, in our last earnings call, our expectation was that the rates will continue to rise through 2019 and squeeze our core NIM through 2020. But with these re-pricing of the loans and the slowdown of the pace of the pricing of deposits, and the fed altering their position -- given everything being equal, as it is this quarter, we would expect the rate environment to remain beneficial to us.

Steven Comery
G. Research, LLC

So should I read that as stable NIM? Or are you saying there could be upside?

Susan K. Cullen
Senior EVP, Treasurer & CFO

Relatively stable.

Steven Comery
G. Research, LLC

And then, just on the deposit pricing, kind of a big step-down in the rate of increase there. Is there anything sort of different from a competitive perspective going on? Or are your sort of deposit sales just catching up and improving the pricing you're getting there?

John R. Buran
President, CEO & Director

I think it's a combination of things. But probably the most significant thing is that the fed reducing its incessant quarter-by-quarter drumbeat on raising rates, that has just tempered the market.

Steven Comery
G. Research, LLC

And then, on the deposit sort of balances, can you kind of remind us or update us on sort of expectations for seasonality? And does the Win Flushing program and the inroads you guys have made there change the seasonal pattern of deposit mix?

John R. Buran
President, CEO & Director

It certainly -- there's a couple of factors there. I think our ability to gather deposits in these ethnic neighborhoods is one that we can focus on. Chinatown is a new branch for us. And our expectation there is very, very strong. We're doing very well versus our budgeted expectations.

So I think that we can mute some of that movement. But I think, by and large, you're going to see some pullback in the municipal balances in the summer with a return of those municipal balances coming in the fall, consistent with what we've seen every year. But I do think that some of it is muted by these other factors that I just spoke about.

Steven Comery
G. Research, LLC

That makes sense. And then, just one more for me, on the efficiency ratio. Susan, I think during your prepared comments you mentioned a low to mid-50s efficiency ratio goal? I'm just kind of wondering what the time line is on that. Is that something we should look for full year 2020? Or is that kind of a quarterly rate in 2019?

Susan K. Cullen
Senior EVP, Treasurer & CFO

That's a longer-term goal that we would like to see it again. It's going to be dependent on the NIM, growing the NIM.

Steven Comery
G. Research, LLC

So sort of further out than 2019, then?

Susan K. Cullen
Senior EVP, Treasurer & CFO

Yes.

Operator

The next question comes from Collyn Gilbert of KBW.

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

Just to go back to the deposit discussion for a minute. So it looked like the big slug of the deposits that came in this quarter was kind of in the NOW category. And that looked like that was the product that saw the biggest increase in rates. Just trace us through the timing on that, and maybe what the impact could be on the [funding] costs next quarter?

John R. Buran
President, CEO & Director

I guess, in answer to the latter part of your question, there is -- as long as we remain in this kind of more stable rate environment, we see less pressure on funding costs in general. So we're assuming betas that are similar to what we experienced this past quarter. The movement in the NOW has been associated with business NOW rising predominantly.

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

And then, just on the NIM discussion. Susan, do you have a target kind of NII growth? I mean, it sounds like strategically that's the objective to grow NII. Do you think that you'll be able to do that in 2019? And if so, to kind of what levels are you thinking you should be able to grow NII?

Susan K. Cullen
Senior EVP, Treasurer & CFO

We do believe we'll grow NII. As we've talked about, we were able to grow it this quarter, interest income. And it's hard to forecast and predict, given the rate environment. Everything being equal, I would expect net interest income growth to be consistent with what we saw this quarter.

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

And then, just going back to the expense discussion. So I know you had said you're still on track for 3% to 5% increase in expenses off of the 2018 level. That would imply -- even backing out the $3.5 million of nonrecurring expenses this quarter, that still implies a pretty significant reduction going forward. So are there other things, other initiatives that you have going on, where you're anticipating to get those expenses that much lower than where they were this quarter?

John R. Buran
President, CEO & Director

So some of the expenses were a little bit front-loaded in this particular quarter. So I think we're going to see some leveling out of some of these expenses going forward.

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

And then, you guys have referenced kind of your OpEx to average asset target number. And it was -- do you have a target for what you want that to be for the year? I know first quarter, obviously, it's elevated at 1.9; last quarter, it was 1.5. Where do you sort of see that leveling out for the year?

John R. Buran
President, CEO & Director

We think that we'll be pretty well consistent with what last year's performance came in at.

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

And then, just on the tax rate. The range of the 22% and 25%, what are some of the assumptions that go into that, sort of the variability of that range is? Like what would get you guys to the low end, and then what would cause you guys to be at the high end?

Susan K. Cullen
Senior EVP, Treasurer & CFO

The apportionment, as we've discussed in the past, will move the tax rate once we finalize our 2018 tax returns. The apportionment will move that.

Operator

[Operator Instructions] The next question comes from Matthew Breese of Piper Jaffray.

Matthew M. Breese
Piper Jaffray Companies, Research Division

Just going back to Slide 10 and the re-pricing opportunity. The current rate for 2019, the 4.81, versus this quarter's origination yield of 5.02 -- looks like a 20-basis point pickup. Is that consistent with the pipeline as well? Is the pipeline still in that 5% range?

John R. Buran
President, CEO & Director

Pipeline is 4.80, I believe.

Matthew M. Breese
Piper Jaffray Companies, Research Division

And where are seeing the most compression? Is it in the mortgage or the nonmortgage side in the pipeline?

John R. Buran
President, CEO & Director

I would say that there's a lot -- in the pipeline, it's probably a little bit more on the mortgage side.

Matthew M. Breese
Piper Jaffray Companies, Research Division

And as we think about the incremental cost of deposits, I'm assuming there's still some upside there. Can we just kind of flesh out the -- if the current rate is 4.80, your pipeline rate is 4.80 versus increasing deposit cost? I think that would apply some NIM compression from here? Could we just kind of square that?

Susan K. Cullen
Senior EVP, Treasurer & CFO

Sure. So we have these loans that re-price, the 4.80 here. And then, we believe that the vast majority of the increase in costs and liabilities has already been baked into the numbers. There might be a basis point or 2, but not much, increase in cost of the deposits, given what's rolling off.

Matthew M. Breese
Piper Jaffray Companies, Research Division

And you did note that there's been some relief on the deposit competition side. As we think about your deposit gathering vehicles outside of the Flushing brand -- you have the iGObanking and the BankPurely platforms -- have you taken any strategic actions to be a little bit less aggressive on pricing there? And could you share with us some examples, if you have?

John R. Buran
President, CEO & Director

We have been a little bit less aggressive as the need for additional deposits was a little bit more muted this quarter.

Matthew M. Breese
Piper Jaffray Companies, Research Division

Okay. Is it on the CD front or the money market front? Where are we taking our foot off the gas pedal there?

John R. Buran
President, CEO & Director

On the CD front and the money market front.

Matthew M. Breese
Piper Jaffray Companies, Research Division

And then, just thinking about the charge-off. Just curious, what was the nature of that relationship? I think it was in the C&I category. What was the industry and the collateral behind it?

John R. Buran
President, CEO & Director

It was the pharmaceutical industry. And the issues were related to a one-time event associated with an employee that we believe is rectified.

Matthew M. Breese
Piper Jaffray Companies, Research Division

Understood.

And then, my last one, just thinking about the swaps. I know derivatives are tough to quickly summarize. But can you just talk about the interest rate scenarios where the swaps on the books are in the best position versus the worst position? What needs to happen for them to potentially cause you harm versus provide a benefit?

Susan K. Cullen
Senior EVP, Treasurer & CFO

Any rising rate environment causes us benefit on the swaps. So inversely, any decline market would hurt us on the swaps.

Matthew M. Breese
Piper Jaffray Companies, Research Division

And is that tied more to the short end? Or what part of the curve is it tied to?

Susan K. Cullen
Senior EVP, Treasurer & CFO

As we've talked about in the past, we put about $450 million on, starting last January, January of 2018, on the 5-year spot on the curve. And the loans are about on the same spot or maybe a little bit longer. That's the vast majority of the swaps.

Matthew M. Breese
Piper Jaffray Companies, Research Division

Understood. Now the curve has come in quite a bit this quarter, especially the 5-year part. Should we expect the same benefit from the swaps this quarter as the first quarter?

Susan K. Cullen
Senior EVP, Treasurer & CFO

Everything else being equal, yes.

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

I just want to thank everybody for participating on the call. And once again, I believe that we're moving in the right direction as it relates to NIM. And some of the strategies that we've put in place over the last couple of years, as we've seen this declining rate environment, appear to be paying off for us.

So thank you again. And we will talk to you in the future. If anybody has any additional questions or comments, you know where to find us. Thank you.

Susan K. Cullen
Senior EVP, Treasurer & CFO

Thank you.

Operator
This concludes today's teleconference. You may now disconnect your lines. And we thank you for your participation.