FLUSHING FINANCIAL CORP
Form 10-K
March 16, 2015

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, 2014

Commission file number 001-33013

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

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

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)	NASDAQ Global Select Market
(Title of each class)	(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

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___	Accelerated filer X
Non-accelerated filer____	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 30, 2014, 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 $589,993,000. 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 $20.55.

The number of shares of the registrant's Common Stock outstanding as of February 28, 2015 was 29,493,510 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Company's definitive Proxy Statement for the Annual Meeting of Stockholders to be held on May 19, 2015 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” 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,” “fo 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, 2014, the Company had total assets of $5.1 billion, deposits of $3.5 billion and stockholders' equity of $456.2 million.

Our principal business is attracting retail deposits from the general public and investing those deposits together with funds generated from ongoing operations and borrowings, primarily in (1) originations and purchases of multi-family residential properties, commercial business loans, commercial real estate mortgage loans and, to a lesser extent, one-to-four family (focusing on mixed-use properties, which are properties that contain both residential dwelling units and commercial units); (2) construction loans, 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, 2014, we had gross loans outstanding of $3,798.7 million (before the allowance for loan losses and net deferred costs), with gross mortgage loans totaling $3,321.5 million, or 87.4% of gross loans, and non-mortgage loans totaling $477.2 million, or 12.6% of gross loans. Mortgage loans are primarily multi-family, commercial and one-to-four family mixed-use properties, which combined totaled 82.1% 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 until recently when the unemployment rate decreased to 6.3% at December 2014 from 7.5% at December 31 2013, for the New York City region, according to the New York 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 $34.2 million, $49.0 million and $89.8 million at December 31, 2014, 2013 and 2012, respectively. Additionally, we have not experienced a significant increase in foreclosed properties despite an extended foreclosure process in our market. Net charge-offs of impaired loans have decreased in 2014 to $0.7 million from $13.3 million and $20.2 million for the years ended December 31, 2013 and 2012, 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 through 2014. Loan originations and purchases for 2014 increased $122.2 million, or 14.6%, to $958.2 million from $836.0 million for 2013.

Our operating results are also affected by extensions, renewals, modifications and restructuring of loans in our loan portfolio. Loans which are renewed, modified or restructured are required to be fully underwritten in accordance with our policy for new loans, except when the borrower is seeking a reduction in the interest rate due to a decline in interest rates in the market, or for a loan classified as a troubled debt restructured ("TDR"). Our policy for modifying a 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, 2014 the business banking unit had $461.5 million in gross loans outstanding and $134.6 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, 2014, the internet branch had $281.6 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.

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, 2014, 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 0.32% of the total deposits of these competing financial institutions, and we are the 25th 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, 2014, we had gross loans outstanding of $3,798.7 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, although recently we have cautiously increased our focus on commercial real estate and business loans with full banking relationships. 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, commercial real estate and business loans with full banking relationships 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. However, due to the changes in our underwriting standards, which we believe has reduced risk in newly originated commercial real estate mortgage loans, we have increased our focus on the origination of commercial real estate 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.

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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 $5.3 million at December 31, 2014. 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 banks, mortgage bankers and other financial institutions when the loans complement our loan portfolio strategy. Loans purchased must meet our underwriting standards when they were originated. Our lending activities are subject to federal and state laws and regulations. See “— Regulation.”

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

	At December 31,								
	2014		2013		2012		2011		201
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total	Amount
	(Dollars in thousands)								
Mortgage Loans:									
Multi-family residential	$1,923,460	50.64 %	$1,712,039	50.02 %	$1,534,438	47.62 %	$1,391,221	43.28 %	$1,252,176
Commercial real estate	621,569	16.36	512,552	14.97	515,438	16.00	580,783	18.07	662,794
One-to-four family - mixed-use property	573,779	15.10	595,751	17.40	637,353	19.79	693,932	21.59	728,810
One-to-four family - residential (1)	187,572	4.94	193,726	5.66	198,968	6.18	220,431	6.86	241,376
Co-operative apartment (2)	9,835	0.26	10,137	0.30	6,303	0.20	5,505	0.17	6,215
Construction	5,286	0.14	4,247	0.12	14,381	0.45	47,140	1.47	75,519
Gross mortgage loans	3,321,501	87.44	3,028,452	88.47	2,906,881	90.24	2,939,012	91.44	2,966,890
Non-mortgage loans:									
Small Business Administration	7,134	0.19	7,792	0.23	9,496	0.29	14,039	0.44	17,511
Taxi medallion	22,519	0.59	13,123	0.38	9,922	0.31	54,328	1.69	88,264
Commercial business and other	447,500	11.78	373,641	10.92	295,076	9.16	206,614	6.43	187,161
Gross non-mortgage loans	477,153	12.56	394,556	11.53	314,494	9.76	274,981	8.56	292,936
Gross loans	3,798,654	100.00 %	3,423,008	100.00 %	3,221,375	100.00 %	3,213,993	100.00 %	3,259,826
Unearned loan fees and deferred costs, net	11,719		11,170		12,746		14,888		16,503
Less: Allowance for loan losses	(25,096)		(31,776)		(31,104)		(30,344)		(27,699
Loans, net	$3,785,277		$3,402,402		$3,203,017		$3,198,537		$3,248,630

(1) One-to-four family residential mortgage loans also include home equity and condominium loans. At December 31, 2014, gross home equity loans totaled $55.7 million and condominium loans totaled $22.3 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:

	For the years ended December 31,		
(In thousands)	2014	2013	2012
Mortgage Loans			
At beginning of year	$3,028,452	$2,906,881	$2,939,012
Mortgage loans originated:			
Multi-family residential	314,148	382,041	317,663
Commercial real estate	165,054	68,968	31,789
One-to-four family mixed-use property	50,070	40,898	15,961
One-to-four family residential	24,727	27,495	24,485
Co-operative apartment	170	4,966	1,810
Construction	1,566	3,089	806
Total mortgage loans originated	555,735	527,457	392,514
Mortgage loans purchased:			
Multi-family residential	106,830	-	-
Commercial real estate	14,794	452	-
Total mortgage loans purchased	121,624	452	-
Less:			
Principal reductions	363,206	363,805	359,168
Loans transferred to loans held for sale	-	9,524	6,498
Mortgage loan sales	12,871	18,306	34,033
Charge-offs	1,780	12,329	19,284
Mortgage loan foreclosures	6,453	2,374	5,662
At end of year	$3,321,501	$3,028,452	$2,906,881
Non-mortgage loans			
At beginning of year	$394,556	$314,494	$274,981
Loans originated:			
Small Business Administration	1,611	603	529
Taxi Medallion	-	-	8
Commercial business	227,904	292,385	231,877
Other	3,056	5,360	4,138
Total other loans originated	232,571	298,348	236,552
Non-mortgage loans purchased:			
Taxi Medallion	14,431	9,737	3,456
Commercial business	33,805	-	-
Total non-mortgage loans purchased	48,236	9,737	3,456
Less:			
Non-mortgage loan sales	4	-	1,379

Loans transferred to loans held for sale	1,150	-	5,400
Principal reductions	196,394	225,509	191,731
Charge-offs	662	2,514	1,985
At end of year	$477,153	$394,556	$314,494

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Loan Maturity and Repricing. The following table shows the maturity of our total loan portfolio at December 31, 2014. Scheduled repayments are shown in the maturity category in which the payments become due.

	Mortgage loans						Non-mortgage loans			
(In thousands)	Multi-family residential	Commercial real estate	One-to-four family mixed-use property	One-to-four family residential	Co-operative apartment	Construction	Small Business Administration	Taxi Medallion	Commercial business and other	Total loans
Amounts due within one year	$151,798	$94,754	$42,148	$7,852	$336	$5,286	$2,286	$11,692	$179,756	$495,908
Amounts due after one year:										
One to two years	146,099	72,850	33,631	7,944	345	-	1,189	9,488	61,171	332,717
Two to three years	146,335	64,536	28,648	7,657	355	-	757	1,134	44,558	293,980
Three to five years	142,334	58,352	25,795	7,158	367	-	503	205	38,462	273,176
Over five years	1,336,894	331,077	443,557	156,961	8,432	-	2,399	-	123,553	2,402,873
Total due after one year	1,771,662	526,815	531,631	179,720	9,499	-	4,848	10,827	267,744	3,302,746
Total amounts due	$1,923,460	$621,569	$573,779	$187,572	$9,835	$5,286	$7,134	$22,519	$447,500	$3,798,654
Sensitivity of loans to changes in interest rates - loans due after one year:										
Fixed rate loans	$330,328	$80,760	$93,150	$42,498	$1,564	$-	$119	$10,361	$98,693	$657,473
Adjustable rate loans	1,441,334	446,055	438,481	137,222	7,935	-	4,729	466	169,051	2,645,273
Total loans due after one year	$1,771,662	$526,815	$531,631	$179,720	$9,499	$-	$4,848	$10,827	$267,744	$3,302,746

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Multi-Family Residential Lending. Loans secured by multi-family residential properties were $1,923.5 million, or 50.64% of gross loans, at December 31, 2014. Our multi-family residential mortgage loans had an average principal balance of $0.8 million at December 31, 2014, and the largest multi-family residential mortgage loan held in our portfolio had a principal balance of $44.1 million, secured by 13 properties. 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, 2014, $1,548.9 million, or 80.53%, of our multi-family mortgage loans consisted of ARM loans. We offer ARM loans with adjustment periods typically of five years and for terms of up to 30 years. Interest rates on ARM loans currently offered by us are adjusted at the beginning of each adjustment period based upon a fixed spread above the FHLB-NY corresponding Regular Advance Rate. From time to time, due to competitive forces, we may originate ARM loans at an initial rate lower than the fully indexed rate as a result of a discount on the spread for the initial adjustment period. Multi-family adjustable-rate mortgage loans generally are not subject to limitations on interest rate increases either on an adjustment period or aggregate basis over the life of the loan. We originated and purchased multi-family ARM loans totaling $398.9 million, $197.8 million and $221.7 million during 2014, 2013 and 2012, respectively.

At December 31, 2014, $374.5 million, or 19.47%, 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 $22.1 million, $184.3 million and $95.9 million of fixed-rate multi-family mortgage loans in 2014, 2013 and 2012, respectively.

Commercial Real Estate Lending. Loans secured by commercial real estate were $621.6 million, or 16.36% of gross loans, at December 31, 2014. 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, 2014, our commercial real estate mortgage loans had an average principal balance of $1.0 million and the largest of such loans, which was secured by seven multi-tenant shopping centers, had a principal balance of $24.0 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, 2014, $529.5 million, or 85.18%, 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 $169.6 million, $43.9 million and $19.9 million during 2014, 2013 and 2012, respectively.

At December 31, 2014, $92.1 million, or 14.82%, 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 $10.2 million, $25.5 million and $11.9 million of fixed-rate commercial mortgage loans in 2014, 2013 and 2012, 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 $573.8 million, or 15.10% of gross loans, at December 31, 2014.

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, 2014, $456.2 million, or 79.50%, 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 $39.4 million, $20.3 million and $10.8 million during 2014, 2013 and 2012, respectively.

At December 31, 2014, $117.6 million, or 20.50%, 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 $10.7 million, $20.6 million and $5.2 million of fixed-rate one-to-four family mixed-use property mortgage loans in 2014, 2013 and 2012, 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 $187.6 million, or 4.94% of gross loans, at December 31, 2014.

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 $12.9 million and $15.8 million outstanding of one-to four family residential mortgage loans originated to individuals based on stated income and verifiable assets at December 31, 2014 and 2013, respectively. We had $44.8 million and $49.9 million advanced on home equity lines of credit for which we did not verify the borrowers' income at December 31, 2014 and 2013, respectively.

At December 31, 2014, $141.3 million, or 75.31%, 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 $21.0 million, $17.6 million and $23.6 million during 2014, 2013 and 2012, 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, 2014, $46.3 million, or 24.69%, 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 $3.9 million, $4.3 million and $2.7 million in 15-year fixed-rate residential mortgages in 2014, 2013 and 2012, respectively. We did not originate or purchase any 30-year fixed-rate residential mortgages in 2014, 2013 and 2012.

At December 31, 2014, home equity loans totaled $55.7 million, or 1.47%, 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, 2014, construction loans totaled $5.3 million, or 0.14%, 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 construction loans of $1.6 million, $3.1 million and $0.8 million during 2014, 2013 and 2012, 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, 2014, SBA loans totaled $7.1 million, representing 0.19%, 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. At times, we may sell the guaranteed portion of certain SBA term loans in the secondary market, realizing a gain at the time of sale, and retaining the servicing rights on these loans, collecting a servicing fee of approximately 1%. We originated and purchased $1.6 million, $0.6 million and $0.5 million of SBA loans during 2014, 2013 and 2012, respectively.

Taxi Medallion. At December 31, 2014, taxi medallion loans totaled $22.5 million, or 0.59%, of gross loans. We originate and purchase loans made to New York City and Chicago taxi medallion owners, which loans are secured by 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 $14.4 million, $9.7 million and $3.5 million of taxi medallion loans during 2014, 2013 and 2012, respectively.

Commercial Business and Other Lending. At December 31, 2014, commercial business and other loans totaled $447.5 million, or 11.78%, of gross loans. We originate and purchase commercial business loans and other loans for business, personal, or household purposes. Commercial business loans are provided to businesses in the New York City metropolitan area with annual sales of up to $250.0 million. Our commercial business loans include lines of credit and term loans including owner occupied mortgages. These loans are secured by business assets, including accounts receivables, inventory and real estate and generally require personal guarantees. The Bank also, at times, enters into participations/syndications with other banks on senior secured commercial business loans. Commercial business loans are generally originated in a range of $100,000 to $10.0 million.

At December 31, 2014, $334.2 million, or 74.67%, of our commercial business loans consisted of ARM loans. We generally offer ARM loans with adjustment periods of five years for owner occupied mortgages and for lines of credit the adjustment period is generally monthly. Interest rates on 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 for owner occupied mortgages and a fixed spread above the London Interbank Offered Rate (“LIBOR”) or Prime Rate for lines of credit. Commercial business adjustable-rate loans generally are not subject to limitations on interest rate increases either on an adjustment period or aggregate basis over the life of the loan.

At December 31, 2014, $113.3 million, or 25.33%, of our commercial business loans consisted of fixed-rate loans. Our fixed-rate commercial business loans are generally originated for terms up to 20 years and are competitively priced based on market conditions and our cost of funds.

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 $3.1 million, $5.4 million and $4.1 million of other loans during 2014, 2013 and 2012, 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 $70.8 million at December 31, 2014. 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, 2014, 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 $66.7 million, $56.6 million and $53.0 million for each of the three borrowers, respectively.

Loan Servicing. At December 31, 2014, we were servicing $1.5 million of mortgage loans and $10.2 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, 2014, we had $12.7 million of loans classified as Troubled Debt Restructured, with $10.4 million of these loans performing according to their restructured terms and $2.4 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, 2014, there were 10 loans, which totaled $2.3 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 34 delinquent loans totaling $15.9 million, 72 delinquent loans totaling $33.4 million, and 77 delinquent loans totaling $44.2 million during the years ended December 31, 2014, 2013 and 2012, respectively. We recorded net recoveries on delinquent loans that were sold during 2014 of $0.4 million, compared to net charge-offs of $4.7 million and $5.7 million during 2013 and 2012, respectively. We realized gross gains of $67,000, $134,000 and $21,000 on the sale of delinquent loans for the years ended December 31, 2014, 2013 and 2012, respectively. We realized gross losses $81,000 and $69,000 on the sale of delinquent loans for the years ended December 31, 2013 and 2012, respectively. We did not record any gross losses during the year ended December 31, 2014. 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, 2014, we held $293.3 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:

	At December 31,				
(Dollars in thousands)	2014	2013	2012	2011	2010
Multi-family residential	$3,035	$3,087	$2,347	$9,412	$7,946
Commercial real estate	2,373	2,407	7,190	2,499	5,815
One-to-four family mixed-use property	2,381	2,692	2,336	795	206
One-to-four family residential	354	364	374	-	-
Construction	-	746	3,805	5,888	-
Commercial business and other	2,249	4,406	3,849	2,000	-

Total performing troubled debt restructured	$10,392	$13,702	$19,901	$20,594	$13,967

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, 2014 and 2013, there were two loans for $2.4 million and one loan totaling $2.3 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, 2014, 2013 and 2012, the amounts of additional interest income that would have been recorded on non-accrual loans, had they been current, totaled \$2.1 million, \$3.4 million and \$7.3 million, respectively. These amounts were not included in our interest income for the respective periods.

	At December 31,				
(Dollars in thousands)	2014	2013	2012	2011	2010
Loans 90 days or more past due and still accruing:					
Multi-family residential	$676	$52	$-	$6,287	$103
Commercial real estate	820	-	-	92	3,328
One-to-four family mixed-use property	405	-	-	-	-
One-to-four family - residential	14	15	-	-	-
Commercial Business and other	386	539	644	-	6
Total	2,301	606	644	6,379	3,437
Non-accrual mortgage loans:					
Multi-family residential	6,878	13,682	16,486	19,946	35,633
Commercial real estate	5,689	9,962	15,640	19,895	22,806
One-to-four family mixed-use property	6,936	9,063	18,280	28,429	30,478
One-to-four family residential	11,244	13,250	13,726	12,766	10,695
Co-operative apartments	-	57	234	152	-
Construction	-	-	7,695	14,721	4,465
Total	30,747	46,014	72,061	95,909	104,077
Non-accrual non-mortgage loans:					
Small Business Administration	-	-	283	493	1,159
Commercial Business and other	1,143	2,348	16,860	14,660	3,419
Total	1,143	2,348	17,143	15,153	4,578
Total non-accrual loans	31,890	48,362	89,204	111,062	108,655
Total non-performing loans	34,191	48,968	89,848	117,441	112,092
Other non-performing assets:					
Real Estate Owned	6,326	2,985	5,278	3,179	1,588
Investment securities	-	1,871	3,332	2,562	5,134
Total	6,326	4,856	8,610	5,741	6,722
Total non-performing assets	$40,517	$53,824	$98,458	$123,182	$118,814
Non-performing loans to gross loans	0.90 %	1.43 %	2.79 %	3.65 %	3.44 %
Non-performing assets to total assets	0.80 %	1.14 %	2.21 %	2.87 %	2.75 %

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, 2014		December 31, 2013	
	60 - 89 days	30 - 59 days	60 - 89 days	30 - 59 days
	(In thousands)			
Multi-family residential	$ 1,729	$ 7,721	$ 3,685	$ 14,102
Commercial real estate	1,345	2,171	7,699	5,029
One-to-four family - mixed-use property	1,153	10,408	1,099	14,017
One-to-four family - residential	2,038	1,751	517	3,927
Co-operative apartments	-	-	-	-
Construction loans	-	3,000	3,000	-
Small Business Administration	-	90	-	105
Taxi medallion	-	-	-	-
Commercial business and other	1,585	6	2	187
Total	$ 7,850	$ 25,147	$ 16,002	$ 37,367

Other Real Estate Owned. We aggressively market our Other Real Estate Owned (“OREO”) properties. At December 31, 2014, we owned eight properties with a combined fair value of $6.3 million. 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.

Investment Securities. Non-performing investment securities included one pooled trust preferred security with a fair value of $1.9 million at December 31, 2013. This security was sold during 2014.

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 consider “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 $76.5 million at December 31, 2014, a decrease of $53.7 million from $130.2 million at December 31, 2013.

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The following table sets forth the Bank's Criticized and Classified assets at December 31, 2014:

(In thousands)	Special Mention	Substandard	Doubtful	Loss	Total
Loans:					
Multi-family residential	$ 6,494	$ 10,226	$-	$-	$16,720
Commercial real estate	5,453	7,100	-	-	12,553
One-to-four family - mixed-use property	5,254	12,499	-	-	17,753
One-to-four family - residential	2,352	13,056	-	-	15,408
Co-operative apartments	623	-	-	-	623
Construction loans	-	-	-	-	-
Small Business Administration	479	-	-	-	479
Commercial business and other	2,841	3,779	-	-	6,620
Total loans	23,496	46,660	-	-	70,156
Other Real Estate Owned	-	6,326	-	-	6,326
Total	$ 23,496	$ 52,986	$-	$-	$76,482

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

(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 at December 31, 2013. 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 did not have any securities classified or criticized at December 31, 2014 and 2013.

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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, 2014, the current loan-to-value ratio on our collateral dependent loans reviewed for impairment was 40.69%.

We classify investment securities as Substandard when, based on an internal review, we concluded the securities are below investment grade. We do not have any investment securities classified as Substandard at December 31, 2014.

During 2014 we did not record any other-than-temporary impairment ("OTTI") charges. 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.

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. 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 until recently when the unemployment rate decreased to 6.3% at December 2014 from 7.5% at December 2013, for the New York City region, according to the New York Department of Labor. The slow improvement in the level of unemployment has had a negative effect on our loan portfolio. Non-performing loans totaled $34.2 million and $49.0 million at December 31, 2014 and 2013, 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, 2014, the outstanding principal balance of our impaired mortgage loans was less than 41% of the estimated current value of the supporting collateral, after considering the charge-offs that have been recorded. We incurred total net charge-offs of $0.7 million and $13.3 million during the years ended December 31, 2014 and 2013, respectively. This improvement in net charge-offs allowed us to reduce the provision for loan losses to a benefit of $6.0 million for the year ended December 31, 2014, from a provision expense of $13.9 million and $21.0 million for the years ended December 31, 2013 and 2012, respectively. Management has concluded, and the Board of Directors has concurred, that at December 31, 2014, 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 regarding the level of the allowance, should be noted in the report of examination. Additional supervisory action may also be taken based on the magnitude of the observed shortcomings in the allowance process, including the materiality of any error in the reported amount of the allowance.

Management believes that our current allowance for loan losses is adequate in light of current economic conditions, the composition of our loan portfolio, the level and type of delinquent loans, our level of classified loans, charge-offs recorded and other available information and the Board of Directors concurs in this belief. At December 31, 2014, the total allowance for loan losses was $25.1 million, representing 73.40% of non-performing loans and 61.94% of non-performing assets, compared to 64.89% of non-performing loans and 59.04% of non-performing assets at December 31, 2013. We continue to monitor and, as necessary, modify the level of our allowance for loan losses in order to maintain the allowance at a level which we consider adequate to provide for probable loan losses based on available information.

Many factors may require additions to the allowance for loan losses in future periods beyond those currently revealed. These factors include further adverse changes in economic conditions, changes in interest rates and changes in the financial capacity of individual borrowers (any of which may affect the ability of borrowers to make repayments on loans), changes in the real estate market within our lending area and the value of collateral, or a review and evaluation of our loan portfolio in the future. The determination of the amount of the allowance for loan losses includes estimates that are susceptible to significant changes due to changes in appraised values of collateral, national and local economic conditions, interest rates and other factors. In addition, our overall level of credit risk inherent in our loan portfolio can be affected by the loan portfolio's composition. At December 31, 2014, multi-family residential, commercial real estate, construction and one-to-four family mixed-use property mortgage loans, totaled 82.2% of our gross loans. The greater risk associated with these loans, as well as business 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 that is in excess of the allowance we currently maintain. Provisions for loan losses are charged against net income. See "—Lending Activities" and "—Asset Quality."

The following table sets forth changes in, and the balance of, our allowance for loan losses.

	At and for the years ended December 31,				
(Dollars in thousands)	2014	2013	2012	2011	2010
Balance at beginning of year	$31,776	$31,104	$30,344	$27,699	$20,324
Provision (benefit) for loan losses	(6,021)	13,935	21,000	21,500	21,000
Loans charged-off:					
Multi-family residential	(1,161)	(3,585)	(6,016)	(6,807)	(5,790)
Commercial real estate	(325)	(1,051)	(2,746)	(5,172)	(2,685)
One-to-four family mixed-use property	(423)	(4,206)	(4,286)	(2,644)	(2,580)
One-to-four family residential	(103)	(701)	(1,583)	(2,226)	(236)
Co-operative apartment	-	(108)	(62)	-	-
Construction	-	(2,678)	(4,591)	(1,088)	(1,879)
SBA	(49)	(457)	(324)	(871)	(925)
Commercial business and other loans	(381)	(2,057)	(1,661)	(642)	(500)
Total loans charged-off	(2,442)	(14,843)	(21,269)	(19,450)	(14,595)
Recoveries:					
Mortgage loans	1,515	1,407	838	523	183
SBA, commercial business and other loans	268	173	191	72	787
Total recoveries	1,783	1,580	1,029	595	970
Net charge-offs	(659)	(13,263)	(20,240)	(18,855)	(13,625)
Balance at end of year	$25,096	$31,776	$31,104	$30,344	$27,699
Ratio of net charge-offs during the year to average loans outstanding during the year	0.02 %	0.41 %	0.64 %	0.59 %	0.42 %
Ratio of allowance for loan losses to gross loans at end of the year	0.66 %	0.93 %	0.97 %	0.94 %	0.85 %
Ratio of allowance for loan losses to non-performing loans at the end of the year	73.40 %	64.89 %	34.62 %	25.84 %	24.71 %
Ratio of allowance for loan losses to non-performing assets at the end of the year	61.94 %	59.04 %	31.59 %	24.63 %	23.31 %

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

	At December 31,									
	2014		2013		2012		2011		2010	
Loan Category	Amount	Percent of Loans in Category to Total loans	Amount	Percent of Loans in Category to Total loans	Amount	Percent of Loans in Category to Total loans	Amount	Percent of Loans in Category to Total loans	Amount	Percent of Loans in Category to Total loans
	(Dollars in thousands)									
Mortgage loans:										
Multi-family residential	$8,827	50.64 %	$12,084	50.02 %	$13,001	47.62 %	$11,267	43.28 %	$9,007	38.41 %
Commercial real estate	4,202	16.36	4,959	14.97	5,705	16.00	5,210	18.07	4,905	20.33
One-to-four family mixed-use property	5,840	15.10	6,328	17.40	5,960	19.79	5,314	21.59	5,997	22.36
One-to-four family residential	1,690	4.94	2,079	5.66	1,999	6.18	1,649	6.86	938	7.40
Co-operative apartment	-	0.26	104	0.30	46	0.20	80	0.17	17	0.19
Construction	42	0.14	444	0.12	66	0.45	668	1.47	589	2.32
Gross mortgage loans	20,601	87.44	25,998	88.47	26,777	90.24	24,188	91.44	21,453	91.01
Non-mortgage loans:										
Small Business Administration	279	0.19	458	0.23	505	0.29	987	0.44	1,303	0.54
Taxi Medallion	11	0.59	-	0.38	7	0.31	41	1.69	639	2.71
Commercial business and other	4,205	11.78	5,320	10.92	3,815	9.16	5,128	6.43	4,304	5.74
Gross non-mortgage	4,495	12.56	5,778	11.53	4,327	9.76	6,156	8.56	6,246	8.99

loans										
Total loans	$25,096	100.00%	$31,776	100.00%	$31,104	100.00%	$30,344	100.00%	$27,699	100.00%

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Investment Activities

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

Although we have authority to invest in various types of assets, we primarily invest in mortgage-backed securities, securities issued by mutual or bond funds that invest in government and government agency securities, municipal bonds and corporate bonds. We did not hold any issues of foreign sovereign debt at December 31, 2014 and 2013.

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

We classify our investment securities as available for sale. We carry some of our investments under the fair value option. Unrealized gains and losses for investments carried under the fair value option are included in our Consolidated Statements of Income. Unrealized gains and losses on the remaining investment portfolio, other than unrealized credit losses considered other than temporary, are excluded from earnings and included in Accumulated Other Comprehensive Income (a separate component of equity), net of taxes. At December 31, 2014, we had $973.3 million in securities available for sale, which represented 19.17% of total assets. These securities had an aggregate market value at December 31, 2014 that was approximately 2.1 times the amount of our equity at that date.

There were no credit related OTTI charges recorded during the year ended December 31, 2014. 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. We sold these private issue collateralized mortgage obligations during 2013. As a result of the magnitude of our holdings of securities available for sale, changes in interest rates could produce significant changes in the value of such securities and could produce significant fluctuations in our operating results and equity. (See Notes 6 and 17 of Notes to Consolidated Financial Statements, included in Item 8 of this Annual Report.)

The table below sets forth certain information regarding the amortized cost and market values of our securities portfolio, interest-earning deposits and federal funds sold, at the dates indicated. Securities available for sale are recorded at market value. (See Notes 6 and 17 of Notes to Consolidated Financial Statements, included in Item 8 of this Annual Report.)

	At December 31,					
	2014		2013		2012	
	Amortized Cost	Market Value	Amortized Cost	Market Value	Amortized Cost	Market Value
	(In thousands)					
Securities available for sale						
Bonds and other debt securities:						
U.S. government and agencies	$-	$-	$-	$-	$31,409	$31,513
Municipal securities	145,864	148,896	127,967	123,423	74,228	75,297
Corporate debentures	90,719	91,273	100,362	101,711	83,389	87,485
Total bonds and other debt securities	236,583	240,169	228,329	225,134	189,026	194,295
Mutual funds	21,118	21,118	21,565	21,565	21,843	21,843
Equity securities:						
Common stock	864	864	888	888	718	718
Preferred stock	6,234	6,226	17,272	14,047	17,079	12,597
Total equity securities	7,098	7,090	18,160	14,935	17,797	13,315
Mortgage-backed securities:						
FNMA	169,956	170,367	217,615	212,322	168,040	175,929
REMIC and CMO	504,207	505,768	494,984	489,670	453,468	474,050
FHLMC	14,505	14,639	13,297	13,290	22,562	23,202
GNMA	13,862	14,159	38,974	40,874	43,211	46,932
Total mortgage-backed securities	702,530	704,933	764,870	756,156	687,281	720,113
Total securities available for sale	967,329	973,310	1,032,924	1,017,790	915,947	949,566
Interest-earning deposits and						
Federal funds sold	22,977	22,977	23,748	23,748	31,279	31,279
Total	$990,306	$996,287	$1,056,672	$1,041,538	$947,226	$980,845

Mortgage-backed securities. At December 31, 2014, we had $704.9 million invested in mortgage-backed securities, of which $6.3 million was invested in adjustable-rate mortgage-backed securities. The mortgage loans underlying these adjustable-rate securities generally are subject to limitations on annual and lifetime interest rate increases. We anticipate that investments in mortgage-backed securities may continue to be used in the future to supplement mortgage-lending activities. Mortgage-backed securities are more liquid than individual mortgage loans and may be used more easily to collateralize our obligations, including collateralizing of the governmental deposits of the Bank.

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

	For the years ended December 31,		
	2014	2013	2012
	(In thousands)		
Balance at beginning of year	$756,156	$720,113	$747,288
Purchases of mortgage-backed securities	125,897	357,022	141,514
Amortization of unearned premium, net of accretion of unearned discount	(2,699)	(3,577)	(3,269)
Net change in unrealized gains on mortgage-backed securities available for sale	11,117	(41,546)	6,591
Net realized gains (losses) recorded on mortgage-backed securities carried at fair value	84	(589)	(381)
Net change in interest due on securities carried at fair value	(8)	(62)	(51)
Sales of mortgage-backed securities	(85,021)	(126,848)	(12,590)
Other-than-temporary impairment charges	-	(1,419)	(776)
Principal repayments received on mortgage-backed securities	(100,593)	(146,938)	(158,213)
Net increase (decrease) in mortgage-backed securities	(51,223)	36,043	(27,175)
Balance at end of year	$704,933	$756,156	$720,113

While mortgage-backed securities carry a reduced credit risk as compared to whole loans, such securities remain subject to the risk that a fluctuating interest rate environment, along with other factors such as the geographic distribution of the underlying mortgage loans, may alter the prepayment rate of such mortgage loans and so affect both the prepayment speed and value of such securities. We do not own any derivative instruments that are extremely sensitive to changes in interest rates.

The table below sets forth certain information regarding the amortized cost, fair value, annualized weighted average yields and maturities of our investment in debt and equity securities and interest-earning deposits at December 31, 2014. The stratification of balances is based on stated maturities. Equity securities are shown as immediately maturing, except for preferred stocks with stated redemption dates, which are shown in the period they are scheduled to be redeemed. Assumptions for repayments and prepayments are not reflected for mortgage-backed securities. We carry these investments at their estimated fair value in the consolidated financial statements.

	One year or Less		One to Five Years		Five to Ten Years		More than Ten Years			Total Securities	
	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Average Remaining Years to Maturity	Amortized Cost	Estimated Fair Value
					(Dollars in thousands)						
Securities available for sale											
Bonds and other debt securities:											
Municipal securities	$7,430	0.54%	$80	1.30%	$18,620	4.30%	$119,734	4.49%	16.21	$145,864	$148,896
Corporate debentures	4,997	0.73	35,722	1.96	50,000	1.66	-	-	5.74	90,719	91,273
Total bonds and other debt securities	12,427	0.62	35,802	1.96	68,620	2.38	119,734	4.49	12.20	236,583	240,169
Mutual funds	21,118	1.76	-	-	-	-	-	-	N/A	21,118	21,118
Equity securities:											
Common stock	-	-	-	-	-	-	864	3.57	N/A	864	864
Preferred stock	-	-	-	-	-	-	6,234	7.07	N/A	6,234	6,226
Total equity securities	-	-	-	-	-	-	7,098	6.64	N/A	7,098	7,090
Mortgage-backed securities:											
FNMA	-	-	4,985	1.97	78,177	2.68	86,794	2.97	12.37	169,956	170,367
REMIC and CMO	-	-	95	3.51	14,684	4.44	489,428	2.91	23.72	504,207	505,768
FHLMC	-	-	9	2.18	2,035	4.64	12,461	2.54	11.65	14,505	14,639
GNMA	-	-	-	-	-	-	13,862	3.44	16.99	13,862	14,159
Total mortgage-backed securities	-	-	5,089	2.00	94,896	2.99	602,545	2.92	20.59	702,530	704,933
Interest-earning deposits	22,977	0.25	-	-	-	-	-	-	N/A	22,977	22,977

Total	$56,522	0.89%	$40,891	1.96%	$163,516	2.74%	$729,377	3.22%	18.48	$990,306	$996,287

Sources of Funds

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

Deposits. We offer a variety of deposit accounts having a range of interest rates and terms. Our deposits primarily consist of savings accounts, money market accounts, demand accounts, NOW accounts and certificates of deposit. We have a relatively stable retail deposit base drawn from our market area through our 17 full-service offices. We seek to retain existing depositor relationships by offering quality service and competitive interest rates, while keeping deposit growth within reasonable limits. It is management's intention to balance its goal to maintain competitive interest rates on deposits while seeking to manage its cost of funds to finance its strategies.

In addition to our full-service offices we have an internet branch "iGObanking.com®", which currently offers savings accounts, money market accounts, checking accounts, and certificates of deposit. This allows us to compete on a national scale without the geographical constraints of physical locations. Since the number of U.S. households with accounts at Web-only banks has grown, our strategy was to join the market place by creating a branch that offers clients the simplicity and flexibility of a virtual online bank, which is a division of a stable, traditional bank that was established in 1929. At December 31, 2014 and 2013, total deposits for the internet branch were $281.6 million and $293.3 million, respectively.

We have a government banking division, which prior to the Merger operated as the Commercial Bank, a New York State-chartered commercial bank, which provided banking services to public municipalities, including counties, cities, towns, villages, school districts, libraries, fire districts, and the various courts throughout the New York City metropolitan area as an additional source of deposits. At December 31, 2014 and 2013, total deposits in our government banking division totaled $891.9 million and $867.1 million, respectively.

Our core deposits, consisting of savings accounts, NOW accounts, money market accounts, and non-interest bearing demand accounts, are typically more stable and lower costing than other sources of funding. However, the flow of deposits into a particular type of account is influenced significantly by general economic conditions, changes in prevailing money market and other interest rates, and competition. We experienced an increase in our Due to depositors' during 2014 of $272.9 million. During the year ended December 31, 2014, the cost of Due to depositors' decreased 12 basis points to 0.97% from 1.09% for the year ended December 31, 2013. This decrease in the cost of deposits is primarily attributable to the Bank's reducing the rates it pays on its deposit products. While we are unable to predict the direction of future interest rate changes, if interest rates rise during 2015, the result could be an increase in our cost of deposits, which could reduce our net interest margin. Similarly, if interest rates remain at their current level or decline in 2015, we could see a decline in our cost of deposits, which could increase our net interest margin.

Included in deposits are certificates of deposit with balances of $100,000 or more (excluding brokered deposits issued in $1,000.00 amounts under a master certificate of deposit) totaling $403.1 million, $335.4 million and $393.7 million at December 31, 2014, 2013 and 2012, respectively.

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

We also offer access to FDIC insurance coverage in excess of $250,000 through a Certificate of Deposit Account Registry Service ("CDARS®") and through an Insured Cash Sweep service ("ICS"). CDARS® and ICS are deposit placement services. These networks arrange for placement of funds into certificate of deposit accounts or money market accounts issued by other member banks of the network in increments of less than $250,000 to ensure that both principal and interest are eligible for full FDIC deposit insurance. This allows us to accept deposits in excess of $250,000 from a depositor, and place the deposits through the network to other member banks to provide full FDIC deposit insurance coverage. We may receive deposits from other member banks in exchange for the deposits we place into the network. We may also obtain deposits from other network member banks without placing deposits into the network. We will obtain deposits in this manner primarily as a short-term funding source. We also can place deposits with other member banks without receiving deposits from other member banks. Depositors are allowed to withdraw funds, with a penalty, from these accounts at one or more of the member banks that hold the deposits. Additionally, during 2014 we shifted approximately $94.0 million in Government NOW deposits to an ICS brokered money market product which does not require us to provide collateral. This will allow us to invest our funds in higher yielding assets.

We also utilize brokers to obtain money market account deposits. These accounts are similar to brokered certificate of deposit accounts in that we only maintain one account for the total deposit per broker, with the broker maintaining the detailed records of each depositor.

Brokered deposits and funds obtained through the CDARS® and ICS networks are classified as brokered deposits for financial reporting purposes. At December 31, 2014, we had $763.9 million classified as brokered deposits, with $583.7 million in brokered certificates of deposit and $180.2 million in brokered money market accounts. The brokered certificates of deposit include $9.3 million obtained through the CDARS® network and the brokered money market accounts include $107.0 million obtained through the ICS network.

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

	At December 31,								
	2014			2013			2012		
	Amount	Percent of Total Deposits	Weighted Average Nominal Rate	Amount	Percent of Total Deposits	Weighted Average Nominal Rate	Amount	Percent of Total Deposits	Weighted Average Nominal Rate
	(Dollars in thousands)								
Savings accounts	$261,942	7.47 %	0.38 %	$265,003	8.20 %	0.19 %	$288,398	9.56 %	0.19 %
NOW accounts	1,359,057	38.74	0.45	1,416,774	43.83	0.50	1,136,599	37.70	0.57
Demand accounts	255,834	7.29	-	197,343	6.10	-	155,789	5.17	-
Mortgagors' escrow deposits	35,679	1.02	0.09	32,798	1.01	0.08	32,560	1.08	0.09
Total	1,912,512	54.51	0.37	1,911,918	59.14	0.40	1,613,346	53.51	0.44
Money market accounts (8)	290,263	8.27	0.32	199,907	6.18	0.21	148,618	4.93	0.15
Certificate of deposit accounts with original maturities of:									
Less than 6 Months (2)	7,059	0.20	0.10	10,116	0.31	0.17	58,705	1.95	0.22
6 to less than 12 Months (3)	82,966	2.36	0.80	20,671	0.64	0.13	25,147	0.83	0.13
12 to less than 30 Months (4)	275,828	7.86	0.89	246,416	7.62	0.87	319,487	10.60	0.94
30 to less than 48 Months (5)	198,290	5.65	1.08	132,965	4.11	1.18	155,142	5.15	1.79
48 to less than 72 Months (6)	622,908	17.75	2.06	585,203	18.10	2.50	565,592	18.76	2.71
72 Months or more (7)	118,772	3.39	2.88	125,584	3.88	3.23	129,156	4.28	3.27

Total certificate of deposit accounts	1,305,823	37.22	1.65	1,120,955	34.67	2.01	1,253,229	41.56	2.04
Total deposits (1)	$3,508,598	100.00 %	0.84 %	$3,232,780	100.00 %	0.94 %	$3,015,193	100.00 %	1.09 %

(1) Included in the above balances are IRA and Keogh deposits totaling $91.0 million, $117.4 million and $144.4 million at December 31, 2014, 2013 and 2012, respectively.
(2) Includes brokered deposits of $3.0 million, $4.8 million and $53.0 million at December 31, 2014, 2013 and 2012, respectively.
(3) Includes brokered deposits of $5.7 million, $0.8 million and $0.8 million at December 31, 2014, 2013 and 2012, respectively.
(4) Includes brokered deposits of $85.9 million, $10.0 million and $20.9 million at December 31, 2014, 2013 and 2012, respectively.
(5) Includes brokered deposits of $145.2 million, $105.4 million and $70.0 million at December 31, 2014, 2013 and 2012, respectively.
(6) Includes brokered deposits of $271.4 million, $262.8 million and $314.6 million at December 31, 2014, 2013 and 2012, respectively.
(7) Includes brokered deposits of $72.4 million, $63.1 million and $62.9 million at December 31, 2014, 2013 and 2012, respectively.
(8) Includes brokered deposits of $180.2 million and $70.5 million at December 31, 2014 and 2013.

The following table presents by various rate categories, the amount of time deposit accounts outstanding at the dates indicated, and the years to maturity of the certificate accounts outstanding at December 31, 2014.

		At December 31,			At December 31, 2014			
		2014	2013	2012	Within One Year	One to Three Years	Thereafter	Total
					(In thousands)			
Interest rate:								
1.99% or less	(1)	$ 817,100	$ 543,759	$ 571,109	$ 284,427	$ 411,398	$ 121,275	$ 817,100
2.00% to 2.99%	(2)	301,445	212,971	279,698	32,106	65,419	203,920	301,445
3.00% to 3.99%	(3)	184,172	344,884	370,570	135,657	22,953	25,562	184,172
4.00% to 4.99%		14	308	10,308	14	-	-	14
5.00% to 5.99%		3,092	19,033	21,544	3,092	-	-	3,092
Total		$ 1,305,823	$ 1,120,955	$ 1,253,229	$ 455,296	$ 499,770	$ 350,757	$ 1,305,823

(1) Includes brokered deposits of $435.3 million, $204.4.million and $221.5 million at December 31, 2014, 2013 and 2012, respectively.
(2) Includes brokered deposits of $83.1 million, $108.6 million and $152.1 million at December 31, 2014, 2013 and 2012, respectively.
(3) Includes brokered deposits of $65.3 million, $133.9 million and $148.5 million at December 31, 2014, 2013 and 2012, respectively.

The following table presents by remaining maturity categories the amount of certificate of deposit accounts with balances of $100,000 or more at December 31, 2014 and their annualized weighted average interest rates.

	Amount	Weighted Average Rate
	(Dollars in thousands)	
Maturity Period:		
Three months or less	$ 70,524	1.75 %
Over three through six months	37,546	1.92
Over six through 12 months	46,594	1.16
Over 12 months	248,480	1.87
Total	$ 403,144	1.77 %

The above table does not include brokered deposits issued in $1,000.00 amounts under a master certificate of deposit totaling $582.3 million with a weighted average rate of 1.52%.

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

	For the year ended December 31,		
	2014	2013	2012

			(In thousands)			
Net deposits (withdrawals)	$	244,830	$	184,470	$	(172,519)
Amortization of premiums, net		944		1,080		1,085
Interest on deposits		30,044		32,037		40,382
Net increase (decrease) in deposits	$	275,818	$	217,587	$	(131,052)

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

	At December 31,								
	2014			2013			2012		
	Average Balance	Percent of Total Deposits	Average Cost	Average Balance	Percent of Total Deposits	Average Cost	Average Balance	Percent of Total Deposits	Average Cost
	(Dollars in thousands)								
Savings accounts	$258,243	7.70 %	0.23 %	$274,791	8.73 %	0.19 %	$317,095	10.11 %	0.22 %
NOW accounts	1,390,899	41.47	0.45	1,291,861	41.04	0.52	1,025,116	32.67	0.61
Demand accounts	211,389	6.30	-	169,190	5.37	-	134,166	4.28	-
Mortgagors' escrow deposits	47,876	1.43	0.28	46,217	1.47	0.08	41,973	1.34	0.09
Total	1,908,407	56.90	0.37	1,782,059	56.61	0.41	1,518,350	48.40	0.46
Money market accounts	245,752	7.33	0.27	180,211	5.72	0.16	175,817	5.60	0.23
Certificate of deposit accounts	1,199,849	35.77	1.87	1,185,696	37.67	2.06	1,443,195	46.00	2.29
Total deposits	$3,354,008	100.00 %	0.90 %	$3,147,966	100.00 %	1.02 %	$3,137,362	100.00 %	1.29 %

Borrowings. Although deposits are our primary source of funds, we also use borrowings as an alternative and cost effective source of funds for lending, investing and other general purposes. The Bank is a member of, and is eligible to obtain advances from, the FHLB-NY. Such advances generally are secured by a blanket lien against the Bank's mortgage portfolio and the Bank's investment in the stock of the FHLB-NY. In addition, the Bank may pledge mortgage-backed securities to obtain advances from the FHLB-NY. See "— Regulation — Federal Home Loan Bank System." The maximum amount that the FHLB-NY will advance for purposes other than for meeting withdrawals fluctuates from time to time in accordance with the policies of the FHLB-NY. The Bank may also enter into repurchase agreements with broker-dealers and the FHLB-NY. These agreements are recorded as financing transactions and the obligations to repurchase are reflected as a liability in our consolidated financial statements. In addition, we issued junior subordinated debentures with a total par of $61.9 million in June and July 2007. These junior subordinated debentures are carried at fair value in the Consolidated Statement of Financial Condition. The average cost of borrowings was 2.49%, 2.39% and 2.98% for the years ended December 31, 2014, 2013 and 2012, respectively. The average balances of borrowings were $993.8 million, $953.2 million and $767.6 million for the same years, respectively.

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

	At or for the years ended December 31,		
	2014	2013	2012
	(Dollars in thousands)		
Securities Sold with the Agreement to Repurchase			
Average balance outstanding	$ 137,824	$ 172,944	$ 185,300
Maximum amount outstanding at any month end during the period	155,300	185,300	185,300
Balance outstanding at the end of period	116,000	155,300	185,300
Weighted average interest rate during the period	5.37 %	3.42 %	3.62 %
Weighted average interest rate at end of period	3.18	3.41	3.47
FHLB-NY Advances			
Average balance outstanding	$ 826,132	$ 754,305	$ 557,147
Maximum amount outstanding at any month end during the period	936,813	864,864	739,183
Balance outstanding at the end of period	911,721	827,252	739,183
Weighted average interest rate during the period	2.03 %	2.03 %	2.33 %
Weighted average interest rate at end of period	1.44	1.48	1.72
Other Borrowings			
Average balance outstanding	$ 29,834	$ 25,939	$ 25,191
Maximum amount outstanding at any month end during the period	30,352	29,570	26,386
Balance outstanding at the end of period	28,771	29,570	23,922
Weighted average interest rate during the period	5.30 %	6.17 %	12.65 %
Weighted average interest rate at end of period	5.96	5.67	6.92
Total Borrowings			
Average balance outstanding	$ 993,790	$ 953,188	$ 767,638
Maximum amount outstanding at any month end during the period	1,112,201	1,067,170	948,405
Balance outstanding at the end of period	1,056,492	1,012,122	948,405
Weighted average interest rate during the period	2.49 %	2.39 %	2.98 %
Weighted average interest rate at end of period	1.75	1.90	2.21

Subsidiary Activities

At December 31, 2014, Flushing Financial Corporation had four wholly owned subsidiaries: the Bank and the Trusts. In addition, the Bank had three wholly owned subsidiaries: FSB Properties Inc. (“Properties”), Flushing Preferred Funding Corporation (“FPFC”), and Flushing Service Corporation.

(a) Properties, which is incorporated in the State of New York, was formed in 1976 under the Savings Bank’s New York State leeway investment authority. The original purpose of Properties was to engage in joint venture real estate equity investments. The Savings Bank discontinued these activities in 1986. The last joint venture in which Properties was a partner was dissolved in 1989. The last remaining property acquired by the dissolution of these joint ventures was disposed of in 1998. Properties is currently used to hold title to real estate owned that is obtained via foreclosure.

(b) FPFC, which is incorporated in the State of Delaware, was formed in 1997 as a real estate investment trust for the purpose of acquiring, holding and managing real estate mortgage assets. FPFC also provides an additional vehicle for access by the Company to the capital markets for future opportunities.

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

Personnel

At December 31, 2014, we had 407 full-time employees and 17 part-time employees. None of our employees are represented by a collective bargaining unit, and we consider our relationship with our employees to be good. At the present time, Flushing Financial Corporation only employs certain officers of the Bank. These employees do not receive any extra compensation as officers of Flushing Financial Corporation.

Omnibus Incentive Plan

The 2014 Omnibus Incentive Plan ("2014 Omnibus Plan") became effective on May 20, 2014 after adoption by the Board of Directors and approval by the stockholders. The 2014 Omnibus Plan authorizes the Compensation Committee of the Company's Board of Directors (the "Compensation Committee") to grant a variety of equity compensation awards as well as long-term and annual cash incentive awards, all of which can, but need not, be structured so as to comply with Section 162(m) of the Internal Revenue Code of 1986, as amended (the "Internal Revenue Code"). The 2014 Omnibus Plan authorizes the issuance of 1,100,000 shares. To the extent that an award under the 2014 Omnibus Plan is cancelled, expired, forfeited, settled in cash, settled by issuance of fewer shares than the number underlying the award, or otherwise terminated without delivery of shares to a participant in payment of the exercise price or taxes relating to an award, the shares retained by or returned to the Company will be available for future issuance under the 2014 Omnibus Plan. No further awards may be granted under the Company's 2005 Omnibus Incentive Plan, 1996 Stock Option Incentive Plan, and 1996 Restricted Stock Incentive Plan. At December 31, 2014, there were 1,097,200 shares available for delivery in connection with awards under the 2014 Omnibus Plan.

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

FEDERAL, STATE AND LOCAL TAXATION

The following discussion of tax matters is intended only as a summary and does not purport to be a comprehensive description of the tax rules applicable to the Company.

Federal Taxation

General. We report our income using a calendar year and the accrual method of accounting. We are subject to the federal tax laws and regulations which apply to corporations generally, and, since the enactment of the Small Business Job Protection Act of 1996 (the "Act"), those laws and regulations governing the Bank's deductions for bad debts, described below.

Bad Debt Reserves. Prior to the enactment of the Act, which was signed into law on August 20, 1996, savings institutions which met certain definitional tests primarily relating to their assets and the nature of their business ("qualifying thrifts"), such as the Savings Bank, were allowed deductions for bad debts under methods more favorable than those granted to other taxpayers. Qualifying thrifts could compute deductions for bad debts using either the specific charge off method of Section 166 of the Internal Revenue Code (the "Code") or the reserve method of Section 593 of the Code. Section 1616(a) of the Act repealed the Section 593 reserve method of accounting for bad debts by qualifying thrifts, effective for taxable years beginning after 1995. Qualifying thrifts that are treated as large banks, such as the Savings Bank, are required to use the specific charge off method, pursuant to which the amount of any debt may be deducted only as it actually becomes wholly or partially worthless.

Distributions. To the extent that the Bank makes "non-dividend distributions" to stockholders that are considered to result in distributions from its pre-1988 reserves or the supplemental reserve for losses on loans ("excess distributions"), then an amount based on the amount distributed will be included in the Bank's taxable income. Non-dividend distributions include distributions in excess of the Bank's current and post-1951 accumulated earnings and profits, as calculated for federal income tax purposes, distributions in redemption of stock and distributions in partial or complete liquidation. The amount of additional taxable income resulting from an excess distribution is an amount that when reduced by the tax attributable to the income is equal to the amount of the excess distribution. Thus, slightly more than one and one-half times the amount of the excess distribution made would be includable in gross income for federal income tax purposes, assuming a 35% federal corporate income tax rate. See "Regulation — Restrictions on Dividends and Capital Distributions" for limits on the payment of dividends by the Bank. The Bank does not intend to pay dividends or make non-dividend distributions described above that would result in a recapture of any portion of its pre-1988 bad debt reserves.

Corporate Alternative Minimum Tax. The Code imposes an alternative minimum tax on corporations equal to the excess, if any, of 20% of alternative minimum taxable income ("AMTI") over a corporation's regular federal income tax liability. AMTI is equal to taxable income with certain adjustments. Generally, only 90% of AMTI can be offset by net operating loss carrybacks and carryforwards.

State and Local Taxation

New York State and New York City Taxation. We are subject to the New York State Franchise Tax on Banking Corporations in an annual amount equal to the greater of (1) 7.1% of "entire net income" allocable to New York State during the taxable year or (2) the applicable alternative minimum tax. The alternative minimum tax is generally the greater of (a) 0.01% of the value of assets allocable to New York State with certain modifications, (b) 3% of "alternative entire net income" allocable to New York State or (c) $250. Entire net income is similar to federal taxable income, subject to certain modifications, including that net operating losses arising during any taxable year prior to January 1, 2001 cannot be carried back or carried forward, and net operating losses arising during any taxable year beginning on or after January 1, 2001 cannot be carried back. Alternative entire net income is equal to entire net income without certain deductions that are allowable in the calculation of entire net income. We are also subject to a similarly calculated New York City tax of 9% on income allocated to New York City. For New York City tax purposes, entire net income is similar to federal taxable income, subject to certain modifications, including that net operating losses arising during any taxable year prior to January 1, 2009 cannot be carried back or carried forward, and net operating losses arising during any taxable year beginning on or after January 1, 2009 cannot be carried back and similar alternative taxes. In addition, we are subject to a tax surcharge at a rate of 17% of the New York State Franchise Tax that is attributable to business activity carried on within the Metropolitan Commuter Transportation District ("MTA surcharge").

Notwithstanding the repeal of the federal income tax provisions permitting bad debt deductions under the reserve method, New York State had enacted legislation maintaining the preferential treatment of additional loss reserves for qualifying real property and non-qualifying loans of qualifying thrifts for both New York State and New York City tax purposes. Calculation of the amount of additions to reserves for qualifying real property loans was limited to the larger of the amount derived by the percentage of taxable income method or the experience method. For these purposes, the applicable percentage to calculate the bad debt deduction under the percentage of taxable income method was 32% of taxable income, reduced by additions to reserves for non-qualifying loans, except that the amount of the addition to the reserve could not exceed the amount necessary to increase the balance of the reserve for losses on qualifying real property loans at the close of the taxable year to 6% of the balance of the qualifying real property loans outstanding at the end of the taxable year. Under the experience method, the maximum addition to a loan reserve generally equaled the amount necessary to increase the balance of the bad debt reserve at the close of the taxable year to the greater of (1) the amount that bears the same ratio to loans outstanding at the close of the taxable year as the total net bad debts sustained during the current and five preceding taxable years bears to the sum of the loans outstanding at the close of those six years, or (2) the balance of the bad debt reserve at the close of the "base year," or, if the amount of loans outstanding has declined since the base year, the amount which bears the same ratio to the amount of loans outstanding at the close of the taxable year as the balance of the reserve at the close of the base year. For these purposes, the "base year" was the last taxable year beginning before 1988. The amount of additions to reserves for non-qualifying loans was computed under the experience method. In no event could the additions to reserves for qualifying real property loans be greater than the larger of the amount determined under the experience method or the amount which, when added to the additions to reserves for non-qualifying loans, equal the amount by which 12% of the total deposits or withdrawable accounts of depositors of the Savings Bank at the close of the taxable year exceeded the sum of the Savings Bank's surplus, undivided profits and reserves at the beginning of such year.

In September 2010, the New York State legislature changed New York State and City tax law for thrifts, such as the Savings Bank, by eliminating the percentage of taxable income method for determining bad debt deductions for taxable years beginning on or after January 1, 2010. This change in the New York State and City tax law for thrifts did not require the recapture of tax bad debt reserves previously established, and eliminated the requirement to recapture tax bad debt reserves if a thrift failed to meet the definition of a thrift institution under New York State and City tax law.

The Savings Bank had historically reported in its New York State and City income tax returns a deduction for bad debts based on the amount allowed under the percentage of taxable income method. This amount had historically exceeded actual bad debts incurred by the Savings Bank. Since the Savings Bank has consistently stated its intention to convert to a more “commercial like” bank, which would have previously required the Savings Bank to recapture this excess bad debt reserve if it failed to meet the definition of a thrift under the New York State and City tax law, the Savings Bank had, in prior periods, recorded the tax liability related to the possible recapture of the excess tax bad debt reserve. As a result of the legislation passed by the New York State legislature, this tax liability will no longer be required to be recaptured. As a result, the Savings Bank reversed approximately $5.5 million of net tax liabilities through income during the year ended December 31, 2010.

In March 2014, the New York State legislature changed New York State tax law, eliminating the separate bank tax section of the tax code, which results in all corporations being taxed in the same manner. The changes to the tax law are effective for tax years beginning on or after January 1, 2015. The most significant changes in the new tax law include:

The existing corporate franchise tax rate of 7.1% is reduced to 6.5% effective January 1, 2016.
All corporations will calculate tax on the following three bases: business income base, capital base, and fixed dollar minimum base; the highest tax is paid.
The MTA surcharge is increased to 25.6% effective for years beginning on or after January 1, 2015 and before January 1, 2016 with adjustments in rates at the discretion of the Commissioner of Taxation.
The capital base tax will be completely phased out by 2021.
Apportionment of income to New York State will be based on a single receipts factor.
Repeals the existing combined reporting standard, and requires unitary combined reporting.

New Jersey State Taxation. The Bank is required to pay New Jersey State income tax based on the percentage of receipts from activity in New Jersey.

Delaware State Taxation. As a Delaware holding company not earning income in Delaware, we are exempt from Delaware corporate income tax but are required to file an annual report with and pay an annual franchise tax to the State of Delaware.

REGULATION

General

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

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

The Dodd-Frank Act

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

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

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

Many of the provisions of the Dodd-Frank Act are not yet effective. The Dodd-Frank Act requires various federal agencies to promulgate numerous and extensive implementing regulations over the next several years. Although it is therefore difficult to predict at this time what impact the Dodd-Frank Act and the implementing regulations will have on the Company and the Bank, they may have a material impact on operations through, among other things, heightened regulatory supervision and increased compliance costs.

Basel III

In the summer of 2012, our primary federal regulators published two notices of proposed rulemaking (“NPRs”) that would have substantially revised the risk-based capital requirements applicable to bank holding companies and depository institutions, including the Company and the Bank, compared to the then current U.S. risk-based capital rules, which are based on the international capital accords of the Basel Committee on Banking Supervision, which are generally referred to as “Basel I.”

During July 2013, our primary federal regulators issued revised NPRs that will revise and replace the agencies' current capital rules. The NPRs include numerous revisions to the existing capital regulations, including, but not limited to, the following:

- Revises the definition of regulatory capital components and related calculations.
- Adds a new common equity tier 1 capital ratio.
- Increases the minimum tier 1 capital ratio requirement from four percent to six percent.
- Incorporates the revised regulatory capital requirements into the Prompt Corrective Action framework.
- Implements a new capital conservation buffer that would limit payment of capital distributions and certain discretionary bonus payments to executive officers and key risk takers if the banking organization does not hold certain amounts of common equity tier 1 capital in addition to those needed to meet its minimum risk-based capital requirements.
- Provides a transition period for several aspects of the proposed rule: the new minimum capital ratio requirements, the capital conservation buffer, and the regulatory capital adjustments and deductions.
- Increases capital requirements for past-due loans, high volatility commercial real estate exposures, and certain short-term loan commitments.
- Removes references to credit ratings consistent with Section 939A of the Dodd-Frank Act.

- Establishes due diligence requirements for securitization exposures.

The capital regulations were effective January 1, 2015 for bank holding companies and banks with less than $15 billion in total assets, such as our Company and Bank. Based on our preliminary assessment of the NPRs, we believe we will see an increase in our total risk-weighted assets. However, the Company and the Bank, based on our preliminary assessment, would meet the requirements of the NPRs and will continue to be considered well-capitalized.

Volcker Rule

On December 10, 2013, our primary federal regulators adopted Section 619 of the Dodd-Frank Act, commonly referred to as the "Volcker Rule," which prohibits insured depository institutions from engaging in short-term proprietary trading of certain securities, derivatives and other financial instruments for the firm's own account, subject to certain exemptions, including market making and risk-mitigating hedging. The Volcker Rule also imposes limits on banking entities' investments in, and other relationships with, hedge funds and private equity funds.

The rule as adopted prohibited banking entities from owning collateralized debt obligations backed primarily by trust preferred securities ("TruPS CDOs") after July 21, 2015. At December 31, 2014, the Company did not hold any TruPs CDOs.

New York State Law

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

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

With certain limited exceptions, a New York State-chartered commercial bank may not make loans or extend credit for commercial, corporate, or business purposes (including lease financing) to a single borrower, the aggregate amount of which would be in excess of 15% of the bank's net worth or up to 25% for loans secured by collateral having an ascertainable market value at least equal to the excess of such loans over the bank's net worth. The Bank currently complies with all applicable loans-to-one-borrower limitations. At December 31, 2014, the Bank's largest aggregate amount of loans to one borrower was $66.7 million, all of which were performing according to their terms. See "— General — Lending Activities."

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

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

FDIC Regulations

Capital Requirements. The FDIC has adopted risk-based capital guidelines to which the Bank is subject. The guidelines establish a systematic analytical framework that makes regulatory capital requirements sensitive to differences in risk profiles among banking organizations. The Bank is required to maintain certain levels of regulatory capital in relation to regulatory risk-weighted assets. The ratio of such regulatory capital to regulatory risk-weighted assets is referred to as a "risk-based capital ratio." Risk-based capital ratios are determined by allocating assets and specified off-balance-sheet items to four risk-weighted categories ranging from 0% to 100%, with higher levels of capital being required for the categories perceived as representing greater risk.

These guidelines divide an institution's capital into two tiers. The first tier ("Tier 1") includes common equity, retained earnings, certain non-cumulative perpetual preferred stock (excluding auction rate issues), and minority interests in equity accounts of consolidated subsidiaries, less goodwill and other intangible assets (except mortgage servicing rights and purchased credit card relationships subject to certain limitations). Supplementary ("Tier 2") capital includes, among other items, cumulative perpetual and long-term limited-life preferred stock, mandatorily convertible securities, certain hybrid capital instruments, term subordinated debt, and the allowance for loan losses, subject to certain limitations, and up to 45% of pre-tax net unrealized gains on equity securities with readily determinable fair market values, less required deductions. Commercial banks are required to maintain a total risk-based capital ratio of at least 8%, of which at least 4% must be Tier 1 capital.

In addition, the FDIC has established regulations prescribing a minimum Tier 1 leverage capital ratio (the ratio of Tier 1 capital to adjusted average assets as specified in the regulations). These regulations provide for a minimum Tier 1 leverage capital ratio of 3% for institutions that meet certain specified criteria, including that they have the highest examination rating and are not experiencing or anticipating significant growth. All other institutions are required to maintain a Tier 1 leverage capital ratio of at least 4%. The FDIC may, however, set higher leverage and risk-based capital requirements on individual institutions when particular circumstances warrant. Institutions experiencing or anticipating significant growth are expected to maintain capital ratios, including tangible capital positions, well above the minimum levels.

As of December 31, 2014, the Bank was deemed to be well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, a bank must maintain a minimum Tier 1 leverage capital ratio of 5%, a minimum Tier 1 risk-based capital ratio of 6%, and a minimum total risk-based capital ratio of 10%. For a summary of the regulatory capital ratios of the Bank at December 31, 2014, see "Note 14 of Notes to Consolidated Financial Statements" in Item 8 of this Annual Report.

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

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

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

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

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

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

The FDIC has adopted regulations to implement prompt corrective action. Among other things, the regulations define the relevant capital measures for the five capital categories. An institution is deemed to be “well capitalized” if it has a total risk-based capital ratio of 10% or greater, a Tier 1 risk-based capital ratio of 6% or greater, and a leverage capital ratio of 5% or greater, and is not subject to a regulatory order, agreement, or directive to meet and maintain a specific capital level for any capital measure. An institution is deemed to be “adequately capitalized” if it has a total risk-based capital ratio of 8% or greater, a Tier 1 risk-based capital ratio of 4% or greater, and generally a leverage capital ratio of 4% or greater. An institution is deemed to be “undercapitalized” if it has a total risk-based capital ratio of less than 8%, a Tier 1 risk-based capital ratio of less than 4%, or generally a leverage capital ratio of less than 4%. An institution is deemed to be “significantly undercapitalized” if it has a total risk-based capital ratio of less than 6%, a Tier 1 risk-based capital ratio of less than 3%, or a leverage capital ratio of less than 3%. An institution is deemed to be “critically undercapitalized” if it has a ratio of tangible equity (as defined in the regulations) to total assets that is equal to or less than 2%.

“Undercapitalized” institutions are subject to growth, capital distribution (including dividend), and other limitations, and are required to submit a capital restoration plan. An institution’s compliance with such plan is required to be guaranteed by any company that controls the undercapitalized institution in an amount equal to the lesser of 5% of the bank’s total assets when deemed undercapitalized or the amount necessary to achieve the status of adequately capitalized. If an undercapitalized institution fails to submit an acceptable plan, it is treated as if it is “significantly undercapitalized.” Significantly undercapitalized institutions are subject to one or more additional restrictions including, but not limited to, an order by the FDIC to sell sufficient voting stock to become adequately capitalized; requirements to reduce total assets, cease receipt of deposits from correspondent banks, or dismiss directors or officers; and restrictions on interest rates paid on deposits, compensation of executive officers, and capital distributions by the parent holding company.

Beginning 60 days after becoming “critically undercapitalized,” critically undercapitalized institutions also may not make any payment of principal or interest on certain subordinated debt, or extend credit for a highly leveraged transaction, or enter into any material transaction outside the ordinary course of business. In addition, subject to a narrow exception, the appointment of a receiver is required for a critically undercapitalized institution within 270 days after it obtains such status.

Insurance of Deposit Accounts. The deposits of the Bank are insured up to applicable limits by the DIF. Under the FDIC's risk-based assessment system, insured institutions are assigned to one of four risk categories based upon supervisory evaluations, regulatory capital level, and certain other factors, with less risky institutions paying lower assessments. An institution's assessment rate depends upon the category to which it is assigned and certain other factors. Historically, assessment rates ranged from seven to 77.5 basis points of each institution's deposit assessment base. On February 7, 2011, as required by the Dodd-Frank Act, the FDIC published a final rule to revise the deposit insurance assessment system. The rule, which took effect April 1, 2011, changed the assessment base used for calculating deposit insurance assessments from deposits to total assets less tangible (Tier 1) capital. Since the new base is larger than the previous base, the FDIC also lowered assessment rates so that the rule would not significantly alter the total amount of revenue collected from the industry. On September 30, 2009, the FDIC collected, from all insured institutions, a special emergency assessment of five basis points of total assets minus Tier 1 capital (capped at ten basis points of an institution's deposit assessment base as of June 30, 2009), in order to cover losses to the DIF. The FDIC considered the need for similar special assessments during the final two quarters of 2009. However, in lieu of further special assessments, the FDIC required insured institutions to prepay estimated quarterly risk-based assessments for the fourth quarter of 2009 through the fourth quarter of 2012. The Bank prepaid a total of $16.9 million in risk-based assessments.

Due to the decline in economic conditions, the deposit insurance provided by the FDIC per account owner was raised to $250,000 for all types of accounts. That change, initially intended to be temporary, was made permanent by the Dodd-Frank Act. In addition, the FDIC adopted an optional Temporary Liquidity Guarantee Program ("TLGP") under which, for a fee, non-interest-bearing transaction accounts would receive unlimited insurance coverage until December 31, 2009 (later extended to December 31, 2010), and certain senior unsecured debt issued by institutions and their holding companies between October 13, 2008 and June 30, 2009 (later extended to October 31, 2009) would be guaranteed by the FDIC through June 30, 2012 or, in certain cases, until December 31, 2012. The Dodd-Frank Act provided for continued unlimited coverage for certain non-interest-bearing transaction accounts until December 31, 2012.

The Dodd-Frank Act increased the minimum target DIF ratio from 1.15% of estimated insured deposits to 1.35% of estimated insured deposits. The FDIC must seek to achieve the 1.35% ratio by September 30, 2020. Insured institutions with assets of $10 billion or more are supposed to fund the increase. The Dodd-Frank Act eliminated the 1.5% maximum fund ratio, leaving it, instead, to the discretion of the FDIC. The FDIC has exercised that discretion by establishing a long range fund ratio of 2%, which could result in our paying higher deposit insurance premiums in the future.

Insurance of deposits may be terminated by the FDIC upon a finding that the institution has engaged in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations, or has violated any applicable law, regulation, rule, order, or condition imposed by the FDIC. Management does not know of any practice, condition, or violation that would lead to termination of the deposit insurance of the Bank.

On September 30, 1996, as part of an omnibus appropriations bill, the Deposit Insurance Funds Act of 1996 (the "Funds Act") was enacted. The Funds Act required Bank Insurance Fund ("BIF") institutions, including the Savings Bank, beginning January 1, 1997, to pay a portion of the interest due on the Finance Corporation ("FICO") bonds issued in connection with the savings and loan association crisis in the late 1980s, and required BIF institutions to pay their full pro rata share of the FICO payments starting the earlier of January 1, 2000 or the date at which no savings institution continues to exist. We were required, as of January 1, 2000, to pay our full pro rata share of the FICO payments. The FICO assessment rate is subject to change. The Bank paid $267,000, $269,000 and $299,000 for their share of the interest due on FICO bonds in 2014, 2013 and 2012, respectively, which was included in FDIC insurance expense.

Brokered Deposits. The FDIC has promulgated regulations implementing the FDICIA limitations on brokered deposits. Under the regulations, well-capitalized institutions are not subject to brokered deposit limitations, while adequately capitalized institutions are able to accept, renew or roll over brokered deposits only with a waiver from the FDIC and subject to restrictions on the interest rate that can be paid on such deposits. Undercapitalized institutions are not permitted to accept brokered deposits and may not solicit deposits by offering an effective yield that exceeds by more than 75 basis points the prevailing effective yields on insured deposits of comparable maturity in the institution's normal market area or in the market area in which such deposits are being solicited. Pursuant to the regulation, the Bank, as a well-capitalized institution, may accept brokered deposits. At December 31, 2014, the Bank had $763.9 million in brokered deposit accounts.

Transactions with Affiliates

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

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

Community Reinvestment Act

Federal Regulation. Under the Community Reinvestment Act ("CRA"), as implemented by FDIC regulations, an institution has a continuing and affirmative obligation consistent with its safe and sound operation to help meet the credit needs of its entire community, including low and moderate income neighborhoods. The CRA does not establish specific lending requirements or programs for financial institutions, nor does it limit an institution's discretion to develop the types of products and services that it believes are best suited to its particular community, consistent with the CRA. The CRA requires the FDIC, in connection with its examinations, to assess the institution's record of meeting the credit needs of its community and to take such record into account in its evaluation of certain applications by such institution. The CRA requires public disclosure of an institution's CRA rating and further requires the FDIC to provide a written evaluation of an institution's CRA performance utilizing a four-tiered descriptive rating system. The Bank received a CRA rating of "Satisfactory" in its most recent completed CRA examination, which was completed as of April 30, 2012. Institutions that receive less than a satisfactory rating may face difficulties in securing approval for new activities or acquisitions. The CRA requires all institutions to make public disclosures of their CRA ratings. As a special purpose commercial bank, the Commercial Bank was not required to comply with the CRA prior to the Merger. Since the Merger, the Bank is required to comply with CRA.

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

Federal Reserve System

Under FRB regulations, the Bank is required to maintain reserves against its transaction accounts. The FRB regulations generally require that reserves be maintained against aggregate transaction accounts as follows: for that portion of transaction accounts aggregating $103.6 million or less (subject to adjustment by the FRB), the reserve requirement is 3%; for amounts greater than $103.6 million, the reserve requirement is 10% (subject to adjustment by the FRB between 8% and 14%). The first $14.5 million of otherwise reservable balances (subject to adjustments by the FRB) are exempted from the reserve requirements. The Bank is in compliance with the foregoing requirements.

Federal Home Loan Bank System

The Bank is a member of the FHLB-NY, one of 12 regional FHLBs comprising the FHLB system. Each regional FHLB manages its customer relationships, while the 12 FHLBs use its combined size and strength to obtain its necessary funding at the lowest possible cost. As a member of the FHLB-NY, the Bank is required to acquire and hold shares of FHLB-NY capital stock. Pursuant to this requirement, at December 31, 2014, the Bank was required to maintain $46.9 million of FHLB-NY stock.

Holding Company Regulation

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

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

The FRB has adopted capital adequacy guidelines for bank holding companies (on a consolidated basis). At December 31, 2014, the Company’s consolidated Total and Tier 1 capital exceeded these requirements. The Dodd-Frank Act required the FRB to issue consolidated regulatory capital requirements for bank holding companies that are at least as stringent as those applicable to insured depository institutions. Such regulations eliminated the use of certain instruments, such as cumulative preferred stock and trust preferred securities, as Tier 1 holding company capital.

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

The FRB has issued a policy statement regarding the payment of dividends by bank holding companies. In general, the FRB’s policies provide that dividends should be paid only out of current earnings and only if the prospective rate of earnings retention by the bank holding company appears consistent with the organization’s capital needs, asset quality, and overall financial condition. The FRB’s policies also require that a bank holding company serve as a source of financial strength to its subsidiary banks by standing ready to use available resources to provide adequate capital funds to those banks during periods of financial stress or adversity, and by maintaining the financial flexibility and capital-raising capacity to obtain additional resources for assisting its subsidiary banks where necessary. The

Dodd-Frank Act codifies the source of financial strength policy and requires regulations to facilitate its application. Under the prompt corrective action laws, the ability of a bank holding company to pay dividends may be restricted if a subsidiary bank becomes undercapitalized. These regulatory policies could affect the ability of the Company to pay dividends or otherwise engage in capital distributions.

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

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

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

Acquisition of the Holding Company

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

Federal Securities Law

The Company's common stock and (associated preferred stock purchase rights) listed on the cover page of this report are registered with the SEC under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). The Company is subject to the information and reporting requirements, regulations governing proxy solicitations, insider trading restrictions, and other requirements under the Exchange Act.

Consumer Financial Protection Bureau

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

Mortgage Banking and Related Consumer Protection Regulations

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

- The federal Truth-In-Lending Act and Regulation Z issued by the FRB, governing disclosures of credit terms to consumer borrowers;
- The Home Mortgage Disclosure Act and Regulation C issued by the FRB, requiring financial institutions to provide information to enable the public and public officials to determine whether a financial institution is fulfilling its obligation to help meet the housing needs of the community it serves;
- The Equal Credit Opportunity Act and Regulation B issued by the FRB, prohibiting discrimination on the basis of race, creed or other prohibited factors in extending credit;

- The Fair Credit Reporting Act and Regulation V issued by the FRB, governing the use and provision of information to consumer reporting agencies;
- The Fair Debt Collection Act, governing the manner in which consumer debts may be collected by collection agencies; and
- The guidance of the various federal agencies charged with the responsibility of implementing such federal laws.

Deposit operations also are subject to:

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

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

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

Available Information

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

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

Item 1A. Risk Factors.

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

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

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

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

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

At December 31, 2014, our gross loan portfolio was $3,798.7 million, of which 87% was mortgage loans secured by real estate. The majority of these real estate loans were secured by multi-family residential property ($1,923.5 million), commercial real estate ($621.6 million) and one-to-four family mixed-use property ($573.8 million), which combined represent 82% of our loan portfolio. Our loan portfolio is concentrated in the New York City metropolitan area. Multi-family residential, one-to-four family mixed-use property, commercial real estate mortgage loans, and construction loans, are generally viewed as exposing the lender to a greater risk of loss than fully underwritten one-to-four family residential mortgage loans and typically involve higher principal amounts per loan. Multi-family residential, one-to-four family mixed-use property and commercial real estate mortgage loans are typically dependent upon the successful operation of the related property, which is usually owned by a legal entity with the property being the entity's only asset. If the cash flow from the property is reduced, the borrower's ability to repay the loan may be impaired. If the borrower defaults, our only remedy may be to foreclose on the property, for which the market value may be less than the balance due on the related mortgage loan. We attempt to mitigate this risk by generally requiring a loan-to-value ratio of no more than 75% at a time the loan is originated, except for one-to-four family residential mortgage loans, where we require a loan-to value ratio of no more than 80%. Repayment of construction loans is contingent upon the successful completion and operation of the project. The repayment of commercial business loans (the increased origination of which is part of management's strategy), is contingent on the successful operation of the related business. Changes in local economic conditions and government regulations, which are outside the control of the borrower or lender, also could affect the value of the security for the loan or the future cash flow of the affected properties. We continually review the composition of our mortgage loan portfolio to manage the risk in the portfolio.

In addition, prior to 2010, we have originated one-to-four family residential mortgage loans without verifying the borrower's level of income. These loans involve a higher degree of risk as compared to our other fully underwritten one-to-four family residential mortgage loans. These risks are mitigated by our policy to generally limit the amount of one-to-four family residential mortgage loans to 80% of the appraised value or sale price, whichever is less, as well as charging a higher interest rate than when the borrower's income is verified. At December 31, 2014, we had $12.9 million outstanding of one-to-four family residential properties originated to individuals based on stated income and verifiable assets, and $44.8 million advanced on home equity lines of credit for which we did not verify the borrowers income. The total loans for which we did not verify the borrower's income at December 31, 2014 was $57.7 million, or 1.5% of gross loans. These types of loans are generally referred to as "Alt A" loans since the borrower's income was not verified. These loans are not as readily saleable in the secondary market as our other fully underwritten loans, either as whole loans or when pooled or securitized. We no longer originate one-to-four family residential mortgage loans or home equity lines of credit to individuals without verifying their income. We have not originated, nor do we hold in portfolio, any subprime loans.

Even in stable economic times, higher default rates may be expected for Alt A and similar loans. Although we attempted to incorporate the higher default rates associated with these loans into our pricing models, there can be no assurance that the premiums earned and the associated investment income will prove adequate to compensate for future losses from these loans. Worsening economic conditions, rising unemployment rates and/or other regional real estate price declines could even more significantly increase the default risks associated with these loans. In addition, these same negative economic and market conditions could also significantly increase the default risk on loans for which we did not assume higher default and claim rates.

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

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

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

Our Ability to Obtain Brokered Certificates of Deposit and Brokered Money Market Accounts as an Additional Funding Source Could be Limited

We utilize brokered deposits as an additional funding source and to assist in the management of our interest rate risk. The Bank had \$763.9 million, or 21.8% of total deposits, and \$517.4 million, or 16.0% of total deposits, in brokered deposit accounts at December 31, 2014 and 2013, respectively. We have obtained brokered certificates of deposit when the interest rate on these deposits is below the prevailing interest rate for non-brokered certificates of deposit with similar maturities in our market, or when obtaining them allowed us to extend the maturities of our deposits at favorable rates compared to borrowing funds with similar maturities, when we are seeking to extend the maturities of our funding to assist in the management of our interest rate risk. Brokered certificates of deposit provide a large deposit for us at a lower operating cost as compared to non-brokered certificates of deposit since we only have one account to maintain versus several accounts with multiple interest and maturity checks. Unlike non-brokered certificates of deposit where the deposit amount can be withdrawn with a penalty for any reason, including increasing interest rates, a brokered certificate of deposit can only be withdrawn in the event of the death or court declared mental incompetence of the depositor. This allows us to better manage the maturity of our deposits and our interest rate risk. We also utilize brokers to obtain money market account deposits. The rate we pay on brokered money market accounts is the same or below the rate we pay on non-brokered money market accounts, and the rate is agreed to in a contract between the Bank and the broker. These accounts are similar to brokered certificates of deposit accounts in that we only maintain one account for the total deposit per broker, with the broker maintaining the detailed records of each depositor. Additionally, during 2014 we shifted approximately \$94.0 million in Government NOW deposits to an ICS brokered money market product which does not require us to provide collateral. This will allow us to invest our funds in higher yielding assets. The Bank had \$180.2 million and \$70.5 million in brokered money market accounts at December 31, 2014 and 2013, respectively.

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

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

The Markets in Which We Operate Are Highly Competitive

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

Notwithstanding the intense competition, we have been successful in increasing our loan portfolios and deposit base. However, no assurances can be given that we will be able to continue to increase our loan portfolios and deposit base, as contemplated by management's current business strategy.

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

Our operating results are affected by national and local economic and competitive conditions, including changes in market interest rates, the strength of the local economy, government policies and actions of regulatory authorities. The national and our 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 the New York City metropolitan area have not been as great as many other areas of the country. While the national and local economies showed signs of improvement since the middle of 2010, improvements in unemployment have lagged until recently when the unemployment rate decreased to 6.3% at December 2014 from 7.5% at December 2013, for the New York City region, according to the New York State Department of Labor. The housing market in the United States continued to see a significant slowdown during 2009, and foreclosures of single family homes rose to levels not seen in the prior five years. The downturn in the housing market has slowed. These economic conditions can result in borrowers defaulting on their loans, or withdrawing their funds on deposit at the Bank to meet their financial obligations. While we have seen an increase in deposits, we have also seen a significant increase in delinquent loans, resulting in an increase in our provision for loan losses, although we have seen improvements in 2013 and 2014. This increase in delinquent loans primarily consists of mortgage loans collateralized by residential income producing properties that are located in the New York City metropolitan market. Given New York City's low vacancy rates, the properties have retained their value and have provided us with low loss content in our non-performing loans. We cannot predict the effect of these economic conditions on our financial condition or operating results.

A decline in the local or national economy or the New York City metropolitan area real estate market could adversely affect our financial condition and results of operations, including through decreased demand for loans or increased competition for good loans, increased non-performing loans and loan losses and resulting additional provisions for loan losses and for losses on real estate owned. Although management believes that the current allowance for loan losses is adequate in light of current economic conditions, many factors could require additions to the allowance for loan losses in future periods above those currently maintained. These factors include: (1) adverse changes in economic conditions and changes in interest rates that may affect the ability of borrowers to make payments on loans,

(2) changes in the financial capacity of individual borrowers, (3) changes in the local real estate market and the value of our loan collateral, and (4) future review and evaluation of our loan portfolio, internally or by regulators. The amount of the allowance for loan losses at any time represents good faith estimates that are susceptible to significant changes due to changes in appraisal values of collateral, national and local economic conditions, prevailing interest rates and other factors. See "Business — General — Allowance for Loan Losses" in Item 1 of this Annual Report.

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

Changes in Laws and Regulations Could Adversely Affect Our Business

From time to time, legislation, such as the Dodd-Frank Act, is enacted or regulations are promulgated that have the effect of increasing the cost of doing business, limiting or expanding permissible activities or affecting the competitive balance between banks and other financial institutions. Proposals to change the laws and regulations governing the operations and taxation of banks and other financial institutions are frequently made in Congress, in the New York legislature and before various bank regulatory agencies. No prediction can be made as to the likelihood of any major changes (in addition to the Dodd-Frank Act) or the impact such changes might have on us. For a discussion of regulations affecting us, see "Business —Regulation" and "Business—Federal, State and Local Taxation" in Item 1 of thi Annual Report.

There can be no assurance as to the actual impact that any laws, regulations or governmental programs that may be introduced or implemented in the future will have on the financial markets and the economy. A continuation or worsening of current financial market conditions could materially and adversely affect our business, financial condition, results of operations, and access to credit or the trading price of our securities.

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

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

On July 21, 2010, President Obama signed the Dodd-Frank Act into law. The Dodd-Frank Act is intended to address perceived weaknesses in the U.S. financial regulatory system and prevent future economic and financial crises. There are many provisions of the Dodd-Frank Act which will be implemented through regulations to be adopted within specified time frames following the effective date of the Dodd-Frank Act, which creates a risk of uncertainty as to the effect that such provisions will ultimately have. The full impact of the changes in regulation will depend on new regulations that have yet to be written. The new regulations could have a material adverse effect on our business, financial condition or results of operations. Although it is not possible for us to determine at this time whether the Dodd-Frank Act will have a material adverse effect on our business, financial condition or results of operations, we believe the following provisions of the Dodd-Frank Act will have an impact on us:

- New Primary Regulatory. On July 21, 2011, the OTS, our then primary federal regulator, was eliminated and the OCC took over the regulation of all federal savings banks, such as the Savings Bank. The Federal Reserve acquired the OTS's authority over all savings and loan holding companies, such as the Bank's holding company, and became the supervisor of all subsidiaries of savings and loan holding companies other than depository institutions. As a result, we became subject to regulation, supervision and examination by two federal banking agencies, the OCC and the Federal Reserve, rather than just by the OTS, as was previously the case. The OCC was replaced by the FDIC as the Bank's federal regulator as a result of the Merger and the Savings Bank's conversion from thrift to a bank. The Dodd-Frank Act also provided for the creation of the Consumer Financial Protection Bureau (the "CFPB"). The CFPB has the authority to implement and enforce a variety of existing consumer protection statutes and to issue new regulations. As a new independent bureau within the FRB, it is possible that the CFPB will focus more attention on consumers and may impose requirements more severe than the previous bank regulatory agencies.

- Consolidated Holding Company Capital Requirements. The Dodd-Frank Act requires the federal banking agencies to establish consolidated risk-based and leverage capital requirements for insured depository institutions, depository institution holding companies and systemically important nonbank financial companies. These requirements must be no less than those to which insured depository institutions are currently subject, and the new requirements will effectively eliminate the use of newly-issued trust preferred securities as a component of Tier 1 Capital for depository institution holding companies of our size. As a result, no later than the fifth anniversary of the effective date of the Dodd-Frank Act, we will become subject to consolidated capital requirements to which we have not previously been subject. Effective February 28, 2013, as a result of the Merger, Flushing Financial Corporation became a bank holding company and it became subject to consolidated capital requirements.

- Roll Back of Federal Preemption. The Dodd-Frank Act significantly rolls back the federal preemption of state consumer protection laws that federal savings associations and national banks currently enjoy by (1) permitting federal preemption of a state consumer financial law only if such law prevents or significantly interferes with the exercise of a federal savings association's or national bank's powers or such state law is preempted by another federal law, (2) mandating that any preemption decision be made on a case by case basis rather than a blanket rule, and (3) ending the applicability of preemption to subsidiaries and affiliates of national banks and federal savings associations. As a result, we may now be subject to state laws in each state where we do business, and those laws may be interpreted and enforced differently in different states.

The Dodd-Frank Act also includes provisions, subject to further rulemaking by the federal bank regulatory agencies, that may affect our future operations, including provisions that create minimum standards for the origination of mortgages, restrict proprietary trading by banking entities, restrict the sponsorship of and investment in hedge funds and private equity funds by banking entities that remove certain obstacles to the conversion of savings associations to national banks. We will not be able to determine the impact of these provisions until final rules are promulgated to implement these provisions and other regulatory guidance is provided interpreting these provisions.

Certain Anti-Takeover Provisions May Increase the Costs to or Discourage an Acquirer

On September 5, 2006, the Board of Directors renewed our Stockholder Rights Plan (the "Rights Plan"), which was originally adopted on and had been in place since September 17, 1996 and had been scheduled to expire on September 30, 2006. The Rights Plan was designed to preserve long-term values and protect stockholders against inadequate offers and other unfair tactics to acquire control of us. Under the Rights Plan, each stockholder of record at the close of business on September 30, 2006 received a dividend distribution of one right to purchase from the Company one one-hundredth of a share of Series A junior participating preferred stock at a price of $65. The rights will become exercisable only if a person or group acquires 15% or more of our common stock or commences a tender or exchange offer which, if consummated, would result in that person or group owning at least 15% of the Common Stock (the "acquiring person or group"). In such case, all stockholders other than the acquiring person or group will be entitled to purchase, by paying the $65 exercise price, Common Stock (or a common stock equivalent) with a value of twice the exercise price. In addition, at any time after such event, and prior to the acquisition by any person or group of 50% or more of the Common Stock, the Board of Directors may, at its option, require each outstanding right (other than rights held by the acquiring person or group) to be exchanged for one share of Common Stock (or one common stock equivalent). If a person or group becomes an acquiring person and we are acquired in a merger or other business combination or sell more than 50% of our assets or earning power, each right will entitle all other holders to purchase, by payment of $65 exercise price, common stock of the acquiring company with a value of twice the exercise price. The renewed rights plan expires on September 30, 2016.

The Rights Plan, as well as certain provisions of our certificate of incorporation and bylaws, the Bank's charter and bylaws, certain federal regulations and provisions of Delaware corporation law, and certain provisions of remuneration plans and agreements applicable to employees and officers of the Bank may have anti-takeover effects by discouraging potential proxy contests and other takeover attempts, particularly those which have not been negotiated with the Board of Directors. The Rights Plan and those other provisions, as well as applicable regulatory restrictions, may also prevent or inhibit the acquisition of a controlling position in the Common Stock and may prevent or inhibit takeover attempts that certain stockholders may deem to be in their or other stockholders' interest or in our interest, or in which stockholders may receive a substantial premium for their shares over then current market prices. The Rights Plan and those other provisions may also increase the cost of, and thus discourage, any such future acquisition or attempted acquisition, and would render the removal of the current Board of Directors or management of the Company more difficult.

We May Not Be Able to Successfully Implement Our Commercial Business Banking Initiative

Our strategy includes a transition to a more “commercial-like” banking institution. We have developed a complement of deposit, loan and cash management products to support this initiative, and intend to expand these product offerings. A business banking unit builds relationships in order to obtain lower-costing deposits, generate fee income, and originate commercial business loans. The success of this initiative is dependent on developing additional product offerings, and building relationships to obtain the deposits and loans. There can be no assurance that we will be able to successfully implement our business strategy with respect to this initiative.

The FDIC's Adopted Restoration Plan and the Related Increased Assessment Rate Schedule May Have a Material Effect on Our Results of Operations

On October 19, 2010, the FDIC Board adopted a new restoration plan to ensure that the DIF reserve ratio reaches 1.35% by September 30, 2020, as required by the Dodd-Frank Act, rather than 1.15% by the end of 2016 (as required under the prior restoration plan). Among other things, the new restoration plan provides that the FDIC will forego the uniform three basis point increases in initial assessment rates that was previously scheduled to take effect on January 1, 2011 and maintains the current assessment rate schedule. The FDIC intends to pursue further rulemaking regarding the requirement under the Dodd-Frank Act that the FDIC offset the effect on institutions with less than $10 billion in assets (such as us) of the requirement that the reserve ratio reach 1.35% by September 30, 2020, so that more of the cost of raising the reserve ratio to 1.35% will be borne by institutions with more than $10 billion in assets. In this connection, the FDIC Board approved a rule that implemented a provision in the Dodd-Frank Act that changes the assessment base from one based on domestic deposits (as it has been since 1935) to one based on total average assets less Tier 1 Capital (as defined for regulatory purposes). The FDIC also lowered assessment rates. Effective April 1, 2011, the new assessment base is based on assets rather than domestic deposits which is a much larger assessment base than in the past. The range of the base assessment rates is 2.5 to 45 basis points, whereas the prior range was 7 to 77.5 basis points. In addition, the FDIC Board approved setting the designated DIF reserve ratio at 2% as a long-term, minimum goal, adopt a lower assessment rate schedule when the reserve ratio reaches 1.15% and, in lieu of FDIC dividends, adopt progressively lower assessment rate schedules when the reserve ratio reaches 2% and 2.5%. Another rule approved by the FDIC Board, which replaces a proposed rule approved by the FDIC on April 13, 2010, would revise the deposit insurance assessment system for insured depository institutions with over $10 billion in assets. This rule is not directly applicable to us.

There is no guarantee that the rules described above be sufficient for the DIF to meet its funding requirements, which may necessitate further rulemaking, special assessments or increases in deposit insurance premiums. Any such future rulemaking, assessments or increases could have a further material impact on our results of operations.

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

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

Information security risks for financial institutions such as ours have generally increased in recent years in part because of the proliferation of new technologies, the use of the internet and telecommunications technologies to conduct financial transactions, and the increased sophistication and activities of organized crime, hackers, terrorists, activists and other external parties. As noted above, our operations rely on the secure processing, transmission and storage of confidential information in our computer systems and networks. Our business relies on our digital technologies, computer and email systems, software and networks to conduct its operations. In addition, to access our products and services, our clients may use personal smartphones, tablet PC's, personal computers and other mobile devices that are beyond our control systems. Although we have information security procedures and controls in place, our technologies, systems, networks and our clients' devices may become the target of cyber-attacks or information security breaches that could result in the unauthorized release, gathering, monitoring, misuse, loss or destruction of our or our clients' confidential, proprietary and other information, or otherwise disrupt our or our clients' or other third parties' business operations.

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

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

Disruptions or failures in the physical infrastructure or operating systems that support our business and clients, or cyber-attacks or security breaches of the networks, systems or devices that our clients use to access our products and services could result in client attrition, regulatory fines, penalties or intervention, reputational damage, reimbursement or other compensation costs and/or additional compliance costs, any of which could materially and adversely affect our financial condition or results of operations.

We May Experience Increased Delays in Foreclosure Proceedings

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

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

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

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

The Current Economic Environment Poses Significant Challenges for us and Could Adversely Affect our Financial Condition and Results of Operations

We are operating in a challenging and uncertain economic environment, including generally uncertain national conditions and local conditions in our markets. While the national and local economies showed signs of improvement since the middle of 2010, unemployment has remained at elevated levels. The housing market in the United States continued to see a significant slowdown during 2009, and foreclosures of single family homes rose to levels not seen in the prior five years. The housing market has shown improvement in 2013, but has not returned to pre-recession levels. Financial institutions continue to be affected by sharp declines in the real estate market and constrained financial markets. While we are taking steps to decrease and limit our exposure to residential mortgage loans, home equity loans and lines of credit, and construction and land loans, we nonetheless retain direct exposure to the residential and commercial real estate markets, and we are affected by these events. Further declines in real estate values, home sales volumes and financial stress on borrowers as a result of the uncertain economic environment, including job losses, could have an adverse effect on our borrowers or their customers, which could adversely affect our financial condition and results of operations. The overall deterioration in economic conditions has subjected us to increased regulatory scrutiny. In addition, further deterioration in national or local economic conditions in our markets could drive losses beyond that which is provided for in our allowance for loan losses and result in the following other consequences: loan delinquencies, problem assets and foreclosures may increase; demand for our products and services may decline; deposits may decrease, which would adversely impact our liquidity position; and collateral for our loans, especially real estate, may decline in value, in turn reducing customers' borrowing power, and reducing the value of assets and collateral associated with our existing loans. These same factors have caused delinquencies to increase for the mortgages which are the collateral for the mortgage-backed securities that we hold in our investment portfolio. Combining the increased delinquencies with liquidity problems in the market has resulted in a decline in the market value of our investments in mortgage-backed securities. There can be no assurance that the decline in the market value of these investments will not cause us to record an other-than-temporary impairment charge in our financial statements.

We May Not Pay Dividends on Our Common Stock

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

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

Goodwill is presumed to have an indefinite life and is tested annually, or when certain conditions are met, for impairment. If the fair value of the reporting unit is greater than the goodwill amount, no further evaluation is required and no impairment is recorded. If the fair value of the reporting unit is less than the goodwill amount, further evaluation would be required to compare the fair value of the reporting unit to the goodwill amount and determine if a write down is required. Management views the Company as operating as a single unit - a community bank. At December 31, 2014, we had goodwill with a carrying amount of $16.1 million. Declines in the fair value of the reporting unit may result in a future impairment charge. Any such impairment charge could have a material effect on our earnings and capital.

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

At December 31, 2014, we have a deferred tax asset of $29.8 million. This represents the anticipated federal, state and local tax benefits expected to be realized in future years upon the utilization of the underlying tax attributes comprising this balance. In order to use the future benefit of these deferred tax assets, we will need to report taxable income for federal, state and local tax purposes. Although we have reported taxable income for federal, state, and local tax purposes in each of the past three years, there can be no assurance that this will continue in the future.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

At December 31, 2014, the Bank conducted its business through 17 full-service offices and its internet branch, “iGObanking.com®”.

Flushing Financial Corporation neither owns nor leases any property but instead uses the premises and equipment of the Bank.

Item 3. Legal Proceedings.

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

Item 4. Mine Safety Disclosures.

Not applicable

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PART II

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

Flushing Financial Corporation Common Stock is traded on the NASDAQ Global Select Market® under the symbol "FFIC." As of December 31, 2014, we had approximately 740 shareholders of record, not including the number of persons or entities holding stock in nominee or street name through various brokers and banks. Our stock closed at $20.27 on December 31, 2014. The following table shows the high and low sales price of the Common Stock and the dividends declared on the Common Stock during the periods indicated. Such prices do not necessarily reflect retail markups, markdowns, or commissions. (See Note 13 of Notes to Consolidated Financial Statements in Item 8 of this Annual Report for dividend restrictions.)

	2014			2013		
	High	Low	Dividend	High	Low	Dividend
First Quarter	$ 21.91	$ 19.09	$ 0.15	$ 17.10	$ 15.02	$ 0.13
Second Quarter	21.75	18.83	0.15	16.87	15.02	0.13
Third Quarter	21.37	18.18	0.15	19.88	16.40	0.13
Fourth Quarter	20.84	17.70	0.15	21.70	17.96	0.13

The following table sets forth information regarding the shares of common stock repurchased by us during the quarter ended December 31, 2014:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares That May Yet Be Purchased Under the Plans or Programs
October 1 to October 31, 2014	-	$ -	-	888,400
November 1 to November 30, 2014	163,201	19.76	163,201	725,199
December 1 to December 31, 2014	90,000	19.54	90,000	635,199
Total	253,201	$ 19.68	253,201	

During the year ended December 31, 2014, the Company completed the common stock repurchase program that was approved by the Company's Board of Directors on May 22, 2013. On August 19, 2014, the Company announced the authorization by the Board of Directors of a new common stock repurchase program, which authorizes the purchase of up to 1,000,000 shares of its common stock. During the years ended December 31, 2014 and 2013, the Company repurchased 914,671 shares and 836,092 shares, respectively, of the Company's common stock at an average cost of $19.29 per share and $15.73 per share, respectively. At December 31, 2014, 635,199 shares remain to be repurchased under the current stock repurchase program. Stock will be purchased under the current stock repurchase program from time to time, in the open market or through private transactions subject to market conditions and at the discretion of the management of the Company. There is no expiration or maximum dollar amount under this authorization.

The following table sets forth securities authorized for issuance under all equity compensation plans of the Company at December 31, 2014:

	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted-average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)
Equity compensation plans approved by security holders	154,915	$ 15.19	1,097,200
Equity compensation plans not approved by security holders	-	-	-
	154,915	$ 15.19	1,097,200

Stock Performance Graph

The following graph shows a comparison of cumulative total stockholder return on the Company's common stock since December 31, 2009 with the cumulative total returns of a broad equity market index as well as comparative published industry indices. The broad equity market index chosen was the Nasdaq Composite. The comparative published industry indices chosen were the SNL Bank $1 Billion to $5 Billion in Assets Index and the SNL Mid-Atlantic Bank Index. The SNL Mid-Atlantic Bank Index was chosen for inclusion in the Company's Stock Performance Graph because the Company believes it provides valuable comparative information reflecting the Company's geographic peer group. The SNL Bank $1 Billion to $5 Billion in Assets Index was chosen for inclusion in the Company's Stock Performance Graph because it uses a broader group of banks and therefore more closely reflects the Company's size. The Company believes that both geographic area and size are important factors in analyzing the Company's performance against its peers. The graph below reflects historical performance only, which is not indicative of possible future performance of the common stock.

The total return assumes $100 invested on December 31, 2009 and all dividends reinvested through the end of the Company's fiscal year ended December 31, 2014. The performance graph above is based upon closing prices on the trading date specified.

	Period Ending					
Index	12/31/09	12/31/10	12/31/11	12/31/12	12/31/13	12/31/14
Flushing Financial Corporation	100.00	129.69	122.02	153.83	213.87	215.82
NASDAQ Composite	100.00	118.15	117.22	138.02	193.47	222.16
SNL Bank $1 Billion to $5 Billion	100.00	113.35	103.38	127.47	185.36	193.81
SNL Mid-Atlantic Bank	100.00	116.66	87.64	117.40	158.25	172.41

Item 6. Selected Financial Data.

At or for the years ended December 31,	2014	2013	2012	2011	2010
	(Dollars in thousands, except per share data)				
Selected Financial Condition Data					
Total assets	$5,077,013	$4,721,501	$4,451,416	$4,287,949	$4,324,745
Loans, net	3,785,277	3,402,402	3,203,017	3,198,537	3,248,630
Securities available for sale	973,310	1,017,790	949,566	812,530	804,189
Deposits	3,508,598	3,232,780	3,015,193	3,146,245	3,190,610
Borrowed funds	1,056,492	1,012,122	948,405	685,139	708,683
Total stockholders' equity	456,247	432,532	442,365	416,911	390,045
Common stockholders' equity	456,247	432,532	442,365	416,911	390,045
Book value per common share (1)	$15.52	$14.36	$14.39	$13.49	$12.48
Selected Operating Data					
Interest and dividend income	$197,128	$200,526	$213,714	$224,498	$229,628
Interest expense	54,741	54,863	63,275	76,723	91,767
Net interest income	142,387	145,663	150,439	147,775	137,861
Provision (benefit) for loan losses	(6,021)	13,935	21,000	21,500	21,000
Net interest income after provision for loan losses	148,408	131,728	129,439	126,275	116,861
Non-interest income:					
Net gains on sales of securities and loans	2,875	3,021	69	511	7
Other-than-temporary credit impairment charge on securities	-	(1,419)	(776)	(1,578)	(2,045)
Net (loss) gain from fair value adjustments	(2,568)	(2,521)	55	1,960	47
Other income	9,936	10,475	9,717	9,388	10,291
Total non-interest income	10,243	9,556	9,065	10,281	8,300
Non-interest expense	85,839	80,576	82,326	77,739	70,385
Income before income tax provision	72,812	60,708	56,178	58,817	54,776
Income tax provision	28,573	22,956	21,847	23,469	15,941
Net income	$44,239	$37,752	$34,331	$35,348	$38,835
Basic earnings per common share (2)	$1.49	$1.26	$1.13	$1.15	$1.28
Diluted earnings per common share (2)	$1.48	$1.26	$1.13	$1.15	$1.28
Dividends declared per common share (2)	$0.60	$0.52	$0.52	$0.52	$0.52
Dividend payout ratio	40.3%	41.3%	46.0%	45.2%	40.6%

(Footnotes on the following page)

At or for the years ended December 31,	2014		2013		2012		2011		2010	
Selected Financial Ratios and Other Data										
Performance ratios:										
Return on average assets	0.91	%	0.82	%	0.79	%	0.82	%	0.92	%
Return on average equity	9.82		8.73		7.99		8.76		10.32	
Average equity to average assets	9.31		9.45		9.83		9.36		8.89	
Equity to total assets	8.99		9.16		9.94		9.72		9.02	
Interest rate spread	2.98		3.25		3.50		3.46		3.27	
Net interest margin	3.11		3.37		3.65		3.61		3.43	
Non-interest expense to average assets	1.77		1.76		1.88		1.80		1.66	
Efficiency ratio	54.40		50.64		50.73		49.18		47.37	
Average interest-earning assets to average interest-bearing liabilities	1.11	x	1.10	x	1.09	x	1.08	x	1.07	x
Regulatory capital ratios: (3)										
Core capital (well capitalized = 5%)	9.63	%	9.48	%	9.62	%	9.63	%	9.18	%
Tier 1 risk-based capital (well capitalized =6%)	13.87		14.59		14.38		14.26		13.07	
Total risk-based capital (well capitalized =10%)	14.60		15.63		15.43		15.32		13.98	
Asset quality ratios:										
Non-performing loans to gross loans (4)	0.90	%	1.43	%	2.79	%	3.65	%	3.44	%
Non-performing assets to total assets (5)	0.80		1.14		2.21		2.87		2.75	
Net charge-offs to average loans	0.02		0.41		0.64		0.59		0.42	
Allowance for loan losses to gross loans	0.66		0.93		0.97		0.94		0.85	
Allowance for loan losses to total non-performing assets (5)	61.94		59.04		31.59		24.63		23.31	
Allowance for loan losses to total non-performing loans (4)	73.40		64.89		34.62		25.84		24.71	
Full-service customer facilities	17		17		17		16		15	

(1) Calculated by dividing common stockholders’ equity of $456.2 million and $432.5 million at December 31, 2014 and 2013, respectively, by 29,403,823 and 30,123,252 shares outstanding at December 31, 2014 and 2013, respectively. Common stockholders’ equity is total stockholders’ equity less the liquidation preference value of preferred shares outstanding.
(2) The shares held in the Company’s Employee Benefit Trust are not included in shares outstanding for purposes of calculating earnings per share.
(3) Represents the Bank’s capital ratios, which exceeded all minimum regulatory capital requirements during the periods presented.
(4) Non-performing loans consist of non-accrual loans and loans delinquent 90 days or more that are still accruing.
(5) Non-performing assets consist of non-performing loans, real estate owned and non-performing investment securities.

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

As used in this discussion and analysis, the words "we," "us," "our" and the "Company" are used to refer to Flushing Financia 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 the Savings Bank's wholly owned subsidiary 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.

General

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 in 1995. 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 New York State full-service 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 do not anticipate any significant changes to our operations or services as a result of the Merger.

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"). 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 federal regulator became the Federal Deposit Insurance Corporation ("FDIC"). The Bank's deposits are insured to the maximum allowable amount by the FDIC. The Bank owns three subsidiaries: Flushing Preferred Funding Corporation, Flushing Service Corporation, and FSB Properties Inc.

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 during 2007 to issue a total of $60.0 million of capital securities, and $1.9 million of common securities (which are the only voting securities). 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.

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

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, 2014, the business banking unit had $461.5 million in gross loans outstanding and $134.6 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, 2014, the internet branch had $281.6 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.

The Merger was the result of the combination of two entities under common control, and in accordance with ASC 805-50-30-5, the Bank measured the recognized assets and liabilities transferred at their carrying amounts (historical cost) for this transaction.

Overview

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

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

- continue our emphasis on the origination of multi-family residential mortgage loans, commercial business loans and commercial real estate mortgage loans;
- continue to transition the balance sheet to a more 'commercial-like' banking institution;
- increase our commitment to the multi-cultural marketplace, with a particular focus on the Asian community in Queens;
- maintain asset quality;
- manage deposit growth and maintain a low cost of funds through
  - § business banking deposits
  - § personal accounts,
  - § municipal deposits through government banking, and
  - § new customer relationships via iGObanking.com®;
- cross sell to lending and deposit customers;
- take advantage of market disruptions to attract talent and customers from competitors;
- manage interest rate risk and capital: and

- manage enterprise-wide risk.

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

Multi-Family Residential, Commercial Business and Commercial Real Estate Lending. In recent years, we have emphasized the origination of higher-yielding multi-family residential mortgage loan. During 2014, we continued to focus on the origination of multi-family properties and increased originations of business loans with a full banking relationship and commercial mortgage lending, as our strategic plan included reentering these markets. We continued to deemphasize one-to-four family – mixed-use property and construction lending. We expect to continue this emphasis on higher-yielding multi-family residential mortgage loans, business loans with a full banking relationship and commercial mortgage lending, while we continue to deemphasize one-to-four family mixed-use property and construction lending.

The following table shows loan originations and purchases during 2014, and loan balances as of December 31, 2014.

	Loan Originations and Purchases	Loan Balances December 31, 2014	Percent of Gross Loans
		(Dollars in thousands)	
Multi-family residential	$ 420,978	$ 1,923,460	50.64 %
Commercial real estate	179,848	621,569	16.36
One-to-four family mixed-use property	50,070	573,779	15.10
One-to-four family residential	24,727	187,572	4.94
Co-operative apartment	170	9,835	0.26
Construction	1,566	5,286	0.14
Small Business Administration	1,611	7,134	0.19
Taxi Medallion	14,431	22,519	0.59
Commercial Business and Other	264,765	447,500	11.78
Total	$ 958,166	$ 3,798,654	100.00 %

At December 31, 2014, multi-family residential, commercial real estate, construction and one-to-four family mixed-use property mortgage loans, totaled 82.2% of our gross loans. Our concentration in these types of loans has increased the overall level of credit risk inherent in our loan portfolio. The greater risk associated with multi-family, commercial real estate, construction 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 currently maintained.

Continue to Transition the Balance Sheet to a More ‘Commercial-like’ Banking Institution. We have an established business banking unit staffed with a team of experienced commercial bankers. We have developed a complement of deposit, loan and cash management products to support this initiative, and expanded these product offerings. The business banking unit is responsible for building business relationships in order to obtain lower-costing deposits, generate fee income, and originate commercial business loans. Building these business relationships could provide us with a lower-costing source of funds and higher-yielding adjustable-rate loans, which would help us manage our interest-rate risk. 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.

Increase Our Commitment to the Multi-Cultural Marketplace, with a Particular Focus on the Asian Community in Queens. Our branches are all located in the New York City metropolitan area with particular concentration in the borough of Queens. Queens in particular exhibits a high level of ethnic diversity. An important element of our strategy is to service the multi-ethnic consumer and business. We have a particular concentration in the Asian communities- among them Chinese and Korean populations. Both groups are noted for high levels of savings, education and entrepreneurship. In order to service these and other important ethnic groups in our market, our staff speaks more than 30 languages. We have an Asian advisory board to help broaden our link to the community by providing guidance and fostering awareness of our active role in the local community. Our focus on the Asian community in Queens, where we have four branches, has resulted in us obtaining approximately $500 million in deposits in these branches. We also have over $400 million of loans and lines of credit outstanding to borrowers in the Asian community.

Maintain Asset Quality. By adherence to our conservative underwriting standards, we have been able to minimize net losses from impaired loans with net charge-offs of $0.7 million and $13.3 million for the years ended December 31, 2014 and 2013, respectively. We seek to maintain our loans in performing status through, among other things, disciplined collection efforts, and consistently monitoring non-performing assets in an effort to return them to performing status. To this end, we review the quality of our loans and report to the Loan Committee of the Board of Directors of the Bank on a monthly basis. We sold 32 delinquent mortgage loans totaling $15.8 million, 72 delinquent mortgage loans totaling $33.4 million and 77 delinquent mortgage loans totaling $44.2 million during the years ended December 31, 2014, 2013 and 2012, respectively. We recorded net recoveries of $0.4 and net charge-offs of $4.7 million and $5.7 million to the allowance for loan losses for the non-performing loans that were sold during 2014, 2013 and 2012, respectively. We realized gross gains of $54,000, $134,000 and $21,000 on the sale of non-performing mortgage loans for the years ended December 31, 2014, 2013 and 2012, 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, 2014. There can be no assurances that we will continue this strategy in future periods, or if continued, we will be able to find buyers to pay adequate consideration. Non-performing assets amounted to $40.5 million and $53.8 million at December 31, 2014 and 2013, respectively. Non-performing assets as a percentage of total assets were 0.80% and 1.14% at December 31, 2014 and 2013, respectively.

Manage Deposit Growth and Maintain Low Cost of Funds. We have a relatively stable retail deposit base drawn from our market area through our full-service offices. Although we seek to retain existing deposits and maintain depositor relationships by offering quality service and competitive interest rates to our customers, we also seek to keep deposit growth within reasonable limits and our strategic plan. In order to implement our strategic plan, we have a business banking operation that we designed specifically to develop full business relationships thereby bringing in lower cost checking and money market deposits. At December 31, 2014, deposits balances in the business sector are $134.6 million. We also have an internet branch, "iGObanking.com®", as a division of the Bank, to compete for deposits from sources outside the geographic footprint of our full-service offices. In creating iGObanking.com®, our strategy is to reduce our reliance on wholesale borrowings and reduce our funding costs. Deposit balances in iGObanking.com® were $281.6 million at December 31, 2014, at rates lower than our borrowings. We have a government banking division, which prior to the Merger operated as the Commercial Bank, as an additional source of deposits. At December 31, 2014, deposits in our government banking division totaled $891.9 million at rates below our average cost of funds. We also obtain deposits through brokers and the CDARS® and ICS network. Management intends to balance its goal to maintain competitive interest rates on deposits while seeking to manage its overall cost of funds to finance its strategies. We generally rely on our deposit base as our principal source of funding. In addition, the Bank is a member of the FHLB-NY, which provides us with a source of borrowing. We also utilize reverse purchase agreements, established with other financial institutions. During 2014, we realized an increase in Due to depositors of $272.9 million, as core deposits increased $88.1 million while certificates of deposit increased $184.9 million. At the same time our borrowed funds increased by $44.4 million as we looked to extend the maturities of our funding.

Cross Sell to Lending and Deposit Customers. A significant portion of our lending and deposit customers do not have both their loans and deposits with us. We intend to continue to focus on obtaining additional deposits from our lending customers and originating additional loans to our deposit customers. Product offerings were expanded and are expected to be further expanded to accommodate perceived customer demands. In addition, specific employees are assigned responsibilities of generating these additional deposits and loans by coordinating efforts between lending and deposit gathering departments.

Take Advantage of Market Disruptions to Attract Talent and Customers From Competitors. The New York City market place has been dominated by large institutions, many of which recently have run into difficult situations due to the recessionary environment. During this time period we have been able to attract talent from such large commercial banks. That talent has brought with it significant business relationships. We have been able to see a larger number of strong companies that have been caught in a retrenchment by their existing large institution. We anticipate this environment remaining for some period of time.

We have in the past increased growth through acquisitions of financial institutions and branches of other financial institutions, and will continue to pursue growth through acquisitions that are, or are expected to be within a reasonable time frame, accretive to earnings, as well as evaluating the feasibility of opening additional branches. We have in the past opened new branches. We plan to continue to seek and review potential acquisition opportunities that complement our current business, are consistent with our strategy to build a bank that is focused on the unique personal and small business banking needs of the multi-ethnic communities we serve.

Manage Interest Rate Risk and Capital. We seek to manage our interest rate risk by actively reviewing the repricing and maturities of our interest rate sensitive assets and liabilities. The mix of loans we originate (fixed or ARM) is determined in large part by borrowers' preferences and prevailing market conditions. We seek to manage the interest rate risk of our loan portfolio by actively managing our security portfolio and borrowings. By adjusting the mix of fixed and adjustable rate securities, as well as the maturities of the securities, we have the ability to manage the combined interest rate sensitivity of our assets. Additionally, we seek to balance the interest rate sensitivity of our assets by managing the maturities of our liabilities. The Bank faces several minimum capital requirements imposed by federal regulation. These requirements limit the dividends the Bank is allowed to pay, including the payment of dividends to Flushing Financial Corporation, and can limit the annual growth of the Bank.

Manage Enterprise-Wide Risk. We identify measure and attempt to mitigate risks that affect, or have the potential to affect, our business. Due to the economic crisis and resulting increase in government regulation, there is greater demand for us to devote significant resources to risk management. In April 2010, a seasoned risk officer was hired to provide executive risk leadership, and an enterprise-wide risk management program was implemented. Several enterprise risk management analytical products have been implemented which include key risk indicators. Our management of enterprise-wide risk enables us to recognize and monitor risks and establish procedures to disseminate the risk information across our organization and to our Board of Directors. The objective is to have a robust and focused risk management process capable of identifying and mitigating emerging threats to the Bank's safety and soundness.

Trends and Contingencies. Our operating results are significantly affected by national and local economic and competitive conditions, including changes in market interest rates, the strength of the local economy, government policies and actions of regulatory authorities. As short-term interest rates declined from 2008 through 2014, we remained strategically focused on the origination of multi-family residential mortgages and to a lesser extent, commercial real estate and one-to-four family mixed-use property mortgage loans. However, recently we have increased our emphasis on the origination and purchase of business loans with full banking relationships and commercial real estate loans. As a result of this strategy, we were able to continue to achieve a higher yield on our mortgage portfolio than we would have otherwise experienced.

The New York City metropolitan area, our primary market for lending, was generally considered to be in a recession from December 2007 through the middle of 2009. In the New York City metropolitan area, building permits for one-to-four family residential properties, multi-family residential properties, and commercial properties all declined over this time period to historically low levels. Building permits issued in the New York metropolitan area have increased over the past several years. The home price index for the New York City metropolitan area declined from the beginning of 2007 to the end of 2012 by approximately 23.7%, but has increased 7.0% from 2012 through 2014. The value of multi-family and commercial properties showed similar price movements.

Building permits for one-to-four family residential properties, multi-family residential properties, and commercial properties all declined over this time period to historically low levels. This resulted in increased unemployment and declining property values. The majority of our impaired loans are income producing residential properties located in the New York City metropolitan market. Due to the low vacancy rates for these types of properties, they have retained more of their value, thereby reducing their loss content. While the national and local economies have improved since the middle of 2010, improvements in unemployment have lagged until recently when the unemployment rate decreased to 6.3% at December 2014 from 7.5% at December 2013, for the New York City region, according to the New York State Department of Labor. This slow improvement in the unemployment rate has resulted in the balance of our non-performing loans remaining at an elevated level, although non-performing loans declined in 2014, 2013 and 2012. Non-performing loans totaled $34.2 million, $49.0 million and $89.8 million at December 31, 2014, 2013 and 2012, respectively. While non-performing loans have remained elevated, we have not experienced a significant increase in foreclosed properties despite an extended foreclosure process in our market. The extended foreclosure process in our market is due to the high number of foreclosure actions filed in the court system in the counties for which we are seeking foreclosure on delinquent mortgage loans. We have not encountered significant issues with documentation relating to mortgages for which we are seeking foreclosure as we maintain custody of all loan documents and review them prior to providing them to our legal counsel to initiate the foreclosure action. The deterioration in the economy also resulted in an increase in net charge-offs from impaired loans, although improvement was seen in 2014 and 2013. Net charge-offs totaled $0.7 million, $13.3 million and $20.2 million for the years ended December 31, 2014, 2013 and 2012, respectively. This improvement in net charge-offs allowed us to reduce the provision for loan losses to a benefit of $6.0 million for the year ended December 31, 2014, compared to a provision expense of $13.9 million and $21.0 million for the years ended December 31, 2013, and 2012, respectively. We cannot predict the effect of these economic conditions on the Company’s future financial condition or operating results.

In addition, in response to the economic conditions in our market combined with the increase in non-performing loans, we began tightening our 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.

Since 2008, we have reduced our focus on commercial real estate and one-to-four family mixed-use residential property mortgage loans, which represented $300.6 million, or 50%, of our mortgage loan originations and purchases in 2008 compared to $229.9 million, or 24%, in 2014. In addition to reducing our focus on commercial real estate lending, during that period we further reduced our origination of smaller commercial real estate properties. Recently, however, we have cautiously increased our focus on larger commercial real estate properties. We also reduced our focus on construction lending, which we reduced from $30.7 million in advances on existing loans in 2008 to $0.9 million in advances on existing loans in 2014, and new construction loan approvals from $27.2 million in 2008 to $0.7 million in 2014. We reduced our focus on these types of loans due to changes in market conditions, increasing delinquencies and losses incurred on delinquent loans associated with these types of loans.

We also shifted our focus in multi-family lending to larger properties. Our review of delinquent multi-family mortgage loans revealed that the majority of our delinquent multi-family mortgage loans were on smaller properties with fewer rental units. We concluded that the more units a property had to rent, the less likely vacancies would cause a disruption in the property's cash flow.

While we primarily rely on originating our own loans, we purchased $169.9 million of loans in 2014 compared to $10.2 million in 2013 and $3.5 million in 2012. We purchase loans when the loans complement our loan portfolio strategy. Loans purchased must meet our underwriting standards when they were originated.

The economic conditions we have experienced since the end of 2007 reduced loan demand from 2008 through 2012 in our market. In addition, the tightening of our underwriting standards and the shift in our lending focus also contributed to total loan originations and purchases remaining below pre-recession levels. Loan originations returned back to pre-recession levels in 2013, and in 2014 were a record $958.2 million, an increase of $122.2 million, or 14.6%, from $836.0 million in 2013.

During the three year period ended December 31, 2014, the allocation of our loan portfolio has remained fairly consistent. The majority of our loans are collateralized by real estate, which comprised 87.4% of our portfolio at December 31, 2014 compared to 88.5% at December 31, 2013 and 90.2% at December 31, 2012. Multi-family residential mortgage loans comprised 50.6%, 50.0% and 47.6% of our loan portfolio at December 31, 2014, 2013 and 2012, respectively. Commercial real estate mortgage loans comprised 16.4%, 15.0% and 16.0% of our loan portfolio at December 31, 2014, 2013 and 2012, respectively. One-to-four family mixed-use property mortgage loans comprised 15.1%, 17.4% and 19.8% of loan portfolio at December 31, 2014, 2013 and 2012, respectively. One-to-four family residential mortgage loans comprised 4.9%, 5.7% and 6.2% of loan portfolio at December 31, 2014, 2013 and 2012, respectively.

Due to depositors increased $272.9 million and $217.3 million in 2014 and 2013, respectively, compared to a decrease of $133.8 million in 2012. Lower-costing core deposits increased $88.1 million, $349.6 million and $142.1 million in 2014, 2013 and 2012, respectively. Higher-costing certificates of deposit increased $184.9 million during 2014, compared to decreases of $132.3 million and $275.9 million during 2013 and 2012, respectively. Brokered deposits represented 21.8%, 16.0% and 17.3% of total deposits at December 31, 2014, 2013 and 2012, respectively.

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

During the year ended December 31, 2014, we extended the term of 15 business loans totaling $30.8 million and 49 mortgage loans totaling $49.2 million, which we did not consider as non-performing loans nor troubled debt restructured. Each of these loans was extended in accordance with our lending policies, which required the loans to be fully underwritten, and that each of the borrowers is current as to payments. None of these borrowers was experiencing financial difficulties, and none received a below market interest rate or other favorable terms at the time the loans were extended. Therefore, we did not consider these loans to be troubled debt restructured.

We attempt to pursue the guarantor on all loans for which a loss has been incurred and for which a guarantee was obtained, when, after considering the benefits and costs, we have concluded we will be successful in recovering at least a portion of the loss we incurred. The success of this pursuit is based on the assets the guarantor holds when we obtain a judgment.

During 2014, we sought performance under guarantees on one business loan, seeking judgment of approximately $45,000. As of December 31, 2014, we had not received any recoveries on this business loan. However, during the year ended December 31, 2014, we realized recoveries of approximately $180,000 on business loans and $50,000 on real estate mortgage loans for which we sought judgments prior to 2014. During 2013, we sought performance under guarantees on 11 business loans, seeking judgments in excess of $2.8 million, and six real estate mortgage loans, seeking judgments in excess of $1.1 million. As of December 31, 2013, we had realized recoveries of less than $0.1 million on one business loan, and had not received any recoveries on the mortgage loans. In addition, during the year ended December 31, 2013, we realized recoveries of approximately $0.1 million on business loans and $0.1 million on real estate mortgage loans for which we sought judgments prior to 2013.

During 2014 our net interest margin declined 26 basis points to 3.11% for the year ended December 31, 2014 from 3.37% for the comparable period in 2013. This decrease in the net interest margin resulted in a $3.3 million decrease in net interest income to $142.4 million for the year ended December 31, 2014 from $145.7 million in 2013. The decrease in the net interest margin for 2014 was primarily due to a decline in the yield of our interest-earning assets, partially offset by a reduction in our funding costs. The decline in the yield of our interest earning assets was primarily due to rates earned on new loans originated and securities purchased during 2014 being lower than the yield of the existing portfolio. During 2014, the average balance of total loans and total securities increased $263.2 million and $4.3 million, respectively, to $3,521.9 million and $1,020.0 million, respectively. During 2014, the average balance of borrowed funds increased by $40.6 million to $993.8 million compared to $953.2 million for 2013, while the cost of borrowed funds increased 10 basis points to 2.49% for the year ended December 31, 2014 from 2.39% in the comparable period in 2013. The increase in the cost of borrowed funds was primarily due to a $5.2 million prepayment penalty incurred from prepaying $66.9 million in long-term FHLB-NY advances at an average cost of 2.98% and $30.0 million in repurchase agreements at an average cost of 4.98% during the year ended December 31, 2014, partially offset by a $2.6 million prepayment penalty, resulting from the prepayment of $69.9 million in FHLB-NY advances at an average cost of 3.21% in 2013. The cost of certificates of deposit and NOW accounts decreased 19 basis points and seven basis points, respectively, for the twelve months ended December 31, 2014 from the prior year, while the cost of money market accounts and savings accounts increased 11 basis points and four basis points, respectively, for the twelve months ended December 31, 2014 from the prior year. The cost of money market accounts increased primarily due to our shifting Government NOW deposits to Insured Cash Sweep service ("ICS") brokeredmoney market product, which does not require us to provide collateral. This is expected to allow us to invest our funds in higher yielding assets. The cost of savings accounts increased as we increased the rate we pay on savings accounts on our internet branch to attract additional deposits. This resulted in a decrease in the cost of due to depositors of 12 basis points to 0.97% for the twelve months ended December 31, 2014 from 1.09% for the twelve months ended December 31, 2013. As a result of these changes to our funding mix, and a favorable interest rate environment, we were able to reduce our cost of interest-bearing liabilities eight basis points to 1.32% for the year ended December 31, 2014 from 1.40% for the year ended December 31, 2013.

We are unable to predict the direction of future interest rate changes. Approximately 28% of our certificates of deposit accounts and borrowings reprice or mature during the next year, which could result in a decrease in the cost of our interest-bearing liabilities. Also, in a decreasing interest rate environment, mortgage loans and mortgage-backed securities with higher rates tend to prepay, which could result in a reduction in the yield on our interest-earning assets.

Interest Rate Sensitivity Analysis

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

The table below sets forth the amounts of interest-earning assets and interest-bearing liabilities outstanding at December 31, 2014 which are anticipated by the Company, based upon certain assumptions, to reprice or mature in each of the future time periods shown. Except as stated below, the amount of assets and liabilities shown that reprice or mature during a particular period was determined in accordance with the earlier of the term to repricing or the contractual terms of the asset or liability. Prepayment assumptions for mortgage loans and mortgage-backed securities are based on our experience and industry averages, which generally range from 6% to 42%, depending on the contractual rate of interest and the underlying collateral. Money market accounts and savings accounts were assumed to have a withdrawal or “run-off” rate of 8% and 13%, respectively, based on our experience. While management bases these assumptions on actual prepayments and withdrawals experienced by us, there is no guarantee that these trends will continue in the future.

	Interest Rate Sensitivity Gap Analysis at December 31, 2014						
	Three Months And Less	More Than Three Months To One Year	More Than One Year To Three Years	More Than Three Years To Five Years	More Than Five Years To Ten Years	More Than Ten Years	Total
				(Dollars in thousands)			
Interest-Earning Assets							
Mortgage loans	$300,805	$ 588,023	$ 1,214,707	$ 858,326	$ 343,199	$ 16,441	$3,321,501
Other loans	119,073	114,782	118,519	63,342	49,141	12,296	477,153
Short-term securities (1)	22,977	-	-	-	-	-	22,977
Securities available for sale:							-
Mortgage-backed securities	30,036	69,945	193,727	138,394	189,696	83,135	704,933
Other	86,298	15,251	-	5,365	18,794	142,669	268,377
Total interest-earning assets	559,189	788,001	1,526,953	1,065,427	600,830	254,541	4,794,941
Interest-Bearing Liabilities							
Savings accounts	8,513	25,539	68,104	68,104	91,682	-	261,942
NOW accounts	-	-	-	-	-	1,248,057	1,248,057
Money market accounts	5,805	17,415	46,440	46,440	116,100	58,063	290,263
Certificate of deposit accounts	154,076	301,220	499,770	325,306	25,451	-	1,305,823
Mortgagors' escrow deposits	-	-	-	-	-	35,679	35,679
Borrowings	88,771	125,551	697,372	104,798	40,000	-	1,056,492