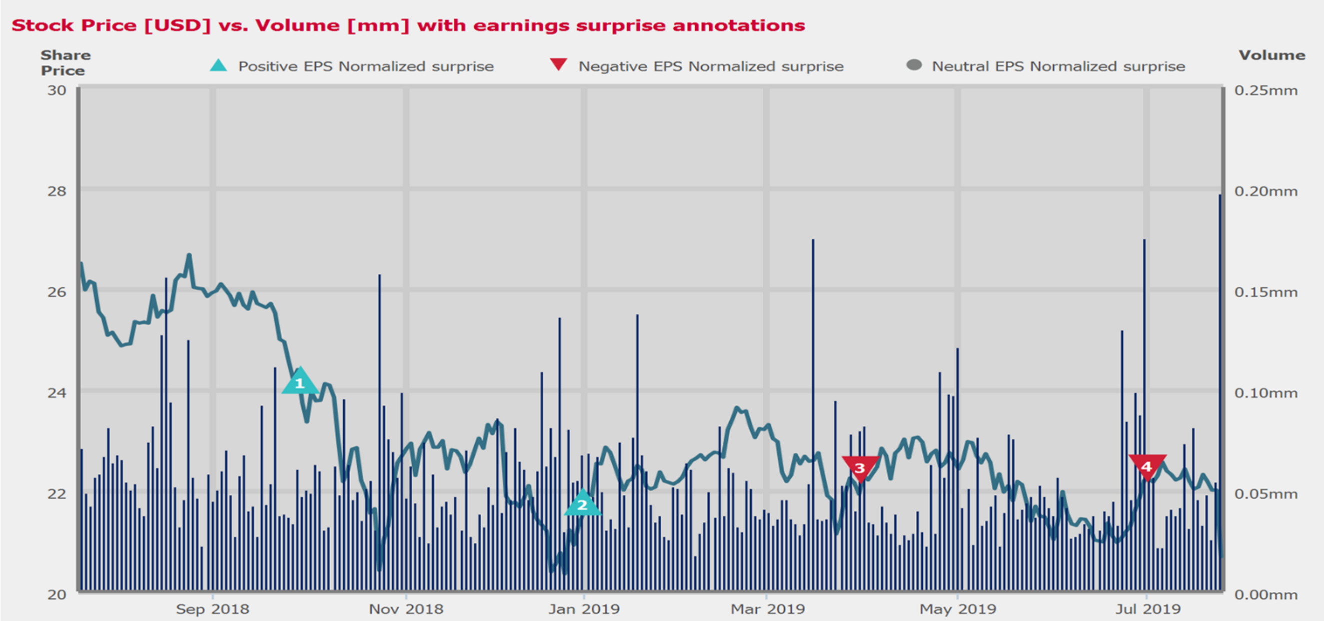
S&P Global
Market Intelligence

Flushing Financial Corporation
NasdaqGS:FFIC
FQ2 2019 Earnings Call Transcripts
Wednesday, July 24, 2019 1:30 PM GMT
S&P Global Market Intelligence Estimates

	-FQ2 2019-			-FQ3 2019-	-FY 2019-	-FY 2020-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.45	0.42	(6.67 %)	0.46	1.72	1.84
Revenue (mm)	45.27	42.46	(6.21 %)	45.82	181.05	192.35

Currency: USD
Consensus as of Jul-07-2019 10:14 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ3 2018	0.48	0.54	1 12.50 %
FQ4 2018	0.48	0.54	2 12.50 %
FQ1 2019	0.39	0.33	3 (15.38 %)
FQ2 2019	0.45	0.42	4 (6.67 %)

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Call Participants

EXECUTIVES

John R. Buran
President, CEO & Director

Susan K. Cullen
Senior EVP, Treasurer & CFO

ANALYSTS

Broderick Dyer Preston
Piper Jaffray Companies, Research Division

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

Presentation

Operator

Good morning and welcome to Flushing Financial Corporation's Second Quarter 2019 Earnings Conference Call. Hosting the call today are John Buran, President and Chief Executive Officer; and Susan Cullen, Senior Executive Vice President, Treasurer and Chief Financial Officer. Today's call is being recorded. [Operator Instructions] A copy of the earnings press release and slide presentation that the company will be referencing today are available on its Investor Relations website at www.flushingbank.com.

Before we begin, the company would like to remind you that discussions during this call contain forward-looking statements made under the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. Such statements are subject to risks, uncertainties and other factors that may cause actual results to differ materially from those contained in any such statements. Such factors are included in 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 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 more information about these non-GAAP measures and for a reconciliation to GAAP measures, please refer to the earnings release.

I would now like to introduce John Buran, President and Chief Executive Officer, who will provide an overview of the strategy and results. Please go ahead.

John R. Buran
President, CEO & Director

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

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

Beginning on Slide 3, we're pleased to report overall earnings growth as GAAP diluted earnings per share rose 48% for the first quarter of 2019 while core earnings increased 27% during the same period. However, both GAAP and core diluted earnings per share were down from the same quarter in 2018 as net interest margin pressure returned, driven by inversion of the yield curve, coupled with increased competitive pressure on our deposit business. The slide presentation includes a reconciliation of GAAP to core earnings.

We experienced more robust loan growth in the second quarter as closings increased 50% from the first quarter of 2019. In addition, the loan pipeline increased over 50% to $424 million during the same period, the largest pipeline since the first quarter of 2016. The mortgage pipeline had an average yield of 4.63%, which is 21 basis points higher than the core yield on total loans for the second quarter of 2019.

We continue to diversify the loan portfolio during the quarter as we produce record C&I closings of $158 million, representing 53% of total quarterly loan closings. These loans are generally floating rate loans and represented 18% of total loans at June 30, 2019, compared with 15% at June 30, 2018. The second quarter of 2019 also saw an improvement in our mortgage loan business. Mortgage loan closings increased $71 million from the first quarter of 2019.

Loan growth for the first half is tracking at a modest 3% annualized. Given the size of the pipeline and closing expectations, we expect loan growth will accelerate in the second half of 2019.

We remain liability sensitive. However, we have components in the balance sheet that mitigate some of the sensitivity. As I've noted, approximately 18% of our loan portfolio is C&I loans, which are generally floating rate. Through 2021, we have $2 billion of loans scheduled to reprice up an average of 68 basis points.

We recognize that we may not see the full increase in the contractual rate, but we should receive a premium to the market rate. These rate movements, coupled with our swap strategy, continue to be important elements in mitigating core NIM compression and reducing the liability sensitivity of our balance sheet.

Our long-term goal is to move towards being interest rate neutral, which allows us to take advantage of all interest rate environments. Therefore, in June 2019, we entered into an additional $100 million of swaps on borrowings, bringing total swaps to $842 million, which provided 4 basis points of benefit to the core NIM.

Retail deposits increased by $48 million, offset by seasonal outflows of municipal deposits, resulting in a reduction in total deposits for the quarter. We continue to see positive momentum from the Win Flushing program, which focused on increasing our deposit market share in the Asian community of Flushing, Queens. At the end of the second quarter, we have captured over $196 million of deposits from the program, exceeding our initial goal.

A key component of the Win Flushing program was the conversion of Flushing branches to the Universal Banker model, which allows staff to spend more time with customers. We continue to convert our branches to the Universal Banker model and expect to have the remaining branches converted by the end of this year. As of June 2019, we had 15 out of our 19 branches operating under the Universal Banker model.

In the branches that have been converted, we experienced an increase of approximately 100% in transactions processed at ATMs to over 55% of all branch transactions, reducing our customers' reliance on tellers. As a result, branch sales have increased over 40% as sales per employee increased approximately 60% due to our branch staff focusing more time on sales opportunities.

Credit quality remains strong as nonaccrual and nonperforming loans were essentially unchanged from first quarter '19. The quarter's $1 million in net charge-offs resulted primarily from 1 previously identified commercial business loan relationship. And as of June 30, the relationship has a remaining book value of only $0.2 million equaling the collateral value.

During the quarter, New York City passed new rent regulations laws. Importantly, we believe they have -- will have minimal impact on loan performance in our portfolio. On Slide 4, we provide some perspective on what recent changes to New York City rent regulations mean to us.

As you know, new rules restrict an owner's ability to increase rents above rates recommended by the Rent Guidelines Board. We highlight some potential risks on this slide, including declining valuations and higher cap rates. More importantly, on the right side of this slide, we've highlighted the characteristics of our multifamily loan portfolio, which mitigate any negative impact of these laws, including low LTVs, strong debt coverage ratios in excess of 1.75 and loans approved based upon current cash flow and underwriting. Overall, we believe that rent regulations will have minimal impact on loan performance on our portfolio.

Referring now to Slide 5, we remain focused on these key areas: exceeding customer expectations, enhancing earnings power, strengthening our commercial bank balance sheet and maintaining our strong risk management philosophy.

Our ongoing focus on developing and maintaining a multilingual branch staff to serve our diverse customers in the New York City market is a key sustainable competitive advantage. The Asian banking market surrounding our branches has very attractive business dynamics, including a high degree of savings, available deposits and a large number of small business owners. We continue to have a strong focus on this community where we have over $700 million in deposits. These deposits have a lower cost of funds than our total cost of funds.

Overall, we remain very well positioned to further deliver profitable growth and long-term value to our shareholders as we continue to execute on our strategic objectives, which is summarized in Slide 6: increase core deposits and continue to improve funding mix, manage net loan growth and focus on yield and the best risk-adjusted returns, enhance core earnings power by improving scalability and efficiency; profitable growth and expansion through new distribution channels and business lines; manage credit risk; and to remain well capitalized under all stress test scenarios. Our consistent focus on these strategic objectives enables us to deliver over the long term steady profitable growth and enhanced value to our shareholders.

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

Susan K. Cullen
Senior EVP, Treasurer & CFO

Thank you, John. I'll begin on Slide 7. Total loans were $5.6 billion, up approximately 1% quarter-over-quarter and 6% year-over-year as we continue to focus on the origination of commercial business loans with a full banking relationship. These originations totaled 53% of total loan production for the quarter and 47% over the past year.

Commercial business balances have grown 25% year-over-year to approximately 18% of gross loans as of June 30, 2019. The growth in C&I portfolio continues to offer advantages primarily to continue the diversification of our loan portfolio. And as these are primarily adjustable rate loans, the yield offers more stability to the net interest margin.

As John highlighted, at June 30, our loan pipeline totaled $424 million, which is up significantly from the $275 million and $197 million as of the end of the prior 2 quarters. The composition of the pipeline was 48% adjustable rate product with the remainder fixed rate. Interest rate on the mortgage loans in the pipeline has an average yield of 4.63%, which is 21 basis points above the core yield of total loans for the quarter.

The loan-to-value on our real estate portfolio at quarter end remains conservative at approximately 38%, and the debt service coverage ratio for the current core originations of multifamily, commercial real estate and 1-to-4 family mixed-use loans is 192%. We continue to underwrite and stress test each individual loan using a cap rate in excess of the mid-5s.

Slide 8 highlights the continued evolution of our funding mix. As funding has grown over the years, the percentage related to CDs and borrowings has decreased. When we need to access the wholesale funding markets, we can advantageously ladder up the liabilities for longer terms. Core deposits decreased 6% quarter-over-quarter primarily due to the seasonal outflows in the municipal deposits, as previously discussed. The core deposits, however, have increased 6% year-over-year and totaled 68% of all deposits at June 30 compared to just 37% at December 31, 2006.

On Slide 9, you'll see that deposits decreased just under 4% quarter-over-quarter due to the seasonal outflows in municipal deposits. The deposits will increase nearly 6% year-over-year driven by money market, CDs and noninterest-bearing deposits.

We continue to focus on the growth of core deposits with an emphasis on noninterest-bearing deposit accounts, which increased approximately 7% year-over-year. Noninterest-bearing deposits accounts of nearly $414 million represents approximately 9% of total deposits.

We continue to encounter strong competition for deposits. The quarterly cost of funds increased 10 basis points from the prior quarter. We will remain disciplined in terms of deposit pricing while remaining competitive within our markets.

Turning to Slide 10. Net interest income for the second quarter of 2019 was $40 million, down 4% quarter-over-quarter due to net interest margin decreasing 12 basis points quarter-over-quarter to

2.45%. Core net interest margin at 2.40%, also down 12 basis points quarter-over-quarter, driven by the higher cost of funds and low pricing competition, as John previously detailed.

On Slide 11, we highlight the strategies we are using to support our NIM. One is related to improving the yield on the loan portfolio. As John highlighted, over $2 billion of loans are scheduled to upwardly reprice through 2021 at an average of 68 basis points. These repricings may not reprice to the full contractual rate, but we will reprice between the market and the contract price as these loans refinance.

A second component of the yield stabilization relates to our swap strategy. As John highlighted, the net interest margin was supported in the second quarter by interest rate swaps totaling $824 million, which benefited the core NIM by 4 basis points. Importantly, over the long term, we'll position our balance sheet to be more interest rate neutral, which allows us to seize opportunities as we continue to actively manage funding costs and evaluate strategies to further strengthen our balance sheet in all interest rate environments.

Moving to Slide 12, the second quarter expenses decreased approximately 1% year-over-year. Noninterest expenses decreased $5.3 million from the previous quarter. Excluding the expected onetime and seasonal expenses recorded in the first quarter of 2019 totaling $3.6 million, noninterest expenses decreased 6% during the second quarter.

The ratio of noninterest expense to average assets is 1.58% in the second quarter compared to 1.89% in the first quarter and 1.69% in the second quarter of 2018. The company has historically maintained a relatively stable ratio of noninterest expense to average assets. The efficiency ratio was 61% for the second quarter compared to 70% in the first quarter and 60% in the second quarter of 2018. The improvement in NIM will assist us in achieving our long-term goal of an annual efficiency ratio in the low to mid-50s. As always, we are focused on continuous improvement and look for opportunities on our operations for efficiency gains.

Regarding taxes. The effective tax rate was approximately 24% in the second quarter of 2019. For 2019, we approximate an effective tax rate between 23% and 25%.

Now turning to credit quality on Slide 13. Our credit metrics remained strong this quarter. As a reminder, we are a historical seller of nonperforming credits and record charge-offs early in the delinquency process. Our strong credit quality metrics result in our coverage ratio increasing to 137% from 129% as of December 31, 2018.

Looking forward, as John noted, with expected loan growth for 2019 to be in the mid-single-digit range, we anticipate recording provisions for loan losses proportionate with that growth in future quarters to maintain an adequate reserve level.

On Slide 14, nonperforming loans were under $16 million, relatively flat quarter-over-quarter as credit quality remains one of our core strengths. The average loan-to-value of our nonperforming real estate loans was approximately 35% based upon the value of underlying collateral and origination, and we did not adjust the appraised values for increases. Given the low loan-to-value associated with the nonperforming real estate loans, we do not foresee an increase in related expenses.

In the second quarter, we recorded a provision of $1.5 million and net charge-offs of nearly $1 million. The net charge-offs resulted primarily from 1 commercial business loan relationship that offset a partial charge-off from the first quarter. Additional information became available on this loan, which led to the charge-off recorded. Importantly, as John mentioned, as of June 30, the relationship has remaining book value of $200,000, which equals the value of the underlying collateral.

Slide 15 shows our 90-day delinquencies as a percentage of loans originated by vintage year. Overall, our credit quality remains pristine. As you can see the results of our strong underwriting discipline, with just 11 loans delinquent greater than 90 days for the last 10 vintage years.

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

John R. Buran

President, CEO & Director

Thank you, Susan. On Slide 16, I would like to conclude by reviewing why we remain well positioned for continued consistent and profitable growth. We continue to see positive trends, including growth in the C&I portfolio as we move our balance sheet more toward floating rate C&I business, a significantly improved loan pipeline and nonbrokered loan closings improving to 63% of second quarter closings.

Our swap strategy continues to be an important component in mitigating core NIM compression and reducing the liability sensitivity of the balance sheet. Our long-term goal is to move towards being interest rate risk neutral, which allows us to take advantage of all interest rate environments.

We have contained noninterest expenses in this low rate environment. The ratio of noninterest expense to average assets improved to 1.58% in the second quarter compared to 1.89% in the first quarter and 1.69% in the second quarter of 2018.

The Win Flushing program, established to increase our market share in our home market, has been very successful as we have gathered to date $196 million of new deposits exceeding our original target of $160 million.

The investment in the Universal Banker model is paying dividends. The Universal Bankers are spending more time with customers. The additional time has resulted in brand sales increasing over 40% in total and approximately 60% per branch employee.

Our ongoing focus on developing and maintaining a multilingual branch staff to serve our diverse New York City customers is a key advantage. The New York City market, with its strong Asian customer base, continues to represent a significant opportunity for us.

Our credit quality remains pristine. Overall, our vision remains consistent and that is to be the preeminent community financial services company in our multicultural market area by exceeding customer expectations and leveraging our strong banking relationships.

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

Question and Answer

Operator

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

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

I wonder if you could start by -- maybe give us a little bit more color on that big C&I charge-off this quarter, maybe what happened, what industry it's in and if there were other banks involved with it as well.

John R. Buran
President, CEO & Director

No other banks involved. It's a -- it was in the pharmaceutical, retail pharmaceutical industry. It's the same loan that we took a charge on early last quarter. And in reassessing the position, we decided to charge the vast majority of it all for this quarter.

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

If I'm not mistaken though, last quarter, you said it was a onetime event with an employee that had been rectified. Had something changed since then?

John R. Buran
President, CEO & Director

What happened is our assessment of the collateral position changed. We had somebody independently come in to assess the collateral position, and that came up more negative than we anticipated. So it was the same cause, but upon further inspection of what the collateral position was for the company, we felt it prudent to write it down.

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

Okay. And then secondly, I think you said in the release that you kind of modified your position on that, sort of focusing on rate over volume. Does that mean that we're likely to see more core NIM compression, excluding the impact of swaps?

John R. Buran
President, CEO & Director

So I would say we're never going to be the price leader. So that -- to the degree that, that is consistent with the way we've been operating the company over the years, that will remain the same. What changed was the inversion of the yield curve, which both reduced our loan volumes very, very slightly. We're pretty well flat in terms of loan originations, but it clearly had an impact on the loan yields. So we had to respond to that competitive market pressure. And then simultaneously, of course, we didn't see deposit cost go down in any way, which surprised us.

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

So if we look at the back half of this year, factoring in the impact of swap, a rate cut, say, in July and maybe September, from what you see today, would you anticipate compression in the margin albeit slower than what we saw from 1Q to 2Q?

John R. Buran
President, CEO & Director

I think in the past, what we've been able to do is focus more on the differential between net interest income -- between interest income and cost of funds. I think we'll still continue to see some pressure throughout the end of the year, and we thought we had seen some stabilization. The deposit market in New York did not react that way. And as a result, we saw compression both on the deposit side, and then inversion of the yield curve, as I mentioned earlier, caused some more compression on the loan side.

So unless that dynamic changes, I think we'll continue to see pressure on the NIM. Obviously, any move of the Fed that brings down short-term rates will be a positive for us because we do have a fair amount of short-term liabilities on the -- in the portfolio, particularly in the government area.

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

Okay. And then I think you -- Susan, you had said that the efficiency ratio goal was the low to mid-50s. I guess I'm curious, how long do you think it will take to get there? And what are kind of the main levers that you're likely to pull to achieve that?

Susan K. Cullen
Senior EVP, Treasurer & CFO

The main lever that we need to get there is to increase the NIM. And until we see NIM growing, the curve not being inverted, the growth there, we won't see the efficiency ratio in the mid-50s.

John R. Buran
President, CEO & Director

So we're focusing in on the asset-to-expense ratio in order to just keep ourselves as -- close as possible to delivering some degree of scalability. But clearly, the company is dealing with some interest rate margin compression that we don't see moving until the end of the year.

Operator

The next question comes from Brody Preston with Piper Jaffray.

Broderick Dyer Preston
Piper Jaffray Companies, Research Division

I just wanted to, I guess, maybe follow up on the comments you had regarding the rent-regulated multifamily book. I just wanted to better get a sense for, I guess, maybe the type of borrower. I understand you highlighted that you have little exposure to institutional ownership. But I just want to get a sense for -- are the borrowers that you're exposed to, are they like long-term type of family office type holders of multifamily properties in New York City?

John R. Buran
President, CEO & Director

Yes. The typical borrower is a multi-property owner and has been in the business for many years, and typically, as you can see by our portfolio, with low leverage.

Broderick Dyer Preston
Piper Jaffray Companies, Research Division

Yes. And so I guess within this portfolio, since the updated guidelines have been passed, have you -- has there been any transactions that have occurred within the portfolio? And what has the impact been to valuation in these cases?

John R. Buran
President, CEO & Director

We haven't seen much of a change at this point. I think it's just too early to see any changes.

Broderick Dyer Preston

Piper Jaffray Companies, Research Division

Okay. Okay. But have you -- have the impacts from the updated regulations been like a slowdown or a pickup -- a slowdown in volumes?

John R. Buran
President, CEO & Director

We haven't seen any fallout of any loans that are in the pipeline, so it's pretty much status quo. I think the more important factor is going to be which way the wind blows in terms of rates that could either accelerate loan growth or leave it pretty much where it is.

But I'll again call your attention to the fact that we're not only doing multifamily, we're doing CRE and we're also doing C&I as well. So whatever happens on the -- in the multifamily space, we feel that we'll be able to make up for it in other asset classes.

Broderick Dyer Preston
Piper Jaffray Companies, Research Division

Understood. Understood. And I guess just one more question on the multifamily before I move on, with regard to, I guess, maybe your allowance methodologies surrounding multifamily. Just given, I guess, maybe some of the potential for negative impacts to the asset class as a whole, understanding that your book is pretty excellent with regard to LTV and debt service coverage, have you adjusted some of the qualitative factors in your allowance methodology at all?

Susan K. Cullen
Senior EVP, Treasurer & CFO

No, we have not. Given the LTV, the debt coverage ratios, the stress test results, we have not felt it prudent or necessary to adjust our qualitative factors.

Broderick Dyer Preston
Piper Jaffray Companies, Research Division

Okay. Great. And then I guess I just wanted to better understand the interaction between these swaps and I guess the great C&I loan growth that you guys have had over the last several quarters. I understand the swaps are -- those are fixed or floating, right? They're fixed rate borrowings that you've swapped out for floating, and that's based off of LIBOR, correct?

Susan K. Cullen
Senior EVP, Treasurer & CFO

It's based -- it's the liability swap, and they're based off the Federal Home Loan Bank advance rate. Let me -- they are LIBOR -- a portion of them is LIBOR, but then the other side is a Federal Home Loan Bank 90-day rate.

Broderick Dyer Preston
Piper Jaffray Companies, Research Division

Okay. And so as I guess as LIBOR moves lower, continues to move lower, that should continue to benefit the margin, correct?

Susan K. Cullen
Senior EVP, Treasurer & CFO

Yes, it should. Everything else being equal, we always have to give that caveat.

Broderick Dyer Preston
Piper Jaffray Companies, Research Division

Right. Right, understood. And I guess like -- as I think about the interaction between the benefit there from the swaps on the funding side and obviously the C&I, I would assume that a larger portion of the C&I book is also pegged to LIBOR?

Susan K. Cullen
Senior EVP, Treasurer & CFO

That is a pretty substantial amount that is pegged to LIBOR, yes.

Broderick Dyer Preston
Piper Jaffray Companies, Research Division

Okay. And so I guess maybe as I think about the interaction between those two things, the X factor in terms of you guys reaching an inflection point on the margin is really going to be driven by maybe incrementally lower deposit cost. Is that fair?

John R. Buran
President, CEO & Director

Yes.

Susan K. Cullen
Senior EVP, Treasurer & CFO

Incrementally lower deposit costs improve our NIMs.

John R. Buran
President, CEO & Director

Right. I mean the only other factor could be the curve, which I think is less likely the curve moving out of a flat or an inverted position because we have some depression on the loan yields in the last quarter.

Broderick Dyer Preston
Piper Jaffray Companies, Research Division

Okay. So I guess as we think about the deposit pricing, I think just from looking at some of your offerings that we can track online, have you moved any of those lower, be it at iGObanking or BankPurely?

John R. Buran
President, CEO & Director

I think we've moved our retail...

Susan K. Cullen
Senior EVP, Treasurer & CFO

We've moved the retail.

John R. Buran
President, CEO & Director

We've moved our retail lower.

Broderick Dyer Preston
Piper Jaffray Companies, Research Division

Okay. But the commercial, you're still sort of hanging in there, just based on the competitive pressures?

John R. Buran
President, CEO & Director

Yes. I think we're clearly not on the top of the list in terms of what we put out in the -- on the Internet. So we thought retail was the best place to move down somewhat, and we'll be alert for what happens in the Internet space to see whether or not it's prudent to move down there.

Broderick Dyer Preston
Piper Jaffray Companies, Research Division

Okay. And then...

John R. Buran
President, CEO & Director

All of which, by the way, are better than the current short-term wholesale funding that's in place.

Broderick Dyer Preston
Piper Jaffray Companies, Research Division

Okay. And then one last one for me. I guess maybe if we could try and get like an all-in impact for NIM. If we do get a 25 basis point rate cut here on a week or so, I guess what would you expect the impact from that 25 basis points to be -- to the NIM all in?

John R. Buran
President, CEO & Director

I think that's going to be dependent upon -- look, we have a fair amount of government business that could price down. That is going to depend upon what the competitive pressures are in that market. But we have seen a little bit of, let's say, give up of rate on -- with some of the competitors. So the government business is going to be key there, and that's the one that can move most quickly. And then I think the rest of the market is going to be dependent upon how competitors move.

Operator

The next question comes from Collyn Gilbert with KBW.

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

Just a question for us on the loan growth. Do you -- what do you all anticipate or what -- do you see sort of the pull-through rate to be on your pipeline? I know you guys have been speaking about robust pipelines in the past. And even -- as you pointed out, Susan, this quarter's pipeline is even that much stronger. What are you kind of anticipating pull-through rates to be on that?

John R. Buran
President, CEO & Director

I mean it's varied. In one -- in the last quarter, we've pulled through almost all of it, I guess. We've had quarters as low as 75% and really depends upon the mix of the pipeline at any given point in time. But probably, 75% is a pretty decent number.

Susan K. Cullen
Senior EVP, Treasurer & CFO

And the loan growth that we anticipate for the full year is the -- as we've mentioned in the press release and in the comments, is the mid-single digits. I saw somebody had a note out there, said that it was already there. But for year-to-date, we're a little less than 3%, so we expect that to accelerate in the second half of the year.

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

Okay. Okay. And then just back on the swaps and before you -- in your opening comments, you guys have indicated you added more this quarter. I guess my question was sort of -- understanding sort of the rationale behind that because it seems like a lot of the disclosures you guys have offered would suggest that the way that the balance sheet is positioned, there should be inherent core NIM benefit. But obviously, we're not seeing them, right? We haven't seen it through the rate hikes last year and then thinking we get a benefit in now and yet, that's not necessarily materializing. Just curious, the cost of adding the swaps even this quarter, did -- was that pretty high?

John R. Buran
President, CEO & Director

So let me just mention one thing. We did see 4 basis points based on the -- there's 4 basis points of benefit from those swaps in this quarter. So we have been seeing benefits from those swaps in this -- in the rising rate environment.

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

Okay. Okay. Just curious, have you all calculated what the potential hit to tangible book value would be or the cost of capital would be if you unwound these swaps altogether?

Susan K. Cullen
Senior EVP, Treasurer & CFO

No, we really...

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

Because it seems like it's a large number, I guess, relative to the balance sheet. So I'm just trying to understand what -- yes, what the impact could be if you did ever unwind them.

Susan K. Cullen
Senior EVP, Treasurer & CFO

We have not done that calculations as we're getting the benefit of them right now. There would be no need to unwind them.

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

Okay. And yes, I get it, I understand. I'm just looking at -- I mean the rate environment has been so volatile and just it's a tricky situation to try to predict where the Fed is going to be going this quarter.

Susan K. Cullen
Senior EVP, Treasurer & CFO

We understand that fully.

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

Okay, okay, okay. And then just to confirm, the $1.6 billion that you guys cited on Slide 4 in terms of exposure to the rent-regulated space, is that purely the rent-regulated multifamily? Or that's just all in New York City multifamily?

Susan K. Cullen
Senior EVP, Treasurer & CFO

That's the rent-regulated multifamily.

Operator

[Operator Instructions] The next question comes from Steven Comery with G. Research.

Steven Comery
G. Research, LLC

Just want to go back to deposit pricing for a second. In the -- you've mentioned that -- kind of the activity in this competition surprise you guys. Do you have any idea sort of why that was the case and why deposit pricing got more intense while rates seem to be moving downward?

John R. Buran
President, CEO & Director

We saw competitors in the government space in particular and the CD space just getting more aggressive.

Steven Comery
G. Research, LLC

Okay. But there's no particular reason why it just -- I guess it's just kind of surprising, right, that it would happen in this quarter as opposed to any other.

Susan K. Cullen
Senior EVP, Treasurer & CFO

The other thing to keep in mind, Steve, is in this quarter, we have the seasonal outflows of government funds that were replaced at a higher cost than the government funds we had on the books in the first quarter. So those funds should start flowing back in at the end of the third to fourth quarter, so we should see that kind of reverse itself.

Steven Comery
G. Research, LLC

Okay. Okay. That makes sense. I think that was kind of the missing piece there. And then looking at the loans closed table and the rates there, it looks like nonmortgage loan rates were up a decent amount, while mortgage loans were down a lot.

Is there a mix shift at all? Maybe inside, there's categories within the mortgage category? Or is competition just pushing it down that much, and then you mentioned the pipeline yield was kind of also lower than the closed yield. So is that kind of a sign of increased competition going forward? Or how should I read into that?

John R. Buran
President, CEO & Director

I think it's associated with the movement of the yield curve and expectations. So if you look at where the curve inverted, it was right at the tenor that we generally price at, the 5 year. So you -- if you look at the curve, and I think the customer expectations changed in that regard, and as a result, provided that type of movement.

Steven Comery
G. Research, LLC

Okay. So yes, that make sense. Okay. And then just Slide 11, about the loan repricing. I appreciate kind of separating it by year. And then I think, Susan, you mentioned in your prepared comments that you might get -- not get the full contractual rate but just trying to basically. I was just wondering what kind of assumptions for like the rate environment overall in 2020 and 2021 are kind of built into these tables?

Susan K. Cullen
Senior EVP, Treasurer & CFO

The assumptions that are built into these right now, that's flat compared to where we are right now.

Steven Comery
G. Research, LLC

Okay. So essentially the same environment as now?

Susan K. Cullen
Senior EVP, Treasurer & CFO

Right. So it's -- obviously, this will come down if there's a rate cut by the Fed or it would go up if they increase it, but it's just -- because of our modeling, we just left it flat.

Steven Comery
G. Research, LLC

Okay. Yes, that's fine. I just wanted to know what the basis was there. And then just kind of finally for me, kind of mentioned in the press release a desire to move toward being relatively rate neutral. I'm just kind of wondering, thinking about that sort of longer term, would being rate neutral -- I mean would that have even helped you guys on the margin in this quarter because kind of -- the degradation in the margin was kind of mostly from increases in deposit pricing, right? Or am I thinking about this incorrectly?

John R. Buran
President, CEO & Director

Well, I think rate neutral implies some changes in the type of deposits we have and the type of funding we have in general. So I think that, that's a key component of our strategy going forward.

Steven Comery
G. Research, LLC

Okay. So being rate neutral in the sense that you would shift your deposit mix order so that you wouldn't be as vulnerable to pricing changes?

John R. Buran
President, CEO & Director

Yes. So just to have a less volatile deposit mix, possibly a little bit less in terms of...

Susan K. Cullen
Senior EVP, Treasurer & CFO

Continue to grow the noninterest-bearing deposit.

Operator

This concludes our question-and-answer session. I would now like to turn the conference back over to John Buran for any closing remarks.

John R. Buran
President, CEO & Director

Well thank you very much for your attention and for your questions. And as always, we are always available if there are any follow-up questions from any of the analysts or any of the investors. So thank you, once again.

Susan K. Cullen
Senior EVP, Treasurer & CFO

Thank you.

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