S&P Capital IQ

CONTENTS

Flushing Financial Corporation NasdaqGS:FFIC

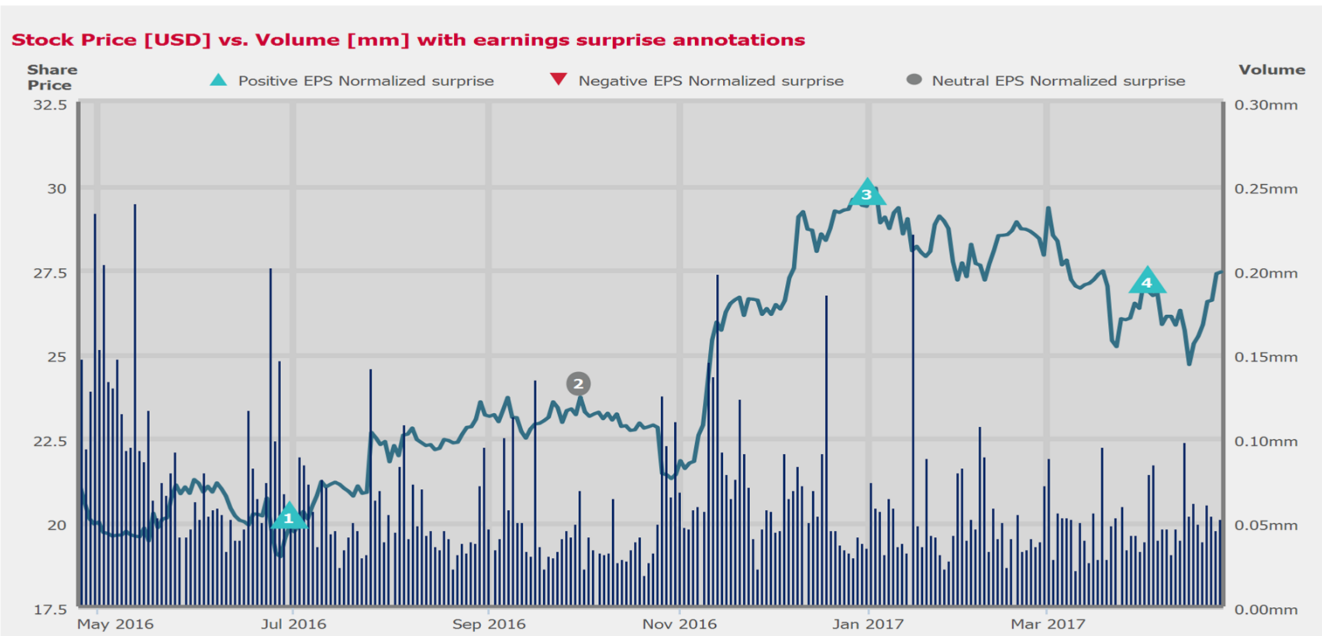
FQ2 2017 Earnings Call Transcripts

Wednesday, July 26, 2017 1:30 PM GMT

S&P Capital IQ Estimates

	-FQ2 2017-			-FQ3 2017-	-FY 2017-	-FY 2018-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.40	0.46	12.20	0.41	1.64	1.74
Revenue (mm)	46.79	45.56	(2.61 %)	46.97	189.26	199.93

Currency: USD
Consensus as of Jul-26-2017 1:56 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ2 2016	0.38	0.39	1 2.63 %
FQ3 2016	0.39	0.39	2 0.00 %
FQ4 2016	0.38	0.40	3 2.56 %
FQ1 2017	0.32	0.40	4 21.21 %

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

Steven Comery
G. Research, LLC

Varun Vinod Bhandari
Piper Jaffray Companies, Research Division

Presentation

Operator

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

Before beginning, the company would like to remind you that discussions during this call contain forward-looking statements made under the safe harbor provision 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 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 Mr. 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 inaugural earnings call as part of our strategic initiative 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. Since this is our first earnings call, I will start by providing the highlights of the quarter, followed by a brief overview of our company and the strategies that we're employing to create long-term shareholder value. Then, Susan and I will address your questions at the end of our prepared remarks as time permits.

Starting on Slide 3. I'm very pleased to report we delivered an outstanding second quarter with record core net income and net interest income.

As announced in yesterday's press release, for the second quarter of 2017, GAAP diluted EPS was $0.44 and core diluted EPS was $0.46. Core EPS increased 18% year-over-year and 15% quarter-over-quarter. We achieved record core net income due to our strategy change announced last year to focused origination efforts on higher-yielding loans versus volume. The overall yield on loan originations was 4.04% as opposed to 3.85% in the first quarter and 3.71% a year ago. For the first time since 2010, the yield on loan originations was greater than the yield on interest-earning assets in the portfolio. This positive trend in loan yields augmented by solid loan growth is one we will work to continue in future quarters.

Costs were well controlled as continued asset quality improvement drove down expenses against delinquency, workouts and OREO. Total delinquent loans were $25 million, the lowest level since March 2008. Nonaccrual loans totaled $14 million, and we have no OREO properties.

Given the low loan-to-value associated with nonperforming loans of just 38.5%, we do not see an increase in related expense. For those new to our story, Slide 4 provides a summary of our key focus areas: exceeding customer expectations, enhancing earnings power, strengthening our commercial bank balance sheet and maintaining our strong risk management philosophy.

Our vision is 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 branch staff can speak more than 30 languages to serve our customers in the New York City metro area, one of the most ethnically diverse regions in the country. Additionally, we have a strong focus in the Asian community where we have more than $500 million in deposits. We have an Asian advisory board to broaden our link with the community, which continues to grow in consumer, business and commercial real estate opportunities.

We're preeminent commercial real estate lender focused on the origination of multifamily mortgage, commercial business and commercial real estate loans, while remaining nimble and responsive to industry shifts. Combining our customer focus and competitive strength as a relationship-oriented commercial real estate lender has enabled us to transform formerly transactional-based customers into deeper long-term full banking relationships.

Our strong credit management practices, which includes stress testing and extensive portfolio management, have allowed us to further grow this profitable business. Our CRE portfolio is diverse, with approximately 50 different categories of collateral with limited exposure to mall and big-box retail.

Our exposure to retail is largely urban, local retail reflective of everyday needs for food and services in our market. We continue to focus on conservative underwriting and improving yields to achieve desired risk-adjusted returns. We are progressing and improving earnings power by controlling our funding costs, utilizing multiple channels, including wholesale to optimize our funding mix in terms of both rate and duration.

Our deposit-gathering effort centers around a revitalized branch network, a proven municipal business and online banking efforts that include a well-established brand, iGObanking.com, and a new niche brand targeting environmentally conscious consumers called BankPurely. We also manage long-term interest rate risk by maintaining the flexibility to adjust a mix of loan originations based upon market conditions, customer preferences and risk-adjusted returns. To further enhance our earnings power, we are improving scalability and efficiency by converting more of our branches to our Universal Banker model, which provides our customers with cutting-edge technology and a higher quality service experience.

Our Universal Banker model utilizes state-of-the-art ATMs that allow customers to complete most transactions without assistance. We anticipate seeing savings of 20% in real estate and staff expenses as the Universal Banker branches are more efficient. We are on track to complete all branch conversions by the end of 2019. In addition to the Universal Banker model, we are also piloting Video Banker, which gives customers access to a live person from 7:00 a.m. to 11:00 p.m., 7 days a week at our enhanced ATM terminals.

Lastly, our risk management philosophy remains constant and has proven to serve us well through our prior credit cycles.

The LTV on current quarter originations of multifamily, commercial real estate and 1-4 family mixed-use lending products was 46%, with a debt coverage ratio of 198%. Our conservative underwriting standards, loan loss reserves, minimal delinquencies and low LTVs in the loan portfolio give us confidence that net charge-offs will remain below industry averages.

Our strong balance sheet, liquidity, capital levels, ability to grow 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 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 to remain well capitalized under all stress test scenarios.

Overall, we'll continue to focus on these strategic objectives to achieve profitable growth and maximize shareholder value. Importantly, our capital ratio is strong and remain well in excess of regulatory requirements for both the bank and the company.

During the quarter, we repurchased 10,000 shares in the open market at an average price of $27.80 per share. We have authorization from the board to purchase an additional 486,000 shares, which have no expiration or maximum dollar limit.

We also maintained our quarterly dividend of $0.18, which we raised last quarter from a payout of $0.17 in 2016. Notably, we have consistently raised our dividend in the first quarter of each year since 2014. We have paid a dividend every year since September 1996.

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

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

Thank you, John. I'll start on Slide 6. Total loans, including loans held-for-sale, were $5.1 billion, reflecting an increase of 2% quarter-over-quarter and 8% year-over-year as we continue to focus on origination of multifamily, commercial real estate and commercial business banking loans with full banking relationships. Our C&I originations for the quarter were 19% of total originations versus the existing portfolio, totaling 14% of gross loans.

Our loan pipeline remains strong. The loan-to-value ratio on real estate loans at quarter end was only 40%. During the quarter, we strategically purchased $42 million of commercial real estate loans from a local institution. The underlying loans have a 27-month duration to reprice the mature and yield 3.68%.

At June 30, the pipeline totaled $279 million at an average rate of 4.17%, decreasing from a pipeline of $303 million at an average rate of 4.15% to the linked quarter. Based on recent conversations with our customers, lending teams and recent market activity, we anticipate the pipeline will be replenished over the next quarter.

On Slide 7, deposits increased 8% year-over-year, but declined 3% quarter-over-quarter, primarily driven by seasonal government banking deposit outflows, which we anticipate returning in the fourth quarter.

We continue to increase core deposits as represented by the growth year-over-year with an emphasis on noninterest-bearing deposit accounts. Noninterest-bearing deposits of $349 million represent 8% of total deposits.

Since second quarter of 2016, deposits increased $318 million. Our internal initiatives of using business development officers to gather deposits from loan customers has resulted in balances totaling $23 million. Lending is also gathered through the iGObanking.com channel. At June 30, its deposits totaled $394 million, while the BankPurely balances totaled $77 million.

We are beginning to see some great pressure on funding given the rising interest rates. The cost of funds has increased 4 basis points during the quarter. We continue to remain disciplined in terms of deposit pricing or remain competitive within our market.

Slide 8 depicts the composition of the funding mix. As funding has continued to grow, the percentage of funding-related CDs and borrowings has decreased. Going through the wholesale markets, our funding is advantageous in our business model. We can ladder out in liabilities for longer term so the consumer does not want to tie up money for much longer than 18 months.

Turning to Slide 9, net interest income for the second quarter of 2017 reached a record $44 million, up 4% year-over-year and 0.5% quarter-over-quarter. The net interest margin at 2.95%, decreased 4 basis points year-over-year, remained stable on a linked-quarter basis.

Excluding prepayment penalty income, core net interest margin through a linked quarter declined 2 basis points to 2.83%. Our overall cost of funds for the quarter were 1.05%, an increase of 6 basis points year-over-year and 4 basis points quarter-over-quarter, driven by an increase in rates pay on core deposits and short-term borrowings. We believe the net interest margin will hold steady or slightly decrease by a basis point or 2 for the remainder of the quarters in the year.

On Slide 10, we reported noninterest income for the second quarter of 2017 of $2 million, but core noninterest income was $3 million. As a reminder, the second quarter of 2016 included gain of $34 million from sales of one of our buildings and a net gain of $2 million from the sale of the securities connection with extinguishment of debt. Excluding effects of the net gain losses for financial assets and liabilities carried at fair value, gains/losses on sale of securities, gains on sale of buildings and certain nonrecurring items, core noninterest income increased 7% quarter-over-quarter and 17% year-over-year. The increase was driven largely by growth in banking services fee income and other income.

Moving to Slide 11. Noninterest expense for the second quarter of 2017 was $26 million versus $29 million for the same period a year ago. The continued improvement in credit quality and control over expenses has resulted in this reduction. Excluding nonrecurring items in the second quarter of 2016, noninterest expense increased $0.5 million or 2% year-over-year driven by increased salaries and benefits from additions in staffing and investment in our technology, partially offset by reductions in FDIC insurance and foreclosure expenses that should be sustainable. Overall, the efficiency ratio improved 55.8% from 57.1% in the second quarter of 2016 and 64% in the first quarter of 2017.

Our long-term goal is 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 second quarter 2017 rate of 35% for the remainder of the year.

Now turning to credit quality on Slide 12. Our credit metrics remained strong this quarter. And importantly, we continue to report charge-offs early in the delinquency process. As a reminder, we're a historical seller of nonperforming credits. The average loan-to-value of our nonperforming real estate loans is 38.5% based upon the value of underlying collateral at originations, and we do not adjust the appraised values for increase in the New York City metro area. Nonperforming loans decreased $16 million, down 30% year-over-year and 17% quarter-over-quarter.

Net charge-offs for the second quarter of '17 are a minimal $54,000 or less than 1 basis point of average loans. There is no provision for loan losses recorded in the first half of 2017 or at all during 2016 due to our continued strong credit quality.

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 we're carrying at $550,000. We have allocated $2 million of the allowance from the taxi medallion loans.

Slide 13 highlights the effects of our strong underwriting discipline with our history of minimum 90-day delinquencies as a percentage of loans originated by year. As you can see, there are no mortgage loans delinquent greater than 90 days for the vintage years after 2009, which is an impressive run of over 7 years.

Moving to Slide 14. Our coverage ratio is 143% and has been increasing due to improving credit quality. The allowance to gross loans is 44 basis points and remained relatively consistent over the past several quarters. With expected loan growth, we anticipate reporting provisions for loan losses, proportionate with that growth in future quarters, to maintain an adequate ratio.

Prior loan recoveries have been offsetting the need for a provision. As always, we continue to monitor our credit quality closely to ensure 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're 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 represents 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 last 5 years know that our total shareholder return has been 141%, outperforming the median of our banking peers.

In conclusion, we have a strong foundation and 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] Our first question comes from Mark Fitzgibbon of Sandler O'Neill + Partners.

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

First question I had for you, John and Susan, I wondered if you could share with us the total deposits at iGO and maybe the average rate on those.

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

Total deposits are just a little bit south of $400 million. We do have that other online banking, niche bank that we just started, which was -- which Susan alluded to, BankPurely, that's associated with attempting to build a niche brand for environmentally conscious individuals and that has about $77 million in it -- had about $77 million at the end of the quarter. And the average rate right now on iGO is a little bit north of 1%.

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

Okay. And then, secondly, Susan, I wonder if you could just clarify your comments before. I think you said net that interest margin will decline by 1 to 2 basis points during the back half of the year. Did I hear that correctly?

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

Yes.

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

Okay. So it's sort of combined both quarters you think 2 basis points max.

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

2, 3 somewhere in that ballpark.

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

So let me just give you a little bit of color on what we see in terms of net interest margin, Mark. One of the phenomenon that's occurring, and I mentioned it earlier, is that we're getting to the point where our loans that we did 5 years ago are beginning to reprice. As you know, we do 5-year resets on the majority of our loans. And over the next few years, so in 2012, we had originations and purchases, and these are ballpark numbers because we can fine-tune them up and report on them next quarter. But we had about $600 million in loans at a rate of 3.77%. We're bringing on originations north of that. In 2013, $835 million with an average rate of 3.48%. And then the rate goes down a little bit more in 2014 and then stays with a 3 handle all the way into 2017. So we're now at a point in terms of the portfolio where originations have been coming on at slightly higher yields than the portfolio yield and -- the loan portfolio yield and certainly, higher than the overall asset yield. So we're expecting to see some pickup on the loan side. The question will be what is the pace of change going forward from the Fed in terms of the -- their rate increase. So as those rate increases -- if those rate increases remain, let's say, more oriented toward the market rather than oriented toward what the Fed has been coming out with, we expect to see a turnaround taking place at some point in time in the future, perhaps as early as next year. So the other thing to remember is that our fully indexed rates on all of our loans on those reset rates are they exceed the market rates at this point in time. So even if we have -- even if there's -- it gives us the opportunity to be in a very good negotiating position vis–à–vis our customers coming in to get their rate adjusted as they do every 5 years or sooner sometimes when they're -- when they're looking to recast their debt or reinvest increases into other pieces of property.

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

Okay. And then it looked like other incomes tripled from the prior quarter. Was there anything unusual in there?

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

The usual item in the other income from the prior quarter, we got a little bit of money from -- quite a bit of money from a BOLI claim. And it's just general service fee income from the deposit accounts.

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

Okay. And then lastly, on expenses. Based on your comments earlier about transitioning to the Universal Banker model, it sounds like we ought to expect the trend in operating expenses to gradually move down. Would you agree with that?

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

I don't think we can say it will move down, but I think it will not be increasing at the rates that it has been in the last few years. I think we're hitting a level of stability. A number of things are going our way with respect to overall operating cost on the credit side, the reconfiguration of the branch system. So all of these things are combining to really stabilize our operating expenses and we expect to see smaller increases than we have in the prior couple of years.

Operator

Our next question comes from Steve Comery of Gabelli.

Steven Comery
G. Research, LLC

I mean, I was just looking at the loan balances. I mean, multifamily came down little bit. I was just wondering what was driving that. Was that kind of an intentional push to seek yield? Or was it a credit concerns? Just wondering was going on there?

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

Well, as you know, we have been attempting to push yield more than volume and continue to operate in that mode. We had about a 3.9% increase in those loan -- in the multifamily category. I think you might be referring to the -- originations might have been a little lighter. So we'd look to, let's say, modify our mix of loans based upon where we see opportunities in the market. So sometimes pricing gets very, very thin on the multifamily side and you see some opportunities on the commercial real estate side or you see more opportunities on the C&I side. So we attempt to focus our marketing efforts and our sales efforts in the categories where we see the best risk-adjusted returns for us. And those vary as much as quarter by quarter.

Steven Comery
G. Research, LLC

Okay, good. And just one other -- I just wanted to ask about the rate hike in June, kind of what impacts did you guys see this quarter? And kind of what do you expect going forward from it?

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

We didn't see much effect of it in this quarter given that it happened so late in the quarter. Again, the last 2 weeks doesn't have a material effect on anything. We would expect any increase to be beneficial in the upcoming quarter or assuming everybody stays rational in their deposit pricing.

Steven Comery
G. Research, LLC

Okay. On the loan side, I mean, do you see that kind of filtering into pricing in the market? Or does it not really affect it that way?

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

I think we see a little bit. There's not a lot of -- because I think what's happening also was that, that the competition remains very, very strong for high quality loans in our market. And that is our area of focus and -- so we don't get the full benefit of those rate increases flowing through. I will just make another comment about rates since, Steve, you asked the question and that is that the increase in our rates on the deposit side of the business, one of the factors was the movement of our government banking business. We have a seasonal pattern, where government banking reduces during this time frame and then picks up balances toward the end of the year. And in that intervening time, we usually go to the wholesale markets in order to fill in. And at this point in time, those wholesale markets were a little bit more expensive than the government business. So we expect that to correct itself to some degree toward the end of the year.

Operator

Our next question comes from Collyn Gilbert of KBW.

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

Just 2 questions. Maybe for starters, just on your outlook for loan growth, kind of where you guys see that trending kind of given some of the pipeline trends that you're seeing. And then part 2 of that question is talk a little bit more about how you sort of expect to fund that loan growth? I guess, Susan, given your NIM guidance and given the stabilization that we're seeing on the asset yield side, most of the pressure will come on the funding side. So just wanting to sort of get a sense of how you're thinking about future funding pressure as well?

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

So we'll talk first about the loan side. We think there is a range, high single digits to low double digits. Obviously, this quarter, we've been at a lower end of that range so -- but that's where we think the market is for us in terms of growth. And in terms of deposit yield...

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

We -- as I said, as longs as the market remains rational, as you know, we're all controlled by the big guys in this market. And so far, deposit pricing has been rational. So we expect, depending on what our wholesale funding needs are, which should be pretty flat, but we would see pricing about where we are now.

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

Okay. So the jump in deposit costs on a linked-quarter basis, because I know they have been coming down but then they jumped, they reversed sort of this quarter. Is that something then that was unusual and you don't expect that type of data to flow through in the third quarter?

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

I wouldn't say it's unusual because a significant part of it is this seasonal pattern of government balances, which we got very favorable rates to wholesale funding that we replaced it with is a little bit higher than that. So I expect that some of that will come back at the -- towards the end of the year, but that's a seasonal trend that overlays what the overall trend has been, and I think Susan characterized that correctly. It's been one fairly good discipline out in the market and no one really acting irrationally vis-à-vis deposit pricing. So think of those 2 trends. One is the long-term trend, which appears rational and the other one is an anomaly associated with us where government is -- government goes down and comes back at more favorable rates at the end of the year.

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

Okay. Okay, that's helpful. And then just on the kind of the Internet banking strategy, how big do you think that, that potentially can get in terms of a channel for deposit originations?

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

Well, I think it's largely unlimited. And what constrains us now are our own internal risk metrics on how much we want to get from various channels. So there's, obviously, a long-term trend taking place in the market with respect to movement into online banking, and we need to be a part of that. And importantly, we don't want to get ahead of it or fall too far behind it. But one of the things that we are trying to do is trying to understand what is the role of a community bank in the internet space. And for us, our pilot with BankPurely is a way of attempting to establish a community bank out in the online space. So once again, the answer to your question, we constrain that market or that channel of business now, but we're looking for ways to make it more real to make it move a little bit away from rate and more aligned with some other affinity that will hold people in place as we have, for example, on the ground in the Asian markets in Flushing.

Operator

[Operator Instructions] And our next question comes from Varun Bhandari of Piper Jaffray.

Varun Vinod Bhandari
Piper Jaffray Companies, Research Division

I'm on for Matthew Breese. Can you just repeat the pipeline yield that you stated earlier?

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

Sure. The pipeline is yielding a little over 4. Let me find the actual number for you.

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

4.17%.

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

4.17%.

Varun Vinod Bhandari
Piper Jaffray Companies, Research Division

And then, you guys have talked about moving 50% of the branches by year-end to the Universal Banker model. How many -- can you remind me how many are already there? And then, are there any expected cost saves from this transition?

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

There are 5 or 8 now and we'll be going up to 8 by the end of the year. And yes, we'll see some cost reduction as we continue to roll those out. You won't see it abruptly in any particular quarter, but I think over the third and fourth quarter, the cost associated with running those branches will clearly decline.

Operator

There are no more questions in the queue at this time. I would like to turn the call back over to Mr. John Buran for any closing remarks.

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

Well, I just wanted to say thank you very much for attending our inaugural earnings call. And we will continue this process and hope to provide you with ever-increasing transparency and a look into our business, which we feel very, very confident about, both in terms of short term and certainly, long-term viability and growth. So thank you again for your attention and your questions.

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.