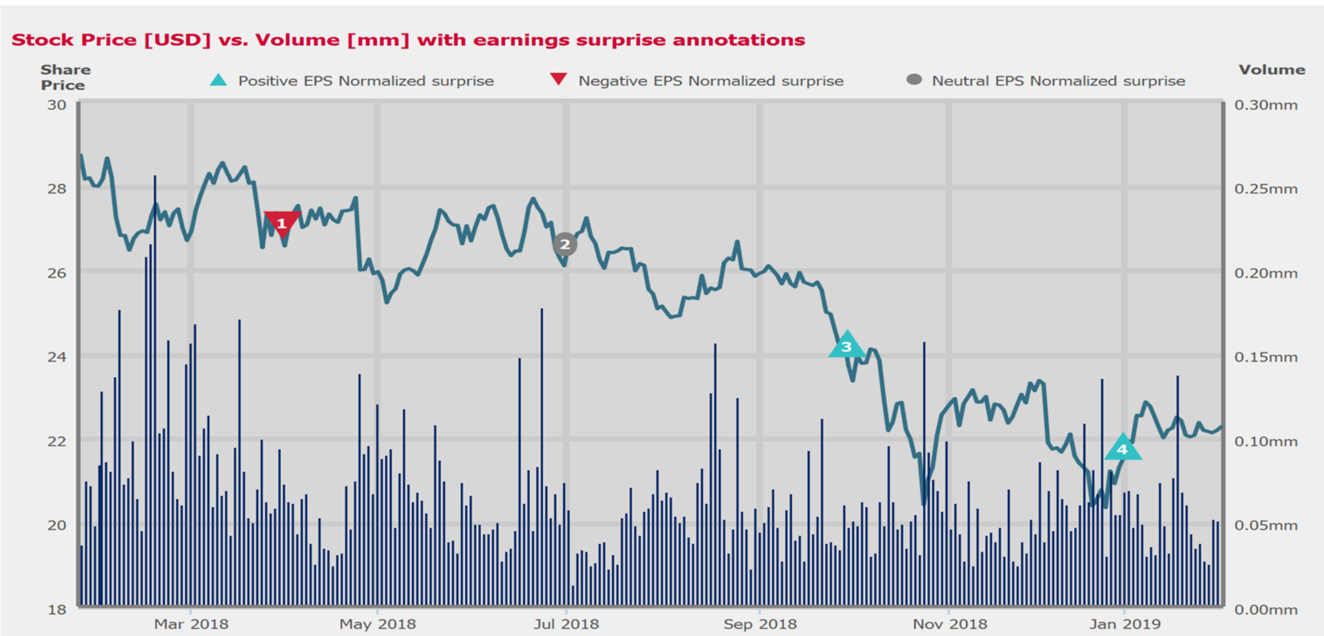
Flushing Financial Corporation
NasdaqGS:FFIC
FQ4 2018 Earnings Call Transcripts

Friday, February 01, 2019 2:30 PM GMT

S&P Global Market Intelligence Estimates

	-FQ4 2018-			-FQ1 2019-	-FY 2018-		
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL	
EPS Normalized	0.48	0.54	12.50	0.40	1.83	1.94	
Revenue (mm)	44.97	39.65	(11.83 %)	44.72	182.80	177.74	

Currency: USD
Consensus as of Feb-01-2019 1:00 AM GMT



- EPS NORMALIZED -	CONSENSUS	ACTUAL	SURPRISE
FQ1 2018	0.44	0.37	(15.91 %)
FQ2 2018	0.48	0.49	0.00 %
FQ3 2018	0.48	0.54	12.50 %
FQ4 2018	0.48	0.54	12.50 %

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Steven Comery
G. Research, LLC

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Presentation

Operator

Welcome to the Flushing Financial Corporation's Fourth Quarter 2018 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 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 financial information prepared and presented in accordance with the U.S. GAAP. For information about these non-GAAP measures and for a reconciliation to GAAP, please refer to the earnings release.

I'd now like to introduce John Buran, President and Chief Executive Officer, who will provide an overview of the strategies and results.

John R. Buran
President, CEO & Director

Good morning, everyone, and thank you for joining us for our fourth quarter 2018 earnings call. On today's call, as always, we hope to provide additional insight into our consistent positive earnings power, business strategy and sustainable competitive advantage. I'll begin with our fourth quarter and full year 2018 highlights and then provide an overview of the strategies we are executing to continue to create long-term shareholder value. Then our CFO, Susan Cullen, will review our financial performance in greater detail. Following our prepared remarks, Susan and I will address your questions.

Beginning on Slide 3, fourth quarter '18 GAAP diluted EPS was $0.44 and core diluted EPS was $0.54. The $0.10 difference between GAAP and core earnings per share is attributable to net loss from fair value adjustments of $0.09, net loss on sale of securities of $0.05 and net gain on sale of other assets of about $0.03. GAAP and core earnings were positively impacted by a reversal of previously recorded tax liability of approximately $2 million.

We're pleased with our ability to generate strong earnings growth and return on average equity of over 9% and core return on average equity of over 11% despite continued margin pressure. Net interest income of nearly $41 million was down modestly quarter-over-quarter and year-over-year due to net interest margin pressure, driven by higher funding costs, which outstripped our ability to mitigate through loan repricing.

However, despite the cost of funds increasing 12 basis points quarter-over-quarter, the core NIM fell only 3 basis points. As a reminder, core NIM is net of prepayment penalties, recovered interest on delinquent loans and accretion of discount on called securities. The increasing yields on new loans and the repricing of variable rate loans had a positive NIM impact year-over-year.

Variable rate products represented approximately 78% of our new loans and 46% of our new investment securities during the quarter. Although under a free fed rate hike scenario, we expect NIM compression

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in 2019. We do have over $2 billion of loans repricing through 2021, allowing us to continue to manage future compression on net interest margin.

In the fourth quarter, $152 million of mortgage loans repriced up an average of 57 basis points. Also, approximately $450 million of forward swaps entered into in late 2017 have provided a benefit of a basis point to the quarter's net interest margin. These swaps are expected to increasingly benefit our net interest margin as rates rise.

We're pleased to report another quarter of strong loan closings. During fourth quarter '18, loan closings totaled $345 million, our highest quarterly production this year. Our loan portfolio yield increased 27 basis points from fourth quarter '17, representing a successful execution of our strategic objectives. Our stated focus of emphasizing rate over volume and reducing our liability-sensitive position has resulted in a net loan growth of over 3% from the linked quarter and over 7% for the full year.

Similar to the prior quarter, we allowed $15 million of participations with another financial institution to prepay as the rates offered through their refinancing process did not meet our criteria. Year-to-date, we have allowed approximately $154 million of participations to repay rather than refinance at a rate below our criteria.

Emphasizing rate over volume resulted in a 75 basis point increase in average loan yields on loan closings in fourth quarter '18 compared to those booked in fourth quarter '17 while the yield on loan closings increased 41 basis points from the linked quarter. The increase in new loan volume and yields, combined with the repricing of adjustable rate loans, resulted in a 9 basis point increase in the yield of total loans to $438 million in fourth quarter '18 from $429 million in third quarter '18, excluding prepayment penalty income and recovered interest.

Over the past year, C&I loans, which are primarily adjustable rate loans, have represented 38% of new loan closings. In addition, the loan pipeline totaling $197 million has an average yield of 5.12% compared to $355 million at 4.68% in the linked quarter, adding to yield improvement on the asset side of the balance sheet.

We have progressed in our goal of achieving a loan-to-deposit ratio closer to 100% through deposit growth. At December 31, 2018, the loan-to-deposit ratio improved to 112% from 114% due to total deposits increasing $258 million from the linked quarter or 6% non-annualized while retail deposits increased $105 million during the same period.

A prominent feature in the growth of retail deposits in the Win -- is the Win Flushing program, which focuses on increasing our deposit market share in the Asian community in Flushing, Queens. Flushing Bank has a long-standing relationship with the Asian community, beginning with our roots in Flushing, New York. Our employees speak over 20 languages, with Cantonese and Mandarin being prevalent in the Chinese markets we serve. Through the fourth quarter, we have captured over $143 million in deposit growth through this program and remain on pace to achieve the target of $160 million in deposits by the end of the first quarter '19.

Central to the Win Flushing program has been the conversion of Flushing branches to the new Universal Banker model, permitting staff to spend more time with customers. As of year-end, we have 15 branches operating under the Universal Banker model. In the branches that have been converted, we've experienced an increase of over 120% in transactions processed at ATMs to almost 60% of all branch transactions, thereby reducing our customers' reliance on tellers and, more importantly, an increase of over 30% in total branch sales as sales per employee increased approximately 50% due to our branch staff focusing more time on sales opportunities. As previously discussed, we expect to have the remaining branches converted to the Universal Banker model by the end of 2019.

We also opened up a new branch in Chinatown, New York on December 17. Our new Chinatown location continues the planned expansion of a highly efficient Universal Banker model and leverages this long-standing relationship with the Asian community. This customer-centric model encourages customer engagement by combining innovative technology with a full service staff.

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We have been actively managing our noninterest expenses. These expenses decreased 5% from the previous quarter and were flat from the fourth quarter of 2017. In comparison to 2017, noninterest expenses increased a mere 4% for the full year.

Our credit quality remains pristine. At the end of the fourth quarter, nonperforming loans were just 29 basis points of gross loans and nonperforming assets were only 24 basis points of total assets.

Slide 4 shows GAAP EPS was $1.92, up 36% year-over-year, while we achieved record core EPS of $1.94, up 24% year-over-year. In 2018, we had record loan originations of $1.3 billion. Net loans were up 7% year-over-year while total deposits were up 13%.

Now referring 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 sustainable competitive advantages include our ongoing focus on developing and maintaining a multilingual branch staff to serve our diverse customers in the New York City market area. The Asian banking market surrounding our branches has attractive business dynamics, including a high degree of savings, available deposits and a significant number of small business owners. We have a strong focus on this community where we have over $600 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 with long-term value to our shareholders as we continue to execute on our strategic objectives, summarized on Slide 6: managed cost of funds and continue to improve funding mix; increased interest income by leveraging loan pricing opportunities and portfolio mix; enhance core earnings power by improving scalability and efficiency; manage credit risk; and to remain well capitalized under all stress test scenarios.

During the fourth quarter, we repurchased over 42,000 treasury shares at an average cost of $22.27 per share. And as of December 31, 2018, approximately 467,000 shares remain under the current authorized stock repurchase program, which has no expiration or maximum dollar limit. Overall, we remain well capitalized, and our focus on strategic objectives enables us to further deliver profitable growth and long-term value to our shareholders.

Now I'll turn it 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 $5.5 billion, up more than 3% quarter-over-quarter and 7% year-over-year as we continue to focus on the origination of multifamily, commercial real estate and commercial business loans with a full banking relationship. These originations totaled 87% of loan production for the fourth quarter. We continue to diversify our loan portfolio as C&I originations for the quarter were 34% of total originations and 38% over the past year. For the first time, business loan closings exceeded multifamily closings for the year and for the quarter.

Commercial business balances have grown to 18% this year, approximately 16% of gross loans as of December 31, 2018. The growth from the C&I portfolio offers several advantages to the company, primarily continued diversification of the loan portfolio. And as these are primarily adjustable rate loans, the yield offers more protection in a rising rate environment.

At December 31, our loan pipeline totaled $197 million, which is down from last quarter. The composition of the pipeline was 68% adjustable rate product and 32% fixed rate. The interest rate on the mortgage loans in the pipeline increased from last quarter to 5.12%.

Loan-to-value on our real estate portfolio at quarter-end remains a modest 39%, and the debt-to-service coverage ratio on the current quarter's originations of multifamily, commercial real estate and 1-to-4 family mixed-use loans is 164%. We underwrite and stress test each individual loan using a cap rate in excess of the mid-5s.

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Slide 8 highlights the evolution of our funding mix. As funding has grown over the years, the percentage related to CDs and borrowings has decreased. When the need arises to access the wholesale funding markets, we can advantageously ladder up the liabilities for longer terms. Core deposits increased 8% quarter-over-quarter and 12% year-over-year, totaling 68% of all deposits at December 31 compared to 37% at December 31, 2006.

On Slide 9, you'll see that deposits increased almost 6% quarter-over-quarter and 13% year-over-year. Growth is primarily driven by money market, CDs and noninterest-bearing accounts. We continue to focus on the growth of core deposits with an emphasis on the noninterest-bearing deposits, which increased 7% year-over-year. Noninterest-bearing deposits of nearly $414 million represent 8% of total deposits. We continue to see great pressure with increased competition for deposits. The quarterly cost of funds increased 12 basis points from the prior quarter. We remain disciplined in terms of deposit pricing while remaining competitive within our market.

Turning to Slide 10. Net interest income for the fourth quarter of 2018 was about $41 million, down modestly quarter-over-quarter and year-over-year. Net interest margin at 2.55% decreased 16 basis points quarter-over-quarter and 35 basis points year-over-year. Excluding prepayment penalty income and recovered interest from delinquent loans, core net interest margin would have been 2.48%, a decline of 3 basis points quarter-over-quarter and 29 basis points year-over-year. We expect continued margin pressure through 2019.

As John noted in his remarks, we have over $2 billion of loans repricing through 2021. And during the fourth quarter, $152 million in mortgage loans were repriced up an average of 57 basis points. Our overall cost of funds for the quarter is 1.75%, an increase of 12 basis points quarter-over-quarter and 58 basis points year-over-year.

In order to partially mitigate margin pressure, we have taken the following steps, which are summarized on Slide 11. Focus on yield versus volume. For the sixth consecutive quarter, the yield on loan originations have exceeded the quarterly yield on the loan portfolio, net of prepayment penalties and recovered interest from delinquent loans.

We've entered into forward swaps totaling approximately $450 million, of which approximately $350 million has been funded as of December 31, 2018. The forward swaps provide a benefit of 1 basis point in the current quarter's net interest margin, and we project these swaps will enhance our earnings as rates continue to rise.

Loan origination yields have increased 41 basis points from the third quarter of 2018. We have $2 billion of loans repricing from the low to mid 4 handle to a mid to high 5 handle. Originations of commercial business loans, which are primarily adjustable, totaled 34% of the current quarter's originations and now comprise 16% of the loan portfolio.

Additionally, we sold $120 million securities, yielding 2.4%, and purchased $113 million of securities, yielding 3.7%. We anticipate this transaction to aid our net interest margin and earnings per share and to break even in approximately 2 years.

We actively manage funding costs and continue to evaluate strategies to mitigate our liability-sensitive balance sheet. While net interest margin will likely remain pressured, we continue to focus on driving net interest income by executing our mitigation strategies against cost of fund increases, coupled with leveraging loan pricing opportunities and portfolio mix.

Moving to Slide 12. 2018 annual expenses increased approximately 4% as anticipated, from 2017, driven by growth of the bank. For the fourth quarter, the noninterest expense is $25.8 million, a decrease of 5% quarter-over-quarter due to the lower BOLI split dollar life insurance expense. Excluding the reduction of the split dollar insurance expense, noninterest expense was $26.4 million, a decrease of nearly 3% quarter-over-quarter but still an increase of 4% year-over-year.

The efficiency ratio is below 59% in the fourth quarter of 2018 compared to 61% in the third quarter of 2018 and 55% in the fourth quarter of 2017. Our long-term goal remains achieving an efficiency ratio in

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the low to mid-50s. We are focused on continuous improvement and new opportunities in our operations for efficiency gains.

Regarding taxes, the effective tax rate was just under 8% in the fourth quarter of 2018, benefiting from the release of previously accrued tax liability. Excluding the release of the tax liability, the effective tax rate was approximately 21% in the fourth quarter. For 2019, we approximate an effective tax rate between 19% and 23%.

Now turning to credit quality on Slide 13. Our credit metrics remain excellent this quarter. As a reminder, we are a historical seller of nonperforming credits and record charge-offs early in the delinquency process. Our improving credit quality metrics result in our coverage ratio increasing to 129% from 112% as of December 31, 2017. In the fourth quarter, we recorded provision of $400,000.

The average loan-to-value of our nonperforming real estate loans was approximately 35% based upon the value of the underlying collateral at origination, and we do 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 to related expenses. Looking forward, with expected loan growth, we anticipate recording provision for loan losses in proportion with that growth in future quarters to maintain an adequate reserve.

On Slide 14, nonperforming loans were about $16 million, up from under $13 million in the prior quarter due to 4 nonaccrual delinquent business banking loans. Positively, nonperforming loans still declined 10% year-over-year as credit quality remains one of our core strengths. We reported net recoveries of $214,000 for the fourth quarter of 2018, reflecting our conservative underwriting and diligence in the collection process. For the annual period, we recorded net recoveries of approximately $20,000.

Slide 15 shows 90-day delinquencies as a percentage of loans originated by year. Here, you can see the results of our strong underwriting discipline as there are only 6 loans delinquent greater than 90 days for the last 9 vintage years. Overall, our credit quality remains pristine.

I'll 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 believe we are well positioned for continued consistent and profitable growth.

We articulated our strategic objective to focus on yield rather than volume in the loan portfolio. The yield on our new loan originations for the fourth quarter of 2018 increased 41 basis points from the third quarter of 2018 and 75 basis points from the fourth quarter of 2017.

We have targeted reducing the loan-to-deposit ratio through deposit growth. The increase in the deposit balances, especially in the retail sector, resulted in an improvement of the loan-to-deposit ratio of 6% to 112% from 118%.

Disciplined loan growth is an important goal of the company. Loan closings in the fourth quarter of 2018 were a record for us. We previously projected loan growth in the high single digits with actual growth at over 7% for the year.

We have talked about controlling net interest margin pressure. The core net interest margin decreased 3 basis points from the core net interest margin recorded in the third quarter of 2018. We've taken steps to mitigate the NIM compression and, in this quarter, repositioned the investment portfolio to further aid in mitigating future compression.

We have contained noninterest expenses in this low rate environment. Expenses decreased in the fourth quarter of 2018 as compared to the third quarter of 2018 and the fourth quarter of 2017 while only increasing a mere 4% from full year 2017.

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The Win Flushing program, established to increase our market share in our home market, has been very successful as we've gathered to date $143 million in new deposits as compared to our target of $160 million by year-end -- by end -- the end of first quarter '19.

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 sales increasing over 30% in total and approximately 50% per branch employee.

Our vision is to be the preeminent community financial services company in our multicultural market by exceeding customer expectations and leveraging our strong banking relationships. The New York City market with its strong Asian customer base continues to represent a significant opportunity for us.

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

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Question and Answer

Operator

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

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

Susan, first question, the first quarter is always a little unusual with those competition items for board fees and such. They come in. Could you help us think about what the dollars might -- dollar numbers for expenses might look like in the first quarter?

Susan K. Cullen
Senior EVP, Treasurer & CFO

I would expect the dollars in the first quarter to be up between $2.5 million and $3 million, $3.5 million, somewhere in that ballpark.

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

Okay. And then secondly, I heard what you said on the tax rate, 19% to 23%, which is a pretty big range. What would cause it to be sort of 19% versus 23%? What are the main things that you're still not sure about?

Susan K. Cullen
Senior EVP, Treasurer & CFO

It'd be the allocation. When we finalize our tax return for 2018, then the allocations may change. That may tweak that rate a little bit.

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

Okay, got you. So -- all right. And then next I'm curious where are you guys -- how you're thinking about your targeted tangible common equity ratio or regulatory capital ratios? What are you kind of managing to?

John R. Buran
President, CEO & Director

So we stress test these on a regular basis, and we manage it so that we feel we have an adequate level of free capital in order to complete our strategic plan.

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

Okay. And you feel like you have plenty today?

John R. Buran
President, CEO & Director

Yes, we feel we're in good shape today.

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

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Okay. I just -- what I was curious about, John, is would it make sense maybe to slow the balance sheet growth, given some of the NIM challenges that you have, and divert some of that capital toward stock repurchases, given how inexpensive the stock price is today?

John R. Buran
President, CEO & Director

So obviously, the preference of the company has always been to create new customers, and that's always our emphasis. What we're -- what we've been trying to do with the loan portfolio, in spite of the fact that we had nice loan growth, is focus on yield versus volume. And obviously, it had some positive impact there. So I would say our first priority continues to be creating new customers, creating new customers particularly that are coming to us through non-brokered channels. That group of customers is increasing not only in the C&I business, which is basically a direct-to-customer business, but also a greater and greater proportion of the real estate business, our traditional real estate business, is coming based upon some direct business we're doing. So while I think there's -- there clearly is some value on stock repurchase, I do believe we have an opportunity to gather more customers. And we're seeing more in terms of results, both on the deposit side and on the loan side, than we've ever had before. And I think they're franchise value-building results, so we'd like to keep that preference in place.

Operator

Our next question comes from Steve Comery with G. Research.

Steven Comery
G. Research, LLC

I just want to ask, first, about the loan growth. Really strong across a bunch of different categories, especially non-multifamily, commercial real estate and good improvement in yields there, too. Is there anything different you guys are seeing competitively or you're just getting wins in your sales team?

John R. Buran
President, CEO & Director

Competition, obviously, in the real estate area has continued to be strong, driving pressure on -- in the multifamily space, for sure. So given that we've had -- we have the capabilities in place for a number of years to move into a more commercial business, we've been doing that. And we're -- we continue to be focused on building relationships over time. So that has driven our, let's say, pivot away from more transactional business and into more relationship-based business. Competition remains fairly intense across-the-board. Again, multifamily, in particular, has been highly competitive, but we're clearly holding our own. And we see some opportunities based upon our capabilities to go direct to the customer in our real estate business and also to continue to grow our C&I business.

Steven Comery
G. Research, LLC

Okay, okay, very good. And then I kind of want to ask about the seasonal deposit move we typically see in Q1 and the NOW accounts. First, is that something we should be anticipating for Q1 2019? And I'm also kind of wondering how that sort of seasonal move fits into the goal of the loan-to-deposit ratio closer to 100%.

John R. Buran
President, CEO & Director

So I guess -- let me take the latter half of your question. I -- while I think we would like to be closer to 100% as a loan-to-deposit ratio goal, that really is driven by our desire to just continue to build relationships and depository relationships going forward. So I would say the driving force is building long-term deposit relationships, not so much a particular number. And -- so if -- can you just repeat the first part of that question?

Steven Comery

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G. Research, LLC

Yes. Usually we see a seasonal uptick in NOW deposits. Just wonder if we should anticipate that in 2019.

John R. Buran
President, CEO & Director

Yes. I think we usually see a jump in those -- in our government deposits in January. It kind of starts to trail off a little bit by the end of the quarter. I think some of that trend is going to be mitigated somewhat by our new Chinatown branch, number one, and also our success in the Win Flushing program. So we may see generally the same trend but maybe not as intense.

Steven Comery
G. Research, LLC

Okay. And when you say mitigated, what you mean is that you'll have growth from the Chinatown branch and Win Flushing that'll mitigate...

John R. Buran
President, CEO & Director

Yes, exactly. We're expecting to actually, at least, hit that number of $160 million from the Win Flushing program by the end of the first quarter and possibly more, given the place that we're in now. And then clearly, the Chinatown branch, we do feel that we're going to get some very, very good results out of that branch as well. So we see those 2 factors mitigating some of the runoff, some of the seasonal runoff that takes place in the government portfolio.

Steven Comery
G. Research, LLC

Okay, okay, very good. And then just one more for me, if I may. You mentioned the efficiency ratio goal trying to get to low to mid-50s. Maybe you could just give us sort of like any indication on the time line and expectations there?

John R. Buran
President, CEO & Director

So I think realistically for us, that is somewhat revenue-dependent. So I think as we start to turn the corner on margin, which we don't expect, by the way, in 2019, that will be the kind of the icing on the cake for us, or the big move. Meanwhile, what we're continuing to do is improve the productivity out of our branch system so that we're both reducing expenses relative to the revenues that we increase.

Steven Comery
G. Research, LLC

Okay. So expect improvement in 2019 but not necessarily reaching that goal in 2019.

John R. Buran
President, CEO & Director

Correct.

Operator

Our next question comes from Collyn Gilbert with KBW.

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

Just wanted to circle back on the expense discussion. So Susan, I know you had indicated where you thought one quarter's expenses were going to go, but that's obviously, well, running at a lower run rate than what you guys have put up. What is the outlook kind of maybe for year-over-year expense growth,

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given some of the initiatives that you have? Do you think you can lower and keep expenses lower in '19 than where you put them in '18?

Susan K. Cullen
Senior EVP, Treasurer & CFO

We anticipate the expenses increasing in the low single digits, very similar to the total expense growth we had from '17 to '18.

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

Okay, okay. All right, that's helpful. And then just back to the NIM. Hearing your comments on expecting it to continue to compress, and John, you just indicated throughout '19. But can you quantify that a little bit more? I mean, in terms of when you're talking about compression, are you talking about the core NIM? Are you talking about reported NIM? And maybe just framing your thoughts there a little bit. And does that indicate to you that NII is going to continue to drop? Or are you going to try to hold -- you try to increase NII through the growth?

John R. Buran
President, CEO & Director

So we try and increase NII through growth. The core NIM is -- was down. We were focused on core NIM, obviously, because when you get more prepayment penalties, well that just puts you in a hole in the next quarter or the next period in terms of your -- in terms of NII. So we don't view that as a real strategy. It looks nice for one quarter, but you're going to deal with the lack of growth in the quarters going forward. So if you look at the net interest -- the core net interest margin for us, 3 basis points is probably the best that we've had all year. And we had a couple outlying quarters. Last quarter, for example, we had a big drop in core net interest margin. But it's in -- been in -- it's clearly been in the single digits, with 3 being the lowest in the -- 3 basis points being the lowest in the last year. So we think we're getting a little bit better between the loan yield growth and our ability to control some of the deposits. But at the end of the day, we're -- we are still a spread-based business, not going to make any major changes there. So the curve and the shape of the curve is going to be ultimately a deciding factor for us, particularly as it relates to loan pricing going forward.

Operator

Our next question comes from Brody Preston with Piper Jaffray.

Broderick Dyer Preston
Piper Jaffray Companies, Research Division

I just wanted to, I guess, maybe get a little clarity on the NIM guide. I want to understand, I guess, maybe your -- the rate dynamics you're expecting with regard to rate hikes this year within that guide.

John R. Buran
President, CEO & Director

So as I mentioned in the prepared remarks, we're thinking about -- we're thinking 3. If there's less than 3, we might be doing a little bit better. So that kind of gives you an idea there. But then again, it's a combination of not only rate hikes, but it's also the shape of the curve that is -- that's important to us since we do think we do -- that we -- vis-à-vis a more reasonably shaped curve, we have a significant opportunity on the loan side because we have, over the course of the last couple of years, put on more variable rate loans. So if you look at the repricing that we have on one of the sheets in our presentation, I'll get the page number for you in a second, but the $2 billion is weighted very, very much toward -- well, 50% of it to be exact, is in the first year. And that is really a result of the continued growth of our -- it is on Page 11 of the presentation, is our continued growth of the variable rate portion of our loan portfolio, which, of course, those variable rate loans move up with the market on a -- generally, on a 3-month basis. So -- or sometimes, even on a month basis. So we see a lot of leverage on that side. So the shape of the curve is critical to us.

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Broderick Dyer Preston
Piper Jaffray Companies, Research Division

Right. So -- but when I look at your -- at the repricing rate that you guys have laid out for those loans through 2021, it doesn't look like you're assuming much in the way of loan yield expansion for those rates. Is that a fair statement?

John R. Buran
President, CEO & Director

Well, '16, they're -- I think in 2019, we're talking, potentially, 80 basis points. In 2020...

Broderick Dyer Preston
Piper Jaffray Companies, Research Division

I mean, like the 5.62%, 5.71%, 5.72%. It doesn't look like you're -- like you've -- I understand the roll on, roll off. It is a pretty favorable delta. But I'm just speaking to the actual repricing rates on a year-by-year basis. It doesn't look like you've assumed much in the way of a benefit from further rate hikes or curves steepening.

John R. Buran
President, CEO & Director

Well, again, we're projecting those 3 rate increases in -- we're projecting those 3 rate increases this year and really not much change in the out-years.

Susan K. Cullen
Senior EVP, Treasurer & CFO

This -- Brody, this table is put together with the interest dynamics we had at 12/31. So obviously, if there are rate increases, et cetera, throughout the year, these numbers will change.

Broderick Dyer Preston
Piper Jaffray Companies, Research Division

Okay, okay. I guess, ultimately, since we don't have time to drive that is if the fed is on pause and we get no rate hikes this year, I mean, I get that the deposit beta is probably going to continue to move higher, just given the lag that happens with funding costs moving higher. But if that occurs, could you start to see -- given the fact that you still do have a decent amount of CRE and multifamily on the book, with the lower deposit beta moving forward, could we start to see some NIM stabilization by year-end?

Susan K. Cullen
Senior EVP, Treasurer & CFO

Yes, if the scenario you laid out is right. We believe that the deposit beta will slow down if there are no rate increases. The repricing on the loans still have contractual increases, given the higher rate environment that we had a few years -- 5 years ago when these loans were written. So we would expect to see either stabilization or expansion with no rate increases.

Broderick Dyer Preston
Piper Jaffray Companies, Research Division

Okay, great. And then I guess maybe on the swaps that you guys have layered on. At what -- I guess in what interest rate scenario do those become, I guess, harmful to the NIM? Is it just rate decreases? Or is there a threshold that you need to reach to see those start to negatively impact the NIM?

Susan K. Cullen
Senior EVP, Treasurer & CFO

It would be -- in a decreasing rate environment, those would become harmful to the company.

Broderick Dyer Preston

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Piper Jaffray Companies, Research Division

Okay. And then maybe just sticking with the NIM for one more question. On the securities that you sold out of, it was the $120 million, and then you moved them into about $113 million more in a higher yield interest rate. Just wanted to get a sense for what the spread between the yields in those new securities versus the old securities was.

Susan K. Cullen
Senior EVP, Treasurer & CFO

It was about -- in the prepared remarks on the press release, I believe it's about 100 basis points, as I recall. I'd say it went from about 2.40% to a 3.40%, and we bought mostly floating rate securities with the new funds.

Broderick Dyer Preston
Piper Jaffray Companies, Research Division

Okay, all right. And then I guess just wanted to go back to the branch strategy, the Universal Banker model. It seems like it's really working out well for you guys, and I wanted to better understand it. Does that -- is that driving increased transactions just with the retail customers? Or do the Universal Bankers help with commercial customers as well?

John R. Buran
President, CEO & Director

So we have -- the short answer is yes. So there is much more, let's say, substantive customer engagement taking place because we don't have the -- we don't have to have staff against transaction volumes. So the quality of the interactions with the customers are better, leading to more sales opportunities, whether it's consumer or commercial. And clearly, we're focused on the commercial business, so that's -- it's very, very helpful. In addition, we had put in place, a number of years ago, a business development team that is associated with the branch network that is focused on continuing to develop commercial relationships. And then we also have a team that works the -- our traditional commercial real estate portfolio to deepen relationships there. So we've got 3 different areas operating. And the -- clearly, the most recent one we've seen a significant improvement is the branch network where we have more substantive discussions and, clearly, much more sales.

Susan K. Cullen
Senior EVP, Treasurer & CFO

Brody, I'd like to go back to your investments for a second. We do disclose in the press release that we sold securities with an average yield of 2.41% and reinvested securities with an average yield of 3.70%, so it's about 130 basis points. And again, those were reinvested into floating rate securities.

Broderick Dyer Preston
Piper Jaffray Companies, Research Division

Okay, great. I must have skimmed over that, okay. And so I guess I just wanted to touch more on your C&I growth. You guys have done a really good job there. And it seems like when I look at the noninterest-bearing account growth as well, it seems like it's at least self-funding a decent portion of it. I wanted to get a sense for like what that actual percentage is in terms of, I guess, the loan-to-deposit ratio on an incremental C&I relationship.

John R. Buran
President, CEO & Director

We really don't have -- we don't have that information available. We haven't released this. We really haven't put it out publicly. I mean, we have the information available. We just haven't discussed it publicly. But let me give you some guidance on it. Every C&I loan has a minimum of a 10% compensating balance requirement. And then usually, in the C&I portfolio, in order to pay for services like, for example, remote

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capture or other cash management-type services, companies usually add additional noninterest-bearing deposits in order to cover the cost of those services on a compensating balance basis.

Broderick Dyer Preston
Piper Jaffray Companies, Research Division

Okay. All right, that's good color. And then I guess are there any industries where you're having particular success within that C&I bucket in growing loans?

John R. Buran
President, CEO & Director

Professionals, in particular, where the loan requirement is less than the deposit opportunity, and we look to grow that portfolio more. Obviously, the more industrial companies, it kind of works the other way.

Broderick Dyer Preston
Piper Jaffray Companies, Research Division

Right. So that -- would that mean like you're talking about lawyers and accountants?

John R. Buran
President, CEO & Director

Right. Lawyers, accountants, other service -- the medical profession is another one.

Broderick Dyer Preston
Piper Jaffray Companies, Research Division

Okay, all right. And then I guess one more for me. Understand that the overall asset quality remains very good. I just wanted to touch on the 4 business banking loans. Are those concentrated within any specific industry? Or could you give a little more color on those loans?

John R. Buran
President, CEO & Director

No. They aren't concentrated in any specific industry. Let's see, if you look at -- there's $26 million of substandard loans, 1, 2, 3, 4, 5, 6, 7 individual loans, and all are paying as agreed with the exception of $1.5 million of exposure. So what we're dealing with here are predominantly...

Susan K. Cullen
Senior EVP, Treasurer & CFO

Covenant defaults.

John R. Buran
President, CEO & Director

Covenant defaults.

Susan K. Cullen
Senior EVP, Treasurer & CFO

And to be clear on the $1.5 million, the largest piece of that, that is not paying as agreed is a loan that's past its maturity. We're still receiving payments on it. But since we don't really have a renegotiated agreement, we're saying that is not paying as agreed, but it is paying.

Operator

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

John R. Buran
President, CEO & Director

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Well, thank you. Thank you all for joining the conference. I think just to wrap up very quickly, we're -- we continue to focus on these strategic initiatives that we've outlined within the presentation. I think we're seeing some success here, and we hope that we can continue to have these conferences.

And if anybody has any individual questions, you know where to find us. So thank you again.

Susan K. Cullen
Senior EVP, Treasurer & CFO

Thank you.

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

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