Flushing Financial Corporation

Q1 2021 Earnings Conference Call

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CORPORATE PARTICIPANTS

John Buran – *President and Chief Executive Officer*

Susan Cullen – *Senior Executive Vice President, Treasurer, and Chief Financial Officer*

Frank Korzekwinski – *Senior Executive Vice President and Chief of Real Estate Lending*

PRESENTATION

Operator
Good day, and welcome to Flushing Financial Corporation's First Quarter 2021 Earnings Conference Call. Hosting the call today are John Buran, President and Chief Executive Officer; Susan Cullen, Senior Executive Vice President, Treasurer, and Chief Financial Officer; and Frank Korzekwinski, Senior Executive Vice President and Chief of Real Estate Lending.

Today's call is being recorded. Should you need assistance, please signal a conference specialist by pressing the star key followed by zero. After today's presentation, there will be an opportunity to ask questions. To ask a question, you may press star, then one on a touchtone phone. To withdraw your question, please press star, then two.

A copy of the earnings press release and slide presentation that the company will be referencing today are available on its Investor Relations' website at flushingbank.com.

Before we begin, the company would like to remind you that discussions during this call contain forward-looking statements made under the Safe Harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. Such statements are subject to risks, uncertainties, and other factors that may cause actual results to differ materially from those contained in any such statements. Such factors are included in the company's filings with the U.S. Securities and Exchange Commission. Flushing Financial Corporation does not undertake any obligation to update any forward-looking statements, except as required under applicable law.

During this call, references will be made to non-GAAP financial measures as supplemental measures to review and assess operating performance. These non-GAAP financial measures are not intended to be considered in isolation or as a substitute for the financial information prepared and presented in accordance with U.S. GAAP. For information about these non-GAAP measures, and for a reconciliation to GAAP, please refer to the earnings release and/or the presentation.

I'd now like to introduce Mr. John Buran, President and Chief Executive Officer, who will provide an overview of the strategy and results. The floor is yours, sir.

John Buran
Thank you. Good morning, everyone, and thank you for joining us for our First Quarter 2021 Earnings call. On today's call, I will discuss our first quarter highlights and our strategic objectives, before turning the call over to our CFO, Susan Cullen, who will provide greater detail on our financial performance. Following our prepared remarks, we will address your questions, along with our Chief Real Estate Lending Officer, Frank Korzekwinski.

After a challenging year for all in 2020, we were cautiously optimistic heading into 2021. With an accelerated vaccine rollout, improving local economic activity, and a steeper yield curve, the environment is better than it was three months ago. We continue to support our customers to get through this challenging, but improving period. The best example of this was our efforts around the PPP program.

During the quarter, we originated more PPP loans than we did in all of 2020. We're also guiding our customers through the forgiveness process. Loans and forbearances declined in the quarter, and this will continue throughout the remainder of 2021. Our support of these customers was rewarded, as less than $10 million of loans that were on forbearance migrated to nonaccrual, and we've only recorded

$100,000 in losses to date.

Turning to Slide 3, we outline our strategic objectives and how we measure up against them. Our first objective is to ensure appropriate risk-adjusted returns for loans, while optimizing the cost of funds. By focusing on this objective, we reported our fourth consecutive quarter of record net interest income. We expanded our net interest margin during this quarter, as funding costs declined more than loan yields. Average noninterest bearing deposits increased 91% year-over-year, and now comprise 14% of deposits.

Our second objective is to maintain strong historical loan growth. Net period end loans rose 2.6% year-over-year excluding Empire, as we focused our attention on supporting our customers by originating PPP loans and assisting in the forgiveness process.

Our third objective is to enhance core earnings by improving scalability and efficiency. While our GAAP earnings per share improved to $0.60, from a loss of $0.05 a year ago, our core earnings of $0.54 increased 184% year-over-year.

Additionally, our core pre-provision net revenue improvement was 79% year-over-year, and 6% quarter-over-quarter. This improvement in earnings per share and core pre-provision net revenue was due to the Empire transaction, net interest margin expansion, and lower loan loss provisions.

Importantly, essentially all of the Empire cost savings are in the run rate in first quarter '21, and we're on track to achieve the expected benefits. Also, we remain confident in achieving our 20% earnings per share accretion in 2021.

Our last strategic objective is to manage asset quality with consistent and disciplined underwriting. Credit quality has always been a hallmark of Flushing. While we had 17 basis points of net charge-offs this quarter, 16 basis points were from charging off the remaining taxi medallion portfolio.

Our reserve coverage is strong at over 200% of nonperforming loans, and our nonperforming assets are low at 26 basis points. The average loan to value in our real estate collateralized portfolio is 38%. Overall, we performed well against our strategic objectives during this quarter, and are encouraged by the outlook as well.

I'll ask Susan to provide more details. Susan?

Susan Cullen
Thank you, John. I'll begin on Slide 4. Our first strategic objective is to ensure appropriate risk-adjusted returns on the loan portfolio, while optimizing our cost of funds. Average deposits rose 23% year-over-year. Excluding Empire, growth was about 8%. Our average noninterest bearing deposits increased 91% from a year ago, and our core deposits comprised 83% of average deposits, an improvement from 75% in the first quarter of 2020.

Our total cost of deposits declined 108 basis points over the past year to 39 basis points, and improved 8 basis points from the linked quarter. Our digital banking metrics continue to improve, and we expect this trend to remain. In addition to the 64% annual increase in the monthly active mobile users in March, active online banking increased 120%, monthly mobile deposit items processed increased 310%, and monthly mobile deposit volume processed climbed 850%.

On Slide 5, we share the net interest margin trends. As John noted, we reported our fourth consecutive quarter of record net interest income. Core net interest margin expanded three basis points during the quarter, as the cost of interest-bearing liabilities decreased faster than the decrease in the yield on interest earning assets. Our net interest margin can have some noise, including net gains or losses from fair value adjustments on qualifying hedges, and net amortization of purchase accounting adjustments.

To try to make your analysis easier, we have removed these impacts, plus the effects of prepayment penalties and the net reversals, and interest recoveries from nonaccrual loans in the base net interest margin. We encourage you to model, beginning with the base net interest margin.

I want to take a minute to discuss the steepening of the yield curve and what it means for Flushing.

On Slide 6, you can see the spread between the two-year and ten-year treasuries. The spread has widened during 2021, and the current spread is greater than average for the first quarter. This should bode well for asset pricing and help keep funding costs low. Overall, a steeper curve should help protect, and possibly grow the core net interest margin.

On Slide 7, we discuss our interest rate risk positioning. We are liability sensitive, but have tools and time to help mitigate the sensitivity derived in short-term rates. For example, we will continue to lengthen the duration of our liabilities through one of several channels. We have, and will continue to shorten the duration of our assets by continuing to grow our commercial portfolio and focusing on the origination of other adjustable rate assets.

We have 480 million of forward-starting swaps that pay a fixed rate of 73 basis points, compared to our Federal Home Loan Bank advance rate, including the existing swaps of 233 for the first quarter. On average, these forward-starting swaps begin in late 2022, which is ahead of the Fed’s timing on rate increases in 2023. So, while we are liability sensitive, we have leverage to pull when short-term rates rise to complement the protections currently in place.

Our next strategic objective is to maintain historical loan growth. On Slide 8, you can see a composition of our loan portfolio and our growth. As John mentioned earlier, we focused our attention this quarter on the PPP loan program. We originated $123 million of PPP loans in the first quarter, which is greater than the 2020 originations of $112 million.

To date, we have helped process $49 million of loans for forgiveness, and have another $34 million pending SBA approval. Net PPP fees collected for forgiveness in the first quarter were minimal, and if the remainder of the portfolio are forgiven, we expect to collect $5 million of net fees.

While overall loan yields declined slightly on a linked quarter basis when netting out the PPP loans, we were encouraged that yields on new originations improved as the quarter progressed. However, new origination yields are still lower than the current portfolio yields. We were very successful this quarter with our customers swap offering program, but with higher rates, the offering is less attractive to customers.

Our third strategic objective, as shown on Slide 9, is to enhance core earnings power by improving scalability and efficiency. So far, the merger is progressing in line with our expectations. We are on pace to achieve our cost-savings targets. Growth in deposits at our legacy Empire branches was 14% since closing.

We also are committing a significant portion of our marketing budget to Suffolk County, which is a new market for us. As we do with all of our markets, we are looking for ways to support our communities, and we are off to a good start in Suffolk County. We remain confident in achieving the 20% earnings accretion in 2021 from the Empire transaction.

Slide 10 has our fourth strategic objective, which is to manage credit risk with consistent and disciplined underwriting. We have supported our customers during the pandemic with various forbearance programs. Loans in forbearance totaled $296 million, and 61% of these loans are making interest payments, leaving only $115 million, or 1.7% of loans on full P&I forbearance.

We remained well-collateralized on these loans, as our borrowers have approximately 60% equity in the properties. These forbearances will remain throughout 2021; however, over 80% are scheduled to resume normal payments by the end of the year.

Most importantly, less than $10 million of loans that have exited forbearance have migrated to nonaccrual or lost status. We have recorded only $100,000 of loss on all loans that have entered forbearance. This further demonstrates the strength of our borrowers and the quality of our underwriting.

Hotels are the largest segment of our forbearance loans at $108 million, or about a third of the balance. Some important points to make on this portfolio. First, occupancy rates, in general, are rising, and should continue for the remainder of the year with continued vaccinations.

Second, most of the hotels are outside of Manhattan, where economic activity is relatively better. Third, greater than 90% of hotel balances are making at least interest payments. We remain convinced that these borrowers just need time for economies to normalize so they can resume regular payments. With an average loan to value of 50%, we view our risk of loss as low in this portfolio.

On Slide 11, we provide the details of our allowance for loan losses. Our provision for loan losses was $2.8 million, primarily due to the net charge-off of the remainder of the tax medallion portfolio totaling $2.9 million. Going forward, we expect loan loss provisions to be primarily influenced by non-PPP loan growth, overall loan mix, and economic factors. The reserves-to-loans remained at 67 basis points.

Slide 12 is a reminder that our loss history has been significantly better than industry for the past 20 years, and even during the Great Recession, our losses were 4.5x times below the industry's peak. We see no reason why this trend would be any different this cycle, as weighted average loan to value on our real estate portfolio is 38%, and there's minimal exposures to loans with the loan-to-value exceeding 75%.

Slide 13 outlines some additional credit quality statistics. Our coverage ratio remains strong at over 200% of nonperforming loans. Nonperforming assets were flat linked quarter, and the overall level remains low. The average loan-to-value on real estate nonperforming loans was a low 31%. Overall, we remain comfortable with our credit risk profile, and continue to expect minimal loss contact.

Before I wrap up my comments, let's review capital on Slide 14. Our capital ratios have improved linked quarter, and we remain comfortable with our position. Book and tangible book value per share increased to $20.65, and nearly $20, respectively. We continue to expect to build capital during 2021, with our tangible common equity ratio approaching 8% by yearend. Our current dividend yield approximates 3.8%.

Lastly, let me remind you of some items that could impact the second quarter. The steeper yield curve should help asset repricing at the margin, and help keep funding costs low. We benefited from CD repricing in the first quarter, and while additional opportunities exist, the impact will be lessened going forward. We expect core net interest margin to have modest expansion in 2021, as it will take time for the steeper yield curve to impact asset yields, and we have extended the duration of our liabilities. Additionally, loan growth will be a key driver of net interest income.

While our loan pipelines are strong, we have a headwind from the PPP forgiveness. We are planning to use the benefits from the steepening of the curve to make investments in our business. Purchase accounting accretion is expected to remain below $1 million per quarter. The strong fee income we had in the first quarter from the customer swap program, total of $1.6 million, is not expected to repeat, given the change in market conditions.

The 3.3 million of the compensation-related expenses in the first quarter are also not expected to repeat in the second quarter due to seasonality. Our effective tax rate in 2021 should approximate 27%, since New York passed the law increasing the state rate on April 19th. Lastly, note that our period-end outstanding shares are higher than the average for the quarter.

With that, I'll turn it back to John.

John Buran
Thank you, Susan. On Slide 15, we provide our outlook. Clearly, we are a beneficiary of the steeper yield curve, and we have levers to pull if short-term rates rise. We also have forward-starting swaps that should help mitigate any impact of a rise in short-term rates. We are more optimistic about the operating environment, given the steeper yield curve, fiscal stimulus, and accelerated vaccinations, which should improve the local economy.

Our community outreach, especially in our Asian markets, should accelerate in 2021. As Susan mentioned, we are using some of the benefit from a steepening yield curve to invest in our business, and better prepare for our next stage of growth. This includes investments in our digital offerings.

Our loan pipelines, which do not include any PPP loans, improved during the quarter, and we should return to more normal loan growth later in the year, as we work through PPP forgiveness headwinds. We remain comfortable with our credit risk profile. Our support of our customers throughout this pandemic has increased customer loyalty.

Empire is on track to deliver the 20% EPS accretion in 2021, and we will continue to leverage this franchise to generate returns. Overall, we're on the right path to achieve our long-term goals of an ROAA greater than or equal to 1%, and an increase ROAE.

With that, we will now open it up to questions. Operator, I'll turn it over to you.

QUESTIONS AND ANSWERS

Operator
Thank you, sir, and thank you, ladies and gentlemen. We will now begin our question-and-answer session. To ask a question, you may press star, then one on your touchtone phone. If you’re using a speakerphone, please pick up your handset before pressing the keys. If any time your question has been addressed and you’d like to withdraw your question, please press star, then two. Again, it is star then one to ask a question. At this time, we’ll just pause momentarily to assemble our roster.

And the first question we have will come from Mark Fitzgibbon of Piper Sandler. Please go ahead.

Mark Fitzgibbon
Hi, guys. Good morning.

Susan Cullen
Good morning, Mark.

Mark Fitzgibbon
Good morning. First question I had for you is, you referenced, in the press release, you extended out some borrowings. I guess I'm curious how much you extended out, how far out did you go, and is there a plan to do more of that?

Susan Cullen
So, let me answer the last part first. Yes, we plan to take advantage of spots on the curve to take advantage of pricing where we see it opportunistically going forward. We extended out, as you may recall, we prepaid federal bank borrowings in the fourth quarter, and had those at the end of the quarter sitting in overnight, and we extended those prepayments back out, or a preponderance of them over the curves and laddered them out.

Mark Fitzgibbon
Okay. And then, secondly, Susan, I'm curious, are we likely to see any additional merger charges in the second quarter on Empire, or is that all done now?

Susan Cullen
There's still a little bit hanging over. It's not big charges.

Mark Fitzgibbon
Okay. And then next, I guess, I know that you all have recently reconfigured the branches, but given the increased digitization of the business as a whole, I guess I'm curious, are you rethinking the size of the branch network at all today?

John Buran
Well, right now, in terms of the overall network, we do see a couple of spots here and there where we can actually add branches. We don't have a branch network that blankets the area that we're in, and despite the fact that we have a nice improvement in the Suffolk County market, there's a couple of areas there where we can do some fill-in. And then there, also, is another area in—another couple areas in the boroughs that look attractive to us.

We recently put in a branch in Jamaica, Queens. That seems to be doing well. So, while we are clearly leveraging our new digital assets, we also feel that, as a community bank, that having a reasonable number of branches is positive as well.

And these branches, Mark, are in the 2,000 square foot or less area, in terms of their size, and they're also limited in staff, usually around four FTE or so. So, we expect that we'll probably do another branch or two, but largely, we're pretty well set with our digital and our branch network as it is. We may see some other opportunities to reduce the size with some of our branches as leases come up.

Mark Fitzgibbon
Okay. And then lastly, John, we've seen a bunch of consolidation in the northeast. It feels like the pace is picking up a little bit. Could you share with us, at a high level, your thoughts on what role Flushing plays in that, what kinds of things you might be interested in, and just a general view on how things are likely to play out in your market?

John Buran

Sure. So, we clearly are aware that the need for scale and the need for size sufficient in order to deal with the technology imperatives of the institution going forward are there. So, I think in the short run, we feel very confident we can take advantage of some disruption that's taking place with respect to several rather large mergers that are taking place in our market. So, I think in the short to intermediate term, there's a significant opportunity there for us to pick up business.

That said, a little bit longer term, we certainly are looking to continue the process that we started with Empire of improving scale in market and on the fringes of our market.

Mark Fitzgibbon
Thank you.

Operator
Next, we have Steve Comery of g. Research.

Steve Comery
Hi, good morning.

Susan Cullen
Good morning.

John Buran
Good morning.

Steve Comery
I appreciate the detail on loan closings in the press release. Looks like they ran ahead in most of the quarters last year. Just any thoughts on net growth, and sort of what the headwinds may have been to net loan growth in this quarter, are there any like prepayments or payoff type things going on there?

Susan Cullen
So, the headwinds we would expect in the upcoming quarter would be if we have a lot of forgiveness on the PPP loans. Those loans averaged about $209 million for the quarter. And if we lose all of those loans, then that would be a significant headwind to overcome for the low growth that we have projected and previously announced.

John Buran
So, that said, of course, in substituting those loans, we would wind up picking up margin, because they were fairly low-yielding loans. But I do think that our expectation is, and what happened in the last quarter of the year was a slowdown, and what's happening in New York City have slowed down due to increasing concerns with respect to the pandemic during the fall and early winter season. And that impacted our ability to close some of the loans, because of the availability of various other entities that we rely upon, including the courts to pull these things together, including legal areas.

So, I see that opening up as time goes on throughout the year. Clearly, we're already seeing more things opening up in the New York market. We just recently saw 75% occupancy coming up with respect to office space. So, our expectation is, as we approach the second half of the year, we'll start to see some more generation of significant loan activity.

Steve Comery
Okay. Thanks for that. Susan, I want to make sure I got this right, your comments on net interest margin expanding modestly. I just want to think about the breakdown there. Like, is the trajectory for

loan yields continue to be maybe slightly down, more than offset by deposits? Is that the right way to think about that?

Susan Cullen
The loan yields, the interest earning asset yields will be lessened as time goes on in the short run. And as we talked about, we have taken advantage of the ability to reprice liabilities, and that will be lessened as time goes on. We've had most of our CDs repricing this year were front loaded, so there's less opportunity going forward to reprice.

Steve Comery
Okay, okay. But net-net, the deposit opportunity is still bigger than the potential decline in earning assets; is that fair to say?

Susan Cullen
Yes, that's fair.

Steve Comery
Okay, okay. And then, just kind of the loans closed disclosure, appreciate that as well. So, ex-PPP, it looked like loan yields on loans closed was a bit higher this quarter than last quarter with mortgage flat. Does that mean that C&I yields, in general, increased in the quarter, or was there something else going on there?

John Buran
I think what we're seeing is the opportunity to take advantage of a little bit on the yield curve. So, I think we're seeing a little bit more pricing power as the yield curve has started to rise. We're still not at the point where the yields on new assets coming in exceed the portfolio yield, but we clearly are seeing the opportunity to price on loans.

I don't know if you want to add anything to that, Frank.

Frank Korzekwinski
Some of it has to do with a little bit of duration. We've gone in cases a little bit beyond five years, take a little bit of advantage of the backend of the loan curve. I'm not sure of the swap loans that we did in the fourth quarter. I don't recall that, but—

John Buran
Yes. So, I think that that's probably another factor, is that the swap loans that we put on are clearly at lower yields as well. So, I think the expectation there between PPP and swap loans is that we can continue to see some growth on the asset yields.

Steve Comery
Okay, very good. And then, last one for me. Very strong deposit growth in the quarter. Maybe just talk about customer liquidity preferences, and how that's changing, and just how you'd expect these deposit balances to trend going forward.

John Buran
So, we've seen improvement across the board. Our business deposits are up very nicely. We have some nice growth in our new Suffolk County branches as part of the Empire transaction. And we are seeing that our business customers, in general, are just managing their liquidity going forward. So, certainly we'll see some of that start to ease up as time goes on, but with a new infusion of liquidity

coming into the market as a result of the newer regulatory changes that are taking place, the new changes with respect to aid during the pandemic, we expect to see that liquidity continue to grow, and as a result, the deposits to continue to grow with it.

The only other thing that we're seeing is, we're not seeing takedown on our floating rate loans being as significant as they have been in the past. Usually we run about 50%. We're running about 10% less on those.

Steve Comery
Okay. Thank you very much.

Susan Cullen
Thanks, Steve.

Operator
Next, we have Christopher Keith of DA Davidson.

Christopher Keith
Good morning, everyone.

Susan Cullen
Good morning.

John Buran
Good morning.

Christopher Keith
So, it looks like C&I was really a bright spot for the core loan portfolio this quarter. And so, how much of that strength is a reflection of the growth opportunity in Suffolk County?

John Buran
It's early, so a lot of it is in the pipeline at this point in time, but we certainly are seeing business coming out of Suffolk County, and we expect to see more. The majority, obviously, of the C&I growth was on the PPP side, but we are definitely seeing positive growth, particularly in the owner occupied C&I.

Christopher Keith
Got it, perfect. And then, can you give us just a little color around some of where the different loan products are originating at from a yield perspective today?

John Buran
Sure. Do you want to talk about yield, Frank?

Frank Korzekwinski
Yes. So, we're probably in the 350 range, is what we're seeing. More recently, things have heated up. The commercial real estate itself is probably a little bit higher, depending on the asset class. It could price as high as 4%. But overall, probably about 350.

Christopher Keith
Great. That's helpful. Thank you. And then, just a follow-up on the previous M&A question. As you look down the line, how far outside of your current operating footprint would you be willing to extend for the right deal?

John Buran
So, I think there's a couple of factors there. Obviously, we do already have linkages to the lower upstate market where we've done some lending. We've done some lending as far as south as Philadelphia in this immediate market, and certainly, in the New England space as well we've done some lending. So, we're very, very familiar with those markets. So, those would be priorities for us. However, there are ethnic linkages that we have, and I think we would take a serious look at following some of those ethnic linkages as well.

Christopher Keith
Got it. Thanks for taking my questions. I appreciate it.

Susan Cullen
Thank you.

Operator
And next we have Chris O'Connell with KBW.

Chris O'Connell
Hi, good morning.

Susan Cullen
Good morning.

Chris O'Connell
Just wanted to circle back a couple of questions and make sure I was getting this correct. The loan closings, ex-PPP this quarter, were down fairly substantially, right?

John Buran
Quarter-to-quarter, yes, yes.

Chris O'Connell
Okay, got it. And just, I was hoping to get a little color. It looks like core C&I closings were down, but had pretty good net growth. What was the difference mostly there?

Susan Cullen
The PPP loans are included in there.

John Buran
Yes, PPP loans.

Chris O'Connell
So, the PPP loans aren't included in the SBA line? I'm talking about ex-PPP on the C&I.

Susan Cullen
I'm just trying to look real quick, Chris. Ex-PPP, they're up $20 million, which is just normal business quarter-over-quarter.

Chris O'Connell
Okay, got it. And then, as far as the PPP fees during the quarter, it looks like you guys had a good amount of forgiveness. So, I guess, what were the exact PPP fees during the quarter, or why were

they de minimis as you guys said?

Susan Cullen
So, the fees we recognized during the quarter due to the forgiveness was less than $500,000. As we said in the call, we have proximately $5 million left, if all the PPP loans received forgiveness.

Chris O'Connell
Okay, got it. And then, as far as the swap fees, a little bit outsized this quarter. What are you guys like expecting? I know it's a pretty volatile line item, but like a baseline level for that to bounce around going forward.

Susan Cullen
We're seeing customers are interested in the swap program until they get to the closing table, then they're backing off a little bit because of the interest-rate environment. So, we're not seeing so much demand for that product right now. Given changes in the market rates, we obviously would expect to see that pick back up a little bit.

Chris O'Connell
Okay, got it. And then, for operating expenses, I know the $3.3 million seasonal, should fall out next quarter. Seems like that kind of gets you guys to just shy of a $34 million baseline level there. There's no remaining, or not very much remaining cost savings from the Empire deal coming through for the rest of the year, correct?

Susan Cullen
They're totally in there, but I want to point out that we're expecting our run rate to be around $35 million, given the volume of the PPP loans and the way the accounting works, that reduce the salary expense. So, our run rate's about $35 million.

Chris O'Connell
Okay, great. Thanks. And that usually holds fairly stable throughout the year after the first quarter seasonality, right?

Susan Cullen
Yes.

Chris O'Connell
Great. And then, if you just talk a little bit, I guess, about the loan segments, and you guys have, the pipeline's up year-over-year and quarter-over-quarter a little bit, and ex-PPP, what you guys are seeing as the biggest demand or growth drivers near term?

Frank Korzekwinski
So, the ex PPP on the C&I loan, as Mr. Buran pointed out earlier, the owner-occupied C&I space has been a very strong opportunity for us on the business banking side. On the shorter end of the curve, rates have come back in quite a bit. The owners are now taking advantage of this particular point in the yield curve to refinance a good number of loans that are coming up to maturity.

On the real estate side, we continue to see the normal blend of multifamily and commercial real estate that we have seen traditionally. That space has gotten much better in the last two or three months or so. Buy-in was very strong in the fourth quarter as a result of a loosening of a lot of restrictions here in New York State, tended to slow down in November, mid to late November, as a result of some tightening up of the economy or local restrictions. I know we had, in New York City, some orange zones come into effect that really put a big impact in our Brooklyn and Queens and Southern Nassau County marketplaces. That's seemed to have gotten much better as the restrictions are now being lifted, and various capacities are, in restaurants and theaters or whatnot are increasing.

We're seeing very good pickup in the local retail activity, the local shopping. We're starting to see new commercial spaces being built out for tenants that are either signing new leases or renewing existing leases. So, it's pretty much a combination of an improvement in asset classes across the board.

Chris O'Connell
Got it, great. And then, as far as the forbearances go, I appreciate the detail that you guys have given surrounding the schedule of those set maturity dates going forward. How are you guys planning to deal with those, as they come set to mature in the coming quarters, if they're coming back and asking for additional forbearance?

John Buran
Why don't you cover that, Frank?

Frank Korzekwinski
Sure. So, we've been very diligent in working with customers that are asking for additional relief. We do ask them to provide us with current financial data, at times includes bank statements, if we don't hold the operating accounts here at Flushing, to see what level of banking activity is occurring in the business or at the real estate project that we've financed.

We have seen a very strong improvement in rent collections across all assets. We will grant additional relief for customers who are continuing to experience significant disruptions in their cash flow. Some of those could be properties that had significant portions of their income coming from some sort of entertainment-type tenancy or restaurant.

For the most part, we reach out to the customers generally 60 days prior to their expiration of their relief, have conversations, ask them questions about the operation of the property. In many cases, we'll send a loan officer out to visit with the customer to actually confirm what the customer is describing as the current situation, either at the business or at the property.

I'm happy to report that, as you can see, an overwhelming majority of the customers that we provided assistance to starting last spring have returned to normal. The largest portion of that portfolio we have left deals with small-balance loans, largest portions in terms of number of loans, and those properties are beginning to show signs of strength as we head out of the winter months and into the warmer seasons.

John Buran
So, also, in terms of that forbearance, I think it's important to point out that really only about $120 million of the total is really full P&I forbearance.

Chris O'Connell
Yes, I saw the 61 interest payments. It's great, thanks. And just wanted to confirm the structure. Those that are granted additional forbearance from this point going forward, that's going to be under kind of like the CARES Act modifications versus the traditional TDR, right?

Susan Cullen
As long as we believe that a hold up in payment or forbearance will be granted due to COVID-19. If, for some reason, we believed that the forbearance was not related to that, then we would have regular

TDR accounting. We need to make sure that it would be a COVID relief item.

Chris O'Connell
Okay, got it. That's great. Thank you for the time. Appreciate it.

Susan Cullen
Thank you.

CONCLUSION

Operator
Well, showing no further questions at this time, we will go ahead and conclude our question-and-answer session. I would now like to turn the conference call back over to Mr. John Buran, President and Chief Executive Officer, for any closing remarks. Sir?

Susan Cullen
This is Susan. I just wanted to add one other comment. We got a couple questions last night on the PPP loan portfolio, and I think we addressed most of the issues, or questions that were raised last night. The one that was not asked, but I did want to get out into public, was that the yield for the first quarter on the PPP loans was approximately 2%.

So, with that, I'll turn it over to John.

John Buran
Thank you. Thank you, Susan. I just wanted to be sure we had that update, in the event anybody else had that question in the background.

I want to thank you all for joining us. We're obviously very pleased with the quarter, and we look forward to continuing growth of the franchise. Thank you very much for your attention.

Susan Cullen
Thank you.

Operator
And we thank you, to the management team, also, for your time today. Again, the conference call is now concluded. At this time, you may disconnect your lines. Thank you again, everyone. Take care, and have a wonderful day.