FLUSHING FINANCIAL CORP
Form 10-K
March 01, 2019

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF

THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2018

Commission file number **001-33013**

FLUSHING FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	**11-3209278**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

220 RXR Plaza, Uniondale, New York 11556

(Address of principal executive offices)

(718) 961-5400

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of exchange on which registered
Common Stock $0.01 par value (and associated Preferred Stock Purchase Rights)	**NASDAQ Global Select Market**

Securities registered pursuant to Section 12(g) of the Act: **None**.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in rule 405 of the Securities Act. ___ Yes X No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. ___ Yes X No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. X Yes ___ No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). X Yes ___ No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer", "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Accelerated filer __

Large accelerated filer X

Smaller reporting company __

Non-accelerated filer ___

Emerging growth company __

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. __

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). ___ Yes X No

As of June 29, 2018, the last business day of the registrant's most recently completed second fiscal quarter; the aggregate market value of the voting stock held by non-affiliates of the registrant was $704,607,000. This figure is based on the closing price on that date on the NASDAQ Global Select Market for a share of the registrant's Common Stock, $0.01 par value, which was $26.10.

The number of shares of the registrant's Common Stock outstanding as of February 28, 2019 was 28,187,184 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Company's definitive Proxy Statement for the Annual Meeting of Stockholders to be held on May 29, 2019 are incorporated herein by reference in Part III.

TABLE OF CONTENTS

CAUTIONARY NOTE REGARDING FORWARD LOOKING STATEMENTS

Statements contained in this Annual Report on Form 10-K (this "Annual Report") relating to plans, strategies, economic performance and trends, projections of results of specific activities or investments and other statements that are not descriptions of historical facts may be forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking information is inherently subject to risks and uncertainties, and actual results could differ materially from those currently anticipated due to a number of factors, which include, but are not limited to, factors discussed under the captions "Business — General — Allowance for Loan Losses" and "Business — General — Market Area and Competition" in Item 1 below, "Risk Factors" in Item 1A below, in "Management's Discussion and Analysis of Financial Condition and Results of Operations – Overview" in Item 7 below, and elsewhere in this Annual Report and in other documents filed by the Company with the Securities and Exchange Commission from time to time. Forward-looking statements may be identified by terms such as "may," "will," "should," "could," "expects," "plans," "intends," "anticipates," "believes," "estimates," "predicts,", "go "potential" or "continue" or similar terms or the negative of these terms. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. We have no obligation to update these forward-looking statements.

PART I

As used in this Report, the words "we," "us," "our" and the "Company" are used to refer to Flushing Financial Corporation (the "Holding Company") and its direct and indirect wholly owned subsidiaries, Flushing Bank (the "Bank"), Flushing Preferred Funding Corporation, Flushing Service Corporation, and FSB Properties Inc.

Item 1. Business.

GENERAL

Overview

The Holding Company is a Delaware corporation organized in 1994. The Bank was organized in 1929 as a New York State-chartered mutual savings bank. Today the Bank operates as a full-service New York State commercial bank. Our primary business is the operation of the Bank. The Bank owns three subsidiaries: Flushing Preferred Funding Corporation, Flushing Service Corporation, and FSB Properties Inc. The Bank also operates an internet branch (the "Internet Branch"), which operates under the brands of iGObanking.com® and BankPurely®. The activities of the

Holding Company are primarily funded by dividends, if any, received from the Bank, issuances of subordinated debt and junior subordinated debt, and issuances of equity securities. The Holding Company's common stock is traded on the NASDAQ Global Select Market under the symbol "FFIC."

The Holding Company also owns Flushing Financial Capital Trust II, Flushing Financial Capital Trust III, and Flushing Financial Capital Trust IV (the "Trusts"), which are special purpose business trusts formed to issue a total of $60.0 million of capital securities and $1.9 million of common securities (which are the only voting securities). The Holding Company owns 100% of the common securities of the Trusts. The Trusts used the proceeds from the issuance of these securities to purchase junior subordinated debentures from the Holding Company. The Trusts are not included in our consolidated financial statements as we would not absorb the losses of the Trusts if losses were to occur.

Unless otherwise disclosed, the information presented in this Annual Report reflects the financial condition and results of operations of the Company. Management views the Company as operating a single unit – a community bank. Therefore, segment information is not provided. At December 31, 2018, the Company had total assets of $6.8 billion, deposits of $5.0 billion and stockholders' equity of $549.5 million.

Our principal business is attracting retail deposits from the general public and investing those deposits together with funds generated from ongoing operations and borrowings, primarily in (1) originations and purchases of multi-family residential properties, commercial business loans, commercial real estate mortgage loans and, to a lesser extent, one-to-four family (focusing on mixed-use properties, which are properties that contain both residential dwelling units and commercial units); (2) construction loans; (3) Small Business Administration ("SBA") loans; (4) mortgage loan surrogates such as mortgage-backed securities; and (5) U.S. government securities, corporate fixed-income securities and other marketable securities. We also originate certain other consumer loans including overdraft lines of credit. At December 31, 2018, we had gross loans outstanding of $5,536.3 million (before the allowance for loan losses and net deferred costs), with gross mortgage loans totaling $4,638.8 million, or 83.8% of gross loans, and non-mortgage loans totaling $897.5 million, or 16.2% of gross loans. Mortgage loans are primarily multi-family, commercial and one-to-four family mixed-use properties, which totaled 79.3% of gross loans. Our revenues are derived principally from interest on our mortgage and other loans and mortgage-backed securities portfolio, and interest and dividends on other investments in our securities portfolio. Our primary sources of funds are deposits, Federal Home Loan Bank of New York ("FHLB-NY") borrowings, principal and interest payments on loans, mortgage-backed, other securities and to a lesser extent proceeds from sales of securities and loans. The Bank's primary regulator is the New York State Department of Financial Services ("NYDFS"), and its primary federal regulator is the Federal Deposit Insurance Corporation ("FDIC"). Deposits are insured to the maximum allowable amount by the FDIC. Additionally, the Bank is a member of the Federal Home Loan Bank ("FHLB") system.

Our operating results are significantly affected by national and local economic conditions, including the strength of the local economy. According to the New York Department of Labor, the unemployment rate for the New York City region improved to 4.0% at December 2018 from 4.3% at December 2017. In this economic environment, we continued to experience improvements in our non-performing loans. Non-performing loans totaled $16.3 million, $18.1 million and $21.4 million at December 31, 2018, 2017 and 2016, respectively. We had net recoveries of impaired loans in 2018 totaling $19,000 compared to net charge-offs of $11.7 million for the year ended December 31, 2017 and net recoveries of $0.7 million for the year ended December 31, 2016. Our operating results are also affected by extensions, renewals, modifications and restructuring of loans in our loan portfolio. All extensions, renewals, restructurings and modifications must be approved by either the Board of Directors of the Bank (the "Bank Board of Directors") or its Loan Committee (the "Loan Committee").

We obtain a reappraisal by an independent third party when a loan becomes twelve months delinquent. We generally obtain such a reappraisal for loans over 90 days delinquent when the outstanding loan balance is at least $1.0 million. We also obtain such a reappraisal when our internal valuation of a property indicates there has been a decline in value below the outstanding balance of the loan, or when a property inspection has indicated significant deterioration in the condition of the property. Such an internal valuation is prepared for a loan over 90 days delinquent.

Market Area and Competition

We are a community oriented financial institution offering a wide variety of financial services to meet the needs of the communities we serve. The Bank's main office is in Uniondale, New York, located in Nassau County. At December 31, 2018, the Bank operated 19 full-service offices and the Internet Branch. We have offices located in the New York City Boroughs of Queens, Brooklyn, and Manhattan, and in Nassau County, New York. We also maintain our executive offices in Uniondale in Nassau County, New York. Substantially all of our mortgage loans are secured by properties located in the New York City metropolitan area.

We face intense competition both in making loans and in attracting deposits. Competition for loans in our market is primarily based on the types of loans offered and the related terms for these loans, including fixed-rate versus adjustable-rate loans and the interest rate on the loan. For adjustable rate loans, competition is also based on the repricing period, the index to which the rate is referenced, and the spread over the index rate. Also, competition is influenced by the ability of a financial institution to respond to customer requests and to provide the borrower with a timely decision to approve or deny the loan application.

Our market area has a high density of financial institutions, many of which have greater financial resources, name recognition and market presence, and all of which are competitors to varying degrees. Particularly intense competition exists for deposits, as we compete with 114 banks and thrifts in the counties in which we have branch locations. Our market share of deposits, as of June 30, 2018, in these counties was approximately 0.35% of the total deposits of these

FDIC insured competing financial institutions, and we are the 25th largest financial institution.[1] In addition, we compete with credit unions, the stock market and mutual funds for customers' funds. Competition for deposits in our market and for national brokered deposits is primarily based on the types of deposits offered and rate paid on the deposits. Particularly intense competition also exists in all of the lending activities we emphasize. In addition to the financial institutions mentioned above, we compete against mortgage banks and insurance companies located both within our market and available on the internet. Competition for loans in our market is primarily based on the types of loans offered and the related terms for these loans, including fixed-rate versus adjustable-rate loans and the interest rate on the loan. For adjustable rate loans, competition is also based on the repricing period, the index to which the rate is referenced, and the spread over the index rate. Also, competition is influenced by the ability of a financial institution to respond to customer requests and to provide the borrower with a timely decision to approve or deny the loan application. The internet banking arena also has many larger financial institutions which have greater financial resources, name recognition and market presence. Our future earnings prospects will be affected by our ability to compete effectively with other financial institutions and to implement our business strategies. Our strategy for attracting deposits includes using various marketing techniques, delivering enhanced technology and customer friendly banking services, and focusing on the unique personal and small business banking needs of the multi-ethnic communities we serve. Our strategy for attracting new loans is primarily dependent on providing timely response to applicants and maintaining a network of quality brokers. See "Risk Factors – The Markets in Which We Operate Are Highly Competitive" included in Item 1A of this Annual Report.

---

[1] Per June 2018 FDIC Summary of Deposits for the New York State Counties of New York, Kings, Queens and Nassau.

For a discussion of our business strategies, see "Management's Discussion and Analysis of Financial Condition and Results of Operations — Overview — Management Strategy" included in Item 7 of this Annual Report.

Lending Activities

Loan Portfolio Composition. Our loan portfolio consists primarily of mortgage loans secured by multi-family residential, commercial real estate, one-to-four family mixed-use property, one-to-four family residential property, and commercial business loans. In addition, we also offer construction loans, SBA loans and other consumer loans. Substantially all of our mortgage loans are secured by properties located within our market area. At December 31, 2018, we had gross loans outstanding of $5,536.3 million (before the allowance for loan losses and net deferred costs).

We have focused our loan origination efforts on multi-family residential mortgage loans, commercial real estate and commercial business loans with full banking relationships. All of these loan types generally have higher yields than one-to-four family residential properties, and include prepayment penalties that we collect if the loans pay in full prior to the contractual maturity. We expect to continue this emphasis through marketing and by maintaining competitive interest rates and origination fees. Our marketing efforts include frequent contact with mortgage brokers and other professionals who serve as referral sources.

Fully underwritten one-to-four family residential mortgage loans generally are considered by the banking industry to have less risk than other types of loans. Multi-family residential, commercial real estate and one-to-four family mixed-use property mortgage loans generally have higher yields than one-to-four family residential property mortgage loans and shorter terms to maturity, but typically involve higher principal amounts and may expose the lender to a greater risk of credit loss than one-to-four family residential property mortgage loans. The greater risk associated with multi-family residential, commercial real estate and one-to-four family mixed-use property mortgage loans could require us to increase our provisions for loan losses and to maintain an allowance for loan losses as a percentage of total loans in excess of the allowance we currently maintain. We continually review the composition of our mortgage loan portfolio to manage the risk in the portfolio. See "General – Overview" in this Item 1 of this Annual Report.

Our loan portfolio consists of adjustable rate mortgage ("ARM") loans and fixed-rate mortgage loans. Interest rates we charge on loans are affected primarily by the demand for such loans, the supply of money available for lending purposes, the rate offered by our competitors and the creditworthiness of the borrower. Many of those factors are, in turn, affected by local and national economic conditions, and the fiscal, monetary and tax policies of the federal, state and local governments.

In general, consumers show a preference for ARM loans in periods of high interest rates and for fixed-rate loans when interest rates are low. In periods of declining interest rates, we may experience refinancing activity in ARM loans, as borrowers show a preference to lock-in the lower rates available on fixed-rate loans. In the case of ARM loans we originated, volume and adjustment periods are affected by the interest rates and other market factors as discussed above as well as consumer preferences. We have not in the past, nor do we currently, originate ARM loans that provide for negative amortization.

The majority of our commercial business loans are generated by the Company's business banking group which focuses on loan and deposit relationships to businesses located within our market area. These loans are generally personally guaranteed by the owners, and may be secured by the assets of the business, which at times may include real estate. The interest rate on these loans is generally an adjustable rate based on a published index. These loans, while providing us a higher rate of return, also present a higher level of risk. The greater risk associated with commercial business loans could require us to increase our provision for loan losses, and to maintain an allowance for loan losses as a percentage of total loans in excess of the allowance we currently maintain.

At times, we may purchase whole or participations in loans from banks, mortgage bankers and other financial institutions when the loans complement our loan portfolio strategy. Loans purchased must meet our underwriting standards when they were originated. Our lending activities are subject to federal and state laws and regulations. See "—Regulation."

The following table sets forth the composition of our loan portfolio at the dates indicated:

	At December 31, 2018		2017		2016		2015		2014
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total	Amount
	(Dollars in thousands)								
Mortgage Loans:									
Multi-family residential	$2,269,048	41.00 %	$2,273,595	44.08 %	$2,178,504	45.21 %	$2,055,228	46.98 %	$1,923,460
Commercial real estate	1,542,547	27.86	1,368,112	26.51	1,246,132	25.86	1,001,236	22.90	621,569
One-to-four family - mixed-use property	577,741	10.44	564,206	10.93	558,502	11.59	573,043	13.11	573,779
One-to-four family - residential (1)	190,350	3.44	180,663	3.50	185,767	3.85	187,838	4.30	187,572
Co-operative apartment (2)	8,498	0.15	6,895	0.13	7,418	0.15	8,285	0.19	9,835
Construction	50,600	0.91	8,479	0.16	11,495	0.24	7,284	0.17	5,286
Gross mortgage loans	4,638,784	83.80	4,401,950	85.31	4,187,818	86.90	3,832,914	87.65	3,321,501
Non-mortgage loans:									
Small Business Administration	15,210	0.27	18,479	0.36	15,198	0.32	12,194	0.28	7,134
Taxi medallion	4,539	0.08	6,834	0.13	18,996	0.39	20,881	0.48	22,519
Commercial business and other	877,763	15.85	732,973	14.20	597,122	12.39	506,622	11.59	447,500
Gross non-mortgage loans	897,512	16.20	758,286	14.69	631,316	13.10	539,697	12.35	477,153
Gross loans	5,536,296	100.00%	5,160,236	100.00%	4,819,134	100.00%	4,372,611	100.00%	3,798,654
Unearned loan fees and deferred costs, net	15,188		16,763		16,559		15,368		11,719
Less:									
Allowance for loan losses	(20,945)		(20,351)		(22,229)		(21,535)		(25,096
Loans, net	$5,530,539		$5,156,648		$4,813,464		$4,366,444		$3,785,277

(1) One-to-four family residential mortgage loans also include home equity and condominium loans. At December 31, 2018, gross home equity loans totaled $42.4 million and condominium loans totaled $24.6 million.

(2) Consists of loans secured by shares representing interests in individual co-operative units that are generally owner occupied.

The following table sets forth our loan originations (including the net effect of refinancing) and the changes in our portfolio of loans, including purchases, sales and principal reductions for the years indicated:

	For the years ended December 31,		
(In thousands)	2018	2017	2016
Mortgage Loans			
At beginning of year	$4,401,950	$4,187,818	$3,832,914
Mortgage loans originated:			
Multi-family residential	275,409	318,903	245,175
Commercial real estate	240,755	212,130	296,620
One-to-four family mixed-use property	73,471	65,247	62,735
One-to-four family residential	41,402	26,168	24,820
Co-operative apartment	2,448	332	470
Construction	36,155	7,847	15,772
Total mortgage loans originated	669,640	630,627	645,592
Mortgage loans purchased:			
Multi-family residential	64,323	54,609	126,022
Commercial real estate	30,030	25,927	26,101
One-to-four family mixed-use property	685	-	-
One-to-four family residential	1,258	-	-
Construction	3,440	-	-
Total mortgage loans purchased	99,736	80,536	152,123
Less:			
Principal reductions	523,064	445,561	434,587
Loans transferred to loans held for sale	-	30,565	-
Mortgage loan sales	8,737	19,993	7,259
Charge-offs	103	912	419
Loans transferred to ORE	638	-	-
Mortgage loan foreclosures	-	-	546
At end of year	$4,638,784	$4,401,950	$4,187,818
Non-mortgage loans			
At beginning of year	$758,286	$631,316	$539,697
Loans originated:			
Small Business Administration	3,843	11,559	8,447
Commercial business	280,704	198,476	290,444
Other	1,920	2,352	1,738

Total other loans originated	286,467	212,387	300,629
Non-mortgage loans purchased:			
Commercial business	194,948	115,920	34,594
Total non-mortgage loans purchased	194,948	115,920	34,594
Less:			
Non-mortgage loan sales	5,266	4,842	3,211
Principal reductions	336,094	184,935	239,653
Charge-offs	829	11,560	740
At end of year	$897,512	$758,286	$631,316

5

Loan Maturity and Repricing. The following table shows the maturity of our total loan portfolio at December 31, 2018. Scheduled repayments are shown in the maturity category in which the payments become due.

	Mortgage loans						Non-mortgage loans			
(In thousands)	Multi-family residential	Commercial real estate	One-to-four family mixed-use property	One-to-four family residential	Co-operative apartments	Construction	Small Business Administration	Taxi Medallion	Commercial business and other	Total loans
Amounts due within one year	$216,335	$211,655	$31,691	$6,640	$280	$12,387	$1,863	$4,130	$282,294	$767,275
Amounts due after one year:										
One to two years	199,705	164,159	31,212	6,803	287	7,171	1,235	409	156,305	567,286
Two to three years	197,466	149,992	31,584	6,939	299	4,160	1,193	-	132,809	524,442
Three to five years	196,149	145,514	32,262	7,186	309	4,427	1,196	-	103,373	490,416
Over five years	1,459,393	871,227	450,992	162,782	7,323	22,455	9,723	-	202,982	3,186,877
Total due after one year	2,052,713	1,330,892	546,050	183,710	8,218	38,213	13,347	409	595,469	4,769,021
Total amounts due	$2,269,048	$1,542,547	$577,741	$190,350	$8,498	$50,600	$15,210	$4,539	$877,763	$5,536,296
Sensitivity of loans to changes in interest rates - loans due after one year:										
Fixed rate loans	$291,845	$82,230	$118,968	$27,279	$1,215	$-	$2,208	$409	$259,291	$783,445
Adjustable rate loans	1,760,868	1,248,662	427,082	156,431	7,003	38,213	11,139	-	336,178	3,985,576
Total loans due after one year	$2,052,713	$1,330,892	$546,050	$183,710	$8,218	$38,213	$13,347	$409	$595,469	$4,769,021

6

Multi-Family Residential Lending. Loans secured by multi-family residential properties were $2,269.0 million, or 41.00% of gross loans at December 31, 2018. Our multi-family residential mortgage loans had an average principal balance of $1.0 million at December 31, 2018, and the largest multi-family residential mortgage loan held in our portfolio had a principal balance of $29.3 million. We offer both fixed-rate and adjustable-rate multi-family residential mortgage loans, with maturities of up to 30 years.

In underwriting multi-family residential mortgage loans, we review the expected net operating income generated by the real estate collateral securing the loan, the age and condition of the collateral, the financial resources and income level of the borrower and the borrower's experience in owning or managing similar properties. We typically require debt service coverage of at least 125% of the monthly loan payment. We generally originate these loans up to only 75% of the appraised value or the purchase price of the property, whichever is less. Any loan with a final loan-to-value ratio in excess of 75% must be approved by the Bank's Board of Directors or the Loan Committee as an exception to policy. We generally rely on the income generated by the property as the primary means by which the loan is repaid. However, personal guarantees may be obtained for additional security from these borrowers. We typically order an environmental report on our multi-family and commercial real estate loans.

Loans secured by multi-family residential property generally involve a greater degree of risk than residential mortgage loans and carry larger loan balances. The increased credit risk is the result of several factors, including the concentration of principal in a smaller number of loans and borrowers, the effects of general economic conditions on income producing properties and the increased difficulty in evaluating and monitoring these types of loans. Furthermore, the repayment of loans secured by multi-family residential property is typically dependent upon the successful operation of the related property, which is usually owned by a legal entity with the property being the entity's only asset. If the cash flow from the property is reduced, the borrower's ability to repay the loan may be impaired. If the borrower defaults, our only remedy may be to foreclose on the property, for which the market value may be less than the balance due on the related mortgage loan. Loans secured by multi-family residential property also may involve a greater degree of environmental risk. We seek to protect against this risk through obtaining an environmental report. See "—Asset Quality — Environmental Concerns Relating to Loans."

At December 31, 2018, $1,928.4 million, or 84.99%, of our multi-family mortgage loans consisted of ARM loans. We offer ARM loans with adjustment periods typically of five years and for terms of up to 30 years. Interest rates on ARM loans currently offered by us are adjusted at the beginning of each adjustment period based upon a fixed spread above the FHLB-NY corresponding Regular Advance Rate. From time to time, due to competitive forces, we may originate ARM loans at an initial rate lower than the fully indexed rate as a result of a discount on the spread for the initial adjustment period. Multi-family adjustable-rate mortgage loans generally are not subject to limitations on interest rate increases either on an adjustment period or aggregate basis over the life of the loan; however, the loans generally contain interest rate floors. We originated and purchased multi-family ARM loans totaling $281.8 million, $298.5 million and $330.6 million during 2018, 2017 and 2016, respectively.

At December 31, 2018, $340.6 million, or 15.01%, of our multi-family mortgage loans consisted of fixed rate loans. Our fixed-rate multi-family mortgage loans are generally originated for terms up to 15 years and are competitively priced based on market conditions and our cost of funds. We originated and purchased $57.9 million, $75.0 million and $40.6 million of fixed-rate multi-family mortgage loans in 2018, 2017 and 2016, respectively.

Commercial Real Estate Lending. Loans secured by commercial real estate were $1,542.5 million, or 27.86% of gross loans, at December 31, 2018. Our commercial real estate mortgage loans are secured by properties such as office buildings, hotels/motels, nursing homes, small business facilities, strip shopping centers and warehouses. At December 31, 2018, our commercial real estate mortgage loans had an average principal balance of $2.1 million and the largest of such loans, which is secured by a multi-tenant shopping center, had a principal balance of $40.3 million. Commercial real estate mortgage loans are generally originated in a range of $100,000 to $10.0 million.

In underwriting commercial real estate mortgage loans, we employ the same underwriting standards and procedures as are employed in underwriting multi-family residential mortgage loans.

Commercial real estate mortgage loans generally carry larger loan balances than residential mortgage loans and involve a greater degree of credit risk for the same reasons applicable to multi-family residential mortgage loans.

At December 31, 2018, $1,414.0 million, or 91.67%, of our commercial mortgage loans consisted of ARM loans. We offer ARM loans with adjustment periods of one to five years and generally for terms of up to 15 years. Interest rates on ARM loans currently offered by us are adjusted at the beginning of each adjustment period based upon a fixed spread above the FHLB-NY corresponding Regular Advance Rate. From time to time, we may originate ARM loans at an initial rate lower than the index as a result of a discount on the spread for the initial adjustment period. Commercial adjustable-rate mortgage loans generally are not subject to limitations on interest rate increases either on an adjustment period or aggregate basis over the life of the loan; however, the loans generally contain interest rate floors. We originated and purchased commercial ARM loans totaling $243.6 million, $219.6 million and $293.9 million during 2018, 2017 and 2016, respectively.

At December 31, 2018, $128.5 million, or 8.33%, of our commercial mortgage loans consisted of fixed-rate loans. Our fixed-rate commercial mortgage loans are generally originated for terms up to 20 years and are competitively priced based on market conditions and our cost of funds. We originated and purchased $27.2 million, $18.5 million and $28.8 million of fixed-rate commercial mortgage loans in 2018, 2017 and 2016, respectively.

One-to-Four Family Mortgage Lending – Mixed-Use Properties. We offer mortgage loans secured by one-to-four family mixed-use properties. These properties contain up to four residential dwelling units and include a commercial component. We offer both fixed-rate and adjustable-rate one-to-four family mixed-use property mortgage loans with maturities of up to 30 years and a general maximum loan amount of $1.0 million. One-to-four family mixed-use property mortgage loans were $577.7 million, or 10.44% of gross loans, at December 31, 2018.

In underwriting one-to-four family mixed-use property mortgage loans, we employ the same underwriting standards as are employed in underwriting multi-family residential mortgage loans.

At December 31, 2018, $444.7 million, or 76.97%, of our one-to-four family mixed-use property mortgage loans consisted of ARM loans. We offer adjustable-rate one-to-four family mixed-use property mortgage loans with adjustment periods typically of five years and for terms of up to 30 years. Interest rates on ARM loans currently offered by the Bank are adjusted at the beginning of each adjustment period based upon a fixed spread above the FHLB-NY corresponding Regular Advance Rate. From time to time, we may originate ARM loans at an initial rate lower than the index as a result of a discount on the spread for the initial adjustment period. One-to-four family mixed-use property adjustable-rate mortgage loans generally are not subject to limitations on interest rate increases either on an adjustment period or aggregate basis over the life of the loan; however, the loans generally contain interest rate floors. We originated and purchased one-to-four family mixed-use property ARM loans totaling $34.5 million, $47.9 million and $72.4 million during 2018, 2017 and 2016, respectively.

At December 31, 2018, $133.1 million, or 23.03%, of our one-to-four family mixed-use property mortgage loans consisted of fixed-rate loans. Our fixed-rate one-to-four family mixed-use property mortgage loans are originated for terms of up to 15 years and are competitively priced based on market conditions and the Bank’s cost of funds. We originated and purchased $39.7 million, $17.3 million and $15.6 million of fixed-rate one-to-four family mixed-use property mortgage loans in 2018, 2017 and 2016, respectively.

One-to-Four Family Mortgage Lending – Residential Properties. We offer mortgage loans secured by one-to-four family residential properties, including townhouses and condominium units. For purposes of the description contained in this section, one-to-four family residential mortgage loans, co-operative apartment loans and home equity loans are collectively referred to herein as “residential mortgage loans.” We offer both fixed-rate and adjustable-rate residential mortgage loans with maturities of up to 30 years and a general maximum loan amount of $1.0 million. Residential mortgage loans were $198.8 million, or 3.59% of gross loans, at December 31, 2018.

We generally originate residential mortgage loans in amounts up to 80% of the appraised value or the sale price, whichever is less. Private mortgage insurance is required whenever loan-to-value ratios exceed 80% of the appraised value of the property securing the loan.

At December 31, 2018, $168.1 million, or 84.53%, of our residential mortgage loans consisted of ARM loans. We offer ARM loans with adjustment periods of one, three, five, seven or ten years. Interest rates on ARM loans currently offered by us are adjusted at the beginning of each adjustment period based upon a fixed spread above the FHLB-NY corresponding Regular Advance Rate. From time to time, we may originate ARM loans at an initial rate lower than the index as a result of a discount on the spread for the initial adjustment period. ARM loans generally are subject to limitations on interest rate increases of 2% per adjustment period and an aggregate adjustment of 6% over the life of the loan and have interest rate floors. We originated and purchased residential ARM loans totaling $40.8 million, $24.4 million and $24.3 million during 2018, 2017 and 2016, respectively.

The retention of ARM loans in our portfolio helps us reduce our exposure to interest rate risks. However, in an environment of rapidly increasing interest rates, it is possible for the interest rate increase to exceed the maximum aggregate adjustment on one-to-four family residential ARM loans and negatively affect the spread between our interest income and our cost of funds.

ARM loans generally involve credit risks different from those inherent in fixed-rate loans, primarily because if interest rates rise, the underlying payments of the borrower rise, thereby increasing the potential for default. However, this potential risk is lessened by our policy of originating one-to-four family residential ARM loans with annual and lifetime interest rate caps that limit the increase of a borrower's monthly payment.

At December 31, 2018, $30.8 million, or 15.47%, of our residential mortgage loans consisted of fixed-rate loans. Our fixed-rate residential mortgage loans typically are originated for terms of 15 and 30 years and are competitively priced based on market conditions and our cost of funds. We originated and purchased $4.3 million, $2.1 million and $0.9 million in 15-year fixed-rate residential mortgages in 2018, 2017 and 2016, respectively. We did not originate or purchase any 30-year fixed-rate residential mortgages in 2018, 2017 and 2016.

At December 31, 2018, home equity loans totaled $42.4 million, or 0.77%, of gross loans. Home equity loans are included in our portfolio of residential mortgage loans. These loans are offered as adjustable-rate "home equity lines of credit" on which interest only is due for an initial term of 10 years and thereafter principal and interest payments sufficient to liquidate the loan are required for the remaining term, not to exceed 30 years. These adjustable "home equity lines of credit" may include a "floor" and/or a "ceiling" on the interest rate that we charge for these loans. These loans also may be offered as fully amortizing closed-end fixed-rate loans for terms up to 15 years. The majority of home equity loans originated are owner occupied one-to-four family residential properties and condominium units. To a lesser extent, home equity loans are also originated on one-to-four residential properties held for investment and second homes. All home equity loans are subject to an 80% loan-to-value ratio computed on the basis of the aggregate of the first mortgage loan amount outstanding and the proposed home equity loan. They are generally granted in amounts from $25,000 to $300,000.

Construction Loans. At December 31, 2018, construction loans totaled $50.6 million, or 0.91%, of gross loans. Our construction loans primarily are adjustable rate loans to finance the construction of one-to-four family residential properties, multi-family residential properties and owner-occupied commercial properties. We also, to a limited extent, finance the construction of commercial properties. Our policies provide that construction loans may be made in amounts up to 70% of the estimated value of the developed property and only if we obtain a first lien position on the underlying real estate. However, we generally limit construction loans to 60% of the estimated value of the developed property. In addition, we generally require personal guarantees on all construction loans. Construction loans are generally made with terms of two years or less. Advances are made as construction progresses and inspection warrants, subject to continued title searches to ensure that we maintain a first lien position. We made construction loans of $39.6 million, $7.8 million and $15.8 million during 2018, 2017 and 2016, respectively.

Construction loans involve a greater degree of risk than other loans because, among other things, the underwriting of such loans is based on an estimated value of the developed property, which can be difficult to ascertain in light of uncertainties inherent in such estimations. In addition, construction lending entails the risk that the project may not be completed due to cost overruns or changes in market conditions.

Small Business Administration Lending. At December 31, 2018, SBA loans totaled $15.2 million, representing 0.27%, of gross loans. These loans are extended to small businesses and are guaranteed by the SBA up to a maximum of 85% of the loan balance for loans with balances of $150,000 or less, and to a maximum of 75% of the loan balance for loans with balances greater than $150,000. We also provide term loans and lines of credit up to $350,000 under the SBA Express Program, on which the SBA provides a 50% guaranty. The maximum loan size under the SBA guarantee program is $5.0 million, with a maximum loan guarantee of $3.75 million. All SBA loans are underwritten in accordance with SBA Standard Operating Procedures which requires collateral and the personal guarantee of the owners with more than 20% ownership from SBA borrowers. Typically, SBA loans are originated in the range of $25,000 to $2.0 million with terms ranging from one to seven years and up to 25 years for owner occupied commercial real estate mortgages. SBA loans are generally offered at adjustable rates tied to the prime rate (as published in the *Wall Street Journal*) with adjustment periods of one to three months. At times, we may sell the guaranteed portion of certain SBA term loans in the secondary market, realizing a gain at the time of sale, and retaining the servicing rights on these loans, collecting a servicing fee of approximately 1%. We originated and purchased $3.8 million, $11.6 million and $8.4 million of SBA loans during 2018, 2017 and 2016, respectively.

Taxi Medallion. At December 31, 2018, taxi medallion loans consisted of loans made primarily to New York City taxi medallion owners and to a lesser extent Chicago taxi medallion owners, which are secured by liens on the taxi medallions, totaling $4.5 million, or 0.08%, of gross loans. In 2015, we decided to no longer originate or purchase taxi medallion loans.

Commercial Business and Other Lending. At December 31, 2018, commercial business and other loans totaled $877.8 million, or 15.85%, of gross loans. We originate and purchase commercial business loans and other loans for business, personal, or household purposes. Commercial business loans are provided to businesses in the New York City metropolitan area with annual sales of up to $250.0 million. Our commercial business loans include lines of credit and term loans including owner occupied mortgages. These loans are secured by business assets, including accounts receivables, inventory and real estate and generally require personal guarantees. The Bank also enters into participations/syndications on senior secured commercial business loans, which are serviced by other banks. Commercial business loans are generally originated in a range of $100,000 to $10.0 million. We generally offer adjustable rate loans with adjustment periods of five years for owner occupied mortgages and for lines of credit the adjustment period is generally monthly. Interest rates on adjustable rate loans currently offered by us are adjusted at the beginning of each adjustment period based upon a fixed spread above the FHLB-NY corresponding Regular Advance Rate for owner occupied mortgages and a fixed spread above the London Interbank Offered Rate (“LIBOR”) or Prime Rate for lines of credit. Commercial business adjustable-rate loans generally are not subject to limitations on interest rate increases either on an adjustment period or aggregate basis over the life of the loan, however they generally are subject to interest rate floors. Our fixed-rate commercial business loans are generally originated for terms up to 20 years and are competitively priced based on market conditions and our cost of funds. We originated and purchased $475.7 million, $314.4 million and $325.0 million of commercial business loans during 2018, 2017 and 2016, respectively.

Other loans generally consist of overdraft lines of credit. Generally, unsecured consumer loans are limited to amounts of $5,000 or less for terms of up to five years. We originated and purchased $1.9 million, $2.4 million and $1.7 million of other loans during 2018, 2017 and 2016, respectively. The underwriting standards employed by us for consumer and other loans include a determination of the applicant’s payment history on other debts and assessment of the applicant’s ability to meet payments on all of his or her obligations. In addition to the creditworthiness of the applicant, the underwriting process also includes a comparison of the value of the collateral, if any, to the proposed loan amount. Unsecured loans tend to have higher risk, and therefore command a higher interest rate.

Loan Extensions, Renewals, Modifications and Restructuring. Extensions, renewals, modifications or restructuring a loan, other than a loan that is classified as a troubled debt restructured (“TDR”), requires the loan to be fully underwritten in accordance with our policy. The borrower must be current to have a loan extended, renewed or restructured. Our policy for modifying a mortgage loan due to the borrower’s request for changes in the terms will depend on the changes requested. The borrower must be current and have a good payment history to have a loan modified. If the borrower is seeking additional funds, the loan is fully underwritten in accordance with our policy for new loans. If the borrower is seeking a reduction in the interest rate due to a decline in interest rates in the market, we generally limit our review as follows: (1) for income producing properties and commercial business loans, to a review of the operating results of the property/business and a satisfactory inspection of the property, and (2) for one-to-four residential properties, to a satisfactory inspection of the property. Our policy on restructuring a loan when the loan will be classified as a TDR requires the loan to be fully underwritten in accordance with Company policy. The borrower must demonstrate the ability to repay the loan under the new terms. When the restructuring results in a TDR, we may waive some requirements of Company policy provided the borrower has demonstrated the ability to meet the requirements of the restructured loan and repay the restructured loan. While our formal lending policies do not prohibit making additional loans to a borrower or any related interest of the borrower who is past due in principal or interest more than 90 days, it has been our practice not to make additional loans to a borrower or a related interest of the borrower if the borrower is past due more than 90 days as to principal or interest. During the most recent three fiscal years, we did not make any additional loans to a borrower or any related interest of the borrower who was past due in principal or interest more than 90 days. All extensions, renewals, restructurings and modifications must be approved by the appropriate Loan Committee.

Loan Approval Procedures and Authority. The Board of Directors of the Company (the "Board of Directors") approved lending policies establishing loan approval requirements for our various types of loan products. Our Residential Mortgage Lending Policy (which applies to all one-to-four family mortgage loans, including residential and mixed-use property) establishes authorized levels of approval. One-to-four family mortgage loans that do not exceed $750,000 require two signatures for approval, one of which must be from either the Senior Executive Vice President, the Executive Vice President or a Senior Vice President (collectively, "Authorized Officers") and the other from a Senior Underwriter, Manager, Underwriter or Junior Underwriter in the Residential Mortgage Loan Department (collectively, "Loan Officers"), and ratification by the Management Loan Committee. For one-to-four family mortgage loans in excess of $750,000 up to $2.0 million, three signatures are required for approval, at least two of which must be from Authorized Officers, and the other one may be a Loan Officer, and ratification by the Management Loan Committee and the Director's Loan Committee. The Director's Loan Committee or the Bank Board of Directors also must approve one-to-four family mortgage loans in excess of $2.5 million. Pursuant to our Commercial Real Estate Lending Policy, loans secured by commercial real estate and multi-family residential properties up to $2.0 million are approved by the Executive Vice President of Commercial Real Estate and the Senior Executive Vice President, Chief of Real Estate Lending and then ratified by the Management Loan Committee and/or the Director's Loan Committee. Loans provided in excess of $2.0 million and up to and including $5.0 million must be submitted to the Management Loan Committee for final approval and then to the Director's Loan Committee and/or Board of Directors for ratification. Loans in excess of $5.0 million and up to and including $25.0 million must be submitted to the Director's Loan Committee and/or the Board of Directors for approval. Loan amounts in excess of $25.0 million must be approved by the Board of Directors.

In accordance with our Business Credit Policy Commercial business and other loans require two signatures from the Business Loan Committee for approval. All commercial business loans and SBA loans up to $2.5 million must be approved by the Business Loan Committee and ratified by the Management Loan Committee. Commercial business loans and SBA loans in excess of $2.5 million up to $5.0 million must be approved by the Management Loan Committee and ratified by the Director's Loan Committee. Loans in excess of $5.0 million must be submitted to the Director's Loan Committee and/ or the Board of Directors for approval.

Our Construction Loan Policy requires construction loans up to and including $1.0 million must be approved by the Senior Executive Vice President, Chief of Real Estate Lending and the Executive Vice President of Commercial Real Estate, and ratified by the Management Loan Committee or the Director's Loan Committee. Such loans in excess of $2.0 million up to and including $5.0 million require the same officer approvals, approval of the Management Loan Committee, and ratification of the Director's Loan Committee or the Bank Board of Directors. Construction loans in excess of $25.0 million require the same officer approvals, approval by the Management Loan Committee, and approval of the Bank Board of Directors. Any loan, regardless of type, that deviates from our written credit policies must be approved by the Loan Committee or the Bank Board of Directors.

For all loans originated by us, upon receipt of a completed loan application, a credit report is ordered and certain other financial information is obtained. An appraisal of the real estate intended to secure the proposed loan is required to be received. An independent appraiser designated and approved by us currently performs such appraisals. Our staff appraisers review all appraisals. The Bank Board of Directors annually approves the independent appraisers used by the Bank and approves the Bank's appraisal policy. It is our policy to require borrowers to obtain title insurance and hazard insurance on all real estate loans prior to closing. For certain borrowers, and/or as required by law, the Bank may require escrow funds on a monthly basis together with each payment of principal and interest to a mortgage escrow account from which we make disbursements for items such as real estate taxes and, in some cases, hazard insurance premiums.

Loan Concentrations. The maximum amount of credit that the Bank can extend to any single borrower or related group of borrowers generally is limited to 15% of the Bank's unimpaired capital and surplus, or $99.1 million at December 31, 2018. Applicable laws and regulations permit an additional amount of credit to be extended, equal to 10% of unimpaired capital and surplus, if the loan is secured by readily marketable collateral, which generally does not include real estate. See "-Regulation." However, it is currently our policy not to extend such additional credit. At December 31, 2018, there were no loans in excess of the maximum dollar amount of loans to one borrower that the Bank was authorized to make. At that date, the three largest concentrations of loans to one borrower consisted of loans secured by commercial real estate, multi-family income producing properties and commercial business loans with an aggregate principal balance of $83.1 million, $80.2 million and $66.4 million for each of the three borrowers, respectively.

Loan Servicing. At December 31, 2018, we were servicing $36.5 million of mortgage loans and $18.4 million of SBA loans for others. Our policy is to retain the servicing rights to the mortgage and SBA loans that we sell in the secondary market, other than sales of delinquent loans, which are sold with servicing released to the buyer. On mortgage loans and commercial business loan participations purchased by us for whom the seller retains the servicing rights, we receive monthly reports with which we monitor the loan portfolio. Based upon servicing agreements with the servicers of the loans, we rely upon the servicer to contact delinquent borrowers, collect delinquent amounts and initiate foreclosure proceedings, when necessary, all in accordance with applicable laws, regulations and the terms of the servicing agreements between us and our servicing agents. The servicers are required to submit monthly reports on their collection efforts on delinquent loans. At December 31, 2018 and 2017, we held $856.8 million and $811.5 million, respectively, of loans that were serviced by others.

Asset Quality

Loan Collection. When a borrower fails to make a required payment on a loan, except for serviced loans as described above, we take a number of steps to induce the borrower to cure the delinquency and restore the loan to current status. In the case of mortgage loans, personal contact is made with the borrower after the loan becomes 30 days delinquent. We take a proactive approach to managing delinquent loans, including conducting site examinations and encouraging borrowers to meet with one of our representatives. When deemed appropriate, we develop short-term payment plans that enable borrowers to bring their loans current, generally within six to nine months. We review delinquencies on a loan by loan basis, diligently exploring ways to help borrowers meet their obligations and return them back to current status.

In the case of commercial business or other loans, we generally send the borrower a written notice of non-payment when the loan is first past due. In the event payment is not then received, additional letters and phone calls generally are made in order to encourage the borrower to meet with one of our representatives to discuss the delinquency. If the loan still is not brought current and it becomes necessary for us to take legal action, which typically occurs after a loan is delinquent 90 days or more, we may attempt to repossess personal or business property that secures an SBA loan, commercial business loan or consumer loan.

When the borrower has indicated that they will be unable to bring the loan current, or due to other circumstances which, in our opinion, indicate the borrower will be unable to bring the loan current within a reasonable time, the loan is classified as non-performing. All loans classified as non-performing, which includes all loans past due 90 days or more, are on non-accrual status unless there is, in our opinion, compelling evidence the borrower will bring the loan current in the immediate future. At December 31, 2018, there were no loans past due 90 days or more that were still accruing interest.

Upon classifying a loan as non-performing, we review available information and conditions that relate to the status of the loan, including the estimated value of the loan’s collateral and any legal considerations that may affect the borrower’s ability to continue to make payments. Based upon the available information, we will consider the sale of the loan or retention of the loan. If the loan is retained, we may continue to work with the borrower to collect the amounts due or start foreclosure proceedings. If a foreclosure action is initiated and the loan is not brought current, paid in full, or refinanced before the foreclosure sale, the real property securing the loan is sold at foreclosure or by us as soon thereafter as practicable.

Once the decision to sell a loan is made, we determine what we would consider adequate consideration to be obtained when that loan is sold, based on the facts and circumstances related to that loan. Investors and brokers are then contacted to seek interest in purchasing the loan. We have been successful in finding buyers for some of our non-performing loans offered for sale that are willing to pay what we consider to be adequate consideration. Terms of the sale include cash due upon closing of the sale, no contingencies or recourse to us, servicing is released to the buyer and time is of the essence. These sales usually close within a reasonably short time period.

This strategy of selling non-performing loans has allowed us to optimize our return by quickly converting our non-performing loans to cash, which can then be reinvested in earning assets. This strategy also allows us to avoid lengthy and costly legal proceedings that may occur with non-performing loans. There can be no assurances that we will continue this strategy in future periods, or if continued, we will be able to find buyers to pay adequate consideration.

The following tables show delinquent and non-performing loans sold during the period indicated:

(Dollars in thousands)	For the years ended December 31, 2018	2017	2016
Count	12	17	26
Proceeds	$8,739	$6,217	$7,965
Net (charge-offs) recoveries	68	(37)	48
Gross gains	38	415	265
Gross losses	263	-	-

Troubled Debt Restructured . We have restructured certain problem loans for borrowers who are experiencing financial difficulties by either: reducing the interest rate until the next reset date, extending the amortization period thereby lowering the monthly payments, deferring a portion of the interest payment, or changing the loan to interest only payments for a limited time period. At times, certain problem loans have been restructured by combining more than one of these options. These restructurings have not included a reduction of principal balance. We believe that restructuring these loans in this manner will allow certain borrowers to become and remain current on their loans. These restructured loans are classified TDR. Loans which have been current for six consecutive months at the time they are restructured as TDR remain on accrual status. Loans which were delinquent at the time they are restructured as a TDR are placed on non-accrual status until they have made timely payments for six consecutive months.

The following table shows our recorded investment in loans classified as TDR that are performing according to their restructured terms at the periods indicated:

	At December 31,				
(In thousands)	2018	2017	2016	2015	2014
Accrual Status:					
Multi-family residential	$1,916	$2,518	$2,572	$2,626	$3,035
Commercial real estate	-	1,986	2,062	2,371	2,373
One-to-four family - mixed-use property	1,692	1,753	1,800	2,052	2,381
One-to-four family - residential	552	572	591	343	354
Small business administration	-	-	-	34	-
Taxi medallion	-	-	9,735	-	-
Commercial business and other	279	462	420	2,083	2,249
Total	4,439	7,291	17,180	9,509	10,392
Non-Accrual Status:					
Commercial business and other	-	-	255	-	-
Taxi medallion	3,926	5,916	-	-	-
Total	3,926	5,916	255	-	-
Total performing troubled debt restructured	$8,365	$13,207	$17,435	$9,509	$10,392

Loans that are restructured as TDR but are not performing in accordance with the restructured terms are excluded from the TDR table above, as they are placed on non-accrual status and reported as non-performing loans. At December 31, 2018, there were two loans totaling $1.8 million which were restructured as TDR not performing in accordance with its restructured terms. At December 31, 2017, there was one loan for $0.4 million which was restructured as TDR which was not performing in accordance with its restructured terms.

Delinquent Loans and Non-performing Assets. We generally discontinue accruing interest on delinquent loans when a loan is 90 days past due. At that time, previously accrued but uncollected interest is reversed from income. Loans in default 90 days or more as to their maturity date but not their payments, however, continue to accrue interest as long as the borrower continues to remit monthly payments.

The following table shows our non-performing assets at the dates indicated. During the years ended December 31, 2018, 2017 and 2016, the amounts of additional interest income that would have been recorded on non-accrual loans, had they been current, totaled $1.0 million, $1.1 million and $1.5 million, respectively. These amounts were not included in our interest income for the respective periods.

	At December 31,				
(Dollars in thousands)	2018	2017	2016	2015	2014
Loans 90 days or more past due and still accruing:					
Multi-family residential	$-	$-	$-	$233	$676
Commercial real estate	-	2,424	-	1,183	820
One-to-four family mixed-use property	-	-	386	611	405
One-to-four family - residential	-	-	-	13	14
Construction	-	-	-	1,000	-
Commercial Business and other	-	-	-	220	386
Total	-	2,424	386	3,260	2,301
Non-accrual mortgage loans:					
Multi-family residential	2,410	3,598	1,837	3,561	6,878
Commercial real estate	1,379	1,473	1,148	2,398	5,689
One-to-four family mixed-use property	928	1,867	4,025	5,952	6,936
One-to-four family residential	6,144	7,808	8,241	10,120	11,244
Total	10,861	14,746	15,251	22,031	30,747
Non-accrual non-mortgage loans:					
Small Business Administration	1,267	46	1,886	218	-
Taxi medallion(1)	613	918	3,825	-	-
Commercial business and other	3,512	-	68	568	1,143
Total	5,392	964	5,779	786	1,143
Total non-accrual loans	16,253	15,710	21,030	22,817	31,890
Total non-performing loans	16,253	18,134	21,416	26,077	34,191
Other non-performing assets:					
Real Estate Owned	-	-	533	4,932	6,326
Other assets acquired through foreclosure	35	-	-	-	-
Total	35	-	533	4,932	6,326
Total non-performing assets	$16,288	$18,134	$21,949	$31,009	$40,517
Non-performing loans to gross loans	0.29 %	0.35 %	0.44 %	0.60 %	0.90 %
Non-performing assets to total assets	0.24 %	0.29 %	0.36 %	0.54 %	0.80 %

(1) Not included in the above analysis are non-accrual TDR taxi medallion loans totaling $3.9 million and $5.9 million for the years ended December 31, 2018 and 2017, respectively.

14

The following table shows our delinquent loans that are less than 90 days past due and still accruing interest at the periods indicated:

	December 31, 2018		December 31, 2017	
	60 - 89 days	30 - 59 days	60 - 89 days	30 - 59 days
	(In thousands)			
Multi-family residential	$339	$1,887	$279	$2,533
Commercial real estate	-	379	2,197	1,680
One-to-four family - mixed-use property	322	1,003	860	1,570
One-to-four family - residential	-	1,564	680	1,921
Construction	730	-	-	-
Small Business Administration	68	4	-	-
Commercial business and other	281	2,076	-	2
Total	$1,740	$6,913	$4,016	$7,706

Other Real Estate Owned. We aggressively market our Other Real Estate Owned ("OREO") properties. At December 31, 2018 and 2017, we did not own any OREO properties. At December 31, 2016, we owned one OREO property with a fair value of $0.5 million.

We may obtain physical possession of residential real estate collateralizing a consumer mortgage loan via foreclosure through an in-substance repossession. During the year ended December 31, 2018, we foreclosed on one residential real estate property for $0.6 million. During the year ended December 31, 2017 we did not foreclose on any consumer mortgages through in-substance repossession. We did not hold any foreclosed residential real estate at December 31, 2018 and 2017. Included within net loans as of December 31, 2018 and 2017, was a recorded investment of $7.2 million and $10.5 million, respectively, of consumer mortgage loans secured by residential real estate properties for which formal foreclosure proceedings were in process according to local requirements of the applicable jurisdiction.

Environmental Concerns Relating to Loans. We currently obtain environmental reports in connection with the underwriting of commercial real estate loans, and typically obtain environmental reports in connection with the underwriting of multi-family loans. For all other loans, we obtain environmental reports only if the nature of the current or, to the extent known to us, prior use of the property securing the loan indicates a potential environmental risk. However, we may not be aware of such uses or risks in any particular case, and, accordingly, there is no assurance that real estate acquired by us in foreclosure is free from environmental contamination or that, if any such contamination or other violation exists, whether we will have any liability.

Classified Assets. Our policy is to review our assets, focusing primarily on the loan portfolio, OREO and the investment portfolios, to ensure that the credit quality is maintained at the highest levels. When weaknesses are identified, immediate action is taken to correct the problem through direct contact with the borrower or issuer. We then monitor these assets, and, in accordance with our policy and current regulatory guidelines, we designate them as "Special Mention," which is considered a "Criticized Asset," and "Substandard," "Doubtful," or "Loss" which are considered "Classified Assets," as deemed necessary. These loan designations are updated quarterly. We designate an asset as Substandard when a well-defined weakness is identified that jeopardizes the orderly liquidation of the debt. We designate an asset as Doubtful when it displays the inherent weakness of a Substandard asset with the added provision that collection of the debt in full, on the basis of existing facts, is highly improbable. We designate an asset as Loss if it is deemed the debtor is incapable of repayment. We do not hold any loans designated as loss, as loans that are designated as Loss are charged to the Allowance for Loan Losses. Assets that are non-accrual are designated as Substandard, Doubtful or Loss. We designate an asset as Special Mention if the asset does not warrant designation within one of the other categories, but does contain a potential weakness that deserves closer attention. Our Criticized and Classified Assets totaled $53.0 million at December 31, 2018, a decrease of $9.7 million from $62.7 million at December 31, 2017.

The following table sets forth the Bank's Criticized and Classified assets at December 31, 2018:

(In thousands)	Special Mention	Substandard	Doubtful	Loss	Total
Loans:					
Multi-family residential	$ 2,498	$ 4,166	$ -	$ -	$ 6,664
Commercial real estate	381	4,051	-	-	4,432
One-to-four family - mixed-use property	1,199	2,034	-	-	3,233
One-to-four family - residential	557	6,665	-	-	7,222
Construction	730	-	-	-	730
Small Business Administration	481	139	-	-	620
Taxi medallion	-	4,539	-	-	4,539
Commercial business and other	730	21,348	3,512	-	25,590
Total	$ 6,576	$ 42,942	$ 3,512	$ -	$ 53,030

The following table sets forth the Bank's Criticized and Classified assets at December 31, 2017:

(In thousands)	Special Mention	Substandard	Doubtful	Loss	Total
Loans:					
Multi-family residential	$ 6,389	$ 4,793	$ -	$ -	$ 11,182
Commercial real estate	2,020	8,871	-	-	10,891
One-to-four family - mixed-use property	2,835	3,691	-	-	6,526
One-to-four family - residential	2,076	9,115	-	-	11,191
Small Business Administration	548	108	-	-	656
Taxi medallion	-	6,834	-	-	6,834
Commercial business and other	14,859	545	-	-	15,404
Total	$ 28,727	$ 33,957	$ -	$ -	$ 62,684

Allowance for Loan Losses

We have established and maintain on our books an allowance for loan losses (“ALL”) that is designed to provide a reserve against estimated losses inherent in our overall loan portfolio. The allowance is established through a provision for loan losses based on management’s evaluation of the risk inherent in the various components of the loan portfolio and other factors, including historical loan loss experience (which is updated quarterly), current economic conditions, delinquency and non-accrual trends, classified loan levels, risk in the portfolio and volumes and trends in loan types, recent trends in charge-offs, changes in underwriting standards, experience, ability and depth of our lenders, collection policies and experience, internal loan review function and other external factors.

In prior years we segregated our loans into two portfolios based on year of origination. One portfolio was reviewed for loans originated after December 31, 2009 and a second portfolio for loans originated prior to January 1, 2010. That segregation was based on changes made in our underwriting standards during 2009. For the 2018 ALL calculation, however, we decided to no longer segregate loans by origination year and to collapse the two portfolios. Management based this decision on the age of the older portfolio which represented approximately 11% of the total loan portfolio and in which most losses have already been identified and incurred. In connection with this change in methodology we also combined the economic factors used to calculate the qualitative component of the ALL. The combined impact of these changes in methodology reduced the ALL by approximately $0.2 million from what would have been recorded if we had not changed our methodology. Additionally, during 2018 we updated our methodology by expanding the look-back period of historical losses used in the calculation of the quantitative component of the allowance from three years to five years and incorporated recoveries into our loss history. The increase in the look-back period from three years to five years allows for more observation points and better reflects the likelihood of losses inherent in the loan portfolio, as it is more reflective of the current economic environment. We believe the addition of recoveries net of historical losses used in the look-back period is consistent with industry best practice. The impact of these change resulted in an increase of $0.6 million in the ALL at December 31, 2018.

The determination of the amount of the ALL includes estimates that are susceptible to significant changes due to changes in appraisal values of collateral, national and local economic conditions and other factors. Impaired loans are segregated and reviewed separately. All non-accrual loans are classified impaired. Impaired loans secured by collateral are reviewed based on the fair value of their collateral. For non-collateralized impaired loans, management estimates any recoveries that are anticipated for each loan. In connection with the determination of the allowance, the market value of collateral ordinarily is evaluated by our staff appraiser. On a quarterly basis, the estimated values of impaired mortgage loans are internally reviewed, based on updated cash flows for income producing properties, and at times an updated independent appraisal is obtained. The loan balances of collateral dependent impaired loans are then compared to the property's updated fair value. We consider fair value of collateral dependent loans to be 85% of the appraised or internally estimated value of the property. The 85% is based on the actual net proceeds the Bank has received from the sale of OREO as a percentage of OREO's appraised value. The fair value of the underlying collateral of taxi medallion loans is the value of the underlying medallion based upon the most recently reported arm's length sales transaction. When there is no recent sale activity, the fair value is calculated using capitalization rates. All taxi medallion loans are classified as impaired at December 31, 2018. For collateral dependent mortgage loans and taxi medallion loans, the portion of the loan balance which exceeds fair value is generally charged-off. When evaluating a loan for impairment, we do not rely on guarantees, and the amount of impairment, if any, is based on the fair value of the collateral. We do not carry loans at a value in excess of the fair value due to a guarantee from the borrower. Our Board of Directors reviews and approves the adequacy of the ALL on a quarterly basis.

In assessing the adequacy of the allowance, we review our loan portfolio by separate categories which have similar risk and collateral characteristics, e.g., multi-family residential, commercial real estate, one-to-four family mixed-use property, one-to-four family residential, co-operative apartment, construction, SBA, commercial business, taxi medallion and consumer loans. General provisions are established against performing loans in our portfolio in amounts deemed prudent based on our qualitative analysis of the factors, including the historical loss experience, delinquency trends and local economic conditions. Non-performing loans totaled $16.3 million and $18.1 million at December 31, 2018 and 2017, respectively. The Bank's underwriting standards generally require a loan-to-value ratio of no more than 75% at the time the loan is originated. At December 31, 2018, the outstanding principal balance of our non-performing loans was 34.9% of the estimated current value of the supporting collateral, after considering the charge-offs that have been recorded. We incurred total net recoveries of $19,000 and net charge-offs of $11.7 million during the years ended December 31, 2018 and 2017, respectively. For the year ended December 31, 2018, we recorded a provision for loan losses totaling $0.6 million compared to $9.9 million provision recorded for the year ended December 31, 2017 and none for the year ended December 31, 2016. The charge-offs and provision for loan losses recorded in the year ended December 31, 2017, were primarily the result of a reduction in the fair value of the underlying collateral of our taxi medallion portfolio. Management has concluded, and the Board of Directors has concurred, that at December 31, 2018, the allowance was sufficient to absorb losses inherent in our loan portfolio.

During 2018, the portion of the ALL related to the loss history decreased slightly, primarily due to the addition of recoveries in the calculation, partially offset by an increase in the look-back period and growth in the loan portfolio. During 2018, the portion of the ALL related to qualitative factors increased primarily due to growth in the loan portfolio. The impact from the above resulted in the ALL totaling $20.9 million, an increase of $0.6 million, or 2.9% from December 31, 2017. Based upon management consistently applying the ALL methodology and review of the loan portfolio, management concluded a charge to earnings was warranted to maintain the balance of the ALL at the appropriate level. The ALL at December 31, 2018, represented 0.38% of gross loans outstanding as compared to

0.39% of gross loans outstanding at December 31, 2017. The ALL represented 128.9% of non-performing loans at December 31, 2018 compared to 112.2% at December 31, 2017.

Many factors may require additions to the ALL in future periods beyond those currently revealed. These factors include further adverse changes in economic conditions, changes in interest rates and changes in the financial capacity of individual borrowers (any of which may affect the ability of borrowers to make repayments on loans), changes in the real estate market within our lending area and the value of collateral, or a review and evaluation of our loan portfolio in the future. The determination of the amount of the ALL includes estimates that are susceptible to significant changes due to changes in appraised values of collateral, national and local economic conditions, interest rates and other factors. In addition, our overall level of credit risk inherent in our loan portfolio can be affected by the loan portfolio’s composition. At December 31, 2018, multi-family residential, commercial real estate, construction and one-to-four family mixed-use property mortgage loans, totaled 80.2% of our gross loans. The greater risk associated with these loans, as well as commercial business loans, could require us to increase our provisions for loan losses and to maintain an ALL as a percentage of total loans that is in excess of the allowance we currently maintain. Provisions for loan losses are charged against net income. See “—Lending Activities” and “—Asset Quality.”

The following table sets forth changes in, and the balance of, our ALL.

	At and for the years ended December 31,				
(Dollars in thousands)	2018	2017	2016	2015	2014
Balance at beginning of year	$20,351	$22,229	$21,535	$25,096	$31,776
Provision (benefit) for loan losses	575	9,861	-	(956)	(6,021)
Loans charged-off:					
Multi-family residential	(99)	(454)	(161)	(474)	(1,161)
Commercial real estate	-	(4)	-	(32)	(325)
One-to-four family mixed-use property	(3)	(39)	(144)	(592)	(423)
One-to-four family residential	(1)	(415)	(114)	(342)	(103)
SBA	(392)	(212)	(529)	(34)	(49)
Taxi medallion	(393)	(11,283)	(142)	-	-
Commercial business and other loans	(44)	(65)	(69)	(2,371)	(381)
Total loans charged-off	(932)	(12,472)	(1,159)	(3,845)	(2,442)
Recoveries:					
Mortgage loans	711	595	1,493	888	1,515
SBA, commercial business and other loans	97	138	360	352	268
Taxi medallion	143	-	-	-	-
Total recoveries	951	733	1,853	1,240	1,783
Net (charge-offs) recoveries	19	(11,739)	694	(2,605)	(659)
Balance at end of year	$20,945	$20,351	$22,229	$21,535	$25,096
Ratio of net charge-offs (recoveries) during the year to average loans outstanding during the year	0.00 %	0.24 %	(0.02 %)	0.06 %	0.02 %
Ratio of allowance for loan losses to gross loans at end of the year	0.38 %	0.39 %	0.46 %	0.49 %	0.66 %
Ratio of allowance for loan losses to non-performing loans at the end of the year	128.87 %	112.23 %	103.80 %	82.58 %	73.40 %
Ratio of allowance for loan losses to non-performing assets at the end of the year	128.60 %	112.23 %	101.28 %	69.45 %	61.94 %

The following table sets forth our allocation of the ALL to the total amount of loans in each of the categories listed at the dates indicated. The numbers contained in the "Amount" column indicate the ALL allocated for each particular loan category. The numbers contained in the column entitled "Percentage of Loans in Category to Total Loans" indicate the total amount of loans in each particular category as a percentage of our loan portfolio.

	At December 31,									
	2018		2017		2016		2015		2014	
Loan Category	Amount	Percent of Loans in Category to Total loans	Amount	Percent of Loans in Category to Total loans	Amount	Percent of Loans in Category to Total loans	Amount	Percent of Loans in Category to Total loans	Amount	Percent of Loans in Category to Total loans
	(Dollars in thousands)									
Mortgage loans:										
Multi-family residential	$5,676	41.00 %	$5,823	44.08 %	$5,923	45.21 %	$6,718	46.98 %	$8,827	50.64 %
Commercial real estate	4,315	27.86	4,643	26.51	4,487	25.86	4,239	22.90	4,202	16.36
One-to-four family mixed-use property	1,867	10.44	2,545	10.93	2,903	11.59	4,227	13.11	5,840	15.10
One-to-four family residential	749	3.44	1,082	3.50	1,015	3.85	1,227	4.30	1,690	4.94
Co-operative apartment	-	0.15	-	0.13	-	0.15	-	0.19	-	0.26
Construction	329	0.91	68	0.16	92	0.24	50	0.17	42	0.14
Gross mortgage loans	12,936	83.80	14,161	85.31	14,420	86.90	16,461	87.65	20,601	87.44
Non-mortgage loans:										
Small Business Administration	418	0.27	669	0.36	481	0.32	262	0.28	279	0.19
Taxi medallion	-	0.08	-	0.13	2,243	0.39	343	0.48	11	0.59
Commercial business and other	7,591	15.85	5,521	14.20	4,492	12.39	4,469	11.59	4,205	11.78
Gross non-mortgage loans	8,009	16.20	6,190	14.69	7,216	13.10	5,074	12.35	4,495	12.56
Unallocated	-	-	-	-	593	-	-	-	-	-

Total loans	$20,945	100.00%	$20,351	100.00%	$22,229	100.00%	$21,535	100.00%	$25,096	100.00%

19

Investment Activities

General. Our investment policy, which is approved by the Board of Directors, is designed primarily to manage the interest rate sensitivity of our overall assets and liabilities, to generate a favorable return without incurring undue interest rate and credit risk, to complement our lending activities and to provide and maintain liquidity. In establishing our investment strategies, we consider our business and growth strategies, the economic environment, our interest rate risk exposure, our interest rate sensitivity "gap" position, the types of securities to be held, and other factors. See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Overview—Management Strategy" in Item 7 of this Annual Report.

Although we have authority to invest in various types of assets, we primarily invest in mortgage-backed securities, securities issued by mutual or bond funds that invest in government and government agency securities, municipal bonds, corporate bonds and collateralized loan obligations ("CLO"). We did not hold any issues of foreign sovereign debt at December 31, 2018 and 2017.

Our Investment Committee meets quarterly to monitor investment transactions and to establish investment strategy. The Board of Directors reviews the investment policy on an annual basis and investment activity on a monthly basis.

We classify our investment securities as available for sale when management intends to hold the securities for an indefinite period of time or when the securities may be utilized for tactical asset/liability purposes and may be sold from time to time to effectively manage interest rate exposure and resultant prepayment risk and liquidity needs. Securities are classified as held-to-maturity when management intends to hold the securities until maturity. We carry some of our investments under the fair value option, totaling $13.8 million at December 31, 2018. Unrealized gains and losses for investments carried under the fair value option are included in our Consolidated Statements of Income. Unrealized gains and losses on securities available for sale, other than unrealized credit losses considered other than temporary, are excluded from earnings and included in accumulated other comprehensive loss (a separate component of equity), net of taxes. Securities held-to-maturity are carried at their cost basis. At December 31, 2018, we had $822.7 million in securities available for sale and $32.0 million in securities held-to-maturity, which together represented 12.51% of total assets. These securities had an aggregate market value at December 31, 2018 that was approximately 1.5 times the amount of our equity at that date.

There were no credit related other-than-temporary impairment charges recorded during the years ended December 31, 2018, 2017 and 2016. As a result of our holdings of securities available for sale, changes in interest rates could produce significant changes in the value of such securities and could produce significant fluctuations in our operating results and equity. (See Notes 6 and 18 of Notes to Consolidated Financial Statements, included in Item 8 of this Annual Report.)

20

The table below sets forth certain information regarding the amortized cost and market values of our securities portfolio, interest-earning deposits and federal funds sold, at the dates indicated. Securities available for sale are recorded at market value.

	At December 31,					
	2018		2017		2016	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In thousands)					
Securities held-to-maturity						
Bonds and other debt securities:						
Municipal securities	$24,065	$22,508	$22,913	$21,889	$37,735	$35,408
Total bonds and other debt securities	24,065	22,508	22,913	21,889	37,735	35,408
Mortgage-backed securities:						
FNMA	7,953	7,366	7,973	7,810	-	-
Total mortgage-backed securities	7,953	7,366	7,973	7,810	-	-
Total securities held-to-maturity	32,018	29,874	30,886	29,699	37,735	35,408
Securities available for sale						
Bonds and other debt securities:						
Municipal securities	46,231	46,574	101,680	103,199	124,984	126,903
Corporate debentures	130,000	118,535	110,000	102,767	110,000	102,910
Collateralized loan obligations	88,396	86,751	10,000	10,053	85,470	86,365
Total bonds and other debt securities	264,627	251,860	221,680	216,019	320,454	316,178
Mutual funds	11,586	11,586	11,575	11,575	21,366	21,366
Equity securities:						
Common stock	1,256	1,256	1,110	1,110	1,019	1,019
Preferred stock	-	-	-	-	6,344	6,342
Total equity securities	1,256	1,256	1,110	1,110	7,363	7,361
Mortgage-backed securities:						
REMIC and CMO	382,632	376,340	328,668	325,302	402,636	401,370
GNMA	785	826	1,016	1,088	1,319	1,427
FNMA	94,069	91,693	136,198	135,474	109,493	108,351
FHLMC	90,377	89,094	48,103	47,786	5,378	5,328
Total mortgage-backed securities	567,863	557,953	513,985	509,650	518,826	516,476
Total securities available for sale	845,332	822,655	748,350	738,354	868,009	861,381

Interest-earning deposits and Federal funds sold	105,761	105,761	39,362	39,362	25,771	25,771
Total	$983,111	$958,290	$818,598	$807,415	$931,515	$922,560

Mortgage-backed securities. At December 31, 2018, we had available for sale and held-to-maturity mortgage-backed securities with a market value totaling $565.3 million, of which $1.9 million was invested in adjustable-rate mortgage-backed securities. The mortgage loans underlying these adjustable-rate securities generally are subject to limitations on annual and lifetime interest rate increases. We anticipate that investments in mortgage-backed securities may continue to be used in the future to supplement mortgage-lending activities. Mortgage-backed securities are more liquid than individual mortgage loans and may be used more easily to collateralize our obligations, including collateralizing of the governmental deposits of the Bank.

The following table sets forth our available for sale mortgage-backed securities purchases, sales and principal repayments for the years indicated:

	For the years ended December 31,		
	2018	2017	2016
	(In thousands)		
Balance at beginning of year	$509,650	$516,476	$668,740
Purchases of mortgage-backed securities	196,405	151,692	90,572
Amortization of unearned premium, net of accretion of unearned discount	(1,419)	(1,593)	(2,086)
Net change in unrealized losses on mortgage-backed securities available for sale	(5,575)	(1,985)	(2,180)
Net realized losses recorded on mortgage-backed securities carried at fair value	(89)	(25)	(33)
Sales of mortgage-backed securities	(67,047)	(78,685)	(126,045)
Principal repayments received on mortgage-backed securities	(73,972)	(76,230)	(112,492)
Net increase (decrease) in mortgage-backed securities	48,303	(6,826)	(152,264)
Balance at end of year	$557,953	$509,650	$516,476

While mortgage-backed securities carry a reduced credit risk as compared to whole loans, such securities remain subject to the risk that a fluctuating interest rate environment, along with other factors such as the geographic distribution of the underlying mortgage loans, may alter the prepayment rate of such mortgage loans and so affect both the prepayment speed and value of such securities.

The table below sets forth certain information regarding the amortized cost, fair value, annualized weighted average yields and maturities of our investment in debt and equity securities and interest-earning deposits at December 31, 2018. The stratification of balances is based on stated maturities. Assumptions for repayments and prepayments are not reflected for mortgage-backed securities. Securities available for sale are carried at their fair value in the consolidated financial statements and securities held-to-maturity are carried at their amortized cost.

	One year or Less		One to Five Years		Five to Ten Years		More than Ten Years		Total Securities		
	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Average Remaining Years to Maturity	Amortized Cost	Fair Value
	(Dollars in thousands)										
Securities held-to-maturity											
Bonds and other debt securities:											
Municipal securities	$2,568	2.60%	$-	- %	$-	- %	$21,497	3.27%	21.72	$24,065	$22,508
Total bonds and other debt securities	2,568	2.60	-	-	-	-	21,497	3.27	21.72	24,065	22,508
Mortgage-backed securities:											
FNMA	-	-	-	-	-	-	7,953	3.28	14.34	7,953	7,366
Total mortgage-backed securities	-	-	-	-	-	-	7,953	3.28	14.34	7,953	7,366
Securities available for sale											
Bonds and other debt securities:											
Municipal securities	-	-	-	-	1,087	4.49	45,144	5.03	16.51	46,231	46,574
Corporate debentures	-	-	-	-	130,000	3.28	-	-	7.90	130,000	118,535
CLO	-	-	-	-	-	-	88,396	4.25	11.94	88,396	86,751
Total bonds and other debt securities	-	-	-	-	131,087	3.29	133,540	4.51	10.75	264,627	251,860
Mutual funds	11,586	2.31	-	-	-	-	-	-	-	11,586	11,586
Equity securities:											
Common stock	-	-	-	-	-	-	1,256	6.07	-	1,256	1,256
	-	-	-	-	-	-	1,256	6.07	-	1,256	1,256

Total equity securities											
Mortgage-backed securities:											
REMIC and CMO	-	-	145	4.08	-	-	382,487	3.20	28.11	382,632	376,340
GNMA	-	-	-	-	180	7.47	605	5.57	15.95	785	826
FNMA	-	-	9,302	3.76	86	5.60	84,681	3.37	24.29	94,069	91,693
FHLMC	-	-	104	6.70	21	3.95	90,252	3.73	21.24	90,377	89,094
Total mortgage-backed securities	-	-	9,551	3.80	287	6.65	558,025	3.31	26.37	567,863	557,953
Interest-earning deposits	105,761	2.40	-	-	-	-	-	-	-	105,761	105,761
Total	$119,915	2.40%	$9,551	3.80%	$131,374	3.30%	$722,271	3.54%	21.63	$983,111	$958,290

23

Sources of Funds

General. Deposits, FHLB-NY borrowings, other borrowings, repurchase agreements, principal and interest payments on loans, mortgage-backed and other securities, and proceeds from sales of loans and securities are our primary sources of funds for lending, investing and other general purposes.

Deposits. We offer a variety of deposit accounts having a range of interest rates and terms. Our deposits primarily consist of savings accounts, money market accounts, demand accounts, NOW accounts and certificates of deposit. We have a relatively stable retail deposit base drawn from our market area through our 19 full-service offices. We seek to retain existing depositor relationships by offering quality service and competitive interest rates, while keeping deposit growth within reasonable limits. It is management's intention to balance its goal to maintain competitive interest rates on deposits while seeking to manage its cost of funds to finance its strategies.

In addition to our full-service offices we operate the Internet Branch and a government banking unit. The Internet Branch currently offers savings accounts, money market accounts, checking accounts, and certificates of deposit. This allows us to compete on a national scale without the geographical constraints of physical locations. At December 31, 2018 and 2017, total deposits at our Internet Branch were $450.9 million and $401.0 million, respectively. The government banking unit provides banking services to public municipalities, including counties, cities, towns, villages, school districts, libraries, fire districts, and the various courts throughout the New York City metropolitan area. At December 31, 2018 and 2017, total deposits in our government banking unit totaled $1,339.7 million and $1,133.3 million, respectively.

Our core deposits, consisting of savings accounts, NOW accounts, money market accounts, and non-interest bearing demand accounts, are typically more stable and lower costing than other sources of funding. However, the flow of deposits into a particular type of account is influenced significantly by general economic conditions, changes in prevailing interest rates, and competition. We experienced an increase in our due to depositors' during 2018 of $575.3 million. During the year ended December 31, 2018, the cost of our interest-bearing due to depositors' accounts increased 50 basis points to 1.50% from 1.00% for the year ended December 31, 2017. This increase in the cost of deposits was primarily due to increases in the cost of money market, NOW accounts and certificate of deposits of 71 basis points, 46 basis points and 43 basis points, respectively. The increase in the cost of deposits was primarily due to an increase in the rates we pay on some of our products to maintain competitive in our market. While we are unable to predict the direction of future interest rate changes, if interest rates continue to rise during 2019, the result could be an increase in our cost of deposits, which could reduce our net interest margin. Similarly, if interest rates remain at their current level or decline in 2019, we could see a decline in our cost of deposits, which could increase our net interest margin.

Included in deposits are certificates of deposit with balances of $100,000 or more (excluding brokered deposits issued in $1,000 amounts under a master certificate of deposit) totaling $862.4 million, $681.2 million and $648.1 million at December 31, 2018, 2017 and 2016, respectively.

We utilize brokered deposits as an additional funding source and to assist in the management of our interest rate risk. We have obtained brokered certificates of deposit when the interest rate on these deposits is below the prevailing interest rate for non-brokered certificates of deposit with similar maturities in our market, or when obtaining them allowed us to extend the maturities of our deposits at favorable rates compared to borrowing funds with similar maturities, when we are seeking to extend the maturities of our funding to assist in the management of our interest rate risk. Brokered certificates of deposit provide a large deposit for us at a lower operating cost as compared to non-brokered certificates of deposit since we only have one account to maintain versus several accounts with multiple interest and maturity checks. The Depository Trust Company is used as the clearing house, maintaining each deposit under the name of CEDE & Co. These deposits are transferable just like a stock or bond investment and the customer can open the account with only a phone call, just like buying a stock or bond. Unlike non-brokered certificates of deposit, where the deposit amount can be withdrawn with a penalty for any reason, including increasing interest rates, a brokered certificate of deposit can only be withdrawn in the event of the death, or court declared mental incompetence, of the depositor. This allows us to better manage the maturity of our deposits and our interest rate risk. At times, we also utilized brokers to obtain money market deposits. The rate we pay on brokered money market accounts is similar to the rate we pay on non-brokered money market accounts, and the rate is agreed to in a contract between the Bank and the broker. These accounts are similar to brokered certificates of deposit accounts in that we only maintain one account for the total deposit per broker, with the broker maintaining the detailed records of each depositor.

We also offer access to FDIC insurance coverage in excess of $250,000 through a Certificate of Deposit Account Registry Service (“CDARS®”) and through an Insured Cash Sweep service (“ICS”). CDARS® and ICS are deposit placement services. These networks arrange for placement of funds into certificate of deposit accounts or money market accounts issued by other member banks of the network in increments of less than $250,000 to ensure that both principal and interest are eligible for full FDIC deposit insurance. This allows us to accept deposits in excess of $250,000 from a depositor, and place the deposits through the network to other member banks to provide full FDIC deposit insurance coverage. During 2018, Section 29 of the Federal Deposit Insurance Act was amended to no longer consider reciprocal deposits, such as CDARS and ICS, held by an FDIC-insured depository institution brokered deposits. We may receive deposits from other member banks in exchange for the deposits we place into the network. We may also obtain deposits from other network member banks without placing deposits into the network. We will obtain deposits in this manner primarily as a short-term funding source. We also can place deposits with other member banks without receiving deposits from other member banks. Depositors are allowed to withdraw funds, with a penalty, from these accounts at one or more of the member banks that hold the deposits. Additionally, we place a portion of our government deposits in an ICS brokered money market product which does not require us to provide collateral. This allows us to invest our funds in higher yielding assets. At December 31, 2018 and 2017, the Bank held ICS deposits totaling $684.0 million and $639.5 million, respectively. At December 31, 2018, we had $301.7 million classified as brokered deposits.

The following table sets forth the distribution of our deposit accounts at the dates indicated and the weighted average nominal interest rates on each category of deposits presented.

	At December 31, 2018			2017			2016		
	Amount	Percent of Total Deposits	Weighted Average Nominal Rate	Amount	Percent of Total Deposits	Weighted Average Nominal Rate	Amount	Percent of Total Deposits	Weighted Average Nominal Rate
	(Dollars in thousands)								
Savings accounts	$210,022	4.23 %	0.72 %	$290,280	6.62 %	0.64 %	$254,283	6.05 %	0.48 %
NOW accounts (9)	1,300,852	26.22	1.53	1,333,232	30.42	0.83	1,362,484	32.40	0.59
Demand accounts (10)	413,747	8.34	-	385,269	8.79	-	333,163	7.92	-
Mortgagors' escrow deposits	44,861	0.90	0.23	42,606	0.97	0.25	40,216	0.96	0.22
Total	1,969,482	39.70	1.10	2,051,387	46.80	0.65	1,990,146	47.32	0.47
Money market accounts (8)	1,427,992	28.79	1.93	979,958	22.36	1.05	843,370	20.05	0.67
Certificate of deposit accounts with original maturities of:									
Less than 6 Months (2)	67,472	1.36	2.05	113,306	2.59	1.30	31,432	0.75	0.64
6 to less than 12 Months (3)	72,928	1.47	2.25	8,201	0.19	0.14	53,222	1.27	0.99
12 to less than 30 Months (4)	1,003,206	20.22	2.07	679,966	15.51	1.41	588,751	14.00	1.18
30 to less than 48 Months (5)	126,041	2.54	2.16	163,739	3.74	1.51	281,454	6.69	1.26
48 to less than 72 Months (6)	264,237	5.33	2.08	350,719	8.00	1.87	369,630	8.79	1.83
72 Months or more (7)	29,426	0.59	3.07	36,002	0.82	2.92	47,626	1.13	2.86
Total certificate of deposit accounts	1,563,310	31.51	2.10	1,351,933	30.84	1.57	1,372,115	32.63	1.41
Total deposits (1)	$4,960,784	100.00%	1.65 %	$4,383,278	100.00%	1.02 %	$4,205,631	100.00%	0.82 %

(1) Included in the above balances are IRA and Keogh deposits totaling $68.5 million, $65.5 million and $69.3 million at December 31, 2018, 2017 and 2016, respectively.

(2) Includes brokered deposits of $65.6 million, $111.9 million and $29.1 million at December 31, 2018, 2017 and 2016, respectively.

(3) There were no brokered deposits in this category at December 31, 2018, 2017 and 2016.

(4) Includes brokered deposits of $116.9 million, $74.3 million and $84.0 million at December 31, 2018, 2017 and 2016, respectively.

(5) Includes brokered deposits of $54.4 million, $88.6 million and $229.5 million at December 31, 2018, 2017 and 2016, respectively.

(6) Includes brokered deposits of $64.7 million, $103.1 million and $113.0 million at December 31, 2018, 2017 and 2016, respectively.

(7) Includes brokered deposits of $0.1 million, $2.5 million and $3.1 million at December 31, 2018, 2017 and 2016, respectively.

(8) Includes brokered deposits of $704.9 million and $655.0 million at December 31, 2017, 2016, respectively. There were no brokered deposits in this category at December 31, 2018.

(9) There were no brokered deposits in this category at December 31, 2018, 2017 and 2016.

(10) Includes brokered deposits of $4.7 million and $1.1 million at December 31, 2017 and 2016, respectively. There were no brokered deposits in this category at December 31, 2018.

The following table presents by various rate categories, the amount of time deposit accounts outstanding at the dates indicated, and the years to maturity of the certificate accounts outstanding at the periods indicated:

	At December 31,			At December 31, 2018		
				Within	One to	
	2018	2017	2016	One Year	Three Years	Thereafter
	(In thousands)					
Interest rate:						
1.99% or less(1)	$535,127	$1,051,876	$1,107,882	$432,408	$93,369	$9,350
2.00% to 2.99%(2)	971,812	272,475	237,122	584,770	359,173	27,869
3.00% to 3.99%(3)	56,371	27,582	27,111	-	30,815	25,556
Total	$1,563,310	$1,351,933	$1,372,115	$1,017,178	$483,357	$62,775

(1) Includes brokered deposits of $76.8 million, $364.2 million and $442.4 million at December 31, 2018, 2017 and 2016, respectively.
(2) Includes brokered deposits of $224.9 million, $16.2 million and $16.4 million at December 31, 2018, 2017 and 2016, respectively.
(3) There were no brokered deposits in this category at December 31, 2018, 2017 and 2016.

The following table presents by remaining maturity categories the amount of certificate of deposit accounts with balances of $100,000 or more at December 31, 2018 and their annualized weighted average interest rates.

	Amount	Weighted Average Rate
	(Dollars in thousands)	
Maturity Period:		
Three months or less	$143,200	1.85 %
Over three through six months	216,743	1.99
Over six through 12 months	213,892	2.15
Over 12 months	288,567	2.43
Total	$862,402	2.16 %

The above table does not include brokered deposits issued in $1,000 amounts under a master certificate of deposit totaling $301.7 million with a weighted average rate of 2.09%.

The following table presents the deposit activity, including mortgagors’ escrow deposits, for the periods indicated.

	For the year ended December 31,		
	2018	2017	2016
	(In thousands)		
Net deposits	$512,558	$136,740	$278,793
Amortization of premiums, net	451	588	747
Interest on deposits	64,497	40,319	33,350
Net increase in deposits	$577,506	$177,647	$312,890

The following table sets forth the distribution of our average deposit accounts for the years indicated, the percentage of total deposit portfolio, and the average interest cost of each deposit category presented. Average balances for all years shown are derived from daily balances.

	At December 31, 2018			2017			2016		
	Average Balance	Percent of Total Deposits	Average Cost	Average Balance	Percent of Total Deposits	Average Cost	Average Balance	Percent of Total Deposits	Average Cost
	(Dollars in thousands)								
Savings accounts	$233,392	4.93 %	0.59 %	$292,887	6.59 %	0.62 %	$260,948	6.35 %	0.47 %
NOW accounts	1,407,945	29.73	1.13	1,444,944	32.49	0.67	1,496,712	36.41	0.53
Demand accounts	380,889	8.04	-	348,518	7.84	-	305,096	7.42	-
Mortgagors' escrow deposits	66,255	1.40	0.32	61,962	1.39	0.23	56,152	1.37	0.20
Total	2,088,481	44.10	0.84	2,148,311	48.31	0.54	2,118,908	51.55	0.44
Money market accounts	1,164,505	24.59	1.61	908,025	20.42	0.90	581,390	14.15	0.62
Certificate of deposit accounts	1,483,026	31.31	1.91	1,390,491	31.27	1.48	1,409,772	34.30	1.46
Total deposits	$4,736,012	100.00%	1.36 %	$4,446,827	100.00%	0.91 %	$4,110,070	100.00%	0.81 %

Borrowings. Although deposits are our primary source of funds, we also use borrowings as an alternative and cost effective source of funds for lending, investing and other general purposes. The Bank is a member of, and is eligible to obtain advances from, the FHLB-NY. Such advances generally are secured by a blanket lien against the Bank's mortgage portfolio and the Bank's investment in the stock of the FHLB-NY. In addition, the Bank may pledge mortgage-backed securities to obtain advances from the FHLB-NY. See "— Regulation — Federal Home Loan Bank System." The maximum amount that the FHLB-NY will advance fluctuates from time to time in accordance with the policies of the FHLB-NY. The Bank may also enter into repurchase agreements with broker-dealers and the FHLB-NY. These agreements are recorded as financing transactions and the obligations to repurchase are reflected as a liability in our consolidated financial statements. In addition, we issued junior subordinated debentures with a total par of $61.9 million in 2007. These junior subordinated debentures are carried at fair value in the Consolidated Statement of Financial Condition. In 2016, the Company issued subordinated debt with an aggregated principal amount of $75.0 million, receiving net proceeds totaling $73.4 million. The subordinated debt was issued at 5.25% fixed-to-floating rate maturing in 2026. The debt is callable at par quarterly through its maturity date beginning December 15, 2021.

In late 2017, the Company entered into forward interest rate swaps (the "Swaps") with a notional amount of $441.5 million. These Swaps have five year terms and were entered to mitigate the impact interest rate increases have on our cost of funds. At December 31, 2018 and 2017, the Swaps had an average cost of 2.33% and 1.98%, respectively.

The average cost of borrowings was 2.16%, 1.81% and 1.67% for the years ended December 31, 2018, 2017 and 2016, respectively. The average balances of borrowings were $1,162.4 million, $1,169.8 million and $1,231.0 million for the same years, respectively.

The following table sets forth certain information regarding our borrowings at or for the periods ended on the dates indicated.

	At or for the years ended December 31,					
	2018		2017		2016	
	(Dollars in thousands)					
Securities Sold with the Agreement to Repurchase						
Average balance outstanding	$-		$-		$64,087	
Maximum amount outstanding at any month end during the period	-		-		116,000	
Balance outstanding at the end of period	-		-		-	
Weighted average interest rate during the period	-	%	-	%	3.26	%
Weighted average interest rate at end of period	-		-		-	
FHLB-NY Advances						
Average balance outstanding	$1,046,504		$1,058,466		$1,123,411	
Maximum amount outstanding at any month end during the period	1,137,318		1,317,087		1,337,265	
Balance outstanding at the end of period	1,134,994		1,198,968		1,159,190	
Weighted average interest rate during the period	1.77	%	1.38	%	1.46	%
Weighted average interest rate at end of period	2.09		1.49		1.17	
Other Borrowings						
Average balance outstanding	$115,925		$111,325		$43,516	
Maximum amount outstanding at any month end during the period	115,849		110,685		107,373	
Balance outstanding at the end of period	115,849		110,685		107,373	
Weighted average interest rate during the period	5.66	%	5.86	%	4.76	%
Weighted average interest rate at end of period	5.59		5.18		5.02	
Total Borrowings						
Average balance outstanding	$1,162,429		$1,169,791		$1,231,014	
Maximum amount outstanding at any month end during the period	1,250,843		1,427,772		1,560,639	
Balance outstanding at the end of period	1,250,843		1,309,653		1,266,563	
Weighted average interest rate during the period	2.16	%	1.81	%	1.67	%
Weighted average interest rate at end of period	2.41		1.80		1.53	

Subsidiary Activities

At December 31, 2018, the Holding Company had four wholly owned subsidiaries: the Bank and the Trusts. In addition, the Bank had three wholly owned subsidiaries: FSB Properties Inc., Flushing Preferred Funding Corporation (“FPFC”), and Flushing Service Corporation.

- FSB Properties Inc., which is incorporated in the State of New York, was formed in 1976 with the original purpose of engaging in joint venture real estate equity investments. These activities were discontinued in 1986 and no joint venture property remains. FSB Properties Inc. is currently used solely to hold title to real estate owned that is obtained via foreclosure.

- Flushing Preferred Funding Corporation, which is incorporated in the State of Delaware, was formed in 1997 as a real estate investment trust for the purpose of acquiring, holding and managing real estate mortgage assets. It also is available as an additional vehicle for access by the Company to the capital markets for future opportunities.

- Flushing Service Corporation, which is incorporated in the State of New York, was formed in 1998 to market insurance products and mutual funds.

Personnel

At December 31, 2018, we had 456 full-time employees and 24 part-time employees. None of our employees are represented by a collective bargaining unit, and we consider our relationship with our employees to be good. At the present time, the Holding Company only employs certain officers of the Bank. These employees do not receive any extra compensation as officers of the Holding Company.

29

Omnibus Incentive Plan

The 2014 Omnibus Incentive Plan (“2014 Omnibus Plan”) became effective on May 20, 2014 after adoption by the Board of Directors and approval by the stockholders. The 2014 Omnibus Plan authorizes the Compensation Committee of the Company’s Board of Directors (the “Compensation Committee”) to grant a variety of equity compensation awards as well as long-term and annual cash incentive awards. The 2014 Omnibus Plan authorizes the issuance of 1,100,000 shares. To the extent that an award under the 2014 Omnibus Plan is cancelled, expired, forfeited, settled in cash, settled by issuance of fewer shares than the number underlying the award, or otherwise terminated without delivery of shares to a participant in payment of the exercise price or taxes relating to an award, the shares retained by or returned to the Company will be available for future issuance under the 2014 Omnibus Plan. No further awards may be granted under the Company’s 2005 Omnibus Incentive Plan, 1996 Stock Option Incentive Plan, and 1996 Restricted Stock Incentive Plan. On May 31, 2017, stockholders approved an amendment to the 2014 Omnibus Plan (the “Amendment”) authorizing an additional 672,000 shares available for future issuance. In addition, to increasing the number of shares for future grants, the Amendment eliminated, in the case of stock options and SARs, the ability to recycle shares used to satisfy the exercise price or taxes for such awards. No other amendments to the 2014 Omnibus Plan were made. Including the additional shares authorized from the Amendment, 745,477 shares are available for future issuance under the 2014 Omnibus Plan at December 31, 2018.

For additional information concerning this plan, see “Note 11 of Notes to Consolidated Financial Statements” in Item 8 of this Annual Report.

REGULATION

General

The Bank is a New York State-chartered commercial bank and its deposit accounts are insured under the Deposit Insurance Fund (the “DIF”) of the Federal Deposit Insurance Corporation (the “FDIC”) up to applicable legal limits. The Bank is subject to extensive regulation and supervision by the New York State Department of Financial Services (“NYDFS”), as its chartering agency, by the FDIC, as its insurer of deposits, and to a lesser extent by the Consumer Financial Protection Bureau (the “CFPB”), which was created under the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”) in 2011 to implement and enforce consumer protection laws applying to banks. The Bank must file reports with the NYDFS, the FDIC, and the CFPB concerning its activities and financial condition, in addition to obtaining regulatory approvals prior to entering into certain transactions such as mergers with, or acquisitions of, other depository institutions. Furthermore, the Bank is periodically examined by the NYDFS and the FDIC to assess compliance with various regulatory requirements, including safety and soundness considerations. This regulation and supervision establishes a comprehensive framework of activities in which a commercial bank can engage, and is intended primarily for the protection of the insurance fund and depositors. The regulatory structure also gives the regulatory authorities extensive discretion in connection with its supervisory and enforcement activities and examination policies, including policies with respect to the classification of assets and the establishment of adequate loan loss allowances for regulatory purposes. Any change in such regulation, whether by the NYDFS, the FDIC, or through legislation, could have a material adverse impact on the Company, the Bank and its operations, and the Company's shareholders. While the regulatory environment has entered a period of rebalancing of the post financial crisis framework, we expect that our business will remain subject to extensive regulation and supervision.

The Company is required to file certain reports under, and otherwise comply with, the rules and regulations of the Federal Reserve Board of Governors (the "FRB"), the FDIC, the NYDFS, and the Securities and Exchange Commission (the "SEC") under federal securities laws. In addition, the FRB periodically examines the Company. Certain of the regulatory requirements applicable to the Bank and the Company are referred to below or elsewhere herein. However, such discussion is not meant to be a complete explanation of all laws and regulations and is qualified in its entirety by reference to the actual laws and regulations.

The Dodd-Frank Act

The Dodd-Frank Act has significantly impacted the current bank regulatory structure and is expected to continue to affect, into the immediate future, the lending and investment activities and general operations of depository institutions and their holding companies. In addition to creating the CFPB, the Dodd-Frank Act requires the FRB to establish minimum consolidated capital requirements for bank holding companies that are as stringent as those required for insured depository institutions; the components of Tier 1 capital will be restricted to capital instruments that are currently considered to be Tier 1 capital for insured depository institutions. In addition, the proceeds of trust preferred securities will be excluded from Tier 1 capital unless (i) such securities are issued by bank holding companies with assets of less than $500 million, or (ii) such securities were issued prior to May 19, 2010 by bank or savings and loan holding companies with assets of less than $15 billion. The Dodd-Frank Act created a new supervisory structure for oversight of the U.S. financial system, including the establishment of a new council of regulators, the Financial Stability Oversight Council, to monitor and address systemic risks to the financial system. Non-bank financial companies that are deemed to be significant to the stability of the U.S. financial system and all bank holding companies with $50 billion or more in total consolidated assets will be subject to heightened supervision and regulation. The FRB will implement prudential requirements and prompt corrective action procedures for such companies.

The Dodd-Frank Act made many additional changes in banking regulation, including: authorizing depository institutions, for the first time, to pay interest on business checking accounts; requiring originators of securitized loans to retain a percentage of the risk for transferred loans; establishing regulatory rate-setting for certain debit card interchange fees; and establishing a number of reforms for mortgage lending and consumer protection.

The Dodd-Frank Act also broadened the base for FDIC insurance assessments. The FDIC was required to promulgate rules revising its assessment system so that it is based not on deposits, but on the average consolidated total assets less the tangible equity capital of an insured institution. That rule took effect April 1, 2011. The Dodd-Frank Act also permanently increased the maximum amount of deposit insurance for banks, savings institutions, and credit unions to $250,000 per depositor, retroactive to January 1, 2008, and provided non-interest-bearing transaction accounts with unlimited deposit insurance through December 31, 2012.

Some of the provisions of the Dodd-Frank Act are not yet in effect. The Dodd-Frank Act requires various federal agencies to promulgate numerous and extensive implementing regulations over the next several years.

Basel III

On January 1, 2015, the Company and the Bank became subject to a new comprehensive capital framework for U.S. banking organizations that was issued by the FDIC and FRB in July 2013 (the “Basel III Capital Rules”), subject to phase-in periods for certain components and other provisions. Under the Basel III Capital Rules, the minimum capital ratios effective as of January 1, 2015 are:

- 4.5% Common Equity Tier 1 (“CET1”) to risk-weighted assets;
- 6.0% Tier 1 capital that is CET1 plus Additional Tier 1 capital) to risk-weighted assets;
- 8.0% Total Capital that is, Tier 1 capital plus Tier 2 capital) to risk-weighted assets; and
- 4.0% Tier 1 capital to average consolidated assets as reported on consolidated financial statements (known as the “leverage ratio”).

The Basel III Capital Rules also introduced a new “capital conservation buffer,” composed entirely of CET1, on top of these minimum risk-weighted asset ratios. The implementation of the capital conservation buffer began on January 1, 2016 at the 0.625% level and increased and will increase by 0.625% on each subsequent January 1, until it reaches 2.5% on January 1, 2019. Banking institutions with a ratio of CET1 to risk-weighted assets below the effective minimum (4.5% plus the capital conservation buffer) will face constraints on dividends, equity repurchases and compensation based on the amount of the shortfall. As of December 31, 2018, the Company and the Bank would meet all capital adequacy requirements under the Basel III Capital Rules on a fully phased-in basis as if such requirements had been in effect.

Together with the FDIC, the Federal Reserve has issued proposed rules that would simplify the capital treatment of certain capital deductions and adjustments, and the final phase-in period for these capital deductions and adjustments has been indefinitely delayed. In addition, in December 2018, the federal banking agencies finalized rules that would permit bank holding companies and banks to phase-in, for regulatory capital purposes, the day-one impact of the new current expected credit loss accounting rule on retained earnings over a period of three years.

Economic Growth, Regulatory Relief, and Consumer Protection Act

The Economic Growth, Regulatory Relief, and Consumer Protection Act (The "Economic Growth Act"), which was signed into law on May 24, 2018, scales back certain requirements of the Dodd-Frank Act and provides other regulatory relief. Title II of the Economic Growth Act provides regulatory relief to community banks, which are generally characterized in the statute as banking organizations with less than $10 billion in total consolidated assets and with limited trading activities. The Economic Growth Act requires the federal banking agencies to develop a "community bank leverage ratio" (the ratio of a bank's tangible equity capital to average total consolidated assets) for financial institutions with assets of less than $10 billion. A financial institution can elect to be subject to this new definition. The federal banking agencies must set the minimum capital for this ratio at not less than 8% and not more than 10%. A community bank that exceeds this ratio will be deemed to be in compliance with all other capital and leverage requirements, including the capital requirements to be considered "well capitalized" under the statutes that provide for prompt corrective action classifying insured depository institutions into five categories based on their relative capital levels. The federal banking agencies may consider a financial institution's risk profile when evaluating whether it qualifies as a community bank for purposes of the capital ratio requirement. See "FDIC Regulations – Prompt Corrective Regulatory Action."

The Truth in Lending Act ("TILA") is the commonly used name for Title I of the Consumer Credit Protection Act, passed by Congress in 1968, which is the consumer protection law specifying what information lenders must share with borrowers before giving them a loan or line of credit. This information includes the annual percentage rate, loan terms, and total cost of the loan. Section 101 of the Economic Growth Act amends the TILA to add a safe harbor for "plain vanilla" mortgage loans originated by banking organizations and credit unions with less than $10 billion in total consolidated assets under existing qualified mortgage and ability to pay rules. This amendment would allow community banks to exercise greater discretion in lending decisions.

Section 619 of the Dodd-Frank Act, commonly referred to as the "Volcker Rule," generally prohibits insured depository institutions and any company affiliated with an insured depository institution from engaging in proprietary trading and from acquiring or retaining ownership interests in, sponsoring, or having certain relationships with a hedge fund or private equity fund. These prohibitions are subject to a number of statutory exemptions, restrictions, and definitions. Under the Economic Growth Act, community banks are now exempt from the Volcker Rule and its proprietary trading prohibitions.

New York State Law

The Bank derives its lending, investment, and other authority primarily from the applicable provisions of New York State Banking Law and the regulations of the NYDFS, as limited by FDIC regulations. Under these laws and regulations, banks, including the Bank, may invest in real estate mortgages, consumer and commercial loans, certain types of debt securities (including certain corporate debt securities, and obligations of federal, state, and local governments and agencies), certain types of corporate equity securities, and certain other assets. The lending powers of New York State-chartered commercial banks are not subject to percentage-of-assets or capital limitations, although there are limits applicable to loans to individual borrowers.

The exercise by an FDIC-insured commercial bank of the lending and investment powers under New York State Banking Law is limited by FDIC regulations and other federal laws and regulations. In particular, the applicable provisions of New York State Banking Law and regulations governing the investment authority and activities of an FDIC-insured state-chartered savings bank and commercial bank have been effectively limited by the Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA") and the FDIC regulations issued pursuant thereto.

With certain limited exceptions, a New York State-chartered commercial bank may not make loans or extend credit for commercial, corporate, or business purposes (including lease financing) to a single borrower, the aggregate amount of which would be in excess of 15% of the bank's net worth or up to 25% for loans secured by collateral having an ascertainable market value at least equal to the excess of such loans over the bank's net worth. The Bank currently complies with all applicable loans-to-one-borrower limitations. At December 31, 2018, the Bank's largest aggregate amount of loans to one borrower was $83.1 million, all of which were performing according to their terms. See "— General — Lending Activities."

Under New York State Banking Law, New York State-chartered stock-form commercial banks may declare and pay dividends out of its net profits, unless there is an impairment of capital, but approval of the NYDFS Superintendent (the "Superintendent") is required if the total of all dividends declared by the bank in a calendar year would exceed the total of its net profits for that year combined with its retained net profits for the preceding two years less prior dividends paid.

New York State Banking Law gives the Superintendent authority to issue an order to a New York State-chartered banking institution to appear and explain an apparent violation of law, to discontinue unauthorized or unsafe practices, and to keep prescribed books and accounts. Upon a finding by the NYDFS that any director, trustee, or officer of any banking organization has violated any law, or has continued unauthorized or unsafe practices in conducting the business of the banking organization after having been notified by the Superintendent to discontinue such practices, such director, trustee, or officer may be removed from office after notice and opportunity to be heard. The Superintendent also has authority to appoint a conservator or a receiver for a savings or commercial bank under certain circumstances.

On February 16, 2017, the NYDFS issued the final version of its cybersecurity regulation, which has an effective date of March 1, 2017. The regulation, which is detailed and broad in scope, covers five basic areas.

Governance: The regulation requires senior management and boards of directors must adopt a cybersecurity policy for protecting information systems and most sensitive information. Covered companies must also designate a Chief Information Security Officer, who must report to the board annually. The cybersecurity policy was required to be in place, and the security officer designated, by August 28, 2017. Commencing September 4, 2018, we were required to have commenced mandatory annual reporting to the board by the Chief Information Security Officer concerning critical aspects of our cybersecurity program.

Testing: The regulation requires the conduct of cybersecurity tests and analyses, including a "risk assessment" to "evaluate and categorize risks," evaluate the integrity and confidentiality of information systems and non-public information, and develop a process to mitigate any identified risks. These tests and assessments must be conducted by March 1, 2018.

Ongoing Requirements: The regulation imposes substantial day-to-day and technical requirements. Among others, we must develop and/or maintain access controls for our information systems, ensure the physical security of our computer systems, encrypt or protect personally identifiable information, perform reviews of in-house and externally created applications, train employees, and build an audit trail system. The timeline to ensure compliance with these rules ranges from one year to eighteen months.

Vendors: The new regulation also regulates third-party vendors with access to our information technology or non-public information. We will be required to develop and implement written policies and procedures to ensure the security of our information technology systems or non-public information that can be accessed by our vendors, including identifying the risks from third-party access, imposing minimum cybersecurity practices for vendors, and creating a due-diligence process for evaluating those vendors. We will have two years to satisfy these extensive requirements.

Reports: The new regulation imposes a notification process for any material cybersecurity event. Within 72 hours, a cybersecurity event that has a "reasonable likelihood" of "materially harming" us or that must be reported to another government or self-regulating agency must be reported to the NYDFS. In addition, an annual compliance certification to the NYDFS from either the board or a senior officer is required.

FDIC Regulations

Capital Requirements. The FDIC has adopted risk-based capital guidelines to which the Bank is subject. The guidelines establish a systematic analytical framework that makes regulatory capital requirements sensitive to differences in risk profiles among banking organizations. The Bank is required to maintain certain levels of regulatory capital in relation to regulatory risk-weighted assets. The ratio of such regulatory capital to regulatory risk-weighted assets is referred to as a "risk-based capital ratio." Risk-based capital ratios are determined by allocating assets and specified off-balance-sheet items to risk-weighted categories ranging from 0% to 1,250%, with higher levels of capital being required for the categories perceived as representing greater risk.

These guidelines divide an institution's capital into two tiers. The first tier ("Tier 1") includes common equity, retained earnings, certain non-cumulative perpetual preferred stock (excluding auction rate issues), and minority interests in equity accounts of consolidated subsidiaries, less goodwill and other intangible assets (except mortgage servicing rights and purchased credit card relationships subject to certain limitations). Supplementary ("Tier 2") capital includes, among other items, cumulative perpetual and long-term limited-life preferred stock, mandatorily convertible securities, certain hybrid capital instruments, term subordinated debt, and the ALL, subject to certain limitations, and up to 45% of pre-tax net unrealized gains on equity securities with readily determinable fair market values, less required deductions. See "Prompt Corrective Regulatory Action" below.

The regulatory capital regulations of the FDIC and other federal banking agencies provide that the agencies will take into account the exposure of an institution's capital and economic value to changes in interest rate risk in assessing capital adequacy. According to such agencies, applicable considerations include the quality of the institution's interest rate risk management process, overall financial condition, and the level of other risks at the institution for which capital is needed. Institutions with significant interest rate risk may be required to hold additional capital. The agencies have issued a joint policy statement providing guidance on interest rate risk management, including a discussion of the critical factors affecting the agencies' evaluation of interest rate risk in connection with capital adequacy. Institutions that engage in specified amounts of trading activity may be subject to adjustments in the calculation of the risk-based capital requirement to assure sufficient additional capital to support market risk.

Standards for Safety and Soundness. Federal law requires each federal banking agency to prescribe, for the depository institutions under its jurisdiction, standards that relate to, among other things, internal controls; information and audit systems; loan documentation; credit underwriting; the monitoring of interest rate risk; asset growth; compensation; fees and benefits; and such other operational and managerial standards as the agency deems appropriate. The federal banking agencies adopted final regulations and Interagency Guidelines Establishing Standards for Safety and Soundness (the "Guidelines") to implement these safety and soundness standards. The Guidelines set forth the safety and soundness standards that the federal banking agencies use to identify and address problems at insured depository institutions before capital becomes impaired. If the appropriate federal banking agency determines that an institution fails to meet any standard prescribed by the Guidelines, the agency may require the institution to provide it with an acceptable plan to achieve compliance with the standard, as required by the Federal Deposit Insurance Act, as amended, (the "FDI Act"). The final regulations establish deadlines for the submission and review of such safety and soundness compliance plans.

Real Estate Lending Standards. The FDIC and the other federal banking agencies have adopted regulations that prescribe standards for extensions of credit that are (i) secured by real estate, or (ii) made for the purpose of financing construction or improvements on real estate. The FDIC regulations require each institution to establish and maintain written internal real estate lending standards that are consistent with safe and sound banking practices, and appropriate to the size of the institution and the nature and scope of its real estate lending activities. The standards also must be consistent with accompanying FDIC guidelines, which include loan-to-value limitations for the different types of real estate loans. Institutions are also permitted to make a limited amount of loans that do not conform to the proposed loan-to-value limitations so long as such exceptions are reviewed and justified appropriately. The FDIC guidelines also list a number of lending situations in which exceptions to the loan-to-value standard are justified.

Dividend Limitations. The FDIC has authority to use its enforcement powers to prohibit a commercial bank from paying dividends if, in its opinion, the payment of dividends would constitute an unsafe or unsound practice. Federal law prohibits the payment of dividends that will result in the institution failing to meet applicable capital requirements on a pro forma basis. The Bank is also subject to dividend declaration restrictions imposed by New York State law as previously discussed under “New York State Law.”

Investment Activities. Since the enactment of FDICIA, all state-chartered financial institutions, including commercial banks and their subsidiaries, have generally been limited to such activities as principal and equity investments of the type, and in the amount, authorized for national banks. State law, FDICIA, and FDIC regulations permit certain exceptions to these limitations. In addition, the FDIC is authorized to permit institutions to engage in state-authorized activities or investments not permitted for national banks (other than non-subsidiary equity investments) for institutions that meet all applicable capital requirements if it is determined that such activities or investments do not pose a significant risk to the insurance fund. The Gramm-Leach-Bliley Act of 1999 and FDIC regulations impose certain quantitative and qualitative restrictions on such activities and on a bank’s dealings with a subsidiary that engages in specified activities.

Prompt Corrective Regulatory Action. Federal law requires, among other things, that federal bank regulatory authorities take “prompt corrective action” with respect to institutions that do not meet minimum capital requirements. For such purposes, the law establishes five capital tiers: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized.

The FDIC has adopted regulations to implement prompt corrective action. Among other things, the regulations define the relevant capital measures for the five capital categories. An institution is deemed to be “well capitalized” if it has a total risk-based capital ratio of 10% or greater, a Tier 1 risk-based capital ratio of 8% or greater, a common equity Tier 1 risk-based capital ratio of 6.5% and a leverage capital ratio of 5% or greater, and is not subject to a regulatory order, agreement, or directive to meet and maintain a specific capital level for any capital measure. An institution is deemed to be “adequately capitalized” if it has a total risk-based capital ratio of 8% or greater, a Tier 1 risk-based capital ratio of 6% or greater, a common equity Tier 1 risk-based capital ratio of 4.5% or greater and a leverage capital ratio of 4% or greater. An institution is deemed to be “undercapitalized” if it has a total risk-based capital ratio of less than 8%, a Tier 1 risk-based capital ratio of less than 6%, a common equity Tier 1 risk-based capital ratio of less than 4.5% or a leverage capital ratio of less than 4%. An institution is deemed to be “significantly undercapitalized” if it has a total risk-based capital ratio of less than 6%, a Tier 1 risk-based capital ratio of less than 4% a common equity Tier 1 risk-based capital ratio of less than 3%, or a leverage capital ratio of less than 3%. An institution is deemed to be “critically undercapitalized" if it has a ratio of tangible equity (as defined in the regulations) to total assets that is equal to or less than 2%. For a summary of the regulatory capital ratios of the Bank at December 31, 2018, see "Note 14 of Notes to Consolidated Financial Statements" in Item 8 of this Annual Report. An institution may be downgraded to, or deemed to be in, a capital category that is lower than indicated by its capital ratios if it is determined to be in an unsafe or unsound condition or if it receives an unsatisfactory examination rating with respect to certain matters. A bank's capital category is determined solely for the purpose of applying prompt corrective action regulations, and the capital category may not constitute an accurate representation of the bank's overall financial condition or prospects for other purposes.

Insurance of Deposit Accounts. The Dodd-Frank Act made permanent the standard maximum amount of FDIC deposit insurance at $250,000 per depositor. In addition, the deposits of the Bank are insured up to applicable limits by the DIF. In this regard, insured depository institutions are required to pay quarterly deposit insurance assessments to the DIF. Assessments are based on average total assets minus average tangible equity. Through the second quarter of 2016, the assessment rate was determined through a risk-based system. For depository institutions with less than $10 billion in assets, such as the Bank, under the FDIC's risk-based assessment system, insured institutions were assigned to one of four risk categories based upon supervisory evaluations, regulatory capital level, and certain other factors, with less risky institutions paying lower assessments. Through the second quarter of 2016, an institution's assessment rate depended upon the category to which it was assigned and certain other factors. The initial base assessment rate ranged from five to 35 basis points on an annualized basis. The initial base assessment rate decreased depending on the institution's ratio of long-term unsecured debt to its assessment base (with such decrease not to exceed the lesser of five basis points or 50% of the initial base assessment rate) and, for institutions not in the highest risk category, increased if the institution's brokered deposits are more than ten percent of its domestic deposits (with such increase not to exceed ten basis points). Through the second quarter of 2016, the total base assessment rate was therefore from 2.5 to 45 basis points on an annualized basis.

Under a final rule adopted in April 2016, effective in the third quarter of 2016, the risk based system was amended for banks with less than $10.0 billion in assets that have been FDIC-insured for at least five years. The final rule replaced the four risk categories for determining such a bank's assessment rate with a financial ratios method based on a statistical model estimating the bank's probability of failure over three years utilizing seven financial ratios (leverage ratio; net income before taxes/total assets; nonperforming loans and leases/gross assets; other real estate owned/gross assets; brokered deposit ratio; one year asset growth; and loan mix index) and a weighted average of supervisory ratings components. The final rule also eliminated the brokered deposit downward adjustment factor for such banks' assessment rates, providing a new brokered deposit ratio applicable to all small banks, whereby brokered deposits in excess of 10% of total assets (inclusive of reciprocal deposits if a bank is not well capitalized or has a composite supervisory rating other than a 1 or 2) as a result of which assessment rates may be increased for banks which experience rapid growth; lowers the range of assessment rates authorized to 1.5 basis points for an institution posing the least risk, to 40 basis points for an institution posing the most risk; and will further lower the range of assessment rates if the reserve ratio of the DIF increases to 2% or more. Banks with over $10.0 billion in assets are required to pay a surcharge of 4.5 basis points on their assessment basis, subject to certain adjustments. The FDIC may also impose special assessments from time to time. At December 31, 2018, the Bank had $301.7 million in brokered deposit accounts.

FDIC deposit insurance expense includes deposit insurance assessments and Financing Corporation (“FICO”) assessments related to outstanding bonds issued by FICO in the late 1980s to recapitalize the now defunct Federal Savings & Loan Insurance Corporation. The Bank paid $175,000, $289,000 and $297,000 for their share of the interest due on FICO bonds in 2018, 2017 and 2016, respectively, which is included in FDIC insurance expense. These payments, which generally approximate 10% of the Bank's annual FDIC insurance payments, will continue until those bonds mature through 2019.

Transactions with Affiliates

Under current federal law, transactions between depository institutions and their affiliates are governed by Sections 23A and 23B of the Federal Reserve Act and the FRB’s Regulation W promulgated thereunder. An affiliate of a commercial bank is any company or entity that controls, is controlled by, or is under common control with, the institution, other than a subsidiary. Generally, an institution’s subsidiaries are not treated as affiliates unless they are engaged in activities as principal that are not permissible for national banks. In a holding company context, at a minimum, the parent holding company of an institution, and any companies that are controlled by such parent holding company, are affiliates of the institution. Generally, Section 23A limits the extent to which the institution or its subsidiaries may engage in “covered transactions” with any one affiliate to an amount equal to 10% of the institution’s capital stock and surplus, and contains an aggregate limit on all such transactions with all affiliates to an amount equal to 20% of such capital stock and surplus. The term “covered transaction” includes the making of loans or other extensions of credit to an affiliate; the purchase of assets from an affiliate; the purchase of, or an investment in, the securities of an affiliate; the acceptance of securities of an affiliate as collateral for a loan or extension of credit to any person; or issuance of a guarantee, acceptance, or letter of credit on behalf of an affiliate. Section 23A also establishes specific collateral requirements for loans or extensions of credit to, or guarantees or acceptances on letters of credit issued on behalf of, an affiliate. Section 23B requires that covered transactions and a broad list of other specified transactions be on terms substantially the same as, or at least as favorable to, the institution or its subsidiary as similar transactions with non-affiliates.

The Sarbanes-Oxley Act of 2002 generally prohibits loans by the Company to its executive officers and directors. However, the Sarbanes-Oxley Act contains a specific exemption for loans by an institution to its executive officers and directors in compliance with federal banking laws. Section 22(h) of the Federal Reserve Act, and FRB Regulation O adopted thereunder, governs loans by a savings bank or commercial bank to directors, executive officers, and principal shareholders. Under Section 22(h), loans to directors, executive officers, and shareholders who control, directly or indirectly, 10% or more of voting securities of an institution, and certain related interests of any of the foregoing, may not exceed, together with all other outstanding loans to such persons and affiliated entities, the institution's total capital and surplus. Section 22(h) also prohibits loans above amounts prescribed by the appropriate federal banking agency to directors, executive officers, and shareholders who control 10% or more of the voting securities of an institution, and its respective related interests, unless such loan is approved in advance by a majority of the board of the institution's directors. Any "interested" director may not participate in the voting. The loan amount (which includes all other outstanding loans to such person) as to which such prior board of director approval is required, is the greater of $25,000 or 5% of capital and surplus or any loans aggregating over $500,000. Further, pursuant to Section 22(h), loans to directors, executive officers, and principal shareholders must be made on terms substantially the same as those offered in comparable transactions to other persons. There is an exception for loans made pursuant to a benefit or compensation program that is widely available to all employees of the institution and does not give preference to executive officers over other employees. Section 22(g) of the Federal Reserve Act places additional limitations on loans to executive officers.

Community Reinvestment Act

Federal Regulation. Under the Community Reinvestment Act (“CRA”), as implemented by FDIC regulations, an institution has a continuing and affirmative obligation consistent with its safe and sound operation to help meet the credit needs of its entire community, including low and moderate income neighborhoods. The CRA does not establish specific lending requirements or programs for financial institutions, nor does it limit an institution’s discretion to develop the types of products and services that it believes are best suited to its particular community, consistent with the CRA. The CRA requires the FDIC, in connection with its examinations, to assess the institution’s record of meeting the credit needs of its community and to take such record into account in its evaluation of certain applications by such institution. The CRA requires public disclosure of an institution’s CRA rating and further requires the FDIC to provide a written evaluation of an institution’s CRA performance utilizing a four-tiered descriptive rating system. The Bank received a CRA rating of “Outstanding” in its most recent completed CRA examination, which was completed as of June 25, 2018. Institutions that receive less than a satisfactory rating may face difficulties in securing approval for new activities or acquisitions. The CRA requires all institutions to make public disclosures of their CRA ratings.

New York State Regulation. The Bank is also subject to provisions of the New York State Banking Law that impose continuing and affirmative obligations upon a banking institution organized in New York State to serve the credit needs of its local community (the “NYCRA”). Such obligations are substantially similar to those imposed by the CRA. The NYCRA requires the NYDFS to make a periodic written assessment of an institution’s compliance with the NYCRA, utilizing a four-tiered rating system, and to make such assessment available to the public. The NYCRA also requires the Superintendent to consider the NYCRA rating when reviewing an application to engage in certain transactions, including mergers, asset purchases, and the establishment of branch offices or ATMs, and provides that such assessment may serve as a basis for the denial of any such application.

Federal Reserve System

Under FRB regulations, the Bank is required to maintain cash reserves against its transaction accounts (primarily interest-bearing demand deposit accounts and demand deposit accounts). The FRB regulations generally require that reserves be maintained against aggregate transaction accounts as follows: for that portion of transaction accounts aggregating between $16.0 million and $122.3 million (subject to adjustment by the FRB), the reserve requirement is 3%; for amounts greater than $122.3 million, the reserve requirement is 10% (subject to adjustment by the FRB between 8% and 14%). The first $16.0 million of otherwise reservable balances (subject to adjustments by the FRB) are exempted from the reserve requirements. The Bank is in compliance with the foregoing requirements.

Federal Home Loan Bank System

The Bank is a member of the FHLB-NY, one of 11 regional FHLBs comprising the FHLB system. Each regional FHLB manages its customer relationships, while the 11 FHLBs use its combined size and strength to obtain its necessary funding at the lowest possible cost. As a member of the FHLB-NY, the Bank is required to acquire and hold shares of FHLB-NY capital stock. Pursuant to this requirement, at December 31, 2018, the Bank was required to maintain $57.3 million of FHLB-NY stock.

Holding Company Regulations

The Company is subject to examination, regulation, and periodic reporting under the Bank Holding Company Act of 1956, as amended (the "BHCA"), as administered by the FRB. The Company is required to obtain the prior approval of the FRB to acquire all, or substantially all, of the assets of any bank or bank holding company. Prior FRB approval would be required for the Company to acquire direct or indirect ownership or control of any voting securities of any bank or bank holding company if, after giving effect to such acquisition, it would, directly or indirectly, own or control more than 5% of any class of voting shares of such bank or bank holding company. In addition before any bank acquisition can be completed, prior approval thereof may also be required to be obtained from other agencies having supervisory jurisdiction over the bank to be acquired, including the NYDFS.

FRB regulations generally prohibit a bank holding company from engaging in, or acquiring, direct or indirect control of more than 5% of the voting securities of any company engaged in non-banking activities. One of the principal exceptions to this prohibition is for activities found by the FRB to be so closely related to banking or managing or controlling Bank as to be a proper incident thereto. Some of the principal activities that the FRB has determined by regulation to be so closely related to banking are: (i) making or servicing loans; (ii) performing certain data processing services; (iii) providing discount brokerage services; (iv) acting as fiduciary, investment, or financial advisor; (v) leasing personal or real property; (vi) making investments in corporations or projects designed primarily to promote community welfare; and (vii) acquiring a savings and loan association.

The FRB has adopted capital adequacy guidelines for bank holding companies (on a consolidated basis). At December 31, 2018, the Company's consolidated capital exceeded these requirements. The Dodd-Frank Act required the FRB to issue consolidated regulatory capital requirements for bank holding companies that are at least as stringent as those applicable to insured depository institutions. Such regulations eliminated the use of certain instruments, such as cumulative preferred stock and trust preferred securities, as Tier 1 holding company capital.

Bank holding companies are generally required to give the FRB prior written notice of any purchase or redemption of its outstanding equity securities if the gross consideration for the purchase or redemption, when combined with the net consideration paid for all such purchases or redemptions during the preceding twelve months, is equal to 10% or more of the Company's consolidated net worth. The FRB may disapprove such a purchase or redemption if it determines that the proposal would constitute an unsafe or unsound practice, or would violate any law, regulation, FRB order or directive, or any condition imposed by, or written agreement with, the FRB. The FRB has adopted an exception to this approval requirement for well-capitalized bank holding companies that meet certain other conditions.

The FRB has issued a policy statement regarding the payment of dividends by bank holding companies. In general, the FRB's policies provide that dividends should be paid only out of current earnings and only if the prospective rate of earnings retention by the bank holding company appears consistent with the organization's capital needs, asset quality, and overall financial condition. The FRB's policies also require that a bank holding company serve as a source of financial strength to its subsidiary banks by standing ready to use available resources to provide adequate capital funds to those banks during periods of financial stress or adversity, and by maintaining the financial flexibility and capital-raising capacity to obtain additional resources for assisting its subsidiary banks where necessary. The Dodd-Frank Act codifies the source of financial strength policy and requires regulations to facilitate its application. Under the prompt corrective action laws, the ability of a bank holding company to pay dividends may be restricted if a subsidiary bank becomes undercapitalized. These regulatory policies could affect the ability of the Company to pay dividends or otherwise engage in capital distributions.

Under the FDI Act, a depository institution may be liable to the FDIC for losses caused the DIF if a commonly controlled depository institution were to fail. The Bank is commonly controlled within the meaning of that law.

The status of the Company as a registered bank holding company under the BHCA does not exempt it from certain federal and state laws and regulations applicable to corporations generally, including, without limitation, certain provisions of the federal securities laws.

The Company, the Bank, and their respective affiliates will be affected by the monetary and fiscal policies of various agencies of the United States Government, including the Federal Reserve System. In view of changing conditions in the national economy and in the money markets, it is difficult for management to accurately predict future changes in monetary policy or the effect of such changes on the business or financial condition of the Company or the Bank.

Acquisition of the Holding Company

Under the Federal Change in Bank Control Act ("CIBCA"), a notice must be submitted to the FRB if any person (including a company), or group acting in concert, seeks to acquire 10% or more of the Company's shares of outstanding common stock, unless the FRB has found that the acquisition will not result in a change in control of the Company. Under the CIBCA, the FRB generally has 60 days within which to act on such notices, taking into consideration certain factors, including the financial and managerial resources of the acquirer; the convenience and needs of the communities served by the Company and the Bank; and the anti-trust effects of the acquisition. Under the BHCA, any company would be required to obtain approval from the FRB before it may obtain "control" of the Company within the meaning of the BHCA. Control generally is defined to mean the ownership or power to vote 25% or more of any class of voting securities of the Company or the ability to control in any manner the election of a majority of the Company's directors. An existing bank holding company would, under the BHCA, be required to obtain the FRB's approval before acquiring more than 5% of the Company's voting stock. In addition to the CIBCA and the BHCA, New York State Banking Law generally requires prior approval of the New York State Banking Board before any action is taken that causes any company to acquire direct or indirect control of a banking institution that is organized in New York.

Consumer Financial Protection Bureau

Created under the Dodd-Frank Act, and given extensive implementation and enforcement powers, the CFPB has broad rulemaking authority for a wide range of consumer financial laws that apply to all banks, including, among other things, the authority to prohibit "unfair, deceptive, or abusive" acts and practices. Abusive acts or practices are defined as those that (1) materially interfere with a consumer's ability to understand a term or condition of a consumer financial product or service, or (2) take unreasonable advantage of a consumer's (a) lack of financial savvy, (b) inability to protect himself in the selection or use of consumer financial products or services, or (c) reasonable reliance on a covered entity to act in the consumer's interests. The CFPB has the authority to investigate possible violations of federal consumer financial law, hold hearings and commence civil litigation. The CFPB can issue cease-and-desist orders against banks and other entities that violate consumer financial laws. The CFPB may also institute a civil action against an entity in violation of federal consumer financial law in order to impose a civil penalty or an injunction.

Mortgage Banking and Related Consumer Protection Regulations

The retail activities of the Bank, including lending and the acceptance of deposits, are subject to a variety of statutes and regulations designed to protect consumers. Interest and other charges collected or contracted for by the Bank are subject to state usury laws and federal laws concerning interest rates. Loan operations are also subject to federal laws applicable to credit transactions, such as:

- The federal Truth-In-Lending Act and Regulation Z issued by the FRB, governing disclosures of credit terms to consumer borrowers;
- The Home Mortgage Disclosure Act and Regulation C issued by the FRB, requiring financial institutions to provide information to enable the public and public officials to determine whether a financial institution is fulfilling its obligation to help meet the housing needs of the community it serves;
- The Equal Credit Opportunity Act and Regulation B issued by the FRB, prohibiting discrimination on the basis of race, creed or other prohibited factors in extending credit;
- The Fair Credit Reporting Act and Regulation V issued by the FRB, governing the use and provision of information to consumer reporting agencies;
- The Fair Debt Collection Act, governing the manner in which consumer debts may be collected by collection agencies; and
- The guidance of the various federal agencies charged with the responsibility of implementing such federal laws.

Deposit operations also are subject to:

- The Truth in Savings Act and Regulation DD issued by the FRB, which requires disclosure of deposit terms to consumers;
- Regulation CC issued by the FRB, which relates to the availability of deposit funds to consumers;
- The Right to Financial Privacy Act, which imposes a duty to maintain the confidentiality of consumer financial records and prescribes procedures for complying with administrative subpoenas of financial records; and
- The Electronic Funds Transfer Act and Regulation E issued by the FRB, which governs automatic deposits to and withdrawals from deposit accounts and customers' rights and liabilities arising from the use of automated teller machines and other electronic banking services.

In addition, the Bank and its subsidiaries may also be subject to certain state laws and regulations designed to protect consumers.

Many of the foregoing laws and regulations are subject to change resulting from the provisions in the Dodd-Frank Act, which in many cases calls for revisions to implementing regulations. In addition, oversight responsibilities of these and other consumer protection laws and regulations will, in large measure, transfer from the Bank's primary regulators to the CFPB. We cannot predict the effect that being regulated by a new, additional regulatory authority focused on consumer financial protection, or any new implementing regulations or revisions to existing regulations that may result from the establishment of this new authority, will have on our businesses.

Available Information

We are a reporting company and file annual, quarterly and current reports, proxy statements and other information with the SEC. We make available free of charge on or through our web site at www.flushingbank.com our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. Our SEC filings are also available to the public free of charge over the Internet at the SEC's web site at http://www.sec.gov.

You may also read and copy any document we file at the SEC's public reference room located at 100 F. Street, N.E., Room 1580, Washington, D.C. 20549. You may obtain information about the operation of the public reference room by calling the SEC at 1-800-SEC-0330. You may request copies of these documents by writing to the SEC and paying a fee for the copying cost.

Item 1A. Risk Factors.

In addition to the other information contained in this Annual Report, the following factors and other considerations should be considered carefully in evaluating us and our business.

Changes in Interest Rates May Significantly Impact Our Financial Condition and Results of Operations

Like most financial institutions, our results of operations depend to a large degree on our net interest income. When interest-bearing liabilities mature or reprice more quickly than interest-earning assets, a significant increase in market interest rates could adversely affect net interest income. Conversely, a significant decrease in market interest rates could result in increased net interest income. As a general matter, we seek to manage our business to limit our overall exposure to interest rate fluctuations. However, fluctuations in market interest rates are neither predictable nor controllable and may have a material adverse impact on our operations and financial condition. Additionally, in a rising interest rate environment, a borrower's ability to repay adjustable rate mortgages can be negatively affected as payments increase at repricing dates.

Prevailing interest rates also affect the extent to which borrowers repay and refinance loans. In a declining interest rate environment, the number of loan prepayments and loan refinancing may increase, as well as prepayments of mortgage-backed securities. Call provisions associated with our investment in U.S. government agency and corporate securities may also adversely affect yield in a declining interest rate environment. Such prepayments and calls may adversely affect the yield of our loan portfolio and mortgage-backed and other securities as we reinvest the prepaid funds in a lower interest rate environment. However, we typically receive additional loan fees when existing loans are refinanced, which partially offset the reduced yield on our loan portfolio resulting from prepayments. In periods of low interest rates, our level of core deposits also may decline if depositors seek higher-yielding instruments or other investments not offered by us, which in turn may increase our cost of funds and decrease our net interest margin to the extent alternative funding sources are utilized. An increasing interest rate environment would tend to extend the average lives of lower yielding fixed rate mortgages and mortgage-backed securities, which could adversely affect net interest income. In addition, depositors tend to open longer term, higher costing certificate of deposit accounts which could adversely affect our net interest income if rates were to subsequently decline. Additionally, adjustable rate mortgage loans and mortgage-backed securities generally contain interim and lifetime caps that limit the amount the interest rate can increase or decrease at repricing dates. Significant increases in prevailing interest rates may significantly affect demand for loans and the value of bank collateral. See "— Local Economic Conditions."

Our Lending Activities Involve Risks that May Be Exacerbated Depending on the Mix of Loan Types

At December 31, 2018, our gross loan portfolio was $5,536.3 million, of which 83.8% was mortgage loans secured by real estate. The majority of these real estate loans were secured by multi-family residential property ($2,269.0 million), commercial real estate ($1,542.5 million) and one-to-four family mixed-use property ($577.7 million), which combined represent 79.3% of our loan portfolio. Our loan portfolio is concentrated in the New York City metropolitan area. Multi-family residential, one-to-four family mixed-use property, commercial real estate mortgage loans, commercial business loans and construction loans, are generally viewed as exposing the lender to a greater risk of loss than fully underwritten one-to-four family residential mortgage loans and typically involve higher principal amounts per loan. Multi-family residential, one-to-four family mixed-use property and commercial real estate mortgage loans are typically dependent upon the successful operation of the related property, which is usually owned by a legal entity with the property being the entity's only asset. If the cash flow from the property is reduced, the borrower's ability to repay the loan may be impaired. If the borrower defaults, our only remedy may be to foreclose on the property, for which the market value may be less than the balance due on the related mortgage loan. We attempt to mitigate this risk by generally requiring a loan-to-value ratio of no more than 75% at a time the loan is originated, except for one-to-four family residential mortgage loans, where we require a loan-to value ratio of no more than 80%. Repayment of construction loans is contingent upon the successful completion and operation of the project. The repayment of commercial business loans (the increased origination of which is part of management's strategy), is contingent on the successful operation of the related business. Changes in local economic conditions and government regulations, which are outside the control of the borrower or lender, also could affect the value of the security for the loan or the future cash flow of the affected properties. We continually review the composition of our mortgage loan portfolio to manage the risk in the portfolio.

In assessing our future earnings prospects, investors should consider, among other things, our level of origination of one-to-four family residential, multi-family residential, commercial real estate and one-to-four family mixed-use property mortgage loans, and commercial business and construction loans, and the greater risks associated with such loans. See "Business — Lending Activities" in Item 1 of this Annual Report.

Failure to Effectively Manage Our Liquidity Could Significantly Impact Our Financial Condition and Results of Operations

Our liquidity is critical to our ability to operate our business. Our primary sources of liquidity are deposits, both retail deposits from our branch network including our Internet Branch, brokered deposits, and borrowed funds, primarily wholesale borrowing from the FHLB-NY. Funds are also provided by the repayment and sale of securities and loans. Our ability to obtain funds are influenced by many external factors, including but not limited to, local and national economic conditions, the direction of interest rates and competition for deposits in the markets we serve. Additionally, changes in the FHLB-NY underwriting guidelines may limit or restrict our ability to borrow. A decline in available funding caused by any of the above factors or could adversely impact our ability to originate loans, invest in securities, meet our expenses, or fulfill our obligations such as repaying our borrowings or meeting deposit withdrawal demands.

Our Ability to Obtain Brokered Deposits as an Additional Funding Source Could be Limited

We utilize brokered deposits as an additional funding source and to assist in the management of our interest rate risk. The Bank had $301.7 million, or 6.1% of total deposits, and $1,090.0 million, or 25.1% of total deposits, in brokered deposit accounts at December 31, 2018 and 2017, respectively. During 2018, Section 29 of the Federal Deposit Insurance Act was amended to no longer consider reciprocal deposits held by an FDIC-insured depository institution brokered deposits. At December 31, 2018 and 2017, reciprocal deposits totaled $685.3 million and $682.4 million, respectively. We have obtained brokered certificates of deposit when the interest rate on these deposits is below the prevailing interest rate for non-brokered certificates of deposit with similar maturities in our market, or when obtaining them allowed us to extend the maturities of our deposits at favorable rates compared to borrowing funds with similar maturities, when we are seeking to extend the maturities of our funding to assist in the management of our interest rate risk. Brokered certificates of deposit provide a large deposit for us at a lower operating cost as compared to non-brokered certificates of deposit since we only have one account to maintain versus several accounts with multiple interest and maturity checks. Unlike non-brokered certificates of deposit where the deposit amount can be withdrawn with a penalty for any reason, including increasing interest rates, a brokered certificate of deposit can only be withdrawn in the event of the death or court declared mental incompetence of the depositor. This allows us to better manage the maturity of our deposits and our interest rate risk. We also at times utilize brokers to obtain money market account deposits. The rate we pay on brokered money market accounts is similar to the rate we pay on non-brokered money market accounts, and the rate is agreed to in a contract between the Bank and the broker. These accounts are similar to brokered certificates of deposit accounts in that we only maintain one account for the total deposit per broker, with the broker maintaining the detailed records of each depositor. Additionally, we place a portion of our government deposits in an ICS money market product, which prior to 2018 was considered a brokered deposit, does not require us to provide collateral. This allows us to invest our funds in higher yielding assets. The Bank had no brokered money market or brokered checking accounts at December 31, 2018, compared to $704.9 million in brokered money market accounts and $4.7 million in brokered checking accounts at December 31, 2017.

The FDIC has promulgated regulations implementing limitations on brokered deposits. Under the regulations, well-capitalized institutions, such as the Bank, are not subject to brokered deposit limitations, while adequately capitalized institutions are able to accept, renew or roll over brokered deposits only with a waiver from the FDIC and subject to restrictions on the interest rate that can be paid on such deposits. Undercapitalized institutions are not permitted to accept brokered deposits. Pursuant to the regulation, the Bank, as a well-capitalized institution, may accept brokered deposits. Should our capital ratios decline, this could limit our ability to replace brokered deposits when they mature.

The maturity of brokered certificates of deposit could result in a significant funding source maturing at one time. Should this occur, it might be difficult to replace the maturing certificates with new brokered certificates of deposit. We have used brokers to obtain these deposits which results in depositors with whom we have no other relationships since these depositors are outside of our market, and there may not be a sufficient source of new brokered certificates of deposit at the time of maturity. In addition, upon maturity, brokers could require us to offer some of the highest interest rates in the country to retain these deposits, which would negatively impact our earnings. The Bank mitigates this risk by obtaining brokered certificates of deposit with various maturities ranging up to six years, and attempts to avoid having a significant amount maturing in any one year.

The Markets in Which We Operate Are Highly Competitive

We face intense and increasing competition both in making loans and in attracting deposits. Our market area has a high density of financial institutions, many of which have greater financial resources, name recognition and market presence than us, and all of which are our competitors to varying degrees. Particularly intense competition exists for deposits and in all of the lending activities we emphasize. Our competition for loans comes principally from commercial banks, savings banks, savings and loan associations, mortgage banking companies, insurance companies, finance companies and credit unions. Management anticipates that competition for mortgage loans will continue to increase in the future. Our most direct competition for deposits historically has come from savings banks, commercial banks, savings and loan associations and credit unions. In addition, we face competition for deposits from products offered by brokerage firms, insurance companies and other financial intermediaries, such as money market and other mutual funds and annuities. Consolidation in the banking industry and the lifting of interstate banking and branching restrictions have made it more difficult for smaller, community-oriented banks, such as us, to compete effectively with large, national, regional and super-regional banking institutions. Our Internet Branch provides us access to consumers in markets outside our geographic locations. The internet banking arena exposes us to competition with many larger financial institutions that have greater financial resources, name recognition and market presence than we do.

Our Results of Operations May Be Adversely Affected by Changes in National and/or Local Economic Conditions

Our operating results are affected by national and local economic and competitive conditions, including changes in market interest rates, the strength of the local economy, government policies and actions of regulatory authorities. During the Great Recession, for example, unemployment increased, the housing market in the United States experienced a significant slowdown, and foreclosures rose. Adverse economic conditions can result in borrowers defaulting on their loans, or withdrawing their funds on deposit at the Bank to meet their financial obligations. A decline in the local or national economy or the New York City metropolitan area real estate market could adversely affect our financial condition and results of operations, including through decreased demand for loans or increased competition for good loans, increased non-performing loans and loan losses and resulting additional provisions for loan losses and for losses on real estate owned. Many factors could require additions to the ALL in future periods above those currently maintained. These factors include: (1) adverse changes in economic conditions and changes in interest rates that may affect the ability of borrowers to make payments on loans, (2) changes in the financial capacity of individual borrowers, (3) changes in the local real estate market and the value of our loan collateral, and (4) future review and evaluation of our loan portfolio, internally or by regulators. The amount of the ALL at any time represents good faith estimates that are susceptible to significant changes due to changes in appraisal values of collateral, national and local economic conditions, prevailing interest rates and other factors. See “Business — General — Allowance for Loan Losses” in Item 1 of this Annual Report.

These same factors could cause delinquencies to increase for the mortgages which are the collateral for the mortgage-backed securities we hold in our investment portfolio. Combining increased delinquencies with liquidity problems in the market could result in a decline in the market value of our investments in privately issued mortgage-backed securities. There can be no assurance that a decline in the market value of these investments will not result in other-than-temporary impairment charges in our financial statements.

Changes in Laws and Regulations Could Adversely Affect Our Business

From time to time, legislation, such as the Dodd-Frank Act, is enacted or regulations are promulgated that have the effect of increasing the cost of doing business, limiting or expanding permissible activities or affecting the competitive balance between banks and other financial institutions. Proposals to change the laws and regulations governing the operations and taxation of banks and other financial institutions are frequently made in Congress, in the New York legislature and before various bank regulatory agencies. In particular, on February 3, 2017, President Trump signed an executive order requiring a comprehensive review of financial system regulations, including the Dodd-Frank Act. President Trump has promised other significant changes to financial system regulations. Nonetheless, changes to these regulations are expected to be politically controversial and may be slow and unpredictable in enactment and effect. It is too early to predict when or what, if any, existing regulations affecting us will be repealed or amended and what if any new regulations affecting us will be adopted, leaving the bank regulatory environment particularly uncertain at present. Further, there can be no assurance as to the impact that any laws, regulations or governmental programs that may be introduced or implemented in the future will have on the financial markets and the economy. For a discussion of regulations affecting us, see “Business —Regulation” and “Business—Federal, State and Local Taxation” in Item 1 of this Annual Report.

Current Conditions in, and Regulation of, the Banking Industry May Have a Material Adverse Effect on Our Results of Operations

Financial institutions have been the subject of significant legislative and regulatory changes, including the adoption of The Dodd Frank Act, which imposes a wide variety of regulations affecting us, and may be the subject of further significant legislation or regulation in the future, none of which is within our control. Significant new laws or regulations or changes in, or repeals of, existing laws or regulations, including those with respect to federal and state taxation, may cause our results of operations to differ materially. In addition, the cost and burden of compliance, over time, have significantly increased and could adversely affect our ability to operate profitably.

The Bank faces several minimum capital requirements imposed by federal regulation. Failure to adhere to these minimums could limit the dividends the Bank is allowed to pay, including the payment of dividends to the Holding Company, and could limit the annual growth of the Bank. Under the Dodd Frank Act, banks with assets greater than $10.0 billion in total assets are required to complete stress tests, which predict capital levels under certain stress levels. Although, our total assets are currently $6.8 billion, as a best practice, we completed these tests. As of December 31, 2018, under all stress scenarios, we remained well capitalized per current regulations. See “Regulation.” At the New York State level, the Company and the Bank are subject to extensive supervision, regulation and examination by the NYDFS and the FDIC. Such regulation limits the manner in which the Company and Bank conduct business, undertake new investments and activities and obtain financing. This regulation is designed primarily for the protection of the deposit insurance funds and the Bank's depositors, and not to benefit the Bank or its creditors. The regulatory structure also provides the regulatory authorities extensive discretion in connection with their supervisory and enforcement activities and examination policies, including policies with respect to capital levels, the classification of assets and the establishment of adequate loan loss reserves for regulatory purposes. Failure to comply with applicable laws and regulations could subject the Company and Bank to regulatory enforcement action that could result in the assessment of significant civil money penalties against the Company and Bank.

The fiscal and monetary policies of the federal government and its agencies could have a material adverse effect on the Company's results of operations. The Federal Reserve regulates the supply of money and credit in the United States. Its policies determine in significant part the cost of funds for lending and investing and the return earned on those loans and investments, both of which affect the Company's net interest margin. Governmental policies can also adversely affect borrowers, potentially increasing the risk that they may fail to repay their loans. Changes in Federal Reserve or governmental policies are beyond the Company's control and difficult to predict; consequently, the impact of these changes on the Company's activities and results of operations is difficult to predict.

As noted above, financial institution regulation has been the subject of significant legislation in recent years, and may be the subject of further significant legislation in the future, especially in light of the uncertainty of initiatives suggested by the Trump administration in the context of a Republican-controlled Congress, none of which is within the control of the Company or the Bank. Significant new laws or changes in, or repeals of, existing laws, may cause the Company's results of operations to differ materially. Further, federal monetary policy significantly affects credit conditions for the Company, primarily through open market operations in United States government securities, the discount rate for bank borrowings and reserve requirements for liquid assets. A material change in any of these conditions could have a material adverse impact on the Bank, and therefore, on the Company's results of operations.

A Failure in or Breach of Our Operational or Security Systems or Infrastructure, or Those of Our Third Party Vendors and Other Service Providers, Including as a Result of Cyber Attacks, Could Disrupt Our Business, Result in the Disclosure or Misuse of Confidential or Proprietary Information, Damage Our Reputation, Increase Our Costs and Cause Losses

We depend upon our ability to process, record and monitor our client transactions on a continuous basis. As client, public and regulatory expectations regarding operational and information security have increased, our operational systems and infrastructure must continue to be safeguarded and monitored for potential failures, disruptions and breakdowns. Our business, financial, accounting and data processing systems, or other operating systems and facilities, may stop operating properly or become disabled or damaged as a result of a number of factors, including events that are wholly or partially beyond our control. For example, there could be electrical or telecommunications outages; natural disasters such as earthquakes, tornadoes and hurricanes; disease pandemics; events arising from local or larger scale political or social matters, including terrorist acts; and, as described below, cyber-attacks. Although we have business continuity plans and other safeguards in place, our business operations may be adversely affected by significant and widespread disruption to our physical infrastructure or operating systems that support our business and clients.

Information security risks for financial institutions such as ours have generally increased in recent years in part because of the proliferation of new technologies, the use of the internet and telecommunications technologies to conduct financial transactions, and the increased sophistication and activities of organized crime, hackers, terrorists, activists and other external parties. As noted above, our operations rely on the secure processing, transmission and storage of confidential information in our computer systems and networks. Our business relies on our digital technologies, computer and email systems, software and networks to conduct its operations. In addition, to access our products and services, our clients may use personal smartphones, tablet PC’s, personal computers and other mobile devices that are beyond our control systems. Although we have information security procedures and controls in place, our technologies, systems, networks and our clients’ devices may become the target of cyber-attacks or information security breaches that could result in the unauthorized release, gathering, monitoring, misuse, loss or destruction of our or our clients' confidential, proprietary and other information, or otherwise disrupt our or our clients' or other third parties' business operations. We may be subject to increasingly more risk related to security systems for our Internet Branch as we expand our suite of online direct banking products, acquire new or outsource some of our business operations, expand our internal usage of web-based products and applications, and otherwise attempt to keep pace with rapid technological changes in the financial services industry.

Third parties with whom we do business or that facilitate our business activities, including financial intermediaries or vendors that provide services or security solutions for our operations, could also be sources of operational and information security risk to us, including from breakdowns or failures of their own systems or capacity constraints.

Although to date we have not experienced any material losses relating to cyber-attacks or other information security breaches, there can be no assurance that we will not suffer such losses in the future. Our risk and exposure to these matters remains heightened because of the evolving nature of these threats. As a result, cyber security and the continued development and enhancement of our controls, processes and practices designed to protect our systems, computers, software, data and networks from attack, damage or unauthorized access remain a focus for us. As threats continue to evolve, we may be required to expend additional resources to continue to modify or enhance our protective measures or to investigate and remediate information security vulnerabilities.

Disruptions or failures in the physical infrastructure or operating systems that support our business and clients, or cyber-attacks or security breaches of the networks, systems or devices that our clients use to access our products and services could result in significant legal and financial exposure, client attrition, regulatory fines, penalties or intervention, reputational damage, reimbursement or other compensation costs and/or additional compliance costs, a loss of confidence in the security of our systems, any of which may not be covered by insurance and could materially and adversely affect our financial condition or results of operations.

In addition, in 2017, the NYDFS established comprehensive cybersecurity requirements for financial services companies, including us. See Regulation – New York State Law.

In light of the newness of the cybersecurity regulation, it is impossible to determine the cost and other effects on us of full and timely compliance. In addition to resources that may be required, in the event that we do not timely and fully comply, we would be subject to enforcement and other consequences in addition to any other claims that might arise. There can be no assurance that we will achieve full and timely compliance with the regulation, in which event our business mat be materially adversely affected.

We May Experience Increased Delays in Foreclosure Proceedings

Foreclosure proceedings face increasing delays. While we cannot predict the ultimate impact of any delay in foreclosure sales, we may be subject to additional borrower and non-borrower litigation and governmental and regulatory scrutiny related to our past and current foreclosure activities. Delays in foreclosure sales, including any delays beyond those currently anticipated could increase the costs associated with our mortgage operations and make it more difficult for us to prevent losses in our loan portfolio.

We May Need to Recognize Other-Than-Temporary Impairment Charges in the Future

We conduct a periodic review and evaluation of the securities portfolio to determine if the decline in the fair value of any security below its cost basis is other-than-temporary. Factors which we consider in our analysis include, but are not limited to, the severity and duration of the decline in fair value of the security, the financial condition and near-term prospects of the issuer, whether the decline appears to be related to issuer conditions or general market or industry conditions, our intent and ability to retain the security for a period of time sufficient to allow for any anticipated recovery in fair value and the likelihood of any near-term fair value recovery. We generally view changes in fair value caused by changes in interest rates as temporary. However, we have recorded other-than-temporary impairment charges on some securities in our portfolio. If we deem such decline to be other-than-temporary, the security is written down to a new cost basis and the resulting loss is charged to earnings as a component of non-interest income.

We continue to monitor the fair value of our securities portfolio as part of our ongoing other-than-temporary impairment evaluation process. There can be no assurance that we will not need to recognize other-than-temporary impairment charges related to securities in the future.

Our Inability to Hire or Retain Key Personnel Could Adversely Affect Our Business

Our success depends, in large part, on our ability to retain and attract key personnel. We face intense competition from commercial banks, savings banks, savings and loan associations, mortgage banking companies, insurance companies, finance companies and credit unions. As a result, it could prove difficult to retain and attract key personnel. The inability to hire or retain key personnel may result in the loss of customer relationships and may adversely affect our financial condition or results of operations.

We Are Not Required to Pay Dividends on Our Common Stock

Holders of shares of our common stock are only entitled to receive such dividends as our Board of Directors may declare out of funds legally available for such payments. Although we have historically declared cash dividends on our common stock, we are not required to do so and may reduce or eliminate our common stock dividend in the future. A reduction or elimination of our common stock dividend could adversely affect the market price of our common stock.

Goodwill Recorded as a Result of Acquisitions Could Become Impaired, Negatively Impacting Our Earnings and Capital

Goodwill is presumed to have an indefinite life and is tested annually, or when certain conditions are met, for impairment. If the fair value of the reporting unit is greater than the goodwill amount, no further evaluation is required and no impairment is recorded. If the fair value of the reporting unit is less than the goodwill amount, further evaluation would be required to compare the fair value of the reporting unit to the goodwill amount and determine if a write down is required. Management views the Company as operating as a single unit - a community bank. At December 31, 2018, we had goodwill with a carrying amount of $16.1 million. Declines in the fair value of the reporting unit may result in a future impairment charge. Any such impairment charge could have a material effect on our earnings and capital.

We May Not Fully Realize the Expected Benefit of Our Deferred Tax Assets

At December 31, 2018 and 2017, we had deferred tax assets totaling $30.2 million and $24.4 million, respectively. This represents the anticipated federal, state and local tax benefits expected to be realized in future years upon the utilization of the underlying tax attributes comprising this balance. In order to use the future benefit of these deferred tax assets, we will need to report taxable income for federal, state and local tax purposes. Although we have reported taxable income in each of the past three years, there can be no assurance that this will continue in the future.

Uncertainty about the future of LIBOR may adversely affect our business

LIBOR and certain other interest rate “benchmarks” are the subject of recent national, international, and other regulatory guidance and proposals for reform. These reforms may cause such benchmarks to perform differently than in the past or have other consequences which cannot be predicted. On July 27, 2017, the Chief Executive of the United Kingdom Financial Conduct Authority, which regulates LIBOR, announced that it intends to stop persuading or compelling banks to submit rates for the calculation of LIBOR to the administrator of LIBOR after 2021. The announcement indicates that the continuation of LIBOR on the current basis cannot and will not be guaranteed after 2021. It is impossible to predict whether, and to what extent, banks will continue to provide LIBOR submissions to the administrator of LIBOR or whether any additional reforms to LIBOR may be enacted in the United Kingdom or elsewhere. At this time, subject to the disclosure regarding SOFR as described below, it is impossible to predict the effect of any such alternatives on the value of LIBOR-based securities and variable rate loans, including the trust preferred securities owned by and junior subordinated debentures issued by the Company or other securities or financial arrangements, given LIBOR's role in determining market interest rates globally. Uncertainty as to the nature of alternative reference rates and as to potential changes or other reforms to LIBOR may adversely affect LIBOR rates and other interest rates. In the event that a published LIBOR rate is unavailable after 2021, the dividend rate on the trust preferred securities owned by and junior subordinated debentures issued by the Company, which are currently, or in the future, based on the LIBOR rate, will be determined as set forth in the offering documents, and the value of such securities may be adversely affected. Currently, the manner and impact of this transition and related developments, as well as the effect of these developments on our funding costs, investment and trading securities portfolios and business, is uncertain.

Complicating the uncertainty described above, the Federal Reserve Board and the Federal Reserve Bank of New York convened the Alternative Reference Rates Committee (ARRC) to identify a set of alternative reference interest rates for possible use as market benchmarks. The ARRC has proposed the Secured Overnight Financing Rate (SOFR) as its recommended alternative to LIBOR, and the Federal Reserve Bank of New York began publishing SOFR rates in the second quarter of 2018. SOFR is based on a broad segment of the overnight Treasury repurchase market and is intended to be a measure of the cost of borrowing cash overnight collateralized by Treasury securities. The market transition away from LIBOR and towards SOFR is expected to be complicated, including the development of term and credit adjustments to accommodate differences between LIBOR and SOFR. Introduction of an alternative rate also may introduce additional basis risk for market participants, as an alternative index is utilized along with LIBOR. There can be no guarantee that SOFR will become widely used and that alternatives may or may not be developed with additional complications, nor what the effect of a possible transition to SOFR or an alternate replacement will have on the business, financial condition, and results of operations of the Company.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

At December 31, 2018, the Bank conducted its business through 19 full-service offices and its Internet Branch. The Holding Company neither owns nor leases any property but instead uses the premises and equipment of the Bank.

Item 3. Legal Proceedings.

We are involved in various legal actions arising in the ordinary course of our business which, in the aggregate, involve amounts which are believed by management to be immaterial to our financial condition, results of operations and cash flows.

Item 4. Mine Safety Disclosures.

Not applicable.

PART II

Item 5. Market for the Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

The Holding Company’s Common Stock is traded on the NASDAQ Global Select Market® under the symbol “FFIC.” As of December 31, 2018, we had approximately 665 shareholders of record, not including the number of persons or entities holding stock in nominee or street name through various brokers and banks. Our stock closed at $21.53 on December 31, 2018, the last trading day of 2018. The following table shows the high and low sales price of the Common Stock and the dividends declared on the Common Stock during the periods indicated. Such prices do not necessarily reflect retail markups, markdowns, or commissions. (See Note 13 of Notes to Consolidated Financial Statements in Item 8 of this Annual Report for dividend restrictions.)

	2018			2017		
	High	Low	Dividend	High	Low	Dividend
First Quarter	$29.55	$26.20	$ 0.20	$31.96	$24.90	$ 0.18
Second Quarter	27.91	25.10	0.20	31.69	24.27	0.18
Third Quarter	27.32	23.84	0.20	30.34	25.98	0.18
Fourth Quarter	24.59	20.27	0.20	31.45	24.59	0.18

The following table sets forth information regarding the shares of common stock repurchased by us during the quarter ended December 31, 2018:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares That May Yet Be Purchased Under the Plans or Programs
October 1 to October 31, 2018	23,659	$22.12	23,659	485,668
November 1 to November 30, 2018	5,000	22.61	5,000	480,668
December 1 to December 31, 2018	13,457	22.39	13,457	467,211
Total	42,116	22.27	42,116	

During the year ended December 31, 2018, the Company completed the common stock repurchase program that was approved by the Company’s Board of Directors on June 16, 2015. On February 27, 2018, the Company announced the authorization by the Board of Directors of a common stock repurchase program, which authorizes the purchase of up to 1,000,000 shares of its common stock. During the years ended December 31, 2018 and 2017, the Company repurchased 787,069 shares and 241,625 shares, respectively, of the Company's common stock at an average cost of $25.97 per share and $27.59 per share, respectively. At December 31, 2018, 467,211 shares remain to be repurchased under the current stock repurchase program. Stock will be purchased under the current stock repurchase program from time to time, in the open market or through private transactions subject to market conditions and at the discretion of the management of the Company. There is no expiration or maximum dollar amount under this authorization.

The following table sets forth securities authorized for issuance under all equity compensation plans of the Company at December 31, 2018:

	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted-average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)
Equity compensation plans approved by security holders	300	$ 8.44	745,477
Equity compensation plans not approved by security holders	-	-	-
	300	$ 8.44	745,477

46

Stock Performance Graph

The following graph shows a comparison of cumulative total stockholder return on the Company’s common stock since December 31, 2013 with the cumulative total returns of a broad equity market index as well as comparative published industry indices. The broad equity market index chosen was the Nasdaq Composite. The comparative published industry indices chosen were the SNL Bank $5 Billion to $10 Billion in Assets Index and the SNL Mid-Atlantic Bank Index. The SNL Mid-Atlantic Bank Index was chosen for inclusion in the Company’s Stock Performance Graph because the Company believes it provides valuable comparative information reflecting the Company’s geographic peer group. The SNL Bank $5 Billion to $10 Billion in Assets Index was chosen for inclusion in the Company’s Stock Performance Graph because it uses a broader group of banks and therefore more closely reflects the Company’s size. The Company believes that both geographic area and size are important factors in analyzing the Company’s performance against its peers. The graph below reflects historical performance only, which is not indicative of possible future performance of the common stock.

The total return assumes $100 invested on December 31, 2013 and all dividends reinvested through the end of the Company’s fiscal year ended December 31, 2018. The performance graph above is based upon closing prices on the trading date specified.

	Period Ending					
Index	12/31/13	12/31/14	12/31/15	12/31/16	12/31/17	12/31/18
Flushing Financial Corporation	100.00	100.91	111.22	155.54	149.40	120.68
NASDAQ Composite Index	100.00	114.75	122.74	133.62	173.22	168.30
SNL Bank $5B-$10B Index	100.00	103.01	117.34	168.11	167.48	151.57
SNL Mid-Atlantic Bank Index	100.00	108.94	113.03	143.67	176.08	150.45

Item 6. Selected Financial Data.

At or for the years ended December 31,	2018	2017	2016	2015	2014
	(Dollars in thousands, except per share data)				
Selected Financial Condition Data					
Total assets	$6,834,176	$6,299,274	$6,058,487	$5,704,634	$5,077,013
Loans, net	5,530,539	5,156,648	4,813,464	4,366,444	3,785,277
Securities held to maturity	32,018	30,886	37,735	6,180	-
Securities available for sale	822,655	738,354	861,381	993,397	973,310
Deposits	4,960,784	4,383,278	4,205,631	3,892,547	3,508,598
Borrowed funds	1,250,843	1,309,653	1,266,563	1,271,676	1,056,492
Total stockholders' equity	549,464	532,608	513,853	473,067	456,247
Book value per common share (1)	$19.64	$18.63	$17.95	$16.41	$15.52
Selected Operating Data					
Interest and dividend income	$256,998	$234,585	$220,997	$204,146	$197,128
Interest expense	89,592	61,478	53,911	49,726	49,554
Net interest income	167,406	173,107	167,086	154,420	147,574
Provision (benefit) for loan losses	575	9,861	-	(956)	(6,021)
Net interest income after provision for loan losses	166,831	163,246	167,086	155,376	153,595
Non-interest income:					
Net (losses) gains on sales of securities and loans	(1,752)	417	2,108	589	2,942
Net gains on sales of building	-	-	48,018	6,537	-
Net gains on sales of assets	1,141	-	-	-	-
Net loss from fair value adjustments	(4,122)	(3,465)	(3,434)	(1,841)	(2,568)
Other income	15,070	13,410	10,844	10,434	9,869
Total non-interest income	10,337	10,362	57,536	15,719	10,243
Non-interest expense	111,683	107,474	118,603	97,719	91,026
Income before income tax provision	65,485	66,134	106,019	73,376	72,812
Income tax provision	10,395	25,013	41,103	27,167	28,573
Net income	$55,090	$41,121	$64,916	$46,209	$44,239
Basic earnings per common share (2)	$1.92	$1.41	$2.24	$1.59	$1.49
Diluted earnings per common share (2)	$1.92	$1.41	$2.24	$1.59	$1.48
Dividends declared per common share	$0.80	$0.72	$0.68	$0.64	$0.60
Dividend payout ratio	41.7%	51.1%	30.4%	40.3%	40.3%

(Footnotes on the following page)

At or for the years ended December 31,	2018	2017	2016	2015	2014
Selected Financial Ratios and Other Data					
Performance ratios:					
Return on average assets	0.85 %	0.66 %	1.10 %	0.86 %	0.91 %
Return on average equity	10.30	7.75	13.07	9.93	9.82
Average equity to average assets	8.22	8.53	8.40	8.68	9.31
Equity to total assets	8.04	8.46	8.48	8.29	8.99
Interest rate spread	2.53	2.80	2.86	2.94	3.10
Net interest margin	2.70	2.93	2.97	3.04	3.22
Non-interest expense to average assets	1.72	1.73	2.01	1.82	1.77
Efficiency ratio	62.20	57.90	59.64	58.57	54.40
Average interest-earning assets to average interest-bearing liabilities	1.12 x	1.12 x	1.12 x	1.11 x	1.11 x
Regulatory capital ratios: (3)					
Tier 1 leverage capital (well capitalized = 5%)	9.85 %	10.11 %	10.12 %	8.89 %	9.63 %
Common equity tier 1 risk-based capital (well capitalized = 6.5%)	13.28	13.87	14.12	12.62	n/a
Tier 1 risk-based capital (well capitalized =8%)	13.28	13.87	14.12	12.62	13.87
Total risk-based capital (well capitalized =10%)	13.70	14.31	14.64	13.17	14.60
Asset quality ratios:					
Non-performing loans to gross loans (4)	0.29 %	0.35 %	0.44 %	0.60 %	0.90 %
Non-performing assets to total assets (5)	0.24	0.29	0.36	0.54	0.80
Net charge-offs (recoveries) to average loans	-	0.24	(0.02)	0.06	0.02
Allowance for loan losses to gross loans	0.38	0.39	0.46	0.49	0.66
Allowance for loan losses to total non-performing assets (5)	128.60	112.23	101.28	69.45	61.94
Allowance for loan losses to total non-performing loans (4)	128.87	112.23	103.80	82.58	73.40
Full-service customer facilities	19	18	19	19	17

(1) Calculated by dividing stockholders' equity of by shares outstanding.

(2) The shares held in the Company's Employee Benefit Trust are not included in shares outstanding for purposes of calculating earnings per share.

(3) Represents the Bank's capital ratios, which exceeded all minimum regulatory capital requirements during the periods presented. Common equity tier 1 risk-based capital was not a required ratio prior to 2015.

(4) Non-performing loans consist of non-accrual loans and loans delinquent 90 days or more that are still accruing.

(5) Non-performing assets consist of non-performing loans, real estate owned and non-performing investment securities.

Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations.

As used in this discussion and analysis, the words “we,” “us,” “our” and the “Company” are used to refer to Flushing Financial Corporation (the “Holding Company”) and its direct and indirect wholly owned subsidiaries, Flushing Bank (the “Bank”), Flushing Preferred Funding Corporation, Flushing Service Corporation, and FSB Properties Inc.

General

We are a Delaware corporation organized in 1994. The Bank was organized in 1929 as a New York State-chartered mutual savings bank. Today the Bank operates as a full-service New York State commercial bank. The primary business of the Holding Company has been the operation of the Bank. The Bank owns three subsidiaries: Flushing Preferred Funding Corporation, Flushing Service Corporation, and FSB Properties Inc. The Bank also operates an internet branch, which operates under the brands of iGObanking.com® and BankPurely® (the “Internet Branch”). The Bank’s primary regulator is the New York State Department of Financial Services, and its primary federal regulator is the Federal Deposit Insurance Corporation (“FDIC”). The Bank’s deposits are insured to the maximum allowable amount by the FDIC.

The Holding Company also owns Flushing Financial Capital Trust II, Flushing Financial Capital Trust III, and Flushing Financial Capital Trust IV (the “Trusts”), which are special purpose business trusts formed during 2007 to issue a total of $60.0 million of capital securities, and $1.9 million of common securities (which are the only voting securities). The Holding Company owns 100% of the common securities of the Trusts. The Trusts used the proceeds from the issuance of these securities to purchase junior subordinated debentures from the Holding Company. The Trusts are not included in our consolidated financial statements, as we would not absorb the losses of the Trusts if losses were to occur.

The following discussion of financial condition and results of operations includes the collective results of the Holding Company and its subsidiaries (collectively, the “Company”), but reflects principally the Bank’s activities. Management views the Company as operating as a single unit - a community bank. Therefore, segment information is not provided.

Overview

Our principal business is attracting retail deposits from the general public and investing those deposits together with funds generated from ongoing operations and borrowings, primarily in (1) originations and purchases of multi-family residential properties, commercial business loans, commercial real estate mortgage loans and, to a lesser extent, one-to-four family (focusing on mixed-use properties, which are properties that contain both residential dwelling units and commercial units); (2) construction loans; (3) Small Business Administration ("SBA") loans; (4) mortgage loan surrogates such as mortgage-backed securities; and (5) U.S. government securities, corporate fixed-income securities and other marketable securities. We also originate certain other consumer loans including overdraft lines of credit. Our results of operations depend primarily on net interest income, which is the difference between the income earned on its interest-earning assets and the cost of our interest-bearing liabilities. Net interest income is the result of our interest rate margin, which is the difference between the average yield earned on interest-earning assets and the average cost of interest-bearing liabilities, adjusted for the difference in the average balance of interest-earning assets as compared to the average balance of interest-bearing liabilities. We also generate non-interest income from loan fees, service charges on deposit accounts, mortgage servicing fees, and other fees, income earned on Bank Owned Life Insurance ("BOLI"), dividends on Federal Home Bank of New York ("FHLB-NY") stock and net gains and losses on sales of securities and loans. Our operating expenses consist principally of employee compensation and benefits, occupancy and equipment costs, other general and administrative expenses and income tax expense. Our results of operations also can be significantly affected by our periodic provision for loan losses and specific provision for losses on real estate owned.

Management Strategy. Our strategy is to continue our focus on being an institution serving consumers, businesses, and governmental units in our local markets. In furtherance of this objective, we intend to:

- manage cost of funds and continue to improve funding mix;
- increase interest income by leveraging loan pricing opportunities and portfolio mix;
- enhance earnings power by improving scalability and efficiency;
- manage credit risk;
- remain well capitalized;
- increase our commitment to the multi-cultural marketplace, with a particular focus on the Asian community;
- manage enterprise-wide risk.

There can be no assurance that we will be able to effectively implement this strategy. Our strategy is subject to change by the Board of Directors.

Manage cost of funds and continue to improve funding mix. We have a relatively stable retail deposit base drawn from our market area through our full-service offices. Although we seek to retain existing deposits and maintain depositor relationships by offering quality service and competitive interest rates to our customers, we also seek to keep deposit growth within reasonable limits and our strategic plan. In order to implement our strategic plan, we have built multi-channel deposit gathering capabilities. In addition to our full-service branches we gather deposits through our Internet Branch and a government banking unit. The Internet Branch currently offers savings accounts, money market accounts, checking accounts, and certificates of deposit. This allows us to compete on a national scale without the geographical constraints of physical locations. At December 31, 2018 and 2017, total deposits at our Internet Branch were $450.9 million and $401.0 million, respectively. The government banking unit provides banking services to public municipalities, including counties, cities, towns, villages, school districts, libraries, fire districts, and the various courts throughout the New York City metropolitan area. At December 31, 2018 and 2017, total deposits in our government banking unit totaled $1,339.7 million and $1,133.3 million, respectively. Additionally, we have a business banking group which was designed specifically to develop full business relationships thereby bringing in lower-costing checking and money market deposits. At December 31, 2018, deposits balances in the business banking group were $174.5 million. We also obtain deposits through brokers and the CDARS® and ICS network. Management intends to balance its goal to maintain competitive interest rates on deposits while seeking to manage its overall cost of funds to finance its strategies. We generally rely on our deposit base as our principal source of funding. During 2018, we realized an increase in due to depositors of $575.3 million, as core deposits increased $363.9 million and certificates of deposit increased $211.4 million.

A growing portion of our lending and deposit customers have both their loans and deposits with us. We intend to continue to focus on obtaining additional deposits from our lending customers and originating additional loans to our deposit customers. Product offerings were expanded and are expected to be further expanded to accommodate perceived customer demands. In addition, specific employees are assigned responsibilities of generating these additional deposits and loans by coordinating efforts between lending and deposit gathering departments.

Increase interest income by leveraging loan pricing opportunities and portfolio mix. During 2018, we continued our strategy of focusing more on loan pricing as opposed to volume. We saw yields on originations for the full year of 2018 increase by 50 basis points to 4.56% from 4.06% for the full year of 2017. Additionally for the second consecutive year the yield of originations for the full year, exceeded the average yield on total interest-earning assets for the same period.

We have emphasized the strategic growth of multi-family residential mortgage loans, non-owner occupied commercial mortgage loans and floating rate commercial business loans. The commercial business and other loans have increased to 15.85% of the entire loan portfolio as of December 31, 2018 compared to 14.20% at December 31, 2017. In the multi-family portfolio we allowed loans to prepay rather than refinance at a rate below our criteria. We no longer originate taxi medallion loans.

The following table shows loan originations and purchases during 2018, and loan balances as of December 31, 2018.

	Loan Originations and Purchases	Loan Balances December 31, 2018	Percent of Gross Loans
	(Dollars in thousands)		
Multi-family residential	$339,732	$2,269,048	41.00 %
Commercial real estate	270,785	1,542,547	27.86
One-to-four family mixed-use property	74,156	577,741	10.44
One-to-four family residential	42,660	190,350	3.44
Co-operative apartment	2,448	8,498	0.15
Construction	39,595	50,600	0.91
Small Business Administration	3,843	15,210	0.27
Taxi medallion	-	4,539	0.08
Commercial business and Other	477,572	877,763	15.85
Total	$1,250,791	$5,536,296	100.00%

At December 31, 2018, multi-family residential, commercial business and other loans and commercial real estate loans, totaled 84.7% of our gross loans. We have repositioned our loan growth to reduce credit risk; however, our concentration in these types of loans could require us to increase our provisions for loan losses and to maintain an allowance for loan losses as a percentage of total loans in excess of the allowance currently maintained.

Enhance earnings power by improving scalability and efficiency. We are improving scalability and efficiency by converting our branches to the Universal Banker model with our unique video banker service that gives customers face-to-face video chat access from 7am to 11pm daily via at our ATM terminals. The Universal Banker model provides customers with cutting-edge technology, including state-of-the-art ATMs and a higher-quality service experience, all while further reducing overall costs. We have been rolling this model out across our network as branches are renovated and new branches are opened. As of December 31, 2018, we had 15 locations operating under the Universal banker model and anticipate the remaining branches to convert to the Universal Banker model by the end of 2019. In the branches that have been converted to the Universal Banker model, almost 60% of customer transactions were completed at our high powered ATMs.

Manage credit risk. By adherence to our conservative underwriting standards, we have been able to minimize net losses from impaired loans, excluding the taxi medallion portfolio. We recorded net recoveries of $19,000 for the year ended December 31, 2018, compared to net charge-offs of $11.7 million for the year ended December 31, 2017. The net charge-offs recorded in 2017 were primarily the result of $11.3 million in tax medallion charge-offs due to a reduction in the fair value of the underlying collateral. At December 31, 2018 the carrying value of the taxi medallion portfolio is $4.5 million. We seek to minimize losses by adhering to our strict underwriting standards, which among other things generally requires a debt service coverage ratio of at least 125% and loan to value ratio of 75% or less. The loan to value for the real estate dependent loan portfolio was 38.8% and the average loan to value for non-performing loans collateralized by real estate was 34.9% at December 31, 2018. We seek to maintain our loans in performing status through, among other things, disciplined collection efforts, and consistently monitoring non-performing assets in an effort to return them to performing status. To this end, we review the quality of our loans and report to the Loan Committee of the Board of Directors of the Bank on a monthly basis. We sold 12 delinquent loans totaling $8.7 million, 17 delinquent loans totaling $6.2 million, and 26 delinquent loans totaling $8.0 million during the years ended December 31, 2018, 2017 and 2016, respectively. We recorded net recoveries on delinquent loans that were sold during 2018 and 2016 of $68,000 and $48,000, respectively and net charge-offs of $37,000 on delinquent loan sales in 2017. We realized gross gains of $38,000, $0.4 million and $0.3 million on the sale of delinquent loans for the years ended December 31, 2018, 2017 and 2016, respectively. We realized gross losses of $0.3 million for the year ended December 31, 2018. We did not record any gross losses during the years ended December 31, 2017 and 2016. There can be no assurances that we will continue this strategy in future periods, or if continued, we will be able to find buyers to pay adequate consideration. Non-performing loans totaled $16.3 million and $18.1 million at December 31, 2018 and 2017, respectively. Non-performing assets as a percentage of total assets were 0.24% and 0.29% at December 31, 2018 and 2017, respectively.

Remain well capitalized. The Bank faces several minimum capital requirements imposed by federal regulation. Failure to adhere to these minimums could limit the dividends the Bank is allowed to pay, including the payment of dividends to the Holding Company, and could limit the annual growth of the Bank. Under the Dodd Frank Act, banks with assets greater than $10.0 billion in total assets are required to complete stress tests, which predict capital levels under certain stress levels. Although, our total assets are currently $6.8 billion, as a best practice, we completed these tests. As of December 31, 2018, under all stress scenarios, we remained well capitalized per current regulations.

Increase Our Commitment to the Multi-Cultural Marketplace, with a Particular Focus on the Asian Community. Our branches are all located in the New York City metropolitan area with particular concentration in the borough of Queens. Queens is characterized with a high level of ethnic diversity. An important element of our strategy is to service multi-ethnic consumers and businesses. We have a particular presence and concentration in Asian communities, including in particular the Chinese and Korean populations. Both groups are noted for high levels of savings, education and entrepreneurship. In order to service these and other important ethnic groups in our market, our staff speaks more than 20 languages. We have an Asian advisory board to help broaden our links to the community by providing guidance and fostering awareness of our active role in the local community. In the fourth quarter of 2018, we opened a branch in the NYC borough of Manhattan in the Chinatown district, expanding our branch footprint in Asian communities outside of the borough of Queens. As of December 31, 2018, we had five branches which have a particular focus on the Asian community four in the borough of Queens and one in the borough of Manhattan, with deposits totaling in excess of $650 million in deposits in these locations combined.

Manage Enterprise-Wide Risk. We identify, measure and attempt to mitigate risks that affect, or have the potential to affect, our business. Due to past economic crises and recent increases in government regulation, we devote significant resources to risk management. We have a seasoned risk officer to provide executive risk leadership, and an enterprise-wide risk management program. Several enterprise risk management analytical products are in use which include key risk indicators. We also have had a chief information security officer even before one will be required by recent NYDFS rulemaking not yet in effect. Our management of enterprise-wide risk enables us to recognize and monitor risks and establish procedures to disseminate the risk information across our organization and to our Board of Directors. The objective is to have a robust and focused risk management process capable of identifying and mitigating emerging threats to the Bank’s safety and soundness.

Trends and Contingencies. Our operating results are significantly affected by national and local economic and competitive conditions, including changes in market interest rates, the strength of the local economy, government policies and actions of regulatory authorities. We have remained strategically focused on the origination of multi-family residential mortgages, commercial mortgages and commercial business loans with a full banking relationship. Because of this strategy, we were able to continue to achieve a higher yield on our mortgage portfolio than we would have otherwise experienced.

Loan originations and purchases were $1,250.8 million, $1,039.5 million and $1,132.9 million for the years ended December 31, 2018, 2017 and 2016, respectively. While we primarily rely on originating our own loans, we purchased $294.7 million, $196.5 million and $186.7 million during the years ended December 31, 2018, 2017 and 2016, respectively. We purchase loans when the loans complement our loan portfolio strategy. Loans purchased must meet our underwriting standards when they were originated.

During the three-year period ended December 31, 2018, the allocation of our loan portfolio has remained fairly consistent with a slight increase in non-mortgage loans. The majority of our loans are collateralized by real estate, which comprised 83.8% of our portfolio at December 31, 2018 compared to 85.3% at December 31, 2017 and 86.9% at December 31, 2016, while non-mortgage loans comprised 16.2% of our portfolio at December 31, 2018, compared to 14.7% at December 31, 2017 and 13.1% at December 31, 2016.

Due to depositors increased $575.3 million, $175.3 million and $309.7 million in 2018, 2017 and 2016, respectively. Lower-costing core deposits increased $363.9 million, $195.4 million and $340.9 million in 2018, 2017 and 2016, respectively. Higher-costing certificates of deposit decreased $211.4 million during 2018 compared to a decrease of $20.2 million in 2017 and a decrease of $31.2 million during 2016. Brokered deposits represented 6.1%, 24.9% and 26.5% of total deposits at December 31, 2018, 2017 and 2016, respectively. During 2018, Section 29 of the Federal Deposit Insurance Act was amended to no longer consider reciprocal deposits held by an FDIC-insured depository institution brokered deposits. At December 31, 2018, 2017 and 2016, reciprocal deposits totaled $685.3 million, $682.4 million and $567.8 million, respectively.

Prevailing interest rates affect the extent to which borrowers repay and refinance loans. In a declining interest rate environment, the number of loan prepayments and loan refinancing tends to increase, as do prepayments of mortgage-backed securities. Call provisions associated with our investments in U.S. government agency and corporate securities may also adversely affect yield in a declining interest rate environment. Such prepayments and calls may adversely affect the yield of our loan portfolio and mortgage-backed and other securities as we reinvest the prepaid funds in a lower interest rate environment. However, we typically receive additional loan fees when existing loans are refinanced, which partially offsets the reduced yield on our loan portfolio resulting from prepayments. In periods of low interest rates, our level of core deposits also may decline if depositors seek higher-yielding instruments or other investments not offered by us, which in turn may increase our cost of funds and decrease our net interest margin to the extent alternative funding sources, are utilized. By contrast, an increasing interest rate environment would tend to extend the average lives of lower yielding fixed rate mortgages and mortgage-backed securities, which could adversely affect net interest income. In addition, depositors tend to open longer term, higher costing certificate of deposit accounts which could adversely affect our net interest income if rates were to subsequently decline. Additionally, adjustable rate residential mortgage loans and mortgage-backed securities generally contain interim and lifetime caps that limit the amount the interest rate can increase at re-pricing dates.

Net interest income decreased $5.7 million, or 3.3%, to $167.4 million for the twelve months ended December 31, 2018 from $173.1 million for the prior year, as a 23 basis points decrease in the net interest margin to 2.70% for the twelve months ended December 31, 2018 was partially offset by balance sheet growth. The decrease in the net interest margin for 2018 was primarily due to an increase in our funding costs, partially offset by an increase in the yield of our interest-earning assets. The increase in the yield of our interest earning assets was primarily due to an increase of $278.2 million in the average balance of total interest-earning assets to $6,194.2 million for the year ended December 31, 2018, combined with increases in the yield of new originations and adjustable rate loans resetting higher. During 2018, the cost of borrowed funds increased 35 basis points to 2.16% from 1.81% in the comparable period while the cost of interest-bearing deposits increased 50 basis points to 1.48% from 0.98% for the prior year. The cost of money market, NOW and certificates of deposits accounts increased 71 basis points, 46 basis points and 43 basis points, respectively, for the twelve months ended December 31, 2018 from the prior year. The cost of deposits increased as we increased the rates we pay on certain accounts to attract additional deposits.

We are unable to predict the direction or timing of future interest rate changes. Approximately 65% of our certificates of deposit accounts and borrowings will reprice or mature during the next year, which could result in an increase in the cost of our interest-bearing liabilities. Also, in an increasing interest rate environment, mortgage loans and mortgage-backed securities may prepay at slower rates than experienced in the past, which could result in a reduction of prepayment penalty income.

Interest Rate Sensitivity Analysis

A financial institution's exposure to the risks of changing interest rates may be analyzed, in part, by examining the extent to which its assets and liabilities are "interest rate sensitive" and by monitoring the institution's interest rate sensitivity "gap." An asset or liability is said to be interest rate sensitive within a specific time period if it will mature or reprice within that time period. The interest rate sensitivity gap is defined as the difference between the amount of interest-earning assets maturing or repricing within a specific time period and the amount of interest-bearing liabilities maturing or repricing within that time period. A gap is considered positive when the amount of interest-earning assets maturing or repricing exceeds the amount of interest-bearing liabilities maturing or repricing within the same period. A gap is considered negative when the amount of interest-bearing liabilities maturing or repricing exceeds the amount of interest-earning assets maturing or repricing within the same period. Accordingly, a positive gap may enhance net interest income in a rising rate environment and reduce net interest income in a falling rate environment. Conversely, a negative gap may enhance net interest income in a falling rate environment and reduce net interest income in a rising rate environment.

54

The table below sets forth the amounts of interest-earning assets and interest-bearing liabilities outstanding at December 31, 2018 which are anticipated by the Company, based upon certain assumptions, to reprice or mature in each of the future time periods shown. Except as stated below, the amount of assets and liabilities shown that reprice or mature during a particular period was determined in accordance with the earlier of the term to repricing or the contractual terms of the asset or liability. Prepayment assumptions for mortgage loans and mortgage-backed securities are based on our experience and industry averages, which generally range from 6% to 25%, depending on the contractual rate of interest and the underlying collateral. NOW Accounts, money market accounts and savings accounts were assumed to have withdrawal or "run-off" rates of 7%, 16% and 14%, respectively, based on our experience. While management bases these assumptions on actual prepayments and withdrawals experienced by us, there is no guarantee that these trends will continue in the future.

	Interest Rate Sensitivity Gap Analysis at December 31, 2018						
	Three Months And Less	More Than Three Months To One Year	More Than One Year To Three Years	More Than Three Years To Five Years	More Than Five Years To Ten Years	More Than Ten Years	Total
	(Dollars in thousands)						
Interest-Earning Assets							
Mortgage loans	$338,558	$837,969	$1,727,461	$1,247,802	$401,855	$85,139	$4,638,784
Other loans	579,085	38,925	85,311	104,874	89,317	-	897,512
Short-term securities (1)	105,761	-	-	-	-	-	105,761
Securities held-to-maturity:							
Mortgage-backed securities	328	984	3,937	2,704	-	-	7,953
Other	1,568	1,000	-	-	-	21,497	24,065
Securities available for sale:							
Mortgage-backed securities	16,628	50,047	129,082	102,422	175,783	83,991	557,953
Other	180,608	60,828	23,266	-	-	-	264,702
Total interest-earning assets	1,222,536	989,753	1,969,057	1,457,802	666,955	190,627	6,496,730
Interest-Bearing Liabilities							
Savings accounts	7,771	23,314	52,760	70,460	55,717	-	210,022
NOW accounts	44,476	65,921	209,424	524,561	456,470	-	1,300,852
Money market accounts	67,271	134,306	352,030	814,936	59,449	-	1,427,992
Certificate of deposit accounts	328,776	688,401	483,357	62,280	496	-	1,563,310
Mortgagors' escrow deposits	-	-	-	-	-	44,861	44,861
Borrowings	618,908	205,840	385,099	40,996	-	-	1,250,843
Total interest-bearing	$1,067,202	$1,117,782	$1,482,670	$1,513,233	$572,132	$44,861	$5,797,880

liabilities [2]							
Interest rate sensitivity gap	$155,334	$(128,029)	$486,387	$(55,431)	$94,823	$145,766	$698,850
Cumulative interest-rate sensitivity gap	$155,334	$27,305	$513,692	$458,261	$553,084	$698,850	
Cumulative interest-rate sensitivity gap as a percentage of total assets	2.27 %	0.40 %	7.52 %	6.71 %	8.09 %	10.23 %	
Cumulative net interest-earning assets as a percentage of interest-bearing liabilities	114.56 %	101.25 %	114.01 %	108.85 %	109.61 %	112.05 %	

(1) Consists of interest-earning deposits.

(2) Does not include non-interest bearing demand accounts totaling $413.7 million at December 31, 2018.

Certain shortcomings are inherent in the method of analysis presented in the foregoing table. For example, although certain assets and liabilities may have similar estimated maturities or periods to repricing, they may react in differing degrees to changes in market interest rates and may bear rates that differ in varying degrees from the rates that would apply upon maturity and reinvestment or upon repricing. Also, the interest rates on certain types of assets and liabilities may fluctuate in advance of changes in market interest rates, while interest rates on other types may lag behind changes in market rates. Additionally, certain assets, such as ARM loans, have features that restrict changes in interest rates on a short-term basis and over the life of the asset. Further, in the event of a significant change in the level of interest rates, prepayments on loans and mortgage-backed securities, and deposit withdrawal or “run-off” levels, would likely deviate materially from those assumed in calculating the above table. In the event of an interest rate increase, some borrowers may be unable to meet the increased payments on their adjustable-rate debt. The interest rate sensitivity analysis assumes that the nature of the Company’s assets and liabilities remains static. Interest rates may have an effect on customer preferences for deposits and loan products. Finally, the maturity and repricing characteristics of many assets and liabilities as set forth in the above table are not governed by contract but rather by management’s best judgment based on current market conditions and anticipated business strategies.

Interest Rate Risk

Our Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America, which requires the measurement of financial position and operating results in terms of historical dollars without considering the changes in fair value of certain investments due to changes in interest rates. Generally, the fair value of financial investments such as loans and securities fluctuates inversely with changes in interest rates. As a result, increases in interest rates could result in decreases in the fair value of our interest-earning assets which could adversely affect our results of operations if such assets were sold, or, in the case of securities classified as available for sale, decreases in our stockholders' equity if such securities were retained.

We manage the mix of interest-earning assets and interest-bearing liabilities on a continuous basis to maximize return and adjust our exposure to interest rate risk. On a quarterly basis, management prepares the "Earnings and Economic Exposure to Changes in Interest Rate" report for review by the Board of Directors, as summarized below. This report quantifies the potential changes in net interest income and net portfolio value should interest rates go up or down (shocked) 200 basis points, assuming the yield curves of the rate shocks will be parallel to each other. Net portfolio value is defined as the market value of assets net of the market value of liabilities. The market value of assets and liabilities is determined using a discounted cash flow calculation. The net portfolio value ratio is the ratio of the net portfolio value to the market value of assets. All changes in income and value are measured as percentage changes from the projected net interest income and net portfolio value at the base interest rate scenario. The base interest rate scenario assumes interest rates at December 31, 2018. Various estimates regarding prepayment assumptions are made at each level of rate shock. Actual results could differ significantly from these estimates. At December 31, 2018, we were within the guidelines established by the Board of Directors for each interest rate level.

Change in Interest Rate	Projected Percentage Change In Net Interest Income		Net Portfolio Value		Net Portfolio Value Ratio	
	2018	2017	2018	2017	2018	2017
-200 basis points	6.35 %	3.91 %	14.20 %	10.44 %	12.15%	12.84%
-100 basis points	3.85	3.80	4.41	3.03	11.45	12.41
Base interest rate					11.22	12.46
+100 basis points	-4.82	-5.03	-5.98	-5.58	10.80	12.11
+200 basis points	-9.86	-10.41	-11.89	-13.38	10.36	11.37

Analysis of Net Interest Income

Net interest income represents the difference between income on interest-earning assets and expense on interest-bearing liabilities. Net interest income depends upon the relative amount of interest-earning assets and interest-bearing liabilities and the interest rate earned or paid on them.

The following table sets forth certain information relating to our Consolidated Statements of Financial Condition and Consolidated Statements of Income for the years ended December 31, 2018, 2017 and 2016, and reflects the average yield on assets and average cost of liabilities for the periods indicated. Such yields and costs are derived by dividing income or expense by the average balance of assets or liabilities, respectively, for the periods shown. Average balances are derived from average daily balances. The yields include amortization of fees that are considered adjustments to yields.

	For the year ended December 31,								
	2018			2017			2016		
	Average Balance	Interest	Yield/ Cost	Average Balance	Interest	Yield/ Cost	Average Balance	Interest	Yield/ Cost
	(Dollars in thousands)								
Interest-earning assets:									
Mortgage loans, net (1)(2)	$4,494,210	$193,186	4.30%	$4,304,889	$181,006	4.20%	$4,014,734	$173,419	4.32%
Other loans, net (1)(2)	822,758	39,533	4.80	683,724	28,277	4.14	585,948	21,706	3.70
Total loans, net	5,316,968	232,719	4.38	4,988,613	209,283	4.20	4,600,682	195,125	4.24
Taxable securities:									
Mortgage-backed securities	539,771	15,065	2.79	526,934	13,686	2.60	581,505	14,231	2.45
Other securities	140,461	4,658	3.32	199,350	7,349	3.69	243,567	8,243	3.38
Total taxable securities	680,232	19,723	2.90	726,284	21,035	2.90	825,072	22,474	2.72
Tax-exempt securities: (3)									
Other securities	121,412	3,366	2.77	139,704	3,741	2.68	142,472	3,148	2.21
Total tax-exempt securities	121,412	3,366	2.77	139,704	3,741	2.68	142,472	3,148	2.21
Interest-earning deposits and federal funds sold	75,636	1,190	1.57	61,472	526	0.86	58,522	250	0.43
Total interest-earning assets	6,194,248	256,998	4.15	5,916,073	234,585	3.97	5,626,748	220,997	3.93
Other assets	310,350			301,673			286,786		
Total assets	$6,504,598			$6,217,746			$5,913,534		
Interest-bearing liabilities:									
Deposits:									
Savings accounts	$233,392	1,370	0.59	$292,887	1,808	0.62	$260,948	1,219	0.47
NOW accounts	1,407,945	15,896	1.13	1,444,944	9,640	0.67	1,496,712	7,891	0.53
Money market accounts	1,164,505	18,707	1.61	908,025	8,151	0.90	581,390	3,592	0.62
Certificate of deposit accounts	1,483,026	28,310	1.91	1,390,491	20,579	1.48	1,409,772	20,536	1.46
Total due to depositors	4,288,868	64,283	1.50	4,036,347	40,178	1.00	3,748,822	33,238	0.89
Mortgagors' escrow accounts	66,255	214	0.32	61,962	141	0.23	56,152	112	0.20

Total interest-bearing deposits	4,355,123	64,497	1.48	4,098,309	40,319	0.98	3,804,974	33,350	0.88
Borrowings	1,162,429	25,095	2.16	1,169,791	21,159	1.81	1,231,015	20,561	1.67
Total interest-bearing liabilities	5,517,552	89,592	1.62	5,268,100	61,478	1.17	5,035,989	53,911	1.07
Non interest-bearing demand deposits	380,889			348,518			305,096		
Other liabilities	71,422			70,828			75,629		
Total liabilities	5,969,863			5,687,446			5,416,714		
Equity	534,735			530,300			496,820		
Total liabilities and equity	$6,504,598			$6,217,746			$5,913,534		
Net interest income / net interest rate spread (4)		$167,406	2.53%		$173,107	2.80%		$167,086	2.86%
Net interest-earning assets / net interest margin (5)	$676,696		2.70%	$647,973		2.93%	$590,759		2.97%
Ratio of interest-earning									