S&P Global
Market Intelligence

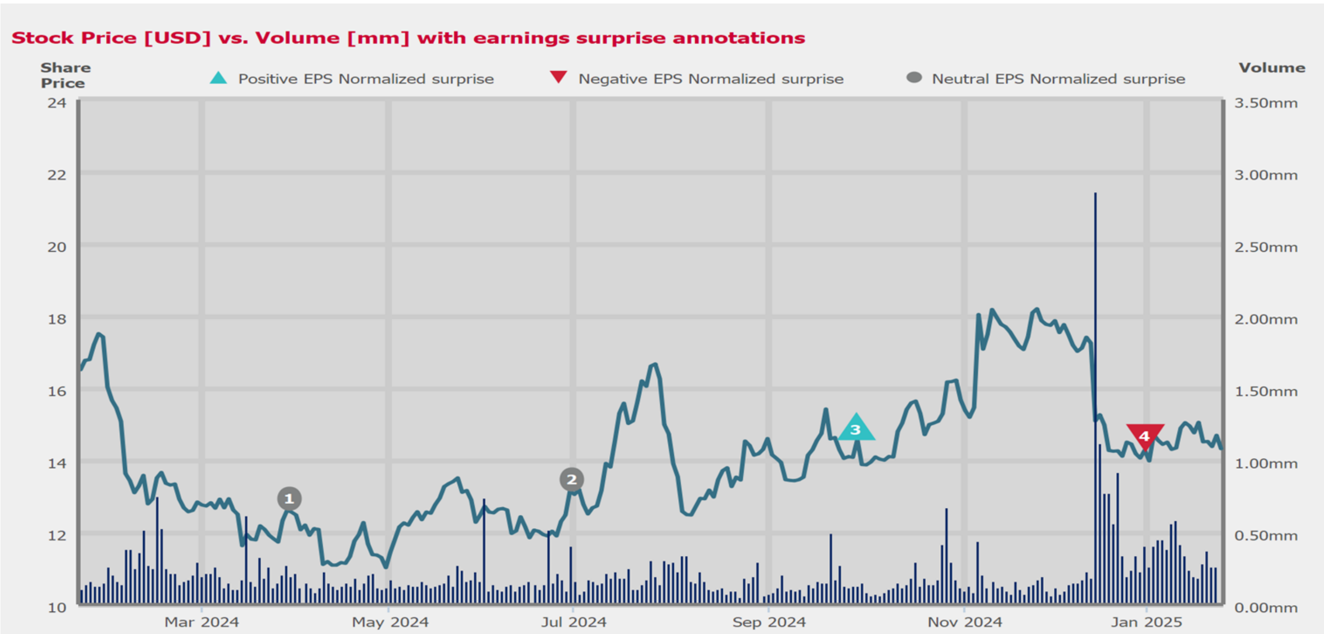
Flushing Financial Corporation NasdaqGS:FFIC FQ4 2024 Earnings Call Transcripts

Wednesday, January 29, 2025 2:30 PM GMT

S&P Global Market Intelligence Estimates

	-FQ4 2024-			-FQ1 2025-	-FY 2024-			-FY 2025-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS
EPS Normalized	0.22	0.14	(36.36 %)	0.22	0.78	0.73	(6.41 %)	1.30
Revenue (mm)	45.96	(19.79)	NM	53.59	190.34	124.57	(34.55 %)	230.20

Currency: USD
Consensus as of Jan-29-2025 4:50 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ1 2024	0.14	0.14	0.00 %
FQ2 2024	0.18	0.18	0.00 %
FQ3 2024	0.18	0.26	36.84 %
FQ4 2024	0.22	0.14	(36.36 %)

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Call Participants

EXECUTIVES

John R. Buran
President, CEO & Director

Susan K. Cullen
Senior EVP, Treasurer & CFO

ANALYSTS

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

Welcome to Flushing Financial Corporation's Fourth Quarter and Full Year 2024 Operating Results 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.

Today's call is being recorded. After today's presentation, there will be an opportunity to ask questions. [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 certain 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 result -- can cause actual results to differ materially from those contained in any such statements, including as set forth in the Company's filings with the U.S. Securities and Exchange Commission, to which we refer you.

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 and/or the presentation.

I would now like to turn the conference over to 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, operator. Good morning, and thank you for joining us for our fourth quarter and full year 2024 operating results conference call. And we want to say a special thank you for our Asian customers who are celebrating Lunar New Year.

Fourth quarter and 2024 were important milestones for the company. In December, we completed a $70 million equity raise that allowed the company to restructure the balance sheet and to build on the momentum created in net interest income in the second half of 2024. As we indicated last quarter, funding costs peaked in the middle of the third quarter with sequential NIM expansion. These trends continued in the fourth quarter, with GAAP NIM increasing 29 basis points, and core NIM up 18 basis points. The balance sheet restructuring should increase core NIM by 10 to 15 basis points in the first quarter.

After a difficult couple of years battling higher rates and an inverted yield curve, the operating environment is improving. Our asset quality remains stable and our tangible common equity ratio improved quarter-over-quarter. Fourth quarter, the company reported a GAAP loss per share of $1.61 compared to core earnings per share of $0.14. The balance sheet restructuring incurred a $76 million pre-tax loss or $1.74 per share after-tax. The capital raise and balance sheet restructuring has positioned the company to significantly improve profitability and strengthen the balance sheet.

Slide 4, we discuss our first area of focus, which is to increase the NIM and reduce volatility. Our GAAP and core NIM expanded quarter-over-quarter as funding cost declined 34 basis points, while interest earning assets declined only 3 basis points. We benefited both from our real estate loans repricing higher and our funding costs repricing lower. Our average non-interest-bearing deposits increased quarter-over-quarter to aided NIM. In addition, actions to reduce our interest rate risk profile helped as well. We're seeing continued demand for our back-to-back swap offerings. We feel good about the progress achieved so far, and we recognize there's more work to be done.

I'll turn it over to Susan to provide some more details on our net interest margin and asset quality. Susan.

Susan K. Cullen
Senior EVP, Treasurer & CFO

Thank you, John.

Slide 5 outlines the net interest income and margin trends. The GAAP and core net interest margin increased 29 and 18 basis points to 2.39% and 2.25% respectively in the fourth quarter. Liability repricing is the driver of the improvement. We are encouraged by the direction of the net interest margin, given the more positive environment and our strategic actions. The slope of the yield curve has turned positive, and this will have an expansionary impact on our net interest margin in the future.

Our interest rate risk filing shows 100 basis point positive slope in the yield curve with the short and declining would benefit net interest income by about $2 million in the first year and $12 million in the second year. The balance sheet restructuring is also expected to have a 10 to 15 basis point improvement in the core net interest margin in the first quarter. We are laser focused on improving our non-interest-bearing deposits by assessing customer relationships and revamping incentive plans.

Slide 6 provides more detail on our deposits. Average deposits increased 8% year-over-year and were flat quarter-over-quarter. Average non-interest-bearing deposits stabilized in the second half of 2024 and were 12% of total average deposits compared to 13% a year ago. The loan-to-deposit ratio improved to 94% from 101% a year ago. The cost of deposits decreased by 34 basis points during the quarter, and we continue to seek opportunities to lower deposit rates in the future.

Our deposit betas were favorable during the quarter as interest-bearing deposit betas were 51% as rates declined compared to 57% when rates increased over the past cycle. We continue to focus on shifting the deposit mix and reducing the overall cost.

Slide 7 provides more detail on our CD portfolio. Total CDs are $2.7 billion or 37% of total deposits at quarter end. Approximately $800 million of CDs with a weighted average rate of 4.59% will mature in the first quarter. Current CD rates are 3.5% to 4.25%. Our customers' preference is for the 91-day product, which has an APY of 4.25%, followed by a 1-year CD of a 3.85% rate. During the fourth quarter, we retained about 78% of the maturing CDs with a weighted average rate reduction of 88 basis points. We see a significant opportunity to reprice CDs lower as they mature.

Slide 8 provides more detail on the contractual repricing of the loan portfolio. For 2025, about $750 million of loans are due to reprice 214 basis points higher than the current coupon rate using the December 31, 2024, index. A similar amount is due to reprice in 2026 with the last sizable portion repricing in 2027 where nearly $1 billion of loans due to reprice about 200 basis points higher. The repricing in 2025 through 2027 is largely based on the 5-year Federal Home Loan Bank of New York advance rate plus a spread.

At December 31, 2023, there were over $300 million of multifamily loans that were scheduled to reprice approximately 200 basis points higher. During 2024, about 81% of these loans were repriced and remained at the bank. These loans repriced 225 basis points higher to a weighted average rate of 6.65%. This loan repricing should aid in driving net interest margin expansion.

Slide 9 provides detail on the balance sheet restructuring. Since all the details are on the slide, I will provide some high-level comments. We sold low-yielding securities and replaced them with yields about 370 basis points higher. The related swap in the securities was terminated. We restructured higher cost of Federal Home Loan Bank advances and saved approximately 30 basis points on the yield.

Lastly, we moved about $74 million of low-yielding loans to held for sale and the related mark on the sale was only due to interest rates as there was no credit mark. These actions will enhance our earnings profile by increasing the net interest margin 10 to 15 basis points and strengthen the balance sheet for 2025.

Slide 10 highlights our second area of focus, which is maintaining credit discipline. As we have discussed over the last several quarters, we have a low risk and conservative loan portfolio. Over 90% of the loan portfolio is secured by real estate with an average loan-to-value less than 35%. The multifamily and commercial real estate portfolios, which comprise about 2/3 of the loans have a weighted average debt service coverage ratio of 1.8x. Our net charge-offs and noncurrent loans have a long history of outperforming the industry.

Slide 11 provides context on these trends. The charts compare the Company's credit performance versus the industry. Our underwriting has outperformed over time, often by a wide margin. Our conservative credit culture has been proven in many rate and economic cycles and our commitment to our low-risk credit profile is unwavering. The results of our low-risk credit profile are shown by the charge-off history on the chart on the left. We expect our net charge-offs to remain well below industry levels.

For 2024, we had net charge-offs of 11 basis points. In the fourth quarter, net charge-offs were primarily related to loans that were fully reserved in previous quarters. Our level of noncurrent loans to total loans is also favorable compared to the industry. In a stress scenario consisting of a 200 basis point increase in the rates and a 10% increase in operating expenses, our portfolio has a debt coverage ratio of 1.3x. Given this, we are expecting minimal loss content within the loan portfolio.

Additional credit metrics are shown on Slide 12 and demonstrate our conservative risk culture. Nonperforming assets to assets totaled 57 basis points with loan to values at 57%. During the fourth quarter, we allocated approximately $3 million of reserves to our largest nonperforming assets based on updated information. Our level of criticized and classified assets remains low and well below our peers. Thirty to 89-day past dues are 48 basis points of loans, indicating a low level of potential future losses.

The quarter-over-quarter increase in delinquencies primarily relates to real estate loans with a weighted average debt coverage ratio of 2.4x and a loan-to-value of 41%. Our allowance for credit losses is presented by loan segment at the bottom right chart and the ratio of overall loans totaled 60 basis points. All of these items keep us very confident that our low-risk credit profile performs well over time.

Slide 13 outlines credit metrics at a more granular level for key portfolios. Our multifamily portfolio comprises 38% of gross loans and have strong credit metrics such as a weighted average loan-to-value of 43% and a weighted average debt coverage ratio of 1.8x. Nonperforming loans in this portfolio are only 44 basis points and criticized and classified are only 102 basis points of loans. The average loan size is $1.2 million in this $2.5 billion portfolio. Investor commercial real estate loans, excluding the office CRE, totaled 26% of gross loans and have similar portfolio metrics as our multifamily loans with 0 nonperforming loans and 0 criticized and classified loans.

Our exposure to office loans is small, less than 4% of gross loans. There is one nonperforming loan in the office portfolio, which we expect to be resolved shortly. These metrics provide a clear representation of our conservative and strong credit culture that has and continues to perform well over time.

Slide 14 provides further context on the risk in our multifamily portfolio and in comparison to peers. As of September 30, 2024, our criticized and classified multifamily loans were only 60 basis points, the third lowest in the peer group. At the end of the fourth quarter, this ratio was 102 basis points. The increase is primarily from one relationship consisting of 3 loans with a combined loan-to-value of 47% with payments expected by the end of the quarter to bring the relationship current.

Multifamily reserves to criticized and classified multifamily loans were 71%, which was the fifth highest in the peer group in the third quarter, and this ratio was 51% in the fourth quarter. These loans have an estimated loan-to-value of approximately 41%, 30 to 89-day past dues in our multifamily portfolio are 86 basis points. Over 98% of loans, which repriced in 2024 by over 200 basis points are current with only 34 basis points, 90 days or more delinquent. This is a testament to our borrowers and our conservative underwriting standards. With these credit metrics, we see limited risk and loss content on the horizon.

I'll now turn it back over to John.

John R. Buran
President, CEO & Director

Thanks, Susan.

On Slide 15, we highlight our third area of focus, which is preserving strong liquidity and capital. We have $3.6 billion of undrawn lines and resources and our level of uninsured and uncollateralized deposits is low. Our regulatory capital ratios are strong and the tangible common equity ratio improved quarter-over-quarter.

Our capital position is shown on Slide 16. Book value and tangible book value per share declined about 7% year-over-year due to the rate environment and our capital actions. The leverage ratio improved to over 8%, while tangible common equity increased 82 basis points quarter-over-quarter to 7.82%.

Our capital priorities have not changed, we invest in the business first, then pay cash dividends, then repurchase stock. Overall, we view our capital base as a source of strength and a vital component of our conservative balance sheet.

Slide 17 provides detail on our Asian markets, which account for about 1/3 of our branches. We have approximately $1.3 billion of deposits and $749 million of loans in these markets. These deposits are 18% of total deposits, and we have only a 3% market share of this $40 billion market, implying there's substantial room for growth.

About 1/3 of our branches are in Asian markets, and we expect to expand this network in 2025. This market with its dense population, high number of small businesses continues to be an important opportunity for us and one that we believe will drive our success in the future. Our approach to this market is supported by our multilingual staff, our Asian Advisory Board, and our participation and sponsorship of cultural activities.

On Slide 18, you can see community involvement is a key part of our strategy. During the fourth quarter, we participated in numerous local events to strengthen our ties to our customer base. We were an active participant in the Forest Hills Syosset-Woodbury Street Fairs, Flushing BID, and Ganesh Utsav Bellerose. Participating in these types of initiatives has served as a fantastic way to further integrate ourselves with our local communities while driving customer loyalty.

Slide 19 outlines the operating environment and our new business initiatives for 2025. The operating environment has improved significantly. The spread between the 5-year FHLB advance and the 3-month SOFR rates turned positive after spending much of the past year negative. This spread is a good indicator of how our net interest margin will trend in the future.

We see continued opportunities to reduce our funding costs and our real estate loan portfolio should reprice higher over the next 3 years. With our focus on remixing the balance sheet, the company should experience NIM expansion. We're equally excited about our new business initiatives. We're laser-focused on increasing demand deposits, and we have several initiatives underway to achieve this goal, including new branches, expanding customer relationships, and enhanced relationship pricing.

Additionally, another significant business initiative is building out our SBA team. We expanded the team in the spring of 2024 and have plans for future growth. During the first quarter, we expect to close on our first round of SBA loan sales. To sum up, the operating environment has turned more favorable, and we continue to invest in the business to drive future profitability.

Slide 20 provides a high-level perspective on performance in the current environment. We continue to expect slight loan growth, but stable assets. There will be a continued emphasis on improving the mix of interest-earning assets and interest-bearing liabilities. The core net interest margin is expected to expand during 2025 with a 10 to 15 basis point improvement from the balance sheet restructuring.

Additionally, there should be benefits from CD and loan repricing. Non-interest income should be aided by the closing of back-to-back swap loans in the pipeline and the benefits of a BOLI 1035 exchange. Non-interest expense is expected to increase approximately 5% to 8% in 2025 off a base of $160 million as we continue to invest in the business by adding people and branches. First quarter seasonal expenses are expected to be approximately $2 million. While quarterly tax rates can fluctuate, we expect a 25% to 28% effective tax rate for 2025.

On Slide 21, I'll conclude with our key takeaways. We enjoyed some progress in our areas of focus in 2024 as the net interest margin began to expand, our asset quality remains solid, liquidity and capital are strong, and core operating expenses were within our mid-single-digit target while making investments in the business.

Given the progress, we're shifting our 2025 focus to preserving strong liquidity and capital, maintaining credit discipline, and improving profitability. The operating environment is improving as the yield curve has a positive slope compared to significantly inverted for most of 2024. We have opportunities to lower deposit rates, add loans with attractive spreads, and remix the balance sheet. We look forward to a brighter 2025.
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 the line of Mark Fitzgibbon with Piper Sandler.

Mark Thomas Fitzgibbon
Piper Sandler & Co., Research Division

A quick question. First, on Page 4 of the slide presentation, you say the balance sheet restructuring is largely completed. I guess I'm curious what's left to be completed in the first quarter?

Susan K. Cullen
Senior EVP, Treasurer & CFO

The loan sales haven't been completed yet. We've taken the loans. We've marked them, but the actual cash proceeds and the consummation of the sale has not occurred yet.

Mark Thomas Fitzgibbon
Piper Sandler & Co., Research Division

And so you think those will happen soon or?

Susan K. Cullen
Senior EVP, Treasurer & CFO

Very soon. In the first quarter -- sorry, I'm a little tongue tied, within the first quarter. There's no issues with the sales. It's just the timing. It's taken a little bit longer than we expected.

Mark Thomas Fitzgibbon
Piper Sandler & Co., Research Division

And then in your comments, John, and also in the slide deck, I noticed you talk about branch expansion. I guess I'm curious how many branches, where those might be, and sort of what the implications for costs might be in 2025?

John R. Buran
President, CEO & Director

Sure. It's 2 branches. We did, of course, open up a branch in Suffolk County at the end of the year. So we expect that to -- the growth there to accelerate. And then we have 2 branches that will both be in our -- part of our Asian initiative that will happen during the 2025.

Mark Thomas Fitzgibbon
Piper Sandler & Co., Research Division

And any idea what the impact on expenses will be this year?

Susan K. Cullen
Senior EVP, Treasurer & CFO

We expect our non-interest expenses to increase between 5% and 8% off the $160 million base, inclusive of those branches.

Mark Thomas Fitzgibbon
Piper Sandler & Co., Research Division

Yes, I saw that guidance, but I just want to make sure that incorporated.

And then could you update us on sort of the cost associated with crossing the $10 billion threshold? And how far along you might be in terms of preparation? And if there's any sort of significant Durbin impact expected?

Susan K. Cullen
Senior EVP, Treasurer & CFO

There's not a significant Durbin impact. We don't have a big fee base on those cards. We believe a lot of the costs are already baked in. We have the Chief Risk Officer, who's been on board for -- well, before I started, so over 10 years. We do the stress testing that's required. We have the 3 lines of defense that are required. There may be some tweaking of expenses as we cross $10 billion. But for the most part, we believe the costs are already baked into our base -- expense base.

Mark Thomas Fitzgibbon
Piper Sandler & Co., Research Division

Would it be critically important to do an acquisition to sort of grow over the $10 billion threshold? Or do you feel like you could do it organically? Or how are you thinking about the process?

John R. Buran
President, CEO & Director

It would be preferred. It would clearly be preferred.

Mark Thomas Fitzgibbon
Piper Sandler & Co., Research Division

Preferred to what?

John R. Buran
President, CEO & Director

Preferred to organic.

Mark Thomas Fitzgibbon
Piper Sandler & Co., Research Division

And then last question I had. Given the changes and your comments around the NIM. I guess I'm assuming -- assuming the Fed doesn't cut a lot this year, maybe one rate cut is assumed, I think, in the forward market. But where can the NIM potentially get to by the end of the year? Can it get up close to 250? Is that a reasonable bogey, Susan?

Susan K. Cullen
Senior EVP, Treasurer & CFO

[Indiscernible] but I think that's probably a little aggressive, Mark. I think we're probably closer to the 230 to 240 range.

Operator

Our next question comes from Steve Moss with Raymond James.

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

Maybe just following up here on the margin. Just kind of curious how you guys are thinking about your interest rate sensitivity positioning going forward here? Do you become -- as, I guess, the swaps that you have remaining become shorter in duration, more liability sensitive? Or just kind of how you think about managing that and maybe just managing the balance sheet mix?

John R. Buran
President, CEO & Director

So we're largely neutral. So we think we can manage either movements up or movements down without significant issues.

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

And then in terms of just the -- John, you talked about in your prepared remarks, shifting the mix of loans a little bit, I think. Just kind of curious how do you think about your loan composition here over the next 12 to 24 months? And I'm just curious around the SBA team that you've brought on, what are your expected loan sales for the upcoming quarter? And maybe how much production you could be retaining there?

John R. Buran
President, CEO & Director

So the SBA -- the SBA business, obviously, will be an important part of our ongoing restructuring of the portfolio. We will have a couple of loans that we will sell in the first quarter. So we're already beginning to generate activity there. I think a lot of what we're going to see is going to be dependent upon where the market is. But given the fact that we have not been aggressive in the SBA area, we think it will contribute significantly for 2025.

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

And then in terms of -- just on the credit front this quarter, Susan, I apologize if I missed in your prepared remarks there. Just color around the largest NPA this quarter, you guys added $2.6 million in reserves too. I'm just curious about that. And also what were the types of charge-offs within the C&I portfolio? Just kind of curious if it was 1 or 2 loans or multiple loans.

Susan K. Cullen
Senior EVP, Treasurer & CFO

The biggest one was one loan that we had fully reserved for in prior quarters. It's about $4.4 million of the net charge-offs. The other piece was just some additional information, we received some market color that made us believe that there was a little -- there was a slight impairment in that bond, and we decided it was prudent and right to take that charge.

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

And then in terms of just the expense growth guide here this quarter, just kind of this upcoming year, I'm sorry, just kind of curious what are the -- how you guys are thinking about the drivers of the 5% to 8% expense growth for '25?

Susan K. Cullen
Senior EVP, Treasurer & CFO

I'm sorry, drivers forâ€¦

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

Drivers for the expense growth, yes.

Susan K. Cullen
Senior EVP, Treasurer & CFO

It's the -- could be increase in compensation as we make investments in the business. We'll have the full year of the SBA, the full year of a couple of branches that we've brought on in 2024, plus we'll have the 2 branches in 2025, regular increases, and we expect to have a positive operating leverage and improved efficiency ratio in 2025.

Operator

[Operator Instructions] Our next question comes from Manuel Navas with D.A. Davidson.

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

Do you have some spot deposit pricing as of the end of the year?

Susan K. Cullen
Senior EVP, Treasurer & CFO

At the end of the year, excluding our non-maturity deposits, we're about -- between 325 and 330.

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

And I know CDs are the larger driver, and you have great disclosure on that. Is -- so there's still a little bit of other account deposit cost cuts coming in the first quarter from the December Fed cut?

Susan K. Cullen
Senior EVP, Treasurer & CFO

If the Fed cuts, yes, we'll cut. As we said in our prepared remarks that on the way up, we had a 57% beta. And on the way down so far, we're at 51%. And as the Fed continues to cut, we'll continue to take advantage of those situations where we can reduce our funding costs. They came down over 30 basis points quarter-over-quarter.

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

Is -- I saw that the retention on CDs is about 78%. Is there any pickup in competition? Is that just based on your own current needs as well? Like just kind of -- was that -- is that a notable decrease in retention?

Susan K. Cullen
Senior EVP, Treasurer & CFO

No, that's what we've historically run, somewhere in that ballpark. So competition for deposits in the New York metro market is always tough. So that unfortunately has not abated.

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

And has -- is the shift to the profitability target for the year, kind of just an update there. Is that going to show up in a different type of loan mix going forward?

John R. Buran
President, CEO & Director

I think a change in the loan mix, of course, will be somewhat gradual. We've got a big balance sheet. So I don't expect dramatic changes going forward. But we are cognizant of our CRE concentration and working toward limiting growth in that.

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

But you are seeing opportunities in CRE as well? Correct?

John R. Buran
President, CEO & Director

Yes, yes. So I think what we'll see there is a transition from, let's say, less transactional business and more relationship business. That will be the focus in the CRE portfolio for 2025.

Operator

Seeing that 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 any closing remarks.

John R. Buran
President, CEO & Director

Thank you. Thank you all for attending. And once again, we look forward to a much improved 2025. Thank you.

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