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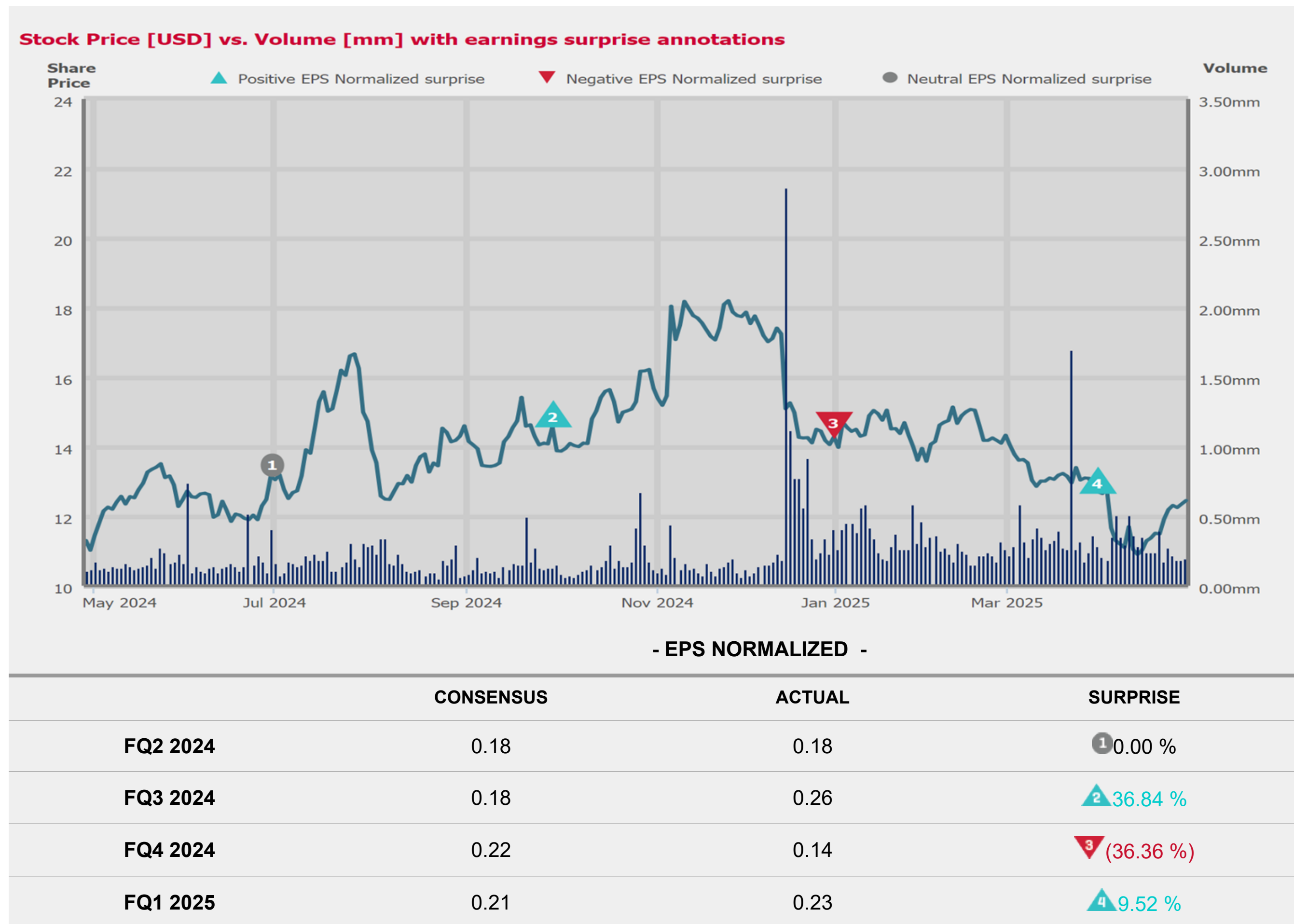
Flushing Financial Corporation NasdaqGS:FFIC FQ1 2025 Earnings Call Transcripts

Wednesday, April 30, 2025 1:30 PM GMT

S&P Global Market Intelligence Estimates

	-FQ1 2025-			-FQ2 2025-	-FY 2025-	-FY 2026-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.21	0.23	▲9.52	0.32	1.16	NA
Revenue (mm)	55.38	58.06	▲4.84	58.59	233.00	NA

Currency: USD
Consensus as of Apr-30-2025 4:00 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ2 2024	0.18	0.18	●1 0.00 %
FQ3 2024	0.18	0.26	▲2 36.84 %
FQ4 2024	0.22	0.14	▼3 (36.36 %)
FQ1 2025	0.21	0.23	▲4 9.52 %

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Call Participants

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Susan K. Cullen
Senior EVP, Treasurer & CFO

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Stephen M. Moss
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Presentation

Operator

Welcome to Flushing Financial Corporation's First Quarter 2025 Operating Results Conference Call. Hosting the call today are John Buran, President and Chief Executive Officer; and Susan Cullen, Senior Executive Vice President, Chief Financial Officer and Treasurer. Today's call is being recorded. [Operator Instructions] A copy of the earnings press release and slide presentation that the company will be referencing today are available on its Investor Relations website at flushingbank.com.

Before we begin, the company would like to remind you that discussions during this call contain 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 could cause actual results to differ materially from those contained in any such statements, including as set forth in the company's filings with the U.S. Securities and Exchange Commission to which we refer you.

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

I would now like to introduce John Buran, President and Chief Financial -- excuse me, Chief Executive Officer, who will provide an overview of the strategy and results.

John R. Buran
President, CEO & Director

Thank you, operator. Good morning, and thank you for joining us for our first quarter 2025 operating results conference call.

As we enter 2025, the outlook was favorable with a better operating environment driven by the expectation of a strong economy, the potential for future rate cuts by the Fed as inflation eased and there were signs that the yield curve would regain a positive slope. Unfortunately, the first quarter did not play out this way as the economy was still solid, but uncertainty about the outlook became the primary focus as the yield curve returned to inversion. Despite these challenges, we achieved important improvement in our operations as GAAP and core NIM expanded to the 2.50% range, a level we have not seen since the fourth quarter of 2022.

For the first quarter, the company reported a GAAP loss per share of $0.29 and core earnings per share of $0.23. The primary difference between the GAAP and core earnings is a noncash, nontax-deductible goodwill impairment charge of $17.6 million or $0.51 a share. The impairment had no impact on tangible or regulatory capital. As a result, we have no goodwill remaining on the balance sheet. Our areas of focus are improving profitability, maintaining credit discipline and preserving strong liquidity and capital. While we recognize there's a lot more work to do, we're encouraged by the progress to date.

I'll now turn it over to Susan to discuss our area of focus including our contractual loan repricing that can substantially improve income over the coming years. Susan?

Susan K. Cullen
Senior EVP, Treasurer & CFO

Thank you, John. Our first area of focus is improving profitability. While this is expected to be a multiyear endeavor, we made progress in the first quarter as both GAAP and core net interest margins expanded quarter-over-quarter. We expect further net interest margin expansion as real estate loans contractually reprice higher. We are focused on improving our return on average equity over time.

Slide 5 provides more detail on our net interest margin expansion. The GAAP and core net interest margins increased 12 and 24 basis points to 2.51% and 2.49%, respectively in the first quarter. Liability repricing was a driver of the improvement as the cost of funds declined 22 basis points quarter-over-quarter compared to a 9 basis point decrease in average earning assets. Entering the first quarter, the yield curve regained a positive slope, but as the quarter closed, this slope turned negative. A positively sloped yield curve will drive net interest margin expansion, while a negatively sloped curve will make margin expansion more challenging. Our interest rate risk modeling shows a 100 basis point positive slope in the yield curve with the short and declining would benefit -- benefit net interest income by about $1 million in the first year and $10 million in the second year. In the near term, the net interest margin is

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expected to be impacted by the shape of the yield curve, changes in the balance sheet mix and continued contractual pricing. The March NIM was not materially different from the NIM that's being reported.

Slide 6 provides more detail on our deposits. Average deposits increased 7% year-over-year and about 1% quarter-over-quarter. The loan-to-deposit ratio improved to 87% from 94% a year ago. The cost of deposits decreased by 19 basis points during the quarter, and we continue to seek opportunities to lower deposit rates. Our deposit betas were also favorable during the quarter as interest-bearing betas were 59% as rates declined which is the same as when rates increased over the past cycle.

Total CDs are $2.6 billion or 34% of total deposits at quarter end. Approximately $600 million of CDs with a weighted average rate of 4.16% will mature in the second quarter. Current CD rates are 3.5% to 4.25%. Customer preferences for a 91-day product, which has an APY of 4%, followed by the 1-year CD at 3.85%. During the first quarter, we retained about 80% of the maturing CDs with a weighted average rate reduction of 69 basis points. Going forward, while there is possibly some benefit from CD repricing based on the current yield curve, we do not expect it to be significant. Average noninterest-bearing deposits increased 3% year-over-year but declined 2% quarter-over-quarter. As a percentage of total average deposits, average noninterest-bearing deposits were 11.3% compared to 11.8% a year ago. Noninterest-bearing deposits are a significant focus area as incentive plans have been revamped to emphasize further growth and deeper customer relationships. Checking account openings increased 5% year-over-year and 6% quarter-over-quarter. We continue to focus on shifting the deposit mix and reducing the overall cost.

Slide 7 provides more detail on the contractual pricing of the loan portfolio. For the remainder of 2025, about $511 million of loans are due to reprice 171 basis points higher than the current coupon using the March 31 index. In 2026, about $706 million due to reprice 190 basis points higher, with the last sizable portion repricing in 2027 were nearly $1 billion of loans are due to reprice about 168 basis points higher. Repricing in 2025 through 2027 is largely based on the 5-year Federal Home Loan Bank of New York advance rates plus a spread. During the first quarter, there were about $148 million of loans that were scheduled to reprice approximately 194 basis points higher based on the year-end index values. Approximately 88% of these loans remained with the bank and repriced 210 basis points higher. Over 91% of these loans are current, while approximately 9% are less than 30 days delinquent. All else being equal, we expect loan repricing to drive net interest margin expansion with an annualized $9 million of interest income in the 2025 and $13 million in 2026. Over the 3-year period, these loans will cumulatively add approximately $50 million of interest income.

Slide 8 highlights our second area of focus, which is maintaining credit discipline. As we have discussed over the past several quarters, we have a low risk and conservative loan portfolio. Over 90% of the loan portfolio is secured by real estate with an average loan-to-value less than 35%. We have a long history of low levels of credit losses. One of our key strategic initiatives is enhancing our relationship pricing focus, and we are beginning to see results.

Slide 9 depicts our net charge-off history compared to the industry since 2001. As you can see, our underwriting has outperformed over time, often by a wide margin. Our conservative credit culture has been proven in many rate and economic cycles and our commitment to our low-risk credit profile is unwavering. Our 2 largest portfolios are multifamily and investor commercial real estate. And these portfolios have a combined debt service coverage of 1.8x. When we stress test this ratio for higher rates and increased operating expenses, the DCRs are still strong at 1.4x.

As shown on Slide 10, our level of noncurrent loans to total loans is also favorable compared to the industry, not only recently but for the past 24 years. This is primarily due to our conservative underwriting. Our borrowers have a low leverage with an average loan-to-value of less than 35% on our real estate portfolios and high cash flows, debt coverage ratios of 1.8x for our multifamily and investor commercial real estate portfolios. We have a minimal amount of loans with an LTV greater than 75% with more than 1/3 of these loans having mortgage insurance. We remain comfortable with our conservative underwriting. We will continue to limit problem assets and ultimately limit loan losses.

Slide 11 shows our allowance for credit losses by loan portfolio. Overall, our allowance for credit losses is 59 basis points of loans, which is stable quarter-over-quarter. Criticized loans to total loans is low 133 basis points, and as previously discussed, the loss content in our portfolio is low given our conservative underwriting standards. All of these items keep us very confident that our low-risk credit profile performs well over various economic cycles.

Slide 12 outlines credit metrics at a more granular level for our multifamily portfolio. This portfolio comprises 38% of gross loans and has strong credit metrics such as a weighted average loan-to-value of 42% and a weighted average debt coverage ratio of 1.8x. Nonperforming loans in this portfolio are only 101 basis points and criticized and classified are only 116 basis points. The average loan size of $1.2 million in this $2.6 billion portfolio. Overall, the portfolio is very granular and is conservatively underwritten.

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Slide 13 provides further context on the risk in our multifamily portfolio in comparison to peers. As of December 31, 2024, our criticized and classified multifamily loans were only 102 basis points, which is below the median of the peer group. At the end of the first quarter, this ratio was 116 basis points. Multifamily reserves, criticized and classified multi loans were 51%, which is above the median of the peer group in the fourth quarter, and this ratio was 43% in the first quarter. 30- to 89-day past dues in our multifamily loan portfolio are only 11 basis points. During the first quarter, over $64 million of loans were scheduled to reprice to mature, approximately 96% of the loans remained at the bank and repriced 267 basis points higher to a weighted average rate of 6.59%. Nearly 100% of these loans are current. This is a testament to our borrowers and our conservative underwriting standards. With these credit metrics, we see limited risk and loss content on the horizon.

Slide 14 provides an overview of our investor commercial real estate portfolio, which is 29% of gross loans. The investor commercial real estate portfolio has 34 basis points of nonperforming loans and 175 basis points of criticized and classified loans. Our exposure to office loans is small at 3% of gross loans. There are 2 nonperforming loans in the office portfolio and a total of 3 that are criticized and classified. These metrics provide a clear representation of a conservative investor commercial real estate portfolio.

On Slide 15, we discussed our last area of focus, which is to preserve strong liquidity and capital. We have ample liquidity with $4 billion of undrawn lines and resources at the end of the quarter. Average deposit growth was nearly 7% year-over-year and 2% quarter-over-quarter. Uninsured and uncollateralized deposits remained low at 16% of total deposits. The company and the bank remained well capitalized. Our tangible common equity to tangible assets was stable at 7.79% quarter-over-quarter. We feel very good about our liquidity and capital positions.

I will now turn it over to John. John?

John R. Buran
President, CEO & Director

Thanks, Susan. Slide 16 provides detail on our Asian markets, which account for about 1/3 of our branches. We have approximately $1.3 billion of deposits and $738 million in loans in these markets. These deposits are 17% of total deposits, and we only have a 3% market share of this $40 billion market implying that there's substantial room for growth. We expect to expand our branch network in these markets during 2025 with our Jackson Heights branch opening in early May and a second Chinatown branch later this year. Our Asian markets with its dense population, high number of small businesses continues to be an important opportunity for us and one that we believe will drive our success in the future. Our approach to this market is supported by our multilingual staff, our Asian advisory board and participation and sponsorship of cultural activities.

Slide 17 outlines the operating environment, which has shifted considerably this quarter. The spread between the 5-year FHLB advance and the 3-month SOFR rate turned negative during the quarter compared to a positive spread entering 2025. The spread is a good indicator of how our net interest margin will tend to trend in the future. While we have some opportunities to lower deposit costs, this is going to be more challenging without a reduction in short-term rates.

On the other hand, our real estate portfolio should continue to reprice higher over the next 3 years. With our focus on remixing the balance sheet, the company should experience NIM expansion over time. We're executing on our new business initiatives. Period-end demand deposits increased nearly 6% year-over-year and 3% quarter-over-quarter. This product remains a high priority for the bank. Our SBA team is also ramping up as we sold about $5 million of loans during the quarter, and the pipeline continues to build. We're also looking to selectively hire and last week announced the addition of a new deposit focused team with 3 bankers. While the operating environment has become less favorable, we're focusing on what we can control and investing in the business to drive future profitability.

Slide 18 provides a high-level perspective on performance in the current environment. I'll start by saying that the first quarter's trends are largely consistent with expectations and the outlook has not significantly changed for the remainder of the year at this point. We still expect stable assets for the year and loan growth will be market dependent. There's a continued emphasis on improving the mix of interest-earning assets and liabilities. There are some opportunities to reprice deposits and loans with contractual loan repricing providing the best opportunity to generate net interest margin expansion, absent a change in the yield curve. I'll remind you, some deposit products have seasonality in the summer months. Noninterest income should be aided by the closing of back-to-back swap loans in the pipeline and the benefits of a BOLI 1035 exchange. Noninterest expense is expected to increase approximately 5% to 8% in 2025 off a base of approximately $160 million. While we had about $1.6 million of seasonal expenses in the first quarter, this was largely offset by other adjustments that are not expected to occur in the second quarter. We expect a 25% to 28% effective tax rate for the remainder of 2025.

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Slide 19 outlines our key takeaways. While the environment has shifted to less favorable, we're controlling what we can control and executing on our 3 areas of focus. We're progressing in improving profitability as the GAAP and core net interest margin expanded 12 and 24 basis points quarter-over-quarter, and we continue to expect to benefit from contractual loan repricing through 2027. We have a very well-defined credit discipline, which is conservative and low risk. While there was some slight softening in the credit metrics this quarter, we remain comfortable with our underwriting and level of risk. Our liquidity and capital remains strong. While there is some uncertainty in the economic outlook, we'll stick to these areas of focus and improve the financial performance of the company over time.

Operator, I'll turn it over to you to open the lines for questions.

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Question and Answer

Operator

[Operator Instructions] The first question comes from Chris O'Connell from KBW.

Christopher Thomas O'Connell
Keefe, Bruyette, & Woods, Inc., Research Division

I got the expense guide unchanged. I was hoping to just get some color around the puts and takes on the adjustments that offset the seasonal uptick and just maybe a sense of the cadence to get to the guide for the rest of the year.

Susan K. Cullen
Senior EVP, Treasurer & CFO

Chris, the guide for the rest of the year will be based off the 5% to 8% of the $160 million rough and tough from last year. We should have a run rate very similar to what we had in this quarter for every quarter thereafter.

Christopher Thomas O'Connell
Keefe, Bruyette, & Woods, Inc., Research Division

Okay. Got it. And just, I guess, what were the adjustments that were offsetting the seasonal expenses this quarter?

Susan K. Cullen
Senior EVP, Treasurer & CFO

There were some adjustments made based on year-end accruals that needed to be trued up as we started the new year.

Christopher Thomas O'Connell
Keefe, Bruyette, & Woods, Inc., Research Division

Okay. So some -- mostly all in the compensation, correct?

Susan K. Cullen
Senior EVP, Treasurer & CFO

Yes. As is most of our seasonal expenses, so what you're seeing there is a pretty good run rate.

Christopher Thomas O'Connell
Keefe, Bruyette, & Woods, Inc., Research Division

Okay. Yes. Got it. And then just hoping to get a little bit of info on the multifamily uptick in the NPLs and just the office credit driving the uptick in the criticized classified.

Susan K. Cullen
Senior EVP, Treasurer & CFO

Sure. The multifamily loan is one relationship that consists of 3 loans that have an LTV of about 43%. We have a borrower that we're working with. And hopefully, we should have those resolved in relatively short order. The office building loan, the largest tenant moved out. There's been a lot of activity on that building. There are several condos in that -- they own -- the office building is condos within a bigger office building, just to be clear. There's been a lot of activity on seeing that new space. We have, again, a willing borrower, and we're working on resolving that loan, which will probably happen by the end of the -- I can't believe we're at the end of the first quarter, already at the end of the second quarter.

Christopher Thomas O'Connell
Keefe, Bruyette, & Woods, Inc., Research Division

Okay. Got it. And do either of those have...

John R. Buran
President, CEO & Director

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Yes. So we have the mortgage on the condo, just to be clear.

Christopher Thomas O'Connell
Keefe, Bruyette, & Woods, Inc., Research Division

Okay. Great. And do either of the...

John R. Buran
President, CEO & Director

No, whole office building.

Susan K. Cullen
Senior EVP, Treasurer & CFO

Yes.

Christopher Thomas O'Connell
Keefe, Bruyette, & Woods, Inc., Research Division

Specific reserves or not needed given the LTVs?

Susan K. Cullen
Senior EVP, Treasurer & CFO

On the multifamily loan, yes, relationship, I should say.

Christopher Thomas O'Connell
Keefe, Bruyette, & Woods, Inc., Research Division

And what's that level?

Susan K. Cullen
Senior EVP, Treasurer & CFO

Pardon me? I didn't hear you, Chris.

Christopher Thomas O'Connell
Keefe, Bruyette, & Woods, Inc., Research Division

Yes, Susan, there is a specific reserve?

Susan K. Cullen
Senior EVP, Treasurer & CFO

No, there's no specific reserve given that the LTV on this relationship is 43%. There's no forecasted loss on this relationship.

Christopher Thomas O'Connell
Keefe, Bruyette, & Woods, Inc., Research Division

Okay. And then on the 3 business loan net charge-offs, I was hoping to just get any info on those? And then I guess, high-level thoughts. I think it's been 2 or 3 quarters with relatively similar C&I charge-offs from that category. Just high-level thoughts on kind of where the run rate or where the typical kind of loss rate is that you think will be on that portfolio longer term?

Susan K. Cullen
Senior EVP, Treasurer & CFO

So those loans, again, I know I sound like a broken record had individual issues related to them. One of them had some fraud involved in the underwriting -- or not in the underwriting, excuse me, in the application, et cetera. The other ones were longer-term credits that just ran into problems. One of them is a consulting firm that had a lot of contracts with the federal government. So we still are very confident in that portfolio. We have a lot of allowance allocated against that portfolio. We don't see much else in the way of charge-offs at this time that is not -- that are not fully reserved for. So I don't know, John, if you want to add any other color to that?

John R. Buran
President, CEO & Director

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No, I think you pretty well covered it.

Operator

The next question comes from Mark Fitzgibbon with Piper Sandler.

Mark Thomas Fitzgibbon
Piper Sandler & Co., Research Division

Susan, you had talked about the expectation that the margin would expand in the second quarter, and I heard the sort of the puts and takes on that. I guess I was wondering if you could help us think about the magnitude of the margin expansion maybe in the second quarter.

Susan K. Cullen
Senior EVP, Treasurer & CFO

So given the interest rate volatility such that meaningfully margin predictions are hard to come by, we provide you the components, Mark, with the ins and the outs, you can see if you take the fourth quarter deck and this quarter deck, you can see what's already repriced. Our CD rates are 3.5% to 4.25%, which is a little bit lower than what we have. Loan growth is viewed as limited. So I think we just have some ins and outs. I don't think that I can give you any fair quantification at this time.

John R. Buran
President, CEO & Director

The other thing is the -- Mark, is the repricing of the CRE portfolio, which we view as probably the most significant opportunity, especially given the current rate environment, the current rate environment stays stable. There's quite a bit of increase associated with net interest income on that portfolio.

Mark Thomas Fitzgibbon
Piper Sandler & Co., Research Division

Okay. On the CD repricing, the $602 million of CDs that you say have an average rate of 4.16%. When I look at your posted rates on iGO and Fidelity and some of the other platforms you guys are out on, the 3- and 6-month CD rates you're offering are 4.25%. So they're actually higher than that 4.16% level.

John R. Buran
President, CEO & Director

Actually, May 1 is coming down to 4%.

Mark Thomas Fitzgibbon
Piper Sandler & Co., Research Division

Got you. Okay. And then secondly, John, I wonder if you could talk a little bit about how the Asian community is managing through the tariff situation. And if there's any types of lending that could be problematic as a result of what's going on with the tariff situation.

John R. Buran
President, CEO & Director

So remember, this is a community that's very tight. So there isn't really a lot of room for significant changes or substitution of product, et cetera, et cetera. So we think that -- first of all, let me say that we don't have any exposure -- any direct exposure to trade. We don't do any sort of trade financing. And even within our portfolio, as you know, we've tended to have a portfolio that is very, very much real estate focused. So while there may be some price increases for some goods within this community, there is very little desire for substitution. So we're not expecting a major impact given that our business is really very much domestically focused and real estate focused.

Mark Thomas Fitzgibbon
Piper Sandler & Co., Research Division

Okay. And then the last question I had, it looked like NOW balances were up a lot in the quarter. I was wondering if there was some change or some reason why they surged so much.

John R. Buran

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President, CEO & Director

Some seasonality associated with that.

Mark Thomas Fitzgibbon
Piper Sandler & Co., Research Division

Okay. And what business?

John R. Buran
President, CEO & Director

It's predominantly the government business, although we've seen it also in business banking as well. I'll remind you that the -- in the summer months, some of the seasonality gets reversed.

Operator

[Operator Instructions] The next question comes from Steve Moss with Raymond James.

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

Maybe just -- most of the questions have been asked and answered. But on the SBA pipeline you mentioned, John, just kind of curious how that's building and kind of how you're thinking about the level of gain on sale income potential for the remainder of the year?

John R. Buran
President, CEO & Director

Well, we really don't give guidance on that. But basically, what we've seen, some of the activity has been in the [504] area, real estate based lending. Of the -- of the term loans, we're getting like 7% type of premiums on sale.

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

Okay. Got you. And then just in terms of -- just on the credit front here. I hear you guys -- the loans are well reserved and good to hear that there's activity on the office loan. Just kind of curious, you had 3 quarters of charge-offs here at this point. Why -- maybe should we expect to see some level, even modest of reserve build going forward? Or do we hold right around this 59 to 60 basis point level here going forward?

Susan K. Cullen
Senior EVP, Treasurer & CFO

Steve, I think given the uncertainty in the environment, once the -- there's finalization over the tariffs, I would expect to see some reserve build.

Operator

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

John R. Buran
President, CEO & Director

Thank you. Thank you, operator. I want to thank you all for your attention and your participation and look forward to speaking with you in the future. Have a good day.

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

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