Flushing Financial Corporation NasdaqGS:FFIC

FQ3 2017 Earnings Call Transcripts

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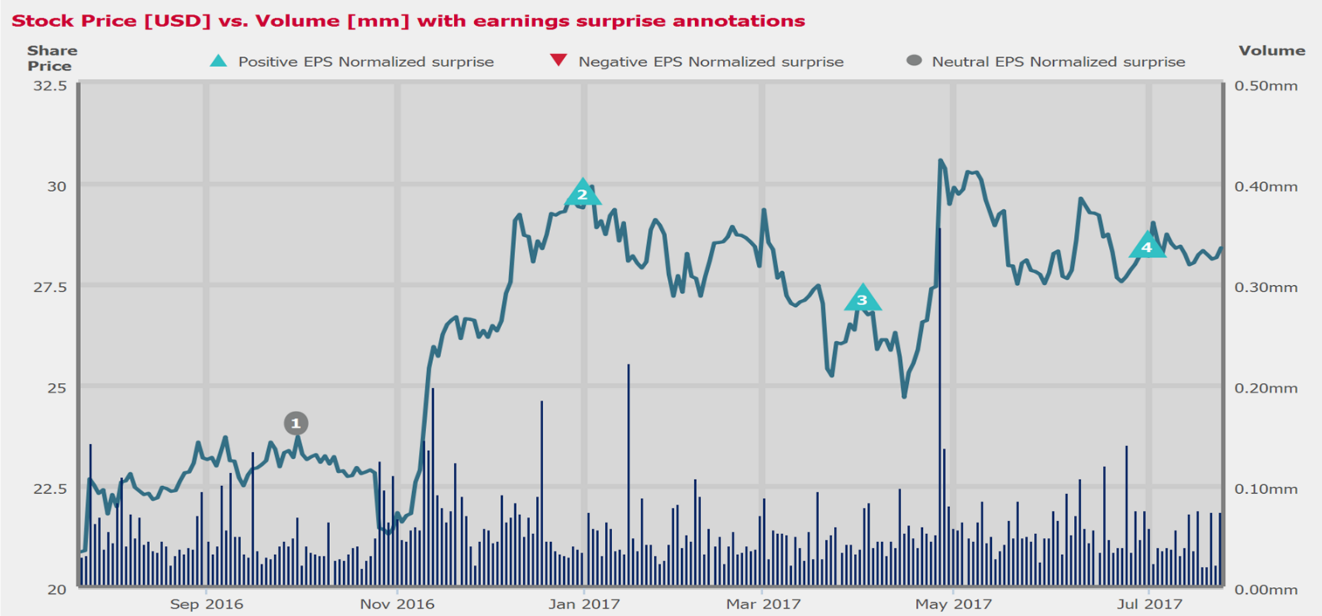
S&P Capital IQ Estimates

	-FQ3 2017-			-FQ4 2017-	-FY 2017-	-FY 2018-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.44	0.37	(15.91 %)	0.43	1.72	1.82
Revenue (mm)	46.69	44.70	(4.26 %)	47.02	187.10	196.14

Currency: USD
Consensus as of Oct-03-2017 9:20 PM GMT



- EPS NORMALIZED -	CONSENSUS	ACTUAL	SURPRISE
FQ3 2016	0.39	0.39	0.00 %
FQ4 2016	0.38	0.40	2.56 %
FQ1 2017	0.32	0.40	21.21 %
FQ2 2017	0.40	0.46	12.20 %

Call Participants

EXECUTIVES

John R. Buran
CEO, President & Director and CEO, President & Director of Flushing Bank

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

ANALYSTS

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

Mark Thomas Fitzgibbon
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Matthew M. Breese
Piper Jaffray Companies, Research Division

Steven Comery
G. Research, LLC

Presentation

Operator

Welcome to Flushing Financial Corporation's 2017 Third 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.

A copy of the third 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 the 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 and uncertainties and other factors that may cause actual results to differ materially from those contained in any 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
CEO, President & Director and CEO, President & Director of Flushing Bank

Thank you. Good morning, everyone, and welcome to our third 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, sustainable competitive advantage, and earnings power.

I'll start by providing the highlights of the third quarter, followed by a brief overview of the strategies that we're employing 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.

Starting on Slide 3, as an announced in yesterday's press release, third quarter 2017 GAAP diluted EPS was $0.35 and core diluted EPS was $0.37. During the third quarter, we recorded a provision for loan losses for the first time since the fourth quarter of 2015 of $3.3 million, reducing EPS by $0.07 after-tax. The provision was a result of the reduction in the estimated fair value of the collateral underlying our $18 million taxi medallion portfolio. This portfolio is performing except for 1 taxi medallion loan that has passed its maturity date. All loans in this portfolio are paying as agreed. The majority of the taxi medallion loans have been restructured and are classified as TDRs for which we have extended maturity dates and/or reduced rates. We have not forgiven any principal when restructuring. After including the allocated allowance for loan losses to the taxi medallion portfolio, the net carrying value of each New York City corporate taxi medallion is $304,000.

Importantly, overall asset quality remains pristine. Total delinquent loans are $31 million, nonaccrual loans total $12 million, and we have no OREO properties. Given the low LTV associated with the non-performing loans of just 35%, we do not foresee an increase in related expenses.

For many months following the recent Fed rate increases, we were able to keep our cost of municipal deposits considerably below market rates. However, due to competitive pressures, we were compelled to increase these rates to match competition by a weighted average of 33 basis points. We recognized the full impact of the increase in this quarter as cost to funds increased 10 basis points versus the second quarter of 2017. For the fourth quarter of 2017, we expect seasonal municipal inflows of approximately $200 million, which have a lower cost than the borrowings they will replace.

We are reaping the benefits of our strategy of focusing our origination efforts on higher yielding loans. This effort provided a 21 basis point quarter-over-quarter improvement in the yield received on new loan origination purchases in third quarter 2017 to 4.25%. This is 51 basis points higher than the third quarter 2016 yield. This yield is also 16 basis points greater than the quarterly average yield of our total loan portfolio, net of prepayment penalty and recovered interest from delinquent loans.

The yield growth in the loan portfolio of 8 basis points was not able to offset the increase in deposit costs. As a result, the net interest margin declined 5 basis points quarter over quarter. The growth in loan yields, augmented by solid loan growth, is one we will work to continue in future quarters. Our total loan portfolio grew 5% during the 9 months ended September 30, 2017, while holding on to strong underwriting standards.

Loan balances were impacted by the sale of $33 million of loans during the quarter. The pipeline of $417.0 million keeps us on target to achieve annual loan growth in the high-single digit, low-double digit range.

Our loan-to-deposit ratio improved for the quarter to 114% from 118% at June 30, 2017. The decrease is due to growth in branch-based money market balances and of our internet-based, ecofriendly healthier lifestyle community brand, Bank Purely, whose balance exceed $80 million at quarter end.

Our loan-to-deposit ratio should further improve during the fourth quarter as we increase business development efforts in the lucrative Flushing market, consistent with the relocation and modernization of 2 branches. We are improving scalability and efficiency in this market 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 real estate and staff expenses as the Universal Banker branches are more efficient.

As you may recall, we have been piloting video banker, which gives customers access to a live person from 7 AM to 11 PM, 7 days a week at our enhanced ATM terminals. As this enhancement has been positively received by our customers, we plan to roll out this feature to all our branches in the coming year. These efforts, among others, contributed to controlling expenses, resulting in an efficiency ratio of 56.5% in third quarter 2017. As a reminder, our long-term goal is to maintain an efficiency ratio in the low to mid-50s.

For those new to our story, Slide 4 provides a summary of our key focus areas which remain consistent: exceeding customer expectations; enhancing earnings power; strengthening our commercial bank balance sheet; and maintaining our strong risk management philosophy. Our vision remains to be the preeminent community bank in our multicultural market. We create value and attract new customers by delivering a consistent and superior experience through quality service and personalized attention. Our 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.

In addition, 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 than our total cost of funds at 89 basis points. The Asian market surrounding the Flushing branches have very attractive business dynamics. First, there's a high degree of savings, available deposits, and a significant number of small business owners. We have undertaken an initiative to capitalize on this business environment with the opening of 2 remodeled and modernized Universal Banker branches.

We remain a preeminent commercial real estate lender, focused on the origination of multifamily mortgages, 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, had enabled us to transform formerly transactional-based customers into deeper long-term financial relationships.

We continue to focus on conservative underwriting and improving yields to achieve desired risk adjusted returns. Our risk management philosophy remains constant and has proven to serve us well throughout all phases of the credit cycle. The LTV on current quarter originations of multifamily commercial real estate and 1 to 4 family mixed use loans was 41% with a debt coverage ratio of 187%. Our conservative underwriting standards, loan loss reserves, minimal delinquencies, and low LTVs give us confidence that net charge-offs will remain below industry averages.

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 on our strategic objectives which are on Slide 5: increase core deposits and continue to improve funding mix; increase net interest income by leveraging loan pricing opportunities; enhance core earnings power by improving scalability and efficiency; manage credit risk; and 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.

Importantly, our strong capital ratios remain well in excess of regulatory requirements for both the company and the bank. We have authorization from the Board to purchase an additional 486,000 shares, which has no expiration or maximum dollar amount. There are no purchases in third quarter 2017.

We also maintained our quarterly dividend of $0.18. 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 year since September 1996.

At this point, I'll turn the call 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 6. Total loans were $5 billion, nearly flat quarter over quarter and up 5% from December 31, 2016, as we continue to focus on the origination of multifamily, commercial real estate, and commercial business loans with a full banking relationship. We continue to diversify our loan portfolio as C&I originations for the quarter were 38% of total originations versus the existing portfolio total of 14% of gross loans.

At September 30, our loan pipeline was a strong and totaled $417.0 million, improving from a pipeline of $279 million at the end of the second quarter of 2017. The interest rate on the real estate loans of pipeline decreased to 4.04% from an average rate of 4.17% for the linked quarter, as the mix is more heavily weighted towards multifamily loans. The LTV ratio on our real estate portfolio at quarter end was a modest 39%.

On slide 7, deposits increased 10.0% year over year and 4% quarter over quarter, primarily driven by growth in the non-interest bearing and money market accounts. We continue to increase core deposits as represented by the year-over-year growth with an emphasis on non-interest bearing accounts, which increased 13% year over year. Non-interest bearing deposits of $363 million represent 8% of total deposits. Since the third quarter of 2016, deposits increased $398 million.

Our internal initiative of using business development officers to gather deposits from loan customers has resulted in balances totaling $23 million. Funding is also gathered through the iGObanking.com channel. At September 30, its deposits totaled $368 million, while the Bank Purely balances were over $80 million.

We are beginning to see rate pressure on the municipal banking funding, while the pricing on retail deposits remain disciplined. The average cost of funds has increased 10 basis points during the quarter. We continue to remain disciplined in terms of deposit pricing, while remaining competitive within our market.

Slide 8 depicts the composition of the funding mix. The loan-to-deposit ratio has improved to 114% at September 30 compared to 118% at June 30. 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 markets, there are advantages, as we can ladder out liabilities for longer terms when the consumer does not want to tie up their money for much longer than 18 months in the current environment.

Turning to Slide 9, net interest income for the third quarter of 2017 was $43.0 million, up 3% year over year, but down 1% quarter over quarter. The net interest margin at 290 basis points decreased 4 basis points year over year and 5 basis points quarter over quarter. Excluding prepayment penalty income, core net interest margin for the linked quarter declined 6 basis points to 2.77%.

Our overall cost of funds for the quarter was 1.15%, an increase of 13 basis points year over year and 10 basis points quarter over quarter, driven by an increase in rates paid on municipal deposits and short-term borrowings.

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

On Slide 10, we reported non-interest income for the third quarter of 2017 of $1.7 million, but core non-interest income was $2.9 million. Excluding the effects of the net gain losses from the fair value adjustments, the gains and losses on the sale of securities, and the gains from life insurance proceeds, core net interest income increased to 11% year over year, despite a 6% decline quarter over quarter. The year-over-year increase was driven largely by growth in Federal Home Loan Bank of New York stock dividends, the bank-owned life insurance and gain on sale of loans.

Moving to Slide 11, non-interest expense for the third quarter of 2017 was $26.0 million, slightly improving quarter over quarter and year over year, resulting from continued improvement in credit quality and expense control. Excluding the write-down of OREO in the third quarter of 2016, non-interest expense was up $0.5 million or 2.0% year over year, driven by increased salaries and benefits from additions in staffing and investments in our technology, partially offset by reductions in FDIC insurance expense and foreclosure expense. The lower expenses associated with the FIDC insurance and foreclosure expenses should be sustainable.

Overall, the efficiency ratio was 56.5% for the third quarter of 2017 compared to 57.4% in the third quarter of 2016 and 55.8% in the second quarter of 2017. As John previously mentioned, our long-term goals to maintain an efficiency ratio in the low to mid-50s. We continue to evaluate new opportunities in our operations for efficiency gains.

Regarding taxes, we anticipate the effective tax rate to approximate the third quarter of 2017 rate of 34% for the remainder of the year.

Now turning to credit quality on Slide 12, our credit metrics remain pristine this quarter. Importantly, we continue to record charge-offs early in the delinquency process. As a reminder, we are a historical seller of non-performing credits.

The average LTV of our non-performing real estate loans is 35%, based upon the value of the underlying collateral at origination, and we do not adjust appraised values for increases for the New York City metro area. The LTV should be conservative based upon the methodology we use.

Non-performing loans decreased $14 million, down 41.0% year over year and 10% quarter over quarter. Net charge-offs for the third quarter of 2017 remain a minimal $154,000, or less than 1 basis point of average loans.

As John highlighted, we recorded provisions for loan losses of $3.3 million as estimated fair value of the New York City taxi medallions were lowered based on most recent sale data. The taxi medallion portfolio totals $18 million, or 36 basis points of total loans, and is comprised primarily of New York City corporate medallions, which are carried at $304,000, net of allocated allowance for loan loss. We have allocated $6.0 million of the allowance for taxi medallion loans, which equates to 33.0% of the outstanding balance.

Slide 13 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's only 1 loan delinquent greater than 90 days for vintage years after 2009, which is an impressive run for over 7 years.

Moving to Slide 14, our coverage ratio is at 182% and has been increasing due to improving credit quality and the reserve we built for the taxi medallion loans. The allowance for gross loans is 50 basis points, increasing from 44 basis points in the prior quarter. 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 our credit quality closely to assure that we have an appropriate loan loss reserve.

With that, I'll turn it back to John for some additional comments.

John R. Buran
CEO, President & Director and CEO, President & Director of Flushing Bank

Thank you, Susan. Wrapping up, Slide 15 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 consistent and superior experience at every touch point for our customers and maximizing shareholder value. Those of you that have held our stock for over the past 5 years know our total shareholder return has been 118%, outperforming the market and the median of our banking peers.

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

Question and Answer

Operator

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

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

Susan, you had mentioned you expect some NIM pressure in coming quarters. Can you help us sort of get a sense for the magnitude of that compression?

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

As we said in the earnings release and in our comments, we had to raise the rates on the government deposits to remain competitive with the market. We would expect there to be continued pressure on those government deposit rates, which would obviously affect our NIM.

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

And then how big is that government deposit portfolio? And was it 1 or 2 relationships that really caused the pressure, or is it pervasive across the portfolio?

John R. Buran
CEO, President & Director and CEO, President & Director of Flushing Bank

We have several different categories of the government deposits. And the category where we had the most beneficial rate for us was the one that was secured by securities, collateralized by securities. That was the one where we had the most pressure to increase rates. Some of the other categories we were able to increase far less or even not at all. So now that we brought that particular category up, we're at market, and as Susan said, we may see additional pressures there on the deposit side. So we're talking about a total billion dollar portfolio, the piece that we move the most was somewhere around $200 million to $300 million. In addition, obviously on the asset side of the balance sheet, we are continuing to post loans that have a 4-handle on them. So to the degree we can continue to do that, that will offset some of the pressures that we'll see either from government or any other retail deposits.

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

And then John, I know the portfolio is small, but the taxi medallion portfolio, and you've got good reserves against it, but it almost begs the question, would it make sense to sell it, just get rid of it, given the noise related to that? What are your thoughts? Are there buyers out there for those kinds of portfolios?

John R. Buran
CEO, President & Director and CEO, President & Director of Flushing Bank

We did see the one buyer over at Citibank that was pretty much a fire sale at $189,000 per medallion. Our portfolio is very different than the typical large scale investor portfolio. They're individual medallion owners, 2 medallions. I think the maximum is 4 medallions that any one individual has. So they tend to be people who are actually using this for their livelihood. As a result, we're seeing good payment history. All of those loans are paying as agreed. The 1 loan that we have that is past maturity, we expect to come to some agreement with that particular borrower, as we have in the past. I'll emphasize again, we have had to take no reductions in principal. So, small portfolio. The individuals, it's a diversified portfolio in terms of ownership, and paying as agreed at this point in time. So, I don't see any reason to jump ahead to go out in some sort of a fire sale.

Mark Thomas Fitzgibbon

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

And then lastly, on your C&I, you've had pretty good growth in that C&I portfolio here for the last several quarters. Is there any particular industry that's driving that? Do you guys have a specialization in anything that's really causing the growth?

John R. Buran
CEO, President & Director and CEO, President & Director of Flushing Bank

No. It's a very well diversified portfolio, and we like to keep it that way.

Operator

The next question comes from Steven Comery of Gabelli.

Steven Comery
G. Research, LLC

You guys had a nice build in the pipeline in this quarter, but as you mentioned, the mortgage application yields came in at 4.04% versus 4.17% in the previous quarter. And then Susan, you mentioned that was because of mix toward multifamily. But I was just wondering, things like C&I loans tend to come in at a higher rate. Is the overall pipeline yield more in line with this quarter, or is that lower as well?

John R. Buran
CEO, President & Director and CEO, President & Director of Flushing Bank

This quarter has a significant number of high, large multifamily. When you look at the mix of our portfolio, you have commercial real estate, which tends to be higher than the baseline, large multifamily. Then you have small multifamily, which has a premium to large multifamily. And then the C&I portfolio, to the degree that it could be a prime or prime plus, not only gives us a 4-handle, but also gives us the ability to have a floating rate asset. So the changes in that mix at any given quarter could either give us a wider or a more narrow yield versus our funding cost. That said, we've been very focused on maintaining the loans with a 4-handle in total.

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

And Steve, many of the C&I loans priced a couple days prior to closing, so we don't really have a good portfolio or pipeline rate on those loans. We only have it for at that point in time. The market may move prior to those closing.

Steven Comery
G. Research, LLC

Oh, okay. So that's why you broke out the guidance like that with mortgage.

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

Yes.

Steven Comery
G. Research, LLC

And then I don't want to belabor this, but back on medallion portfolio. So $6 million total allocation so far in $18 million portfolio. That seems pretty conservative, given your comments on how they're all still performing. Did you guys mark this book to the fire sale number of $189,000 you mentioned? Is that the process that went through here?

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

No. We continue to market them based on the more normalized sales in the marketplace during the quarter, coupled with our net NOI analysis that support the net $304,000 value. We looked at that fire sale and discounted it.

Steven Comery
G. Research, LLC

And then just kind of also on this. Just wondering, can you give us a sense of how these loans are going to come off the book naturally? Like how they're paying down, what the maturities are, anything like that?

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

They are amortizing loans of basically 3 years with the resets that are more -- we will renegotiate them. They're just going to come off the books I think very slowly. We're going to have to work through the process.

Operator

The next question is from Collyn Gilbert of KBW.

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

Just a question for Susan, or whomever, on the deposit side. You guys gave good color as to where you expect the deposit pricing to go in the near term, in part because of the muni relationships. But as you look out end of the year, next year, where do you see the sensitivity of some of those, of your deposit products pricing, assuming we get a couple rate hikes?

John R. Buran
CEO, President & Director and CEO, President & Director of Flushing Bank

I think, again, the retail side has been fairly disciplined at this point in time. The market's been fairly disciplined. As you know, it's dominated by larger banks. There are -- really, there's limited aggressive pricing coming out of those larger institutions. So the degree to which they hold fast I think will allow for a gradual increase in deposit cost. Our plan there is to be able to continuously focus on the loan side to increase the yields there. Hopefully we'll be able to match to some degree the movement on the liability side. But I think it's going to be driven by the larger institutions, they have not made any dramatic moves at this point in time. So, that's pretty much the outlook for us.

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

And just on, kind of a follow up to that. I guess do you have a sense -- it's probably hard to tell, but for the deposits where you've got the business customers or the muni deposits that are asking now for a catch up on the rate, do you think they're going to -- do you anticipate those deposit rates to continue to move higher? I hear what you're saying on the retail side and what the competitive market looks like, but I'm just thinking about your core customers' demands if you kind of are anticipating that they're going to want to keep raising, or demanding higher rates as we look out over the next few quarters.

John R. Buran
CEO, President & Director and CEO, President & Director of Flushing Bank

The Fed has moved up, I don't know, probably 75 basis points or so --

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

This year.

John R. Buran
CEO, President & Director and CEO, President & Director of Flushing Bank

-- this year. And we've had them move up 33 basis points. And that 33 basis point move actually is the first move that we've made in a number of years. So it looks to me like there's a very slow reaction in the market to the Fed moves. And as long as that holds true for us, I think it'll work out just fine.

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

As we're sitting here today, Collyn, the government type deposits are still lower costing than any borrowings we can get through the Federal Home Loan Bank.

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

That was going to be my next question. Okay. Okay. All right. And then just one final question. Susan, what did you -- did cost savings, or maybe John you said it in your opening comments, the cost saves that you guys are anticipating from converting to that Universal Bank model, can you just run through what you said there and how we should be thinking about that? And I know you said 2019.

John R. Buran
CEO, President & Director and CEO, President & Director of Flushing Bank

We're seeing cost saves of about 20%, based upon real estate and branch staff. As we roll through these branches, we expect to see a reduction in cost. Square footage declines dramatically, obviously therefore rent. And the fact that we've eliminated the teller position has reduced the staff very significantly.

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

And will those -- I know you wanted all the conversions to be done in 2019, but just trying to think about the financial implications of how that rolls through, how we should think about these savings. Is that going to be then more of a fully -- a run rate not coming until 2020, or will you start to see some of those cost saves in 2019?

John R. Buran
CEO, President & Director and CEO, President & Director of Flushing Bank

We're seeing some of those cost saves right through these years. Our move in the Flushing market that'll take place this year will have a benefit and going forward. We won't see the full impact until the end of 2019 obviously, because all of the branches will be done at that time.

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

And is this all factored into your goal of maintaining the efficiency ratio in the low to mid-50s? That assumes some of these savings through the --

John R. Buran
CEO, President & Director and CEO, President & Director of Flushing Bank

Yes.

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

Okay. Okay. Very good. I'll leave it there. Thank you.

Operator

The next question is from Matthew Breese of Piper Jaffray.

Matthew M. Breese
Piper Jaffray Companies, Research Division

Just staying on the margin discussion as specifically the deposit cost. Given your commentary around the margin facing a little bit more pressure next quarter, in particular in regards to higher deposits cost, I just wanted to get a sense for should we expect a similar kind of move in the overall cost of funds. Or to what extent should we see that move, at least in the near term, I guess is the real question?

John R. Buran
CEO, President & Director and CEO, President & Director of Flushing Bank

We're not anticipating that significant a move. However, I think we're obviously very focused on what the competitive environment is like. And as I mentioned earlier, most of it has been fairly disciplined, anchored by the movement of the larger institutions, or lack of movement in the larger institutions. So if that changes, obviously it's going to put us under more pressure. If it tends to be the same, we don't see a one-for-one increase of Fed moves and deposit cost on our part because that historically has not been the case.

Matthew M. Breese
Piper Jaffray Companies, Research Division

And if you had to frame the extent of margin pressure, Susan, I think last quarter you were looking for flat to down maybe 2 basis points. Is it still in that kind of 1 to 2 basis point range, or something worse?

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

Well, it's hard to give you guidance on that because of the competitive pressures we may or may not face on the municipal deposits. Net of that, I would say still remaining down a couple basis points is the right answer.

John R. Buran
CEO, President & Director and CEO, President & Director of Flushing Bank

I think you just got to look at what historically our margin has been in the last year or so. And I think we had a, what was it, a 2.94% margin, same quarter last year. We're 2.90% now. So there are a variety of factors going into it; not the least of which, of course, are the deposit costs. But I think in really assessing the margin, you also have to look at the loan yields, the run off of the loans, which is about 25%, and the fact that we have significant prepayment penalties attached to the loans as well, which regenerate every 5 years. So we go from 5, 4, 3, 2, 1 to 5, 4, 3, 2, 1 again, and on until the maturity of the loans. That gives us some pricing power when it comes time for customers to renegotiate those loans. So I think the deposits clearly outstrip the loan gain in this quarter, but that has not been the case in every quarter in the last several quarters.

Matthew M. Breese
Piper Jaffray Companies, Research Division

Right, understood. Okay. And then I just wanted to make sure I heard right. Outlook for longer term loan growth is still, is it high-single digits, double digits? Is that accurate?

John R. Buran
CEO, President & Director and CEO, President & Director of Flushing Bank

I think we still have a shot at the low-double digits, and we clearly are on track to do high-single digits.

Matthew M. Breese
Piper Jaffray Companies, Research Division

And I was hoping you could just talk a little bit about the competitive environment for loans in New York City, given transaction volumes have fallen so dramatically. A lot of your competitors have talked about that being just a pretty sizeable headwind. Yet you're putting up pretty good loan growth still, and I just wanted to compare those two items and see what you thought.

John R. Buran

CEO, President & Director and CEO, President & Director of Flushing Bank

I'm sorry. What was the feedback that you were getting?

Matthew M. Breese
Piper Jaffray Companies, Research Division

Transaction volumes, especially in multifamily in New York City, are down quite a bit year over year.

John R. Buran
CEO, President & Director and CEO, President & Director of Flushing Bank

It's competitive, clearly. Fortunately, we're in a position where we're not 100% dependent upon multifamily. And when you see different mix levels, commercial real estate, multifamily, and clearly C&I, which has been strong the last few quarters, we have the ability to change our mix. We've got mixed use loans that we do as well. We have the ability to change our mix, which gives us a little bit more resiliency from some of those comments that you've been hearing elsewhere.

Operator

There are no more questions in the queue. This concludes our question and answer session. I would like to turn the conference back over to John Buran for closing remarks.

John R. Buran
CEO, President & Director and CEO, President & Director of Flushing Bank

I thank you all very much for attending the conference, and look forward to the coming quarters to keep you informed as to what's going on with our business and the progress that we make against our strategic plan. Thank you very much.

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

Thank you.

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