

FLUSHING FINANCIAL CORP
Form 10-K
March 17, 2014

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, 2013

Commission file number 001-33013

FLUSHING FINANCIAL CORPORATION
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation or
organization)

11-3209278
(I.R.S. Employer Identification No.)

1979 Marcus Avenue, Suite E140, Lake Success, New York 11042
(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:

Common Stock \$0.01 par value (and
associated Preferred Stock Purchase Rights)
(Title of each class)

NASDAQ Global Select Market
(Name of exchange on which registered)

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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

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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. [X]

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

Large accelerated filer____
Non-accelerated filer_____

Accelerated filer X_
Smaller reporting company ___

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 28, 2013, 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 \$471,117,000. 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 \$16.45.

The number of shares of the registrant's Common Stock outstanding as of February 28, 2014 was 30,249,341 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Company's definitive Proxy Statement for the Annual Meeting of Stockholders to be held on May 20, 2014 are incorporated herein by reference in Part III.

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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,” “fores” 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 Annual Report on Form 10-K, the words “we,” “us,” “our” and the “Company” are used to refer to Flushing Financial Corporation and our consolidated subsidiaries, including the surviving entity of the merger (the “Merger”) on February 28, 2013 of our wholly owned subsidiary, Flushing Savings Bank, FSB (the “Savings Bank”) with and into Flushing Commercial Bank (the “Commercial Bank”). The surviving entity of the Merger was the Commercial Bank, whose name has been changed to “Flushing Bank.” References herein to the “Bank” mean the Savings Bank (including its wholly owned subsidiary, the Commercial Bank) prior to the Merger and the surviving entity after the Merger.

Item 1. Business.

GENERAL

Overview

We are a Delaware corporation organized in May 1994. The Savings Bank was organized in 1929 as a New York State-chartered mutual savings bank. In 1994, the Savings Bank converted to a federally chartered mutual savings bank and changed its name from Flushing Savings Bank to Flushing Savings Bank, FSB. The Savings Bank converted from a federally chartered mutual savings bank to a federally chartered stock savings bank on November 21, 1995, at which time Flushing Financial Corporation acquired all of the stock of the Savings Bank. On February 28, 2013, in the Merger, the Savings Bank merged with and into the Commercial Bank, with the Commercial Bank as the surviving entity. Pursuant to the Merger, the Commercial Bank’s charter was changed to a full-service New York State commercial bank charter, and its name was changed to Flushing Bank. Also in connection with the Merger, Flushing Financial Corporation became a bank holding company. We have not made any significant changes to our operations or services as a result of the Merger. The primary business of Flushing Financial Corporation 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 has an internet branch, iGObanking.com®. The activities of Flushing Financial Corporation are primarily funded by dividends, if any, received from the Bank, issuances of junior subordinated debt, and issuances of equity securities. Flushing Financial Corporation’s common stock is traded on the NASDAQ Global Select Market under the symbol “FFIC.”

Flushing Financial Corporation 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). Flushing Financial Corporation 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 Flushing Financial Corporation. 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 Flushing Financial Corporation, the Bank and the Bank's subsidiaries on a consolidated basis (collectively, the "Company"). Management views the Company as operating a single unit – a community bank. Therefore, segment information is not provided. At December 31, 2013, the Company had total assets of \$4.7 billion, deposits of \$3.2 billion and stockholders' equity of \$432.5 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 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) and commercial real estate mortgage loans; (2) construction loans, primarily for residential properties; (3) Small Business Administration ("SBA") loans and other small business 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, 2013, we had gross loans outstanding of \$3,423.0 million (before the allowance for loan losses and net deferred costs), with gross mortgage loans totaling \$3,028.5 million, or 88.5% of gross loans, and non-mortgage loans totaling \$394.6 million, or 11.5% of gross loans. Mortgage loans are primarily multi-family, commercial and one-to-four family mixed-use properties, which combined totaled 82.4% 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, repurchase agreements, principal and interest payments on loans, mortgage-backed and other securities, proceeds from sales of securities and, to a lesser extent, proceeds from sales of loans. On July 21, 2011, as a result of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), the Savings Bank's primary regulator became the Office of the Comptroller of the Currency ("OCC") and Flushing Financial Corporation's primary regulator became the Federal Reserve Board of Governors ("Federal Reserve"). Upon completion of the Merger, the Bank's primary regulator became the New York State Department of Financial Services ("NYSDFS") (formerly, the New York State Banking Department), and its primary federal regulator became 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. The national and local economies were generally considered to be in a recession from December 2007 through the middle of 2009. This resulted in increased unemployment and declining property values, although the property value declines in our market, the New York City metropolitan area, have not been as great as many other areas of the country. While the national and local economies have shown signs of improvement since the middle of 2010, improvements in unemployment have lagged, with the unemployment rate decreasing but remaining at an elevated level of 7.5% at December 2013 and 8.8% at December 2012, for the New York City region, according to the New York State Department of Labor. We have also seen improvements in our level of non-performing loans, although they still remain at elevated levels. Non-performing loans totaled \$49.0 million, \$89.8 million and \$117.4 million at December 31, 2013, 2012 and 2011, respectively. Additionally, we have not experienced a significant increase in foreclosed properties due to an extended foreclosure process in our market. Net charge-offs of impaired loans have decreased in 2013 to \$13.3 million from \$20.2 million and \$18.9 million for the years ended December 31, 2012 and 2011, respectively. In response to the economic conditions in our market and the increase in non-performing loans resulting from the recession, we tightened our conservative underwriting standards in 2008 to reduce the risk associated with lending.

The following changes were made in our underwriting standards since 2008 to reduce the risk associated with lending on income producing real estate properties:

When borrowers requested a refinance of an existing mortgage loan when they had acquired the property or obtained their existing loan within two years of the request, we generally required evidence of improvements to the property that increased the property value to support the additional funds and generally restricted the loan-to-value ratio for the new loan to 65% of the appraised value.

§ The debt coverage ratio was increased and the loan-to-value ratio decreased for income producing properties with fewer than ten units. This required the borrower to have an additional investment in the property than previously required and provided additional protection should rental units become vacant.

§ Borrowers who owned multiple properties were required to provide detail on all their properties to allow us to evaluate their total cash flow requirements. Based on this review, we may decline the loan application, or require a lower loan-to-value ratio and a higher debt coverage ratio.

§ Income producing properties with existing rents that were at or above the current market rent for similar properties were required to have a higher debt coverage ratio to provide protection should rents decline.

§ Borrowers purchasing properties were required to demonstrate they had satisfactory liquidity and management ability to carry the property should vacancies occur or increase.

The following changes were made in our underwriting standards since 2008 to reduce the risk on one-to-four family residential property mortgage loans and home equity lines of credit:

§ We discontinued originating home equity lines of credit without verifying the borrower's income. This was done in two stages. Beginning in May 2008, we began verifying the borrower's income when the home equity line of credit exceeded \$100,000. Beginning in October 2009, we verified the income of all borrowers applying for a home equity line of credit.

§ We discontinued offering one-to-four family residential property mortgage loans to self-employed individuals based on stated income and verifiable assets in June 2010.

The following changes were made in our underwriting standards since 2008 to reduce the risk associated with business lending:

§ All borrowers obtaining a business loan were required to submit a complete financial information package, regardless of the amount of the loan. Previously, borrowers for SBA Express loans and other loans under \$150,000 had been exempt from this requirement.

§ Background checks on all borrowers and guarantors for business loans were expanded to identify and review information in more public records, including a search for judgments, liens, negative press articles, and affiliations with other entities.

§ The guarantee of related business entities providing cash flow to the borrowing entity became required for business loans.

§ The allowable percentage of inventory and accounts receivable pledged as collateral for a business loan was reduced.

§ We established specific risk acceptance criteria for private not for profit schools.

The economic conditions we have experienced since December 2007 resulted in loan originations declining year-over-year from 2008 through 2011. In 2012 the trend of declining loan originations reversed with loan originations improving year-over-year in 2012 and 2013. Loan originations and purchases for 2013 increased \$203.5 million, or 32.2%, to \$836.0 million from \$632.5 million for 2012.

Our operating results are also affected by extensions, renewals, modifications and restructuring of loans in our loan portfolio. When extending, renewing, modifying or restructuring a loan, other than a loan that is classified as a troubled debt restructured ("TDR"), the loan is required to be fully underwritten in accordance with our policy for new loans. 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 change 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 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 either the Board of Directors of the Bank (the “Bank Board of Directors”) or its Loan Committee (the “Loan Committee”).

Our operating results are also affected by losses on non-performing loans. Our policy requires a reappraisal by an independent third party when a loan becomes twelve months delinquent. We generally obtain a reappraisal by an independent third party for loans over 90 days delinquent when the outstanding loan balance is at least \$1.0 million. We also obtain reappraisals when our internally prepared 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. These internal valuations are prepared when a loan becomes 90 days delinquent.

The Bank has a business banking unit. Our business strategy includes a transition from a traditional thrift to a more “commercial-like” banking institution by focusing on the development of a full complement of commercial business deposit, loan and cash management products. As of December 31, 2013, the business banking unit had \$378.3 million in gross loans outstanding and \$138.5 million of customer deposits.

The Bank has an internet branch, iGObanking.com®, which provides access to consumers in markets outside our geographic locations. Accounts can be opened online at www.iGObanking.com or by mail. The internet branch does not currently accept loan applications. As of December 31, 2013, the internet branch had \$293.2 million of customer deposits.

The Savings Bank formed a wholly owned subsidiary, Flushing Commercial Bank, a New York State-chartered commercial bank, for the limited purpose of providing banking services to public entities including counties, cities, towns, villages, school districts, libraries, fire districts and the various courts throughout the New York City metropolitan area. The Commercial Bank was formed in response to New York State law, which requires that municipal deposits and state funds must be deposited into a bank or trust company as defined in New York State law. The Savings Bank was not considered an eligible bank or trust company for this purpose. On February 28, 2013, in the Merger, the Savings Bank merged with and into the Commercial Bank, with the Commercial Bank as the surviving entity. Pursuant to the Merger, the Commercial Bank’s charter was changed to a full-service New York State commercial bank charter, and its name was changed to Flushing Bank.

On December 19, 2008, under the Troubled Asset Relief Program (“TARP”), we entered into a Letter Agreement (including the Securities Purchase Agreement – Standard Terms incorporated by reference therein, the “Purchase Agreement”) with the United States Department of the Treasury (the “U.S. Treasury”) pursuant to which we issued and sold to the U.S. Treasury (i) 70,000 shares of our Fixed Rate Cumulative Perpetual Preferred Stock Series B having a liquidation preference of \$1,000 per share (the “Series B Preferred Stock”), and (ii) a ten-year warrant (the “Warrant”) to purchase up to 751,611 shares of our common stock, par value \$0.01 per share, at an initial price of \$13.97 per share, for an aggregate purchase price of \$70.0 million in cash. The Series B Preferred Stock qualified as Tier 1 Capital under the risk-based capital guidelines of the Office of Thrift Supervision (“OTS”) (“Tier 1 Capital”) and paid cumulative dividends at a rate of 5% per annum. Dividends were payable on the Series B Preferred Stock quarterly and were payable on February 15, May 15, August 15 and November 15 of each year. The Series B Preferred Stock had no maturity date and ranked senior to our common stock with respect to the payment of dividends and distributions and amounts payable upon liquidation and winding up of the Company. The Warrant would have expired ten years from the issuance date and was immediately exercisable and transferable. The Purchase Agreement contained limitations on the payment of dividends on and the repurchase of our common stock and certain preferred stock. The Purchase Agreement also required that, until such time as the U.S. Treasury ceased to own any securities acquired from us thereunder, we take all necessary action to ensure that benefit plans with respect to senior executive officers complied with Section 111(b) of the Emergency Economic Stabilization Act of 2008 (“EESA”) as implemented by any guidance or regulation under Section 111(b) of EESA that has been issued and was in effect as of the date of issuance of the Series B Preferred Stock and the Warrant and not adopt any benefit plans with respect to, or which

cover, senior executive officers that do not comply with EESA. Our senior executive officers consented to the foregoing. During 2009, we issued, in a public offering, 9.3 million common shares for total consideration, after expenses, of \$101.5 million. This public offering was a Qualified Equity Offering as defined in the Warrant. As a result of this Qualified Equity Offering, the number of shares of common stock underlying the Warrant was reduced by one-half. On October 28, 2009, we redeemed the Series B Preferred Stock for \$70.0 million plus all accrued and unpaid dividends. On December 30, 2009, we repurchased the Warrant for \$0.9 million.

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 Flushing, New York, located in the Borough of Queens. At December 31, 2013, the Bank operated out of 17 full-service offices, located in the New York City Boroughs of Queens, Brooklyn, and Manhattan, and in Nassau County, New York. We also operate an internet branch, iGObanking.com®. We maintain our executive offices in Lake Success 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 over 115 banks and thrifts in the counties in which we have branch locations. Our market share of deposits in these counties is approximately 0.35% of the total deposits of these competing financial institutions, and we are the 24th largest financial institution. 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.

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, Taxi medallion loans and other consumer loans. Substantially all of our mortgage loans are secured by properties located within our market area. At December 31, 2013, we had gross loans outstanding of \$3,423.0 million (before the allowance for loan losses and net deferred costs).

Since 2009 we have focused our mortgage loan origination efforts on multi-family residential mortgage loans. In prior years we had focused our mortgage loan originations on multi-family residential, commercial real estate and one-to-four family mixed-use property mortgage loans. These loans 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 on multi-family residential mortgage loans 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. The reduced emphasis on commercial real estate, one-to-four family mixed-use property mortgage loans, and construction loans since 2009 was due to the increased level of risk in these types of loans in the current economic environment. While we expect to continue this reduced emphasis on the origination of commercial real estate and one-to-four family mixed-use property mortgage loans, and construction loans, in the near term, we have cautiously resumed the origination of non-owner occupied commercial real estate and one-to-four family mixed-use property mortgage loans.

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. Our increased emphasis on multi-family residential mortgage loans since 2009, and on multi-family residential, commercial real estate and one-to-four family mixed-use property mortgage loans during years prior to 2009, has increased the overall level of credit risk inherent in our loan portfolio. 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. As a result of this ongoing review, we reduced our reliance on commercial real estate and one-to-four family mixed-use property mortgage loans during the most recent two years, and tightened our conservative underwriting standards to further reduce the risk associated with lending. See “General – Overview” in this Item 1 of this Annual Report. To date, we have not experienced significant losses in our multi-family residential, commercial real estate and one-to-four family mixed-use property mortgage loan portfolios.

Our mortgage 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.

Prior to 2007, we had grown our construction loan portfolio. During 2007, we began to deemphasize construction loans, as originations of new construction loans declined. We have continued to deemphasize construction loans since then as we reduced the balance of our construction loan portfolio, which totaled \$4.2 million at December 31, 2013. We intend to continue to deemphasize construction loans in the near term. We obtain a first lien position on the underlying collateral, and generally obtain personal guarantees on construction loans. These loans generally have a term of two years or less. 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. The greater risk associated with construction 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. To date, we have not incurred significant losses in our construction loan portfolio.

The business banking unit was formed in 2006 to focus 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, including 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 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. To date, we have not incurred significant losses in our business loan portfolio.

From time to time, we may purchase loans from 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.”

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

	2013		2012		At December 31, 2011		2010		A
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total	
(Dollars in thousands)									
Mortgage Loans:									
Multi-family residential	\$1,712,039	50.02 %	\$1,534,438	47.62 %	\$1,391,221	43.28 %	\$1,252,176	38.40 %	\$1,000,000
Commercial real estate	512,552	14.97	515,438	16.00	580,783	18.07	662,794	20.33	600,000
One-to-four family - mixed-use property	595,751	17.40	637,353	19.79	693,932	21.59	728,810	22.36	700,000
One-to-four family - residential (1)	193,726	5.66	198,968	6.18	220,431	6.86	241,376	7.41	200,000
Co-operative apartment (2)	10,137	0.30	6,303	0.20	5,505	0.17	6,215	0.19	600,000
Construction	4,247	0.12	14,381	0.45	47,140	1.47	75,519	2.32	900,000
Gross mortgage loans	3,028,452	88.47	2,906,881	90.24	2,939,012	91.44	2,966,890	91.01	2,900,000
Non-mortgage loans:									
Small Business									
Administration	7,792	0.23	9,496	0.29	14,039	0.44	17,511	0.54	100,000
Taxi medallion	13,123	0.38	9,922	0.31	54,328	1.69	88,264	2.71	600,000
Commercial business and other	373,641	10.92	295,076	9.16	206,614	6.43	187,161	5.74	1,000,000
Gross non-mortgage loans	394,556	11.53	314,494	9.76	274,981	8.56	292,936	8.99	2,000,000
Gross loans	3,423,008	100.00%	3,221,375	100.00%	3,213,993	100.00%	3,259,826	100.00%	3,000,000
Unearned loan fees and deferred costs, net	11,170		12,746		14,888		16,503		100,000
Less: Allowance for loan losses	(31,776)		(31,104)		(30,344)		(27,699)		(200,000)
Loans, net	\$3,402,402		\$3,203,017		\$3,198,537		\$3,248,630		\$3,000,000

(1) One-to-four family residential mortgage loans also include home equity and condominium loans. At December 31, 2013, gross home equity loans totaled \$58.6 million and condominium loans totaled \$24.5 million.

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

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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:

(In thousands)	For the years ended December 31,		
	2013	2012	2011
Mortgage Loans			
At beginning of year	\$2,906,881	\$2,939,012	\$2,966,890
Mortgage loans originated:			
Multi-family residential	382,041	317,663	249,010
Commercial real estate	68,968	31,789	7,070
One-to-four family mixed-use property	40,898	15,961	23,754
One-to-four family residential	27,495	24,485	24,075
Co-operative apartment	4,966	1,810	-
Construction	3,089	806	1,723
Total mortgage loans originated	527,457	392,514	305,632
Mortgage loans purchased:			
Commercial real estate	452	-	-
Total mortgage loans purchased	452	-	-
Less:			
Principal reductions	363,805	359,168	284,327
Loans transferred to loans held for sale	9,524	6,498	-
Mortgage loan sales	18,306	34,033	24,832
Charge-offs	12,329	19,284	17,845
Mortgage loan foreclosures	2,374	5,662	6,506
At end of year	\$3,028,452	\$2,906,881	\$2,939,012
Non-mortgage loans			
At beginning of year	\$314,494	\$274,981	\$292,936
Loans originated:			
Small Business Administration	603	529	3,528
Taxi Medallion	-	8	11,779
Commercial business	292,385	231,877	66,352
Other	5,360	4,138	4,859
Total other loans originated	298,348	236,552	86,518
Non-mortgage loans purchased:			
Taxi Medallion	9,737	3,456	19,053
Less:			
Non-mortgage loan sales	-	1,379	4,104
Loans transferred to loans held for sale	-	5,400	-
Principal reductions	225,509	191,731	118,032

Charge-offs	2,514	1,985	1,390
At end of year	\$394,556	\$314,494	\$274,981

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Loan Maturity and Repricing. The following table shows the maturity of our total loan portfolio at December 31, 2013. Scheduled repayments are shown in the maturity category in which the payments become due.

(In thousands)	Mortgage loans					Non-mortgage loans					Total loans
	Multi-family residential	Commercial real estate	One-to-four family mixed-use property	One-to-four family residential	Co-operative apartment	Small Business Administration	Construction	Taxi Medallion	Commercial business and other		
Amounts due within one year	\$147,762	\$89,734	\$37,483	\$8,080	\$321	\$4,247	\$3,296	\$6,995	\$142,049	\$439,967	
Amounts due after one year:											
One to two years	132,622	68,387	35,888	8,260	333	-	827	3,705	46,483	296,505	
Two to three years	130,506	61,618	32,121	8,309	341	-	676	2,422	39,159	275,152	
Three to five years	129,385	54,755	28,112	7,984	350	-	446	1	31,458	252,491	
Over five years	1,171,764	238,058	462,147	161,093	8,792	-	2,547	-	114,492	2,158,893	
Total due after one year	1,564,277	422,818	558,268	185,646	9,816	-	4,496	6,128	231,592	2,983,041	
Total amounts due	\$1,712,039	\$512,552	\$595,751	\$193,726	\$10,137	\$4,247	\$7,792	\$13,123	\$373,641	\$3,423,008	
Sensitivity of loans to changes in interest rates - loans due after one year:											
Fixed rate loans	\$379,796	\$84,195	\$106,384	\$46,112	\$1,500	\$-	\$128	\$6,128	\$154,443	\$778,686	
Adjustable rate loans	1,184,481	338,623	451,884	139,534	8,316	-	4,368	-	77,149	2,204,355	
Total loans due after one year	\$1,564,277	\$422,818	\$558,268	\$185,646	\$9,816	\$-	\$4,496	\$6,128	\$231,592	\$2,983,041	

Multi-Family Residential Lending. Loans secured by multi-family residential properties were \$1,712.0 million, or 50.02% of gross loans, at December 31, 2013. Our multi-family residential mortgage loans had an average principal balance of \$857,000 at December 31, 2013, and the largest multi-family residential mortgage loan held in our portfolio had a principal balance of \$28.0 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. During 2008, we increased the required debt service coverage ratio for multi-family residential loans with ten units or less. 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 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, 2013, \$1,286.0 million, or 75.11%, 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, 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. 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. We originated and purchased multi-family ARM loans totaling \$197.8 million, \$221.7 million and \$218.8 million during 2013, 2012 and 2011, respectively.

At December 31, 2013, \$426.1 million, or 24.89%, 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 \$184.3 million, \$95.9 million and \$30.2 million of fixed-rate multi-family mortgage loans in 2013, 2012 and 2011, respectively.

Commercial Real Estate Lending. Loans secured by commercial real estate were \$512.6 million, or 14.97% of gross loans, at December 31, 2013. Our commercial real estate mortgage loans are secured by improved properties such as office buildings, hotels/motels, nursing homes, small business facilities, strip shopping centers, warehouses, and, to a lesser extent, religious facilities. At December 31, 2013, our commercial real estate mortgage loans had an average principal balance of \$646,000, and the largest of such loans, which was secured by a multi-tenant shopping center, had a principal balance of \$14.9 million. Commercial real estate mortgage loans are generally originated in a range of \$100,000 to \$6.0 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 one-to-four family residential mortgage loans and involve a greater degree of credit risk for the same reasons applicable to multi-family loans.

At December 31, 2013, \$409.1 million, or 79.81%, 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. We originated and purchased commercial ARM loans totaling \$43.9 million, \$19.9 million and \$2.1 million during 2013, 2012 and 2011, respectively.

At December 31, 2013, \$103.5 million, or 20.19%, 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 \$25.5 million, \$11.9 million and \$5.0 million of fixed-rate commercial mortgage loans in 2013, 2012 and 2011, 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 a commercial unit. 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 \$1,000,000. Loan originations primarily result from applications received from mortgage brokers and mortgage bankers, existing or past customers, and persons who respond to our marketing efforts and referrals. One-to-four family mixed-use property mortgage loans were \$595.8 million, or 17.40% of gross loans, at December 31, 2013.

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, 2013, \$467.6 million, or 78.49%, 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. We originated and purchased one-to-four family mixed-use property ARM loans totaling \$20.3 million, \$10.8 million and \$17.6 million during 2013, 2012 and 2011, respectively.

At December 31, 2013, \$128.2 million, or 21.51%, 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 \$20.6 million, \$5.2 million and \$6.1 million of fixed-rate one-to-four family mixed-use property mortgage loans in 2013, 2012 and 2011, 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 \$1,000,000. Loan originations generally result from applications received from mortgage brokers and mortgage bankers, existing or past customers, and referrals. Residential mortgage loans were \$203.9 million, or 5.96% of gross loans, at December 31, 2013.

We generally originate residential mortgage loans in amounts up to 80% of the appraised value or the sale price, whichever is less. We may make residential mortgage loans with loan-to-value ratios of up to 90% of the appraised value of the mortgaged property; however, private mortgage insurance is required whenever loan-to-value ratios exceed 80% of the appraised value of the property securing the loan.

In addition to income verified loans, we have in the past originated residential mortgage loans to self-employed individuals within our local community based on stated income and verifiable assets that allowed us to assess repayment ability, provided that the borrower's stated income is considered reasonable for the borrower's type of

business. The preponderance of stated income one-to-four family residential mortgage loans were made available to self-employed individuals within our local community for their primary residence. Our underwriting standards required that we verify the assets of the borrowers and the sources of their cash flows. The information reviewed for purchases included at least three months and refinances included at least one month of personal bank statements (checking and savings accounts), statements of investment accounts, business checking account statements (when applicable), and other information provided by the borrowers about their personal holdings. Our review of these bank statements allowed us to assess

whether or not their stated income appeared reasonable in comparison to their cash flows, and if their income level supported their personal holdings. We also obtained and reviewed credit reports on these borrowers. An acceptable credit report was one of the key factors in approving this type of mortgage loan. We obtained appraisals from an independent third party for the property, and limited the amount we lent on the properties to 80% of the lesser of the property's appraised value or the purchase price. Home equity lines of credit were offered on one-to-four residential properties to homeowners based on various levels of income verification. We limited the amount available under a home equity line of credit to 80% of the lesser of the appraised value of the property and the purchase price. These loans involve a higher degree of risk as compared to our other fully underwritten residential mortgage loans as there is a greater opportunity for self-employed borrowers to falsify or overstate their level of income and ability to service indebtedness. This risk is mitigated by the requirements discussed above in our loan policy. In addition, since 2008, the underwriting standards for home equity loans were modified to discontinue originating home equity lines of credit without verifying the borrower's income. This was accomplished in two stages. Beginning in May 2008, we began verifying the borrower's income when the home equity line of credit exceeded \$100,000. Beginning in October 2009, we verified the income of all borrowers applying for a home equity line of credit. We also discontinued offering one-to-four family residential property mortgage loans to self-employed individuals based on stated income and verifiable assets in June 2010. We had \$15.8 million and \$20.8 million outstanding of one-to four family residential mortgage loans originated to individuals based on stated income and verifiable assets at December 31, 2013 and 2012, respectively. We had \$49.9 million and \$52.8 million advanced on home equity lines of credit for which we did not verify the borrowers' income at December 31, 2013 and 2012, respectively.

At December 31, 2013, \$152.0 million, or 74.58%, 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. We originated and purchased adjustable rate residential mortgage loans totaling \$17.6 million, \$23.6 million and \$21.5 million during 2013, 2012 and 2011, 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, 2013, \$51.8 million, or 25.42%, 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, \$2.7 million and \$2.6 million in 15-year fixed-rate residential mortgages in 2013, 2012 and 2011, respectively. We did not originate or purchase any 30-year fixed-rate residential mortgages in 2013, 2012 and 2011.

At December 31, 2013, home equity loans totaled \$58.6 million, or 1.71%, 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, 2013, construction loans totaled \$4.2 million, or 0.12%, of gross loans. Our construction loans primarily have been made to finance the construction of one-to-four family residential properties, multi-family residential properties and residential condominiums. We also, to a limited extent, finance the construction of commercial real estate. 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 advances on construction loans of \$3.1 million, \$0.8 million and \$1.7 million during 2013, 2012 and 2011, 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, 2013, SBA loans totaled \$7.8 million, representing 0.23%, 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 was \$2.0 million, with a maximum loan guarantee of \$1.5 million. The Small Business Jobs Act of 2010 permanently increased the limits to a maximum loan size of \$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. We generally sell the guaranteed portion of certain SBA term loans in the secondary market, realizing a gain at the time of sale, and retain the servicing rights on these loans, collecting a servicing fee of approximately 1%. We originated and purchased \$0.6 million, \$0.5 million and \$3.5 million of SBA loans during 2013, 2012 and 2011, respectively.

Taxi medallion.. At December 31, 2013, taxi medallion loans totaled \$13.1 million, or 0.38%, of gross loans. We originate and purchase loans made to New York City taxi medallion owners. These loans, which totaled \$13.1 million at December 31, 2013, are secured through liens on the taxi medallions. We originate and purchase taxi medallion loans up to 80% of the value of the taxi medallion. We originated and purchased \$9.7 million, \$3.5 million and \$30.8 million of taxi medallion loans during 2013, 2012 and 2011, respectively.

Commercial Business and Other Lending. At December 31, 2013, commercial business and other loans totaled \$373.6 million, or 10.92%, of gross loans. We originate 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, at times, enters into participations/syndications with other banks on senior secured commercial business loans. 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 \$297.7 million, \$236.0 million and \$71.2 million of commercial business and other loans during 2013, 2012 and 2011, 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 TDR, requires the loan to be fully underwritten in accordance with our policy for new loans. 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 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 either the Loan Committee or the Bank Board of Directors.

Loan Approval Procedures and Authority. The Board of Directors of the Company (the “Board of Directors”) approved lending policies establishes 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 President, 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 \$1.0 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. The Loan Committee or the Bank Board of Directors also must approve one-to-four family mortgage loans in excess of \$1.0 million. Pursuant to our Commercial Real Estate Lending Policy, all loans secured by commercial real estate and multi-family residential properties must be approved by the President or the Executive Vice President, Chief of Real Estate Lending upon the recommendation of the appropriate Senior Vice President, and ratification by the Management Loan Committee. Such loans in excess of \$1.0 million up to and including \$2.5 million must also be approved by the Management Loan Committee and ratified by the Loan Committee or the Bank Board of Directors. Such loans in excess of \$2.5 million also require Loan Committee or Bank Board of Directors approval. In accordance with our Business Credit Policy all business and SBA loans up to \$1.5 million must be approved by the Business Loan Committee and ratified by the Management Loan Committee. Business and SBA loans in excess of \$1.5 million up to \$2.5 million, must be approved by the Management Loan Committee and ratified by the Loan Committee. Commercial business and other loans require two signatures for approval, one of which must be from an Authorized Officer. 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 Loan Committee. Such loans in excess of \$1.0 million up to and including \$2.5 million require the same officer approvals, approval of the Management Loan Committee, and ratification of the Loan Committee or the Bank Board of Directors. Construction loans in excess of \$2.5 million up to and including \$15.0 million require the same officer approvals, approval by the Management Loan Committee, and approval of the Loan Committee or the Bank Board of Directors. Construction loans in excess of \$15.0 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 \$67.1 million at December 31, 2013. 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, 2013, 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 business loans with an aggregate principal balance of \$59.2 million, \$54.3 million and \$48.4 million for each of the three borrowers, respectively.

Loan Servicing. At December 31, 2013, we were servicing \$1.5 million of mortgage loans and \$11.5 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 non-performing loans that are sold with servicing released to the buyer. In order to increase revenue, management intends to continue this policy.

Asset Quality

Loan Collection. When a borrower fails to make a required payment on a loan, 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. At times, when a borrower is experiencing financial difficulties, we may restructure a loan to enable a borrower to continue making payments when it is deemed to be in our best long-term interest. This restructure may include reducing the interest rate or amount of the monthly payment for a specified period of time, after which the interest rate and repayment terms revert to the original terms of the loan. We classify these loans as “Troubled Debt Restructured”. At December 31, 2013, we had \$16.0 million of loans classified as Troubled Debt Restructured, with \$13.7 million of these loans performing according to their restructured terms and \$2.3 million not performing according to their restructured terms. 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, and we have increased staffing to handle delinquent loans by hiring people experienced in loan workouts.

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 classified as non-accrual unless there is, in our opinion, compelling evidence the borrower will bring the loan current in the immediate future. At December 31, 2013, there were six loans, which totaled \$0.6 million, past due 90 days or more and 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. We sold 72 delinquent mortgage loans totaling \$33.4 million, 77 delinquent mortgage loans totaling \$44.2 million, and 44 delinquent mortgage loans totaling \$27.8 million during the years ended December 31, 2013, 2012 and 2011, respectively. We recorded net charge-offs of \$4.7 million, \$5.7 million and \$3.7 million to the allowance for loan losses for the non-performing

loans that were sold during 2013, 2012 and 2011, respectively. We realized gross gains of \$134,000, \$21,000 and \$167,000 on the sale of non-performing mortgage loans for the years ended December 31, 2013, 2012 and 2011, respectively. We realized gross losses of \$81,000 and \$69,000 on the sale of non-performing mortgage loans for the years ended December 31, 2013 and 2012, respectively. We did not record any gross losses for the year ended December 31, 2011. 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.

On mortgage loans or 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, 2013, we held \$193.6 million of loans that were serviced by others.

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.

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 as troubled debt restructured (“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:

(Dollars in thousands)	At December 31,				
	2013	2012	2011	2010	2009
Multi-family residential	\$3,087	\$2,347	\$9,412	\$7,946	\$478
Commercial real estate	3,686	8,499	2,499	5,815	1,441
One-to-four family mixed-use property	2,692	2,336	795	206	575
One-to-four family residential	364	374	-	-	-
Construction	746	3,805	5,888	-	-
Commercial business and other	3,127	2,540	2,000	-	-
Total performing troubled debt restructured	\$13,702	\$19,901	\$20,594	\$13,967	\$2,494

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, 2013 and 2012, there was one loan for \$2.3 million and seven loans totaling \$11.6 million, respectively, which were restructured as TDR which were not performing in accordance with their restructured terms.

Delinquent Loans and Non-performing Assets. We generally discontinue accruing interest on delinquent loans when a loan is 90 days past due or foreclosure proceedings have been commenced, whichever first occurs. 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, including Loans held for sale, at the dates indicated. During the years ended December 31, 2013, 2012 and 2011, the amounts of additional interest income that would have been recorded on non-accrual loans, had they been current, totaled \$3.4 million, \$7.3 million and \$7.5 million, respectively. These amounts were not included in our interest income for the respective periods.

(Dollars in thousands)	At December 31,					
	2013	2012	2011	2010	2009	
Loans 90 days or more past due and still accruing:						
Multi-family residential	\$52	\$-	\$6,287	\$103	\$-	
Commercial real estate	-	-	92	3,328	471	
One-to-four family - residential	15	-	-	-	2,784	
Commercial Business and other	539	644	-	6	-	
Total	606	644	6,379	3,437	3,255	
Non-accrual mortgage loans:						
Multi-family residential	13,682	16,486	19,946	35,633	27,483	
Commercial real estate	9,962	15,640	19,895	22,806	18,153	
One-to-four family mixed-use property	9,063	18,280	28,429	30,478	23,422	
One-to-four family residential	13,250	13,726	12,766	10,695	4,959	
Co-operative apartments	57	234	152	-	78	
Construction	-	7,695	14,721	4,465	1,639	
Total	46,014	72,061	95,909	104,077	75,734	
Non-accrual non-mortgage loans:						
Small Business Administration	-	283	493	1,159	1,232	
Commercial Business and other	2,348	16,860	14,660	3,419	3,151	
Total	2,348	17,143	15,153	4,578	4,383	
Total non-accrual loans	48,362	89,204	111,062	108,655	80,117	
Total non-performing loans	48,968	89,848	117,441	112,092	83,372	
Other non-performing assets:						
Real Estate Owned	2,985	5,278	3,179	1,588	2,262	
Investment securities	1,871	3,332	2,562	5,134	5,134	
Total	4,856	8,610	5,741	6,722	7,396	
Total non-performing assets	\$53,824	\$98,458	\$123,182	\$118,814	\$90,768	
Non-performing loans to gross loans	1.43	% 2.79	% 3.65	% 3.44	% 2.60	%
Non-performing assets to total assets	1.14	% 2.21	% 2.87	% 2.75	% 2.19	%

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, 2013		December 31, 2012	
	60 - 89 days	30 - 59 days	60 - 89 days	30 - 59 days
	(In thousands)			
Multi-family residential	\$2,555	\$14,102	\$4,827	\$24,059
Commercial real estate	523	5,029	3,622	9,764
One-to-four family - mixed-use property	1,099	14,017	3,368	21,012
One-to-four family - residential	517	3,927	1,886	3,407
Co-operative apartments	-	-	-	-
Construction loans	-	-	-	2,462
Small Business Administration	-	105	-	404
Taxi medallion	-	-	-	-
Commercial business and other	2	187	6	2
Total	\$4,696	\$37,367	\$13,709	\$61,110

Hurricane Sandy. Hurricane Sandy caused significant damage to numerous homes and businesses throughout the New York Metropolitan area, our primary market, in late October 2012. In working with its borrowers and depositors affected by this hurricane, the Bank had entered into payment agreements on 30 loans totaling \$18.9 million. These agreements originally provided for partial payment deferrals, generally for 90 days, but some agreements provide for longer deferral periods. These agreements were intended to provide the borrowers the opportunity to fully assess any damage to the properties, apply for and receive insurance proceeds, and repair damages to the properties. At December 31, 2013, 14 loans totaling \$7.5 million remain under these agreements, of which eight loans totaling \$5.6 million are considered non-performing and we have placed them on non-accrual status until they reestablish a payment history and bring the loans current. Four of the remaining loans, which are current under their repayment plans, have had their agreements extended into 2014 to give the borrowers additional time to recover. Two loans are delinquent under their repayment plans. Each borrower was required, commencing at the end of the deferral period, to make their regularly scheduled loan payments plus a portion of the deferred amounts. As of December 31, 2013, the Bank has not incurred, and does not expect to incur, any losses related to these agreements.

Other Real Estate Owned. We aggressively market our Other Real Estate Owned (“OREO”) properties. At December 31, 2013, we owned 12 properties with a combined fair value of \$3.0 million. At December 31, 2012, we owned 11 properties with a combined fair value of \$5.3 million. At December 31, 2011, we owned seven properties with a combined fair value of \$3.2 million.

Investment Securities. Non-performing investment securities included one pooled trust preferred security with a fair value of \$1.9 million at December 31, 2013 and two pooled trust preferred securities with a fair value totaling \$3.3 million at December 31, 2012.

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 total Criticized and Classified assets were \$130.2 million at December 31, 2013, a decrease of \$94.0 million from \$224.2 million at December 31, 2012.

The following table sets forth the Bank's Criticized and Classified assets at December 31, 2013:

(In thousands)	Special Mention	Substandard	Doubtful	Loss	Total
Loans:					
Multi-family residential	\$ 9,940	\$ 19,089	\$-	\$-	\$29,029
Commercial real estate	13,503	16,820	-	-	30,323
One-to-four family - mixed-use property	7,992	14,898	-	-	22,890
One-to-four family - residential	2,848	14,026	-	-	16,874
Co-operative apartments	-	59	-	-	59
Construction loans	746	-	-	-	746
Small Business Administration	310	-	-	-	310
Commercial business and other	7,314	8,450	50	-	15,814
Total loans	42,653	73,342	50	-	116,045
Investment Securities: (1)					
Pooled trust preferred securities	-	11,134	-	-	11,134
Total investment securities	-	11,134	-	-	11,134
Other Real Estate Owned	-	2,985	-	-	2,985
Total	\$ 42,653	\$ 87,461	\$50	\$-	\$130,164

The following table sets forth the Bank's Criticized and Classified assets at December 31, 2012:

(In thousands)	Special Mention	Substandard	Doubtful	Loss	Total
Loans:					
Multi-family residential	\$ 16,345	\$ 22,769	\$-	\$-	\$39,114
Commercial real estate	11,097	27,877	-	-	38,974
One-to-four family - mixed-use property	13,104	26,506	-	-	39,610
One-to-four family - residential	5,223	15,328	-	-	20,551
Co-operative apartments	103	237	-	-	340
Construction loans	3,805	10,598	-	-	14,403
Small Business Administration	323	212	244	-	779
Commercial business and other	3,044	18,419	1,080	-	22,543
Total loans	53,044	121,946	1,324	-	176,314
Investment Securities: (1)					
Pooled trust preferred securities	-	16,189	-	-	16,189
Private issue CMO	-	26,429	-	-	26,429
Total investment securities	-	42,618	-	-	42,618
Other Real Estate Owned					
	-	5,278	-	-	5,278
Total	\$ 53,044	\$ 169,842	\$ 1,324	\$-	\$224,210

(1) Our investment securities are classified as securities available for sale and as such are carried at their fair value in our Consolidated Financial Statements. The securities above had a fair value of \$7.9 million and \$35.2 million at December 31, 2013 and 2012, respectively. Under current applicable regulatory guidelines, we are required to disclose the classified investment securities, as shown in the tables above, at their book values (amortized cost, or fair value for securities that are under the fair value option). Additionally, the requirement is only for the Bank's securities. Flushing Financial Corporation had two private issue trust preferred securities classified as Substandard at December 31, 2012, with a combined market value of \$0.8 million. Flushing Financial Corporation did not have any securities classified or criticized at December 31, 2013.

On a quarterly basis all mortgage loans that are classified as Substandard or Doubtful are internally reviewed for impairment, based on updated cash flows for income producing properties, or updated independent appraisals. The loan balances of collateral dependent loans reviewed for impairment are then compared to the loans 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 balance which exceeds fair value is generally charged-off against the allowance for loan losses. At December 31, 2013, the current loan-to-value ratio on our collateral dependent loans reviewed for impairment was 46.2%.

We classify investment securities as Substandard when, based on an internal review, we concluded the securities are below investment grade. We have classified a total of three investment securities that are held at the Bank as Substandard at December 31, 2013. Our classified investment securities at December 31, 2013 held by the Bank include three issues of pooled trust preferred securities. The investment securities which are classified as Substandard at December 31, 2013 are securities that were rated investment grade when we purchased them. These securities have each been subsequently downgraded by at least one rating agency to below investment grade. Through December 31, 2013, one of the pooled trust preferred securities is not paying principal and interest as scheduled. The remaining investment securities continued to pay interest and principal as scheduled at December 31, 2013. We test each of these securities quarterly, through an independent third party, for impairment.

There were \$1.4 million, \$0.8 million and \$1.6 million in credit related other-than-temporary impairment (“OTTI”) charges recorded for the years ended December 31, 2013, 2012 and 2011, respectively. During 2013 we recorded OTTI charges of \$1.4 million on four private issue collateralized mortgage obligations. During 2012 we recorded OTTI charges of \$0.8 million on five private issue collateralized mortgage obligations. During 2011 we recorded OTTI charges of \$1.6 million on five private issue collateralized mortgage obligations.

Allowance for Loan Losses

We have established and maintain on our books an allowance for loan losses 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. Additionally, 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. Our decision to segregate the portfolio based upon origination dates was based on changes made in our underwriting standards during 2009. By the end of 2009, all loans were being underwritten based on revised and tightened underwriting standards. Loans originated prior to 2010 have a higher delinquency rate and loss history. Each of the years in the portfolio for loans originated prior to 2010 has a similar delinquency rate. The determination of the amount of the allowance for loan losses includes estimates that are susceptible to significant changes due to changes in appraisal values of collateral, national and local economic conditions and other factors. We review our loan portfolio by separate categories with similar risk and collateral characteristics. 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 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. Impaired mortgage loans that were written down resulted from quarterly reviews or updated appraisals that indicated the properties' estimated value had declined from when the loan was originated. The Board of Directors reviews and approves the adequacy of the allowance for loan losses 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. We incurred total net charge-offs of \$13.3 million and \$20.2 million during the years ended December 31, 2013 and 2012, respectively. The national and local economies were generally considered to be in a recession from December 2007 through the middle of 2009. This resulted in increased unemployment and declining property values, although the property value declines in our market, the New York City metropolitan area, have not been as great as many other areas of the country. While the national and local economies have shown signs of improvement since the middle of 2010, improvements in unemployment have lagged, with the unemployment rate decreasing but remaining at an elevated level. The high level of unemployment has had a negative effect on our loan portfolio. Non-performing loans totaled \$49.0 million and \$89.8 million at December 31, 2013 and 2012, 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, 2013, the outstanding principal balance of our impaired mortgage loans was less than 47% of the estimated current value of the supporting collateral, after considering the charge-offs that have been recorded. A provision for loan losses of \$13.9 million, \$21.0 million and \$21.5 million was recorded for the years ended December 31, 2013, 2012 and 2011, respectively. Management has concluded, and the Board of

Directors has concurred, that at December 31, 2013, the allowance was sufficient to absorb losses inherent in our loan portfolio.

Our determination as to the classification of our assets and the amount of our valuation allowance is subject to review by our regulators, which can require the establishment of additional general allowances or specific loss allowances or require charge-offs. Such authorities may require us to make additional provisions to the allowance based on their judgments about information available to them at the time of their examination. A policy statement provides guidance for examiners in determining whether the levels of general valuation allowances for banking institutions are adequate. The policy statement requires that if a bank's general valuation allowance policies and procedures are deemed to be inadequate, recommendations for correcting deficiencies, including any examiner concerns