FLUSHING FINANCIAL CORP
Form 10-K
March 13, 2017

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, 2016

Commission file number **001-33013**

FLUSHING FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

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

220 RXR Plaza, Uniondale, New York 11556

(Address of principal executive offices)

(718) 961-5400

(Registrant’s telephone number, including area code)

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

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. [ ]

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, 2016, 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 $542,576,000. 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 $19.88.

The number of shares of the registrant's Common Stock outstanding as of February 28, 2017 was 28,810,855 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Company's definitive Proxy Statement for the Annual Meeting of Stockholders to be held on May 31, 2017 are incorporated herein by reference in Part III.

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CAUTIONARY NOTE REGARDING FORWARD LOOKING STATEMENTS

Statements contained in this Annual Report on Form 10-K (this “Annual Report”) relating to plans, strategies, economic performance and trends, projections of results of specific activities or investments and other statements that are not descriptions of historical facts may be forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking information is inherently subject to risks and uncertainties, and actual results could differ materially from those currently anticipated due to a number of factors, which include, but are not limited to, factors discussed under the captions “Business — General — Allowance for Loan Losses” and “Business — General — Market Area and Competition” in Item 1 below, “Risk Factors” in Item 1A below, in “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Overview” in Item 7 below, and elsewhere in this Annual Report and in other documents filed by the Company with the Securities and Exchange Commission from time to time. Forward-looking statements may be identified by terms such as “may,” “will,” “should,” “could,” “expects,” “plans,” “intends,” “anticipates,” “believes,” “estimates,” “predicts,” “fore 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 Bank was organized in 1929 as a New York State-chartered mutual savings bank. In 1994, the Bank converted to a federally chartered mutual savings bank and changed its name from Flushing Savings Bank to Flushing Savings Bank, FSB. The 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, 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, 2016, the Company had total assets of $6.1 billion, deposits of $4.2 billion and stockholders' equity of $513.9 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, 2016, we had gross loans outstanding of $4,819.1 million (before the allowance for loan losses and net deferred costs), with gross mortgage loans totaling $4,187.8 million, or 86.9% of gross loans, and non-mortgage loans totaling $631.3 million, or 13.1% of gross loans. Mortgage loans are primarily multi-family, commercial and one-to-four family mixed-use properties, which totaled 82.6% 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, other securities and to a lesser extent proceeds from sales of securities and loans. The Bank's primary regulator is the New York State Department of Financial Services ("NYDFS") (formerly, the New York State Banking Department), and its primary federal regulator is the Federal Deposit Insurance Corporation ("FDIC"). Deposits are insured to the maximum allowable amount by the FDIC. Additionally, the Bank is a member of the Federal Home Loan Bank ("FHLB") system.

Our operating results are significantly affected by national and local economic conditions, including the strength of the local economy. The unemployment rate was 5.2% at December 2016 and 2015, for the New York City region, according to the New York Department of Labor. In this economic environment, we saw improvements in our non-performing loans. Non-performing loans totaled $21.4 million, $26.1 million and $34.2 million at December 31, 2016, 2015 and 2014, respectively. Foreclosed properties decreased by 89.2% to $0.5 million at December 31, 2016 from $4.9 million at December 31, 2015. Additionally, net charge-offs of impaired loans decreased in 2016 to a recovery of $0.7 million from net charge-offs of $2.6 million for the year ended December 31, 2015, as we continue to maintain conservative underwriting standards to reduce risk.

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 last 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 which focuses on the development of a full complement of commercial business deposit, loan and cash management products. As of December 31, 2016 and 2015, the business banking unit had $613.0 million and $525.3 million, respectively, in gross loans outstanding and $144.4 million and $146.3 million, respectively, 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. Currently iGObanking.com® does not accept loan applications. As of December 31, 2016 and 2015, iGObanking.com® had $417.3 million and $323.7 million, respectively, of customer deposits.

The Bank has a governmental banking unit, which provides 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. At December 31, 2016 and 2015, the government banking unit had $1,062.1 million and $975.9 million, respectively, in customer deposits.

Market Area and Competition

We are a community oriented financial institution offering a wide variety of financial services to meet the needs of the communities we serve. The Bank's main office is in Uniondale, New York, located in Nassau County. At December 31, 2016, the Bank operated out of 19 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 Uniondale in Nassau County, New York. Substantially all of our mortgage loans are secured by properties located in the New York City metropolitan area.

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

Our market area has a high density of financial institutions, many of which have greater financial resources, name recognition and market presence, and all of which are competitors to varying degrees. Particularly intense competition exists for deposits, as we compete with 115 banks and thrifts in the counties in which we have branch locations. Our market share of deposits, as of June 30, 2016, in these counties was approximately 0.33% of the total deposits of these FDIC insured 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 and other consumer loans. Substantially all of our mortgage loans are secured by properties located within our market area. At December 31, 2016, we had gross loans outstanding of $4,819.1 million (before the allowance for loan losses and net deferred costs).

In recent years we have focused our mortgage loan origination efforts on multi-family residential mortgage loans, although starting in 2014 we 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.

Fully underwritten one-to-four family residential mortgage loans generally are considered by the banking industry to have less risk than other types of loans. Multi-family residential, commercial real estate and one-to-four family mixed-use property mortgage loans generally have higher yields than one-to-four family residential property mortgage loans and shorter terms to maturity, but typically involve higher principal amounts and may expose the lender to a greater risk of credit loss than one-to-four family residential property mortgage loans. The greater risk associated with multi-family residential, commercial real estate and one-to-four family mixed-use property mortgage loans could require us to increase our provisions for loan losses and to maintain an allowance for loan losses as a percentage of total loans in excess of the allowance we currently maintain. We continually review the composition of our mortgage loan portfolio to manage the risk in the portfolio. See "General – Overview" in this Item 1 of this Annual Report. To date, we have not experienced significant losses in our multi-family residential, commercial real estate and one-to-four family mixed-use property mortgage loan portfolios.

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

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

At December 31, 2016, we had $11.5 million in construction loans outstanding. We obtain a first lien position on the underlying collateral, and generally obtain 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.

The business banking unit focuses on loan and deposit relationships to businesses located within our market area. These loans are generally personally guaranteed by the owners, and may be secured by the assets of the business, 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.

At times, 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, 2016		2015		2014		2013	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total	Amount	Perc of To
	(Dollars in thousands)							
Mortgage Loans:								
Multi-family residential	$2,178,504	45.21 %	$2,055,228	46.98 %	$1,923,460	50.64 %	$1,712,039	50.0
Commercial real estate	1,246,132	25.86	1,001,236	22.90	621,569	16.36	512,552	14.9
One-to-four family - mixed-use property	558,502	11.59	573,043	13.11	573,779	15.10	595,751	17.4
One-to-four family - residential (1)	185,767	3.85	187,838	4.30	187,572	4.94	193,726	5.66
Co-operative apartment (2)	7,418	0.15	8,285	0.19	9,835	0.26	10,137	0.30
Construction	11,495	0.24	7,284	0.17	5,286	0.14	4,247	0.12
Gross mortgage loans	4,187,818	86.90	3,832,914	87.65	3,321,501	87.44	3,028,452	88.4
Non-mortgage loans:								
Small Business Administration	15,198	0.32	12,194	0.28	7,134	0.19	7,792	0.23
Taxi medallion	18,996	0.39	20,881	0.48	22,519	0.59	13,123	0.38
Commercial business and other	597,122	12.39	506,622	11.59	447,500	11.78	373,641	10.9
Gross non-mortgage loans	631,316	13.10	539,697	12.35	477,153	12.56	394,556	11.5
Gross loans	4,819,134	100.00%	4,372,611	100.00%	3,798,654	100.00%	3,423,008	100
Unearned loan fees and deferred costs, net	16,559		15,368		11,719		11,170	
Less: Allowance for loan losses	(22,229)		(21,535)		(25,096)		(31,776)	
Loans, net	$4,813,464		$4,366,444		$3,785,277		$3,402,402	

(1) One-to-four family residential mortgage loans also include home equity and condominium loans. At December 31, 2016, gross home equity loans totaled $52.4 million and condominium loans totaled $22.7 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)	2016	2015	2014
Mortgage Loans			
At beginning of year	$3,832,914	$3,321,501	$3,028,452
Mortgage loans originated:			
Multi-family residential	245,175	205,393	314,148
Commercial real estate	296,620	376,036	165,054
One-to-four family mixed-use property	62,735	68,295	50,070
One-to-four family residential	24,820	40,831	24,727
Co-operative apartment	470	1,625	170
Construction	15,772	4,999	1,566
Total mortgage loans originated	645,592	697,179	555,735
Mortgage loans purchased:			
Multi-family residential	126,022	168,450	106,830
Commercial real estate	26,101	76,053	14,794
Total mortgage loans purchased	152,123	244,503	121,624
Less:			
Principal reductions	434,587	416,101	363,206
Loans transferred to loans held for sale	-	300	-
Mortgage loan sales	7,259	11,057	12,871
Charge-offs	419	1,440	1,780
Mortgage loan foreclosures	546	1,371	6,453
At end of year	$4,187,818	$3,832,914	$3,321,501
Non-mortgage loans			
At beginning of year	$539,697	$477,153	$394,556
Loans originated:			
Small Business Administration	8,447	11,261	1,611
Commercial business	290,444	243,316	227,904
Other	1,738	2,777	3,056
Total other loans originated	300,629	257,354	232,571
Non-mortgage loans purchased:			
Taxi Medallion	-	-	14,431
Commercial business	34,594	34,425	33,805
Total non-mortgage loans purchased	34,594	34,425	48,236

Less:			
Non-mortgage loan sales	3,211	3,935	4
Loans transferred to loans held for sale	-	-	1,150
Principal reductions	239,653	222,895	196,394
Charge-offs	740	2,405	662
At end of year	$631,316	$539,697	$477,153

Loan Maturity and Repricing. The following table shows the maturity of our total loan portfolio at December 31, 2016. 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	Co bu an
Amounts due within one year	$206,074	$176,764	$38,803	$7,756	$251	$7,799	$2,176	$12,055	$1
Amounts due after one year:									
One to two years	184,443	132,153	28,609	7,170	260	3,696	1,463	4,235	7
Two to three years	181,955	113,596	27,404	7,048	260	-	1,309	2,706	6
Three to five years	179,895	106,904	27,268	7,128	260	-	1,151	-	5
Over five years	1,426,137	716,715	436,418	156,665	6,387	-	9,099	-	2
Total due after one year	1,972,430	1,069,368	519,699	178,011	7,167	3,696	13,022	6,941	4
Total amounts due	$2,178,504	$1,246,132	$558,502	$185,767	$7,418	$11,495	$15,198	$18,996	$5
Sensitivity of loans to changes in interest rates - loans due after one year:									
Fixed rate loans	$354,707	$86,742	$87,321	$31,701	$858	$-	$3,828	$6,357	$1
Adjustable rate loans	1,617,723	982,626	432,378	146,310	6,309	3,696	9,194	584	2
Total loans due after one year	$1,972,430	$1,069,368	$519,699	$178,011	$7,167	$3,696	$13,022	$6,941	$4

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Multi-Family Residential Lending. Loans secured by multi-family residential properties were $2,178.5 million, or 45.21% of gross loans at December 31, 2016. Our multi-family residential mortgage loans had an average principal balance of $1.0 million at December 31, 2016, and the largest multi-family residential mortgage loan held in our portfolio had a principal balance of $28.0 million. We offer both fixed-rate and adjustable-rate multi-family residential mortgage loans, with maturities of up to 30 years.

In underwriting multi-family residential mortgage loans, we review the expected net operating income generated by the real estate collateral securing the loan, the age and condition of the collateral, the financial resources and income level of the borrower and the borrower's experience in owning or managing similar properties. We typically require debt service coverage of at least 125% of the monthly loan payment. 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, 2016, $1,792.9 million, or 82.30%, of our multi-family mortgage loans consisted of ARM loans. We offer ARM loans with adjustment periods typically of five years and for terms of up to 30 years. Interest rates on ARM loans currently offered by us are adjusted at the beginning of each adjustment period based upon a fixed spread above the FHLB-NY corresponding Regular Advance Rate. From time to time, due to competitive forces, we may originate ARM loans at an initial rate lower than the fully indexed rate as a result of a discount on the spread for the initial adjustment period. Multi-family adjustable-rate mortgage loans generally are not subject to limitations on interest rate increases either on an adjustment period or aggregate basis over the life of the loan; however, the loans generally contain interest rate floors. We originated and purchased multi-family ARM loans totaling $330.6 million, $339.5 million and $398.9 million during 2016, 2015 and 2014, respectively.

At December 31, 2016, $385.7 million, or 17.70%, 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 $40.6 million, $34.3 million and $22.1 million of fixed-rate multi-family mortgage loans in 2016, 2015 and 2014, respectively.

Commercial Real Estate Lending. Loans secured by commercial real estate were $1,246.1 million, or 25.86% of gross loans, at December 31, 2016. Our commercial real estate mortgage loans are secured by properties such as office buildings, hotels/motels, nursing homes, small business facilities, strip shopping centers and warehouses. At December 31, 2016, our commercial real estate mortgage loans had an average principal balance of $1.8 million and the largest of such loans, which was secured by seven multi-tenant shopping centers, had a principal balance of $42.7 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 residential mortgage loans.

At December 31, 2016, $1,132.5 million, or 90.88%, of our commercial mortgage loans consisted of ARM loans. We offer ARM loans with adjustment periods of one to five years and generally for terms of up to 15 years. Interest rates on ARM loans currently offered by us are adjusted at the beginning of each adjustment period based upon a fixed spread above the FHLB-NY corresponding Regular Advance Rate. From time to time, we may originate ARM loans at an initial rate lower than the index as a result of a discount on the spread for the initial adjustment period. Commercial adjustable-rate mortgage loans generally are not subject to limitations on interest rate increases either on an adjustment period or aggregate basis over the life of the loan; however, the loans generally contain interest rate floors. We originated and purchased commercial ARM loans totaling $293.9 million, $441.1 million and $169.6 million during 2016, 2015 and 2014, respectively.

At December 31, 2016, $113.6 million, or 9.12%, 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 $28.8 million, $11.0 million and $10.2 million of fixed-rate commercial mortgage loans in 2016, 2015 and 2014, 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 $1.0 million. 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 $558.5 million, or 11.59% of gross loans, at December 31, 2016.

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, 2016, $452.6 million, or 81.03%, of our one-to-four family mixed-use property mortgage loans consisted of ARM loans. We offer adjustable-rate one-to-four family mixed-use property mortgage loans with adjustment periods typically of five years and for terms of up to 30 years. Interest rates on ARM loans currently offered by the Bank are adjusted at the beginning of each adjustment period based upon a fixed spread above the FHLB-NY corresponding Regular Advance Rate. From time to time, we may originate ARM loans at an initial rate lower than the index as a result of a discount on the spread for the initial adjustment period. One-to-four family mixed-use property adjustable-rate mortgage loans generally are not subject to limitations on interest rate increases either on an adjustment period or aggregate basis over the life of the loan; however, the loans generally contain interest rate floors. We originated and purchased one-to-four family mixed-use property ARM loans totaling $72.4 million, $54.6 million and $39.4 million during 2016, 2015 and 2014, respectively.

At December 31, 2016, $105.9 million, or 18.97%, 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 $15.6 million, $13.7 million and $10.7 million of fixed-rate one-to-four family mixed-use property mortgage loans in 2016, 2015 and 2014, respectively.

One-to-Four Family Mortgage Lending – Residential Properties. We offer mortgage loans secured by one-to-four family residential properties, including townhouses and condominium units. For purposes of the description contained in this section, one-to-four family residential mortgage loans, co-operative apartment loans and home equity loans are collectively referred to herein as “residential mortgage loans.” We offer both fixed-rate and adjustable-rate residential mortgage loans with maturities of up to 30 years and a general maximum loan amount of $1.0 million. Loan originations generally result from applications received from mortgage brokers and mortgage bankers, existing or past customers, and referrals. Residential mortgage loans were $193.2 million, or 4.00% of gross loans, at December 31, 2016.

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 or 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 2009, the underwriting standards for home equity loans were modified to discontinue originating home equity lines of credit without verifying the borrower’s income. 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 $9.0 million and $9.9 million outstanding of one-to four family residential mortgage loans originated to individuals based on stated income and verifiable assets at December 31, 2016 and 2015, respectively. We had $38.6 million and $41.4 million advanced on home equity lines of credit for which we did not verify the borrowers’ income at December 31, 2016 and 2015, respectively.

At December 31, 2016, $151.0 million, or 81.29%, of our residential mortgage loans consisted of ARM loans. We offer ARM loans with adjustment periods of one, three, five, seven or ten years. Interest rates on ARM loans currently offered by us are adjusted at the beginning of each adjustment period based upon a fixed spread above the FHLB-NY corresponding Regular Advance Rate. From time to time, we may originate ARM loans at an initial rate lower than the index as a result of a discount on the spread for the initial adjustment period. ARM loans generally are subject to limitations on interest rate increases of 2% per adjustment period and an aggregate adjustment of 6% over the life of the loan and have interest rate floors. We originated and purchased adjustable rate residential mortgage loans totaling $24.3 million, $39.2 million and $21.0 million during 2016, 2015 and 2014, 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, 2016, $34.8 million, or 18.71%, 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 $0.9 million, $3.3 million and $3.9 million in 15-year fixed-rate residential mortgages in 2016, 2015 and 2014, respectively. We did not originate or purchase any 30-year fixed-rate residential mortgages in 2016, 2015 and 2014.

At December 31, 2016, home equity loans totaled $52.4 million, or 1.09%, 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, 2016, construction loans totaled $11.5 million, or 0.24%, 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 $15.8 million, $5.0 million and $1.6 million during 2016, 2015 and 2014, respectively.

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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, 2016, SBA loans totaled $15.2 million, representing 0.32%, 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 $8.4 million, $11.3 million and $1.6 million of SBA loans during 2016, 2015 and 2014, respectively.

Taxi Medallion. At December 31, 2016, taxi medallion loans consisted of loans made to New York City and Chicago taxi medallion owners, which are secured by liens on the taxi medallions, totaling $19.0 million, or 0.39%, of gross loans. In 2015, we decided to no longer originate or purchase taxi medallion loans. Therefore, we did not originate or purchase any taxi medallion loans in 2016 or 2015, but originated and purchased $14.4 million during 2014.

Commercial Business and Other Lending. At December 31, 2016, commercial business and other loans totaled $597.1 million, or 12.39%, 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, 2016, $409.7 million, or 68.61%, of our commercial business loans consisted of adjustable rate loans. We generally offer adjustable rate loans with adjustment periods of five years for owner occupied mortgages and for lines of credit the adjustment period is generally monthly. Interest rates on adjustable rate loans currently offered by us are adjusted at the beginning of each adjustment period based upon a fixed spread above the FHLB-NY corresponding Regular Advance Rate for owner occupied mortgages and a fixed spread above the London Interbank Offered Rate (“LIBOR”) or Prime Rate for lines of credit. Commercial business adjustable-rate loans generally are not subject to limitations on interest rate increases either on an adjustment period or aggregate basis over the life of the loan, however they generally are subject to interest rate floors.

At December 31, 2016, $187.4 million, or 31.39%, 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 $1.7 million, $2.8 million and $3.1 million of other loans during 2016, 2015 and 2014, 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. 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 the appropriate Loan Committee.

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

In accordance with our Business Credit Policy all business and SBA loans up to $2.5 million must be approved by the Business Loan Committee and ratified by the Management Loan Committee. Business and SBA loans in excess of $2.5 million up to $5.0 million must be approved by the Management Loan Committee and ratified by the Loan Committee. Commercial business and other loans require two signatures from the Business Loan Committee for approval.

Our Construction Loan Policy requires construction loans up to and including $1.0 million must be approved by the Senior Executive Vice President, Chief of Real Estate Lending and the Executive Vice President of Commercial Real Estate, and ratified by the Management Loan Committee or the Director's Loan Committee. Such loans in excess of $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 Director's 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 $91.1 million at December 31, 2016. 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, 2016, 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 $74.0 million, $60.0 million and $54.5 million for each of the three borrowers, respectively.

Loan Servicing. At December 31, 2016, we were servicing $1.3 million of mortgage loans and $13.1 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 TDR. At December 31, 2016, we had $17.8 million of loans classified as TDR, with $17.4 million of these loans performing according to their restructured terms and $0.4 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, 2016, there were two loans, which totaled $0.4 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. There can be no assurances that we will continue this strategy in future periods, or if continued, we will be able to find buyers to pay adequate consideration.

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

	For the years ended December 31,		
(Dollars in thousands)	2016	2015	2014
Count	26	23	34
Proceeds	$7,965	$8,986	$15,857
Net recoveries	48	134	357
Gross gains	265	71	67
Gross losses	-	2	-

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, 2016, we held $742.6 million of loans that were serviced by others.

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

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

These restructured loans are classified 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)	2016	2015	2014	2013	2012
Multi-family residential	$2,572	$2,626	$3,035	$3,087	$2,347
Commercial real estate	2,062	2,371	2,373	2,407	7,190
One-to-four family mixed-use property	1,800	2,052	2,381	2,692	2,336
One-to-four family residential	591	343	354	364	374
Construction	-	-	-	746	3,805
Small Business Administration	-	34	-	-	-
Taxi medallion	9,735	-	-	-	-
Commercial business and other	675	2,083	2,249	4,406	3,849
Total performing troubled debt restructured	$17,435	$9,509	$10,392	$13,702	$19,901

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, 2016 and 2015, there was one loan for $0.4 million which was restructured as TDR which was not performing in accordance with its restructured terms.

Delinquent Loans and Non-performing Assets. We generally discontinue accruing interest on delinquent loans when a loan is 90 days past due 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, 2016, 2015 and 2014, the amounts of additional interest income that would have been recorded on non-accrual loans, had they been current, totaled $1.5 million, $1.7 million and $2.1 million, respectively. These amounts were not included in our interest income for the respective periods.

	At December 31,				
(Dollars in thousands)	2016	2015	2014	2013	2012
Loans 90 days or more past due and still accruing:					
Multi-family residential	$-	$233	$676	$52	$-
Commercial real estate	-	1,183	820	-	-
One-to-four family mixed-use property	386	611	405	-	-
One-to-four family - residential	-	13	14	15	-
Construction	-	1,000	-	-	-
Commercial Business and other	-	220	386	539	644
Total	386	3,260	2,301	606	644
Non-accrual mortgage loans:					
Multi-family residential	1,837	3,561	6,878	13,682	16,486
Commercial real estate	1,148	2,398	5,689	9,962	15,640
One-to-four family mixed-use property	4,025	5,952	6,936	9,063	18,280
One-to-four family residential	8,241	10,120	11,244	13,250	13,726
Co-operative apartments	-	-	-	57	234
Construction	-	-	-	-	7,695
Total	15,251	22,031	30,747	46,014	72,061
Non-accrual non-mortgage loans:					
Small Business Administration	1,886	218	-	-	283
Taxi Medallion	3,825	-	-	-	-
Commercial Business and other	68	568	1,143	2,348	16,860
Total	5,779	786	1,143	2,348	17,143
Total non-accrual loans	21,030	22,817	31,890	48,362	89,204
Total non-performing loans	21,416	26,077	34,191	48,968	89,848
Other non-performing assets:					
Real Estate Owned	533	4,932	6,326	2,985	5,278
Investment securities	-	-	-	1,871	3,332
Total	533	4,932	6,326	4,856	8,610
Total non-performing assets	$21,949	$31,009	$40,517	$53,824	$98,458
Non-performing loans to gross loans	0.44 %	0.60 %	0.90 %	1.43 %	2.79 %
Non-performing assets to total assets	0.36 %	0.54 %	0.80 %	1.14 %	2.21 %

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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, 2016		December 31, 2015	
	60 - 89 days	30 - 59 days	60 - 89 days	30 - 59 days
	(In thousands)		(In thousands)	
Multi-family residential	$287	$2,575	$804	$9,422
Commercial real estate	22	3,363	153	2,820
One-to-four family - mixed-use property	762	4,671	1,257	8,630
One-to-four family - residential	-	3,831	154	4,261
Construction loans	-	-	-	-
Small Business Administration	-	13	-	42
Commercial business and other	1	22	2	-
Total	$1,072	$14,475	$2,370	$25,175

Other Real Estate Owned. We aggressively market our Other Real Estate Owned ("OREO") properties. At December 31, 2016, we owned one OREO properties with a fair value of $0.5 million. At December 31, 2015, we owned four OREO properties with a combined fair value of $4.9 million. At December 31, 2014, we owned eight OREO properties with a combined fair value of $6.3 million.

We may obtain physical possession of residential real estate collateralizing a consumer mortgage loan via foreclosure as an in-substance repossession. During the year ended December 31, 2016, we did not foreclose on any consumer mortgages through in-substance repossession. At December 31, 2016, 2015 and 2014, we held foreclosed residential real estate totaling $0.5 million, $0.1 million and $1.3 million, respectively. Included within net loans as of December 31, 2016 was a recorded investment of $11.4 million of consumer mortgage loans secured by residential real estate properties for which formal foreclosure proceedings were in process according to local requirements of the applicable jurisdiction.

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

Classified Assets. Our policy is to review our assets, focusing primarily on the loan portfolio, OREO and the investment portfolios, to ensure that the credit quality is maintained at the highest levels. When weaknesses are identified, immediate action is taken to correct the problem through direct contact with the borrower or issuer. We then monitor these assets, and, in accordance with our policy and current regulatory guidelines, we designate them as “Special Mention,” which is considered a “Criticized Asset,” and “Substandard,” “Doubtful,” or “Loss” which are considered “Classified Assets,” as deemed necessary. These loan designations are updated quarterly. We designate an asset as Substandard when a well-defined weakness is identified that jeopardizes the orderly liquidation of the debt. We designate an asset as Doubtful when it displays the inherent weakness of a Substandard asset with the added provision that collection of the debt in full, on the basis of existing facts, is highly improbable. We designate an asset as Loss if it is deemed the debtor is incapable of repayment. We do not hold any loans designated as loss, as loans that are designated as Loss are charged to the Allowance for Loan Losses. Assets that are non-accrual are designated as Substandard, Doubtful or Loss. We designate an asset as Special Mention if the asset does not warrant designation within one of the other categories, but does contain a potential weakness that deserves closer attention. Our total Criticized and Classified assets were $72.6 million at December 31, 2016, an increase of $17.8 million from $54.8 million at December 31, 2015. The increase in criticized and classified assets was primarily due to an increase in special mention and substandard taxi medallion loans and special mention commercial business and other loans.

The following table sets forth the Bank's Criticized and Classified assets at December 31, 2016:

(In thousands)	Special Mention	Substandard	Doubtful	Loss	Total
Loans:					
Multi-family residential	$ 7,133	$ 3,351	$ -	$ -	$ 10,484
Commercial real estate	2,941	4,489	-	-	7,430
One-to-four family - mixed-use property	4,197	7,009	-	-	11,206
One-to-four family - residential	1,205	9,399	-	-	10,604
Construction loans	-	-	-	-	-
Small Business Administration	540	436	-	-	976
Taxi medallion	2,715	16,228	54	-	18,997
Commercial business and other	9,924	2,493	-	-	12,417
Total loans	28,655	43,405	54	-	72,114
Other Real Estate Owned	-	533	-	-	533
Total	$ 28,655	$ 43,938	$ 54	$ -	$ 72,647

The following table sets forth the Bank's Criticized and Classified assets at December 31, 2015:

(In thousands)	Special Mention	Substandard	Doubtful	Loss	Total
Loans:					
Multi-family residential	$ 4,361	$ 5,421	$ -	$ -	$ 9,782
Commercial real estate	1,821	3,812	-	-	5,633
One-to-four family - mixed-use property	3,087	10,990	-	-	14,077
One-to-four family - residential	1,437	12,255	-	-	13,692
Construction loans	-	1,000	-	-	1,000
Small Business Administration	229	224	-	-	453
Taxi medallion	-	2,118	-	-	2,118
Commercial business and other	-	3,123	-	-	3,123
Total loans	10,935	38,943	-	-	49,878
Other Real Estate Owned	-	4,932	-	-	4,932
Total	$ 10,935	$ 43,875	$ -	$ -	$ 54,810

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, except for taxi medallion loans. The fair value of the underlying collateral of taxi medallion loans is the most recent reported arm's length transaction. The balance which exceeds fair value is generally charged-off against the allowance for loan losses. At December 31, 2016, the current loan-to-value ratio on our collateral dependent loans reviewed for impairment was 48.15%.

Allowance for Loan Losses

We have established and maintain on our books an allowance for loan losses (“ALL”) that is designed to provide a reserve against estimated losses inherent in our overall loan portfolio. The allowance is established through a provision for loan losses based on management’s evaluation of the risk inherent in the various components of the loan portfolio and other factors, including historical loan loss experience (which is updated quarterly), current economic conditions, delinquency and non-accrual trends, classified loan levels, risk in the portfolio and volumes and trends in loan types, recent trends in charge-offs, changes in underwriting standards, experience, ability and depth of our lenders, collection policies and experience, internal loan review function and other external factors. Additionally, we segregated our loans into two portfolios based on year of origination. One portfolio is loans originated after December 31, 2009 and the second portfolio 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 fair value of the underlying collateral of taxi medallion loans is the value of the underlying medallion based upon the most recently reported arm’s length transaction. When there is no recent sale activity, the fair value is calculated using capitalization rates. In addition, taxi medallion loans with a loan-to-value greater than 100% are classified as impaired and allocated a portion of the reserve in the amount of the excess of the loan-to-value over the loan’s principal balance. The balance which exceeds fair value is generally charged-off, except for taxi medallion loans. The 85% is based on the actual net proceeds the Bank has received from the sale of OREO as a percentage of OREO’s appraised value. 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. Non-performing loans totaled $21.4 million and $26.1 million at December 31, 2016 and 2015, 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, 2016, the outstanding principal balance of our impaired mortgage loans was approximately 39% of the estimated current value of the supporting collateral, after considering the charge-offs that have been recorded. We incurred total net recoveries (charge-offs) of $0.7 million and ($2.6) million during the years ended December 31, 2016 and 2015, respectively. The improvement in non-performing loans allowed us to not record a provision for the year ended December 31, 2016 and record a benefit in the provision for loan losses of $1.0 million and $6.0 million for the years ended December 31, 2015 and 2014, respectively. Management has concluded, and the Board of Directors has concurred, that at December 31, 2016, 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.

During the year ended December 31, 2106, the portion of the ALL related to the loss history declined. Charge-offs recorded in the past twelve quarters have decreased as credit conditions have improved. The percentage of loans originated prior to 2009, compared to the total loan portfolio, is decreasing as scheduled amortization and repayments have occurred. These reductions in the ALL were partially offset by an additional allocation to our taxi medallion portfolio coupled with an increase in the outstanding loan balances. 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, 2016, the total allowance for loan losses was $22.2 million, representing 103.80% of non-performing loans and 101.28% of non-performing assets, compared to 82.58% of non-performing loans and 69.45% of non-performing assets at December 31, 2015. 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, 2016, multi-family residential, commercial real estate, construction and one-to-four family mixed-use property mortgage loans, totaled 82.9% 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)	2016	2015	2014	2013	2012
Balance at beginning of year	$21,535	$25,096	$31,776	$31,104	$30,344
Provision (benefit) for loan losses	-	(956)	(6,021)	13,935	21,000
Loans charged-off:					
Multi-family residential	(161)	(474)	(1,161)	(3,585)	(6,016)
Commercial real estate	-	(32)	(325)	(1,051)	(2,746)
One-to-four family mixed-use property	(144)	(592)	(423)	(4,206)	(4,286)
One-to-four family residential	(114)	(342)	(103)	(701)	(1,583)
Co-operative apartment	-	-	-	(108)	(62)
Construction	-	-	-	(2,678)	(4,591)
SBA	(529)	(34)	(49)	(457)	(324)
Taxi Medallion	(142)	-	-	-	-
Commercial business and other loans	(69)	(2,371)	(381)	(2,057)	(1,661)
Total loans charged-off	(1,159)	(3,845)	(2,442)	(14,843)	(21,269)
Recoveries:					
Mortgage loans	1,493	888	1,515	1,407	838
SBA, commercial business and other loans	360	352	268	173	191
Total recoveries	1,853	1,240	1,783	1,580	1,029
Net recoveries (charge-offs)	694	(2,605)	(659)	(13,263)	(20,240)
Balance at end of year	$22,229	$21,535	$25,096	$31,776	$31,104
Ratio of net (recoveries) charge-offs during the year to average loans outstanding during the year	-0.02 %	0.06 %	0.02 %	0.41 %	0.64 %
Ratio of allowance for loan losses to gross loans at end of the year	0.46 %	0.49 %	0.66 %	0.93 %	0.97 %
Ratio of allowance for loan losses to non-performing loans at the end of the year	103.80 %	82.58 %	73.40 %	64.89 %	34.62 %
Ratio of allowance for loan losses to non-performing assets at the end of the year	101.28 %	69.45 %	61.94 %	59.04 %	31.59 %

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, 2016		2015		2014		2013		2012
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
	(Dollars in thousands)								
Mortgage loans:									
Multi-family residential	$5,923	45.21 %	$6,718	46.98 %	$8,827	50.64 %	$12,084	50.02 %	$13,001
Commercial real estate	4,487	25.86	4,239	22.90	4,202	16.36	4,959	14.97	5,705
One-to-four family mixed-use property	2,903	11.59	4,227	13.11	5,840	15.10	6,328	17.40	5,960
One-to-four family residential	1,015	3.85	1,227	4.30	1,690	4.94	2,079	5.66	1,999
Co-operative apartment	-	0.15	-	0.19	-	0.26	104	0.30	46
Construction	92	0.24	50	0.17	42	0.14	444	0.12	66
Gross mortgage loans	14,420	86.90	16,461	87.65	20,601	87.44	25,998	88.47	26,777
Non-mortgage loans:									
Small Business Administration	481	0.32	262	0.28	279	0.19	458	0.23	505
Taxi Medallion	2,243	0.39	343	0.48	11	0.59	-	0.38	7
Commercial business and other	4,492	12.39	4,469	11.59	4,205	11.78	5,320	10.92	3,815
Gross non-mortgage loans	7,216	13.10	5,074	12.35	4,495	12.56	5,778	11.53	4,327
Unallocated	593	-	-	-	-	-	-	-	-
Total loans	$22,229	100.00%	$21,535	100.00%	$25,096	100.00%	$31,776	100.00%	$31,104

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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, corporate bonds and collateralized loan obligations (“CLO”). We did not hold any issues of foreign sovereign debt at December 31, 2016 and 2015.

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

We classify our investment securities as available for sale when management intends to hold the securities for an indefinite period of time or when the securities may be utilized for tactical asset/liability purposes and may be sold from time to time to effectively manage interest rate exposure and resultant prepayment risk and liquidity needs. Securities are classified as held-to-maturity when management intends to hold the securities until maturity. We carry some of our investments under the fair value option. Unrealized gains and losses for investments carried under the fair value option are included in our Consolidated Statements of Income. Unrealized gains and losses on securities available for sale, other than unrealized credit losses considered other than temporary, are excluded from earnings and included in accumulated other comprehensive loss (a separate component of equity), net of taxes. Securities held-to-maturity are carried at their cost basis. At December 31, 2016, we had $861.4 million in securities available for sale and $37.7 million in securities held-to-maturity, which together represented 14.83% of total assets. These securities had an aggregate market value at December 31, 2016 that was approximately 1.7 times the amount of our equity at that date.

There were no credit related OTTI charges recorded during the years ended December 31, 2016, 2015 and 2014. 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 18 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 18 of Notes to Consolidated Financial Statements, included in Item 8 of this Annual Report.)

	At December 31,					
	2016		2015		2014	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(In thousands)					
Securities held-to-maturity						
Bonds and other debt securities:						
Municipal securities	$37,735	$35,408	$6,180	$6,180	$-	$-
Total bonds and other debt securities	37,735	35,408	6,180	6,180	-	-
Securities available for sale						
Bonds and other debt securities:						
Municipal securities	124,984	126,903	127,696	131,583	145,864	148,896
Corporate debentures	110,000	102,910	115,976	111,674	90,719	91,273
Collateralized loan obligations	85,470	86,365	53,225	52,898	-	-
Total bonds and other debt securities	320,454	316,178	296,897	296,155	236,583	240,169
Mutual funds	21,366	21,366	21,290	21,290	21,118	21,118
Equity securities:						
Common stock	1,019	1,019	871	871	864	864
Preferred stock	6,344	6,342	6,343	6,341	6,234	6,226
Total equity securities	7,363	7,361	7,214	7,212	7,098	7,090
Mortgage-backed securities:						
REMIC and CMO	402,636	401,370	469,987	469,936	504,207	505,768
GNMA	1,319	1,427	11,635	11,798	13,862	14,159
FNMA	109,493	108,351	170,327	170,057	169,956	170,367
FHLMC	5,378	5,328	16,961	16,949	14,505	14,639
Total mortgage-backed securities	518,826	516,476	668,910	668,740	702,530	704,933
Total securities available for sale	868,009	861,381	994,311	993,397	967,329	973,310
Interest-earning deposits and Federal funds sold	25,771	25,771	32,825	32,825	22,977	22,977
Total	$931,515	$922,560	$1,033,316	$1,032,402	$990,306	$996,287

Mortgage-backed securities. At December 31, 2016, we had $516.5 million invested in mortgage-backed securities, of which $2.8 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,		
	2016	2015	2014
	(In thousands)		
Balance at beginning of year	$668,740	$704,933	$756,156
Purchases of mortgage-backed securities	90,572	169,383	125,897
Amortization of unearned premium, net of accretion of unearned discount	(2,086)	(2,747)	(2,699)
Net change in unrealized gains on mortgage-backed securities available for sale	(2,180)	(2,573)	11,117
Net realized gains (losses) recorded on mortgage-backed securities carried at fair value	(33)	77	84
Net change in interest due on securities carried at fair value	-	(6)	(8)
Sales of mortgage-backed securities	(126,045)	(103,100)	(85,021)
Principal repayments received on mortgage-backed securities	(112,492)	(97,227)	(100,593)
Net decrease in mortgage-backed securities	(152,264)	(36,193)	(51,223)
Balance at end of year	$516,476	$668,740	$704,933

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

The table below sets forth certain information regarding the amortized cost, fair value, annualized weighted average yields and maturities of our investment in debt and equity securities and interest-earning deposits at December 31, 2016. The stratification of balances is based on stated maturities. Assumptions for repayments and prepayments are not reflected for mortgage-backed securities. Securities available for sale are carried at their fair value in the consolidated financial statements and securities held-to-maturity are carried at their amortized cost.

	One year or Less		One to Five Years		Five to Ten Years		More than Ten Years		Total Secu	
	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Average Remainin Years to Maturity	A C
	(Dollars in thousands)									
Securities held-to-maturity										
Bonds and other debt securities:										
Municipal securities	$15,870	1.04%	$-	- %	$-	- %	$21,865	3.27%	15.41	$
Total bonds and other debt securities	15,870	1.04	-	-	-	-	21,865	3.27	15.41	
Securities available for sale										
Bonds and other debt securities:										
Municipal securities	$-	- %	$1,781	4.86%	$19,430	4.52%	$103,773	4.72%	14.76	$
Corporate debentures	-	-	-	-	55,000	2.89	55,000	4.05	9.17	
CLO	-	-	-	-	36,919	2.87	48,551	3.18	10.02	
Total bonds and other debt securities	-	-	1,781	4.86	111,349	3.17	207,324	4.18	11.58	
Mutual funds	21,366	1.84	-	-	-	-	-	-	N/A	
Equity securities:										
Common stock	-	-	-	-	-	-	1,019	4.28	N/A	
Preferred stock	-	-	-	-	-	-	6,344	6.95	N/A	
Total equity securities	-	-	-	-	-	-	7,363	6.58	N/A	
Mortgage-backed securities:										
REMIC and CMO	-	-	5,073	4.22	7,891	2.99	389,672	2.85	27.31	
GNMA	-	-	-	-	-	-	1,319	5.90	18.44	
FNMA	4	6.00	9,915	3.65	26,268	2.44	73,306	2.89	14.76	
FHLMC	-	-	65	6.41	1,195	4.27	4,118	3.33	23.55	
Total mortgage-backed securities	4	6.00	15,053	3.85	35,354	2.62	468,415	2.87	24.60	
Interest-earning deposits	25,771	0.75	-	-	-	-	-	-	N/A	
Total	$63,011	1.19%	$16,834	3.96%	$146,703	3.04%	$704,967	3.31%	20.32	$

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Sources of Funds

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

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

In addition to our full-service offices we 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, 2016 and 2015, total deposits for iGObanking.com® were $417.3 million and $323.7 million, respectively.

We have a government banking division, which prior to the Merger in 2013 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, 2016 and 2015, total deposits in our government banking division totaled $1,062.1 million and $975.9 million, respectively.

Our core deposits, consisting of savings accounts, NOW accounts, money market accounts, and non-interest bearing demand accounts, are typically more stable and lower costing than other sources of funding. However, the flow of deposits into a particular type of account is influenced significantly by general economic conditions, changes in prevailing interest rates, and competition. We experienced an increase in our due to depositors' during 2016 of $309.7 million. During the year ended December 31, 2016, the cost of our interest-bearing due to depositors' accounts increased one basis point to 0.89% from 0.88% for the year ended December 31, 2015. This increase in the cost of deposits was primarily due to increases in the cost of money market, NOW and savings accounts of 21 basis points, seven basis points and four basis points, respectively, partially offset by a decrease of nine basis points in the cost of certificates of deposit. The increase in the cost of money market accounts was primarily due to our shifting of Government NOW deposits to a money market product which does not require us to provide collateral, allowing us to invest these funds in higher yielding assets. The cost of NOW and savings accounts increased as we increased the rate we pay on some of our products to attract additional deposits. The decrease in the cost of certificates of deposit was primarily due to maturing issuances being replaced at lower rates. While we are unable to predict the direction of future interest rate changes, if interest rates rise during 2017, 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 2017, we could see a decline in our cost of deposits, which could increase our net interest margin.

Included in deposits are certificates of deposit with balances of $100,000 or more (excluding brokered deposits issued in $1,000 amounts under a master certificate of deposit) totaling $648.1 million, $484.7 million and $403.1 million at December 31, 2016, 2015 and 2014, 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, we place a portion of our government deposits in an ICS brokered money market product which does not require us to provide collateral. This allows us to invest our funds in higher yielding assets. At December 31, 2016 and 2015 the Bank held government ICS deposits totaling $539.0 million and $210.7 million, respectively.

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.

Traditional brokered deposits and funds obtained through the CDARS® and ICS networks are classified as brokered deposits for financial reporting purposes. At December 31, 2016, we had $1,114.9 million classified as brokered deposits, with $458.8 million in brokered certificates of deposit, $655.0 million in brokered money market accounts and $1.1 million in brokered checking accounts. The brokered certificates of deposit include $28.8 million obtained through the CDARS® network and the brokered money market accounts include $539.0 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, 2016			2015			2014		
	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	$254,283	6.05 %	0.48 %	$261,748	6.72 %	0.45 %	$261,942	7.47 %	0.38 %
NOW accounts (9)	1,362,484	32.40	0.59	1,448,695	37.22	0.49	1,359,057	38.74	0.45
Demand accounts (10)	333,163	7.92	-	269,469	6.92	-	255,834	7.29	-
Mortgagors' escrow deposits	40,216	0.96	0.22	36,844	0.95	0.17	35,679	1.02	0.09
Total	1,990,146	47.32	0.47	2,016,756	51.81	0.42	1,912,512	54.51	0.37
Money market accounts (8)	843,370	20.05	0.67	472,489	12.14	0.46	290,263	8.27	0.32
Certificate of deposit accounts with original maturities of:									
Less than 6 Months (2)	31,432	0.75	0.64	19,615	0.50	0.40	7,059	0.20	0.10
6 to less than 12 Months (3)	53,222	1.27	0.99	21,962	0.56	0.41	82,966	2.36	0.80
12 to less than 30 Months (4)	588,751	14.00	1.18	496,343	12.75	1.08	275,828	7.86	0.89
30 to less than 48 Months (5)	281,454	6.69	1.26	316,475	8.13	1.20	198,290	5.65	1.08
48 to less than 72 Months (6)	369,630	8.79	1.83	461,843	11.86	1.73	622,908	17.75	2.06
72 Months or more (7)	47,626	1.13	2.86	87,064	2.24	2.77	118,772	3.39	2.88
Total certificate of deposit accounts	1,372,115	32.63	1.41	1,403,302	36.05	1.41	1,305,823	37.22	1.65
Total deposits (1)	$4,205,631	100.00%	0.82 %	$3,892,547	100.00%	0.78 %	$3,508,598	100.00%	0.84 %

(1) Included in the above balances are IRA and Keogh deposits totaling $69.3 million, $71.5 million and $91.0 million at December 31, 2016, 2015 and 2014, respectively.
(2) Includes brokered deposits of $29.1 million, $5.0 million and $3.0 million at December 31, 2016, 2015 and 2014, respectively.
(3) Includes brokered deposits of $0.8 million and $5.7 million at December 31, 2015 and 2014, respectively, and zero at December 31, 2016.
(4) Includes brokered deposits of $84.0 million, $168.2 million and $85.9 million at December 31, 2016, 2015 and 2014, respectively.
(5) Includes brokered deposits of $229.5 million, $244.6 million and $145.2 million at December 31, 2016, 2015 and 2014, respectively.
(6) Includes brokered deposits of $113.0 million, $165.6 million and $271.4 million at December 31, 2016, 2015 and 2014, respectively.
(7) Includes brokered deposits of $3.1 million, $41.0 million and $72.4 million at December 31, 2016, 2015 and 2014, respectively.
(8) Includes brokered deposits of $655.0 million, $339.8 million and $180.2 million at December 31, 2016, 2015 and 2014, respectively.
(9) Includes brokered deposits of $15.0 million at December 31, 2015, and zero at December 31, 2016 and 2014.
(10) Includes brokered deposits of $1.1 million and $2.8 million at December 31, 2016 and 2015, respectively.

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, 2016.

		At December 31,			At December 31, 2016		
					Within	One to	
		2016	2015	2014	One Year	Three Years	Thereafter
		(In thousands)					
Interest rate:							
1.99% or less	(1)	$1,107,882	$1,074,229	$817,100	$631,816	$447,776	$28,290
2.00% to 2.99%	(2)	237,122	279,688	301,445	12,516	200,078	24,528
3.00% to 3.99%	(3)	27,111	49,385	184,172	4	1,940	25,167
Total		$1,372,115	$1,403,302	$1,302,717	$644,336	$649,794	$77,985

(1) Includes brokered deposits of $442.4 million, $542.3 million and $435.3 million at December 31, 2016, 2015 and 2014, respectively.
(2) Includes brokered deposits of $16.4 million, $59.9 million and $83.1 million at December 31, 2016, 2015 and 2014, respectively.
(3) Includes brokered deposits of $23.0 million and $65.3 million at December 31, 2015 and 2014, 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, 2016 and their annualized weighted average interest rates.

	Amount	Weighted Average Rate
	(Dollars in thousands)	
Maturity Period:		
Three months or less	$159,371	1.16 %
Over three through six months	66,237	1.20
Over six through 12 months	47,632	1.37
Over 12 months	374,858	1.59
Total	$648,098	1.43 %

The above table does not include brokered deposits issued in $1,000 amounts under a master certificate of deposit totaling $393.5 million with a weighted average rate of 1.30%.

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

	For the year ended December 31,		
	2016	2015	2014
	(In thousands)		
Net deposits	$278,793	$352,602	$244,830
Amortization of premiums, net	747	1,012	944
Interest on deposits	33,350	30,336	30,044
Net increase in deposits	$312,890	$383,950	$275,818

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, 2016			2015			2014		
	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	$260,948	6.35 %	0.47 %	$264,891	7.10 %	0.43 %	$258,243	7.70 %	0.23 %
NOW accounts	1,496,712	36.41	0.53	1,432,609	38.38	0.46	1,390,899	41.47	0.45
Demand accounts	305,096	7.42	-	250,488	6.71	-	211,389	6.30	-
Mortgagors' escrow deposits	56,152	1.37	0.20	52,364	1.40	0.19	47,876	1.43	0.28
Total	2,118,908	51.55	0.44	2,000,352	53.59	0.39	1,908,407	56.90	0.37
Money market accounts	581,390	14.15	0.62	380,595	10.20	0.41	245,752	7.33	0.27
Certificate of deposit accounts	1,409,772	34.30	1.46	1,351,619	36.21	1.55	1,199,849	35.77	1.87
Total deposits	$4,110,070	100.00%	0.81 %	$3,732,566	100.00%	0.81 %	$3,354,008	100.00%	0.90 %

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. During the year ended December 31, 2016, the Holding Company issued subordinated debt with an aggregated principal amount of $75.0 million, receiving net proceeds totaling $73.4 million. The subordinated debt was issued at 5.25% fixed-to-floating rate maturing in 2026. The debt is callable at par quarterly through its maturity date beginning December 15, 2021.

The average cost of borrowings was 1.67%, 1.76% and 2.49% for the years ended December 31, 2016, 2015 and 2014, respectively. The average balances of borrowings were $1,231,0 million, $1,104.4 million and $993.8 million for the same years, respectively.

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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,					
	2016		2015		2014	
	(Dollars in thousands)					
Securities Sold with the Agreement to Repurchase (1)						
Average balance outstanding	$64,087		$116,000		$137,824	
Maximum amount outstanding at any month end during the period	116,000		116,000		155,300	
Balance outstanding at the end of period	-		116,000		116,000	
Weighted average interest rate during the period	3.26	%	3.22	%	3.40	%
Weighted average interest rate at end of period	n/a		3.18		3.18	
FHLB-NY Advances (1)						
Average balance outstanding	$1,123,411		$947,370		$826,132	
Maximum amount outstanding at any month end during the period	1,337,265		1,106,658		936,813	
Balance outstanding at the end of period	1,159,190		1,106,658		911,721	
Weighted average interest rate during the period	1.46	%	1.48	%	1.60	%
Weighted average interest rate at end of period	1.17		1.40		1.44	
Other Borrowings						
Average balance outstanding	$43,516		$40,998		$29,834	
Maximum amount outstanding at any month end during the period	107,373		89,479		30,352	
Balance outstanding at the end of period	107,373		49,018		28,771	
Weighted average interest rate during the period	4.76	%	4.02	%	5.30	%
Weighted average interest rate at end of period	5.02		2.56		5.96	
Total Borrowings (1)						
Average balance outstanding	$1,231,014		$1,104,368		$993,790	
Maximum amount outstanding at any month end during the period	1,560,639		1,312,137		1,112,201	
Balance outstanding at the end of period	1,266,563		1,271,676		1,056,492	
Weighted average interest rate during the period	1.67	%	1.76	%	1.96	%
Weighted average interest rate at end of period	1.53		1.61		1.75	

(1) The “weighted average interest rate during the period” for the year ended December 31, 2014, excludes prepayment penalties on borrowings incurred from the extinguishment of debt to conform to the presentation for the year ended December 31, 2016. These penalties are reflected in non-interest expense.

Subsidiary Activities

At December 31, 2016, 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, and the remaining property disposed. 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, 2016, we had 447 full-time employees and 23 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, 2016, there were 489,320 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 was, 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 ¾ 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. New York State recently enacted several reforms (the "Tax Reform Package") to its tax structure, including changes to the franchise, sales, estate and personal income taxes. These changes generally became effective for tax years beginning on or after January 1, 2015. The Tax Reform Package simplified the existing corporate tax code for New York State businesses while remaining relatively neutral in relation to corporate tax receipts. Under the Tax Reform Package, the New York State corporate income tax rate was reduced, effective January 1, 2016, from 7.10% to 6.50%. The metropolitan commuter transportation district surcharge ("MTA Tax") increased to 28% of the surcharge base for tax years beginning on or after January 1, 2016. The MTA Tax rate for tax years beginning on or after January 1, 2017 will be adjusted based upon future Metropolitan Transit Authority budget projections.

Some of the most significant elements of the Tax Reform Package include the merger of the bank franchise tax regime into the general corporate franchise tax regime, expanded application of economic nexus, adoption of unitary reporting, and apportionment of source income solely by reference to customer location.

New York State formerly had imposed a franchise tax on general business corporations and a separate franchise tax on banking corporations. Under these statutes, New York State financial service companies and banks were previously taxed under different regimes. The Tax Reform Package repealed the prior bank franchise taxation regime and merged it into the corporate franchise tax regime. It also made certain subtraction modifications to the corporate franchise tax regime, most notably by providing a choice between three potential financial tax subtraction modifications: (i) a subtraction modification equal to 32% of New York State's entire net income available to all thrifts and community banks with assets that do not exceed $8 billion, provided certain residential lending tests are met; (ii) a subtraction modification, available to both small thrifts and community banks with assets that do not exceed $8 billion, based upon 50% of the net interest income from loans multiplied by the fraction of interest received from loans secured by real estate located in New York State or small business loans made to New York State borrowers with a principal amount of $5 million or less divided by total interest income from all loans; and (iii) both small thrifts and community banks with assets that do not exceed $8 billion that owned a captive real estate investment trust as of April 1, 2014, may, for tax years beginning on or after January 1, 2015, subtract 160% of dividends received from the trust in determining New York State taxable income.

The Tax Reform Package requires that all firms meeting an ownership test of 50% or more be deemed a unitary business and required to file a combined tax return. Substantial intercompany transactions are eliminated, and a domestic corporation without any assets or customers in New York State, but engaged in a unitary business with a related New York taxpayer, could become part of the New York State unitary group. The Tax Reform Package also requires business income to be apportioned to and taxed by New York State using a single receipts factor based on the customer's location. These provisions also contain favorable apportionment rules for asset-backed securities that are beneficial to the Company.

The Company is subject to New York City franchise tax on a consolidated basis. New York City tax law generally was conformed to New York State tax law with provisions similar to those described above for York State purposes, with only a few minor differences. For tax years beginning on or after January 1, 2015, the New York City income tax rate applied to the Company apportioned New York City taxable income was and is 8.85%.

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

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

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

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

On February 3, 2017, however, President Trump signed an executive order requiring a comprehensive review of financial system regulations, including the Dodd-Frank Act. President Trump has promised other significant changes to financial system regulations. Nonetheless, changes to these regulations are expected to be politically controversial and may be slow and unpredictable in enactment and effect. It is too early to predict when or what, if any, existing regulations affecting us will be repealed or amended and what if any new regulations affecting us will be adopted, leaving the bank regulatory environment particularly uncertain at present. Further, there can be no assurance as to the impact that any laws, regulations or governmental programs that may be introduced or implemented in the future will have on the financial markets and the economy.

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 included numerous revisions to the existing capital regulations, including, but not limited to, the following:

- Revised the definition of regulatory capital components and related calculations.
- Added a new common equity tier 1 capital ratio.
- Increased the minimum tier 1 capital ratio requirement from four percent to six percent.
- Incorporated the revised regulatory capital requirements into the Prompt Corrective Action framework.
- Implemented 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.
- Provided 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.
- Increased capital requirements for past-due loans, high volatility commercial real estate exposures, and certain short-term loan commitments.
- Removed references to credit ratings consistent with Section 939A of the Dodd-Frank Act.
- Established due diligence requirements for securitization exposures.

The capital regulations became effective January 1, 2015 for bank holding companies and banks with less than $15 billion in total assets, such as our Company and Bank. We continue to be considered well-capitalized under Basel III.

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 financial industry has strongly opposed the Volcker Rule, which remains controversial and the subject of continuing debate. Further, as noted above, President Trump has indicated an intention to review many financial industry regulations. In this regard, in January 2017, the Treasury Secretary, Steven Mnuchin, publicly stated the intention that the regulatory impact of the Volcker Rule be loosened. At this time, it is too early to know whether any changes will be proposed or implemented or what impact any changes may have on the Bank or the Company.

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, 2016 and 2015, 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, 2016, the Bank’s largest aggregate amount of loans to one borrower was $74.0 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.

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

Governance: The regulation requires senior management and boards of directors must adopt a cybersecurity policy for protecting information systems and most sensitive information. Covered companies must also designate a Chief Information Security Officer, who must report to the board annually. The cybersecurity policy must be in place, and the security officer designated, by August 28, 2017.

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

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

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

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

FDIC Regulations

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

These guidelines divide an institution’s capital into two tiers. The first tier (“Tier 1”) includes common equity, retained earnings, certain non-cumulative perpetual preferred stock (excluding auction rate issues), and minority interests in equity accounts of consolidated subsidiaries, less goodwill and other intangible assets (except mortgage servicing rights and purchased credit card relationships subject to certain limitations). Supplementary (“Tier 2”) capital includes, among other items, cumulative perpetual and long-term limited-life preferred stock, mandatorily convertible securities, certain hybrid capital instruments, term subordinated debt, and the 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 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, 2016, 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 common equity Tier 1 capital ratio of 6.5%, a minimum Tier 1 risk-based capital ratio of 8%, and a minimum total risk-based capital ratio of 10%. For a summary of the regulatory capital ratios of the Bank at December 31, 2016, 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 8% or greater, a common equity Tier 1 risk-based capital ratio of 6.5% and a leverage capital ratio of 5% or greater, and is not subject to a regulatory order, agreement, or directive to meet and maintain a specific capital level for any capital measure. An institution is deemed to be “adequately capitalized” if it has a total risk-based capital ratio of 8% or greater, a Tier 1 risk-based capital ratio of 6% or greater, a common equity Tier 1 risk-based capital ratio of 4.5% or greater and a leverage capital ratio of 4% or greater. An institution is deemed to be “undercapitalized” if it has a total risk-based capital ratio of less than 8%, a Tier 1 risk-based capital ratio of less than 6%, a common equity Tier 1 risk-based capital ratio of less than 4.5% or a leverage capital ratio of less than 4%. An institution is deemed to be “significantly undercapitalized” if it has a total risk-based capital ratio of less than 6%, a Tier 1 risk-based capital ratio of less than 4% a common equity Tier 1 risk-based capital ratio of less than 3.0%, 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 Dodd-Frank Act made permanent the standard maximum amount of FDIC deposit insurance at $250,000 per depositor. In addition, the deposits of the Bank are insured up to applicable limits by the DIF. In this regard, insured depository institutions are required to pay quarterly deposit insurance assessments to the DIF. Assessments are based on average total assets minus average tangible equity. The assessment rate is determined through a risk-based system. For depository institutions with less than $10 billion in assets, such as the Bank, under the FDIC’s risk-based assessment system, insured institutions 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. The initial base assessment rate currently ranges from five to 35 basis points on an annualized basis. The initial base assessment rate is then decreased depending on the institution's ratio of long-term unsecured debt to its assessment base (with such decrease not to exceed the lesser of five basis points or 50% of the initial base assessment rate) and, for institutions not in the highest risk category, increased if the institution's brokered deposits are more than ten percent of its domestic deposits (with such increase not to exceed ten basis points). The current total base assessment rate is therefore from 2.5 to 45 basis points on an annualized basis.

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.

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 $297,000, $278,000 and $267,000 for their share of the interest due on FICO bonds in 2016, 2015 and 2014, respectively, which is included in FDIC insurance expense. These payments, which generally approximate 10% of the Bank's annual FDIC insurance payments, will continue until those bonds mature through

2019.

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, 2016, the Bank had $1,114.9 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 16, 2015. 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 11 regional FHLBs comprising the FHLB system. Each regional FHLB manages its customer relationships, while the 11 FHLBs use its combined size and strength to obtain its necessary funding at the lowest possible cost. As a member of the FHLB-NY, the Bank is required to acquire and hold shares of FHLB-NY capital stock. Pursuant to this requirement, at December 31, 2016, the Bank was required to maintain $59.2 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, 2016, the Company's consolidated capital exceeded these requirements. The Dodd-Frank Act required the FRB to issue consolidated regulatory capital requirements for bank holding companies that are at least as stringent as those applicable to insured depository institutions. Such regulations eliminated the use of certain instruments, such as cumulative preferred stock and trust preferred securities, as Tier 1 holding company capital.

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

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

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

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

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

Acquisition of the Holding Company

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

Consumer Financial Protection Bureau

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

Mortgage Banking and Related Consumer Protection Regulations

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

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

Deposit operations also are subject to:

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

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

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

Available Information

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

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

Item 1A. Risk Factors.

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

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

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

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

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

At December 31, 2016, our gross loan portfolio was $4,819.1 million, of which 86.9% was mortgage loans secured by real estate. The majority of these real estate loans were secured by multi-family residential property ($2,178.5 million), commercial real estate ($1,246.1 million) and one-to-four family mixed-use property ($558.5 million), which combined represent 82.7% 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, 2016, we had $9.0 million outstanding of one-to-four family residential properties originated to individuals based on stated income and verifiable assets, and $36.6 million advanced on home equity lines of credit for which we did not verify the borrower's income. The total loans for which we did not verify the borrower's income at December 31, 2016 was $45.6 million, or 0.9% 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 iGObanking.com®, brokered deposits, and borrowed funds, primarily wholesale borrowing from the FHLB-NY. Funds are also provided by the repayment and sale of securities and loans. Our ability to obtain funds are influenced by many external factors, including but not limited to, local and national economic conditions, the direction of interest rates and competition for deposits in the markets we serve. Additionally, changes in the FHLB-NY underwriting guidelines may limit or restrict our ability to borrow. A decline in available funding caused by any of the above factors or could adversely impact our ability to originate loans, invest in securities, meet our expenses, or fulfill our obligations such as repaying our borrowings or meeting deposit withdrawal demands.

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

We utilize brokered deposits as an additional funding source and to assist in the management of our interest rate risk. The Bank had $1,114.9 million, or 26.5% of total deposits, and $982.8 million, or 25.2% of total deposits, in brokered deposit accounts at December 31, 2016 and 2015, 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, we place a portion of our government deposits in an ICS brokered money market product which does not require us to provide collateral. This allows us to invest our funds in higher yielding assets. The Bank had $655.0 million and $339.8 million in brokered money market accounts at December 31, 2016 and 2015, respectively. The Bank also had $1.1 million and $17.8 million in brokered checking accounts at December 31, 2016 and 2015, 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. Our internet branch, “iGObanking.com®”, a division of the Bank, provides us access to consumers in markets outside our geographic locations. The internet banking arena exposes us to competition with many larger financial institutions that have greater financial resources, name recognition and market presence than we do.

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

Our operating results are affected by national and local economic and competitive conditions, including changes in market interest rates, the strength of the local economy, government policies and actions of regulatory authorities. During the Great Recession, for example, unemployment increased, the housing market in the United States experienced a significant slowdown, and foreclosures rose. Adverse economic conditions can result in borrowers defaulting on their loans, or withdrawing their funds on deposit at the Bank to meet their financial obligations. A decline in the local or national economy or the New York City metropolitan area real estate market could adversely affect our financial condition and results of operations, including through decreased demand for loans or increased competition for good loans, increased non-performing loans and loan losses and resulting additional provisions for loan losses and for losses on real estate owned. Many factors could require additions to the 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 could cause delinquencies to increase for the mortgages which are the collateral for the mortgage-backed securities we hold in our investment portfolio. Combining increased delinquencies with liquidity problems in the market could result in a decline in the market value of our investments in privately issued mortgage-backed securities. There can be no assurance that a decline in the market value of these investments will not result in other-than-temporary impairment charges in our financial statements.

Changes in Laws and Regulations Could Adversely Affect Our Business

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

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

Financial institutions have been the subject of significant legislative and regulatory changes 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.

In particular, as noted above the Dodd-Frank Act has been implemented in significant part. The Dodd-Frank Act imposes a variety of regulations affecting us, including:

- *New Regulators*. The Dodd-Frank Act initiated changes in our regulatory regimes that over time evolved such that we became subject to regulation, supervision and examination by two federal banking agencies, the FDIC and the Federal Reserve. 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. The CFPB has focused its attention on consumers and pursuing enforcement or corrective measures in addition to those imposed by other bank regulatory agencies. In addition to regulatory changes promised by President Trump, he has indicated his intention, facilitated by Congressional support, to reduce the powers and impact of the CFPB. It is too early to predict when or what, if any, powers of the CFPB will be repealed or amended, leaving the CFPB regulatory environment particularly uncertain at present.
- *Consolidated Holding Company Capital Requirements.* The Dodd-Frank Act required 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. The Company is a bank holding company subject to these consolidated capital requirements. Among other things, the new requirements effectively eliminated the use of newly-issued trust preferred securities as a component of Tier 1 Capital for depository institution holding companies of our size.
- *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.

At the New York State level, the Company and the Bank are subject to extensive supervision, regulation and examination by the NYDFS and the FDIC. Such regulation limits the manner in which the Company and Bank conduct business, undertake new investments and activities and obtain financing. This regulation is designed primarily for the protection of the deposit insurance funds and the Bank's depositors, and not to benefit the Bank or its creditors. The regulatory structure also provides the regulatory authorities extensive discretion in connection with their supervisory and enforcement activities and examination policies, including policies with respect to capital levels, the classification of assets and the establishment of adequate loan loss reserves for regulatory purposes. Failure to comply with applicable laws and regulations could subject the Company and Bank to regulatory enforcement action that could result in the assessment of significant civil money penalties against the Company and Bank.

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

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

The FDIC’s Restoration Plan and Related Increased Assessment Rates May Have a Material Effect on Our Results of Operations

In 2016, the FDIC approved a final rule that imposes a surcharge on the quarterly assessments of institutions with total consolidated assets of $10 billion or more to increase the reserve ratio of the DIF from 1.15 percent to 1.35 percent, as required by the Dodd-Frank Act. If this surcharge is insufficient to increase the reserve ratio to 1.35 percent by December 31, 2018, a one-time shortfall assessment will be imposed on institutions with total consolidated assets of $10 billion (small banks) or more on March 31, 2019. The rule also provides assessment credits to institutions with total consolidated assets of less than $10 billion to offset the effect of the increase in the reserve ratio on these institutions, such as us. The final rule also noted that assessment rates for all established small banks will be determined using financial measures and supervisory ratings derived from a statistical model estimating the probability of failure over three years. The new pricing system eliminates risk categories, but establishes minimum and maximum assessment rates for established small banks based on the regulatory safety and soundness rating assigned to the Bank. The final rule is revenue neutral; that is, it leaves aggregate assessment revenue collected from small banks approximately the same as it would have been absent the final rule. Therefore, depending on what circumstances will achieve revenue neutrality and whether new rules applicable to us are adopted, the FDIC’s rulemaking and related new assessment rates may have a material adverse effect on our results of operations.

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.

Section 620 of the Dodd-Frank Act required federal banking agencies to conduct a study and report to Congress on the types of activities and investments permissible for banking entities such as us, the associated risks, and how banking entities mitigate those risks. The report was finalized and delivered in September 2016. Each regulatory agency prepared the section of the report relative to the banking entities that it supervises. Each of the three sections of the report includes a discussion of permissible activities, risk mitigation, legal limitations, and specific recommendations as required by the Dodd-Frank Act. It is too early to determine what if any regulatory new or changed regulatory measures may arise from the report, which adds to the currently uncertain regulatory landscape for us.

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.

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

Governance: The regulation requires senior management and boards of directors must adopt a cybersecurity policy for protecting information systems and most sensitive information. Covered companies must also designate a Chief Information Security Officer, who must report to the board annually. The cybersecurity policy must be in place, and the security officer designated, by August 28, 2017.

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

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

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

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

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

We May Experience Increased Delays in Foreclosure Proceedings

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

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

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

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

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

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

We Are Not Required to Pay Dividends on Our Common Stock

Holders of shares of our common stock are only entitled to receive such dividends as our Board of Directors may declare out of funds legally available for such payments. Although we have historically declared cash dividends on our common stock, we are not required to do so and may reduce or eliminate our common stock dividend in the future. 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, 2016, 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, 2016, we had a deferred tax asset of $34.7 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, 2016, the Bank conducted its business through 19 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.

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, 2016, we had approximately 707 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 $29.39 on December 31, 2016. 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.)

	2016			2015		
	High	Low	Dividend	High	Low	Dividend
First Quarter	$22.32	$19.02	$ 0.17	$20.75	$17.99	$ 0.16
Second Quarter	21.72	18.95	0.17	22.00	18.77	0.16
Third Quarter	23.78	19.22	0.17	22.00	19.08	0.16
Fourth Quarter	29.90	20.95	0.17	23.07	19.01	0.16

The following table sets forth information regarding the shares of common stock repurchased by us during the quarter ended December 31, 2016:

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, 2016	20,303	$ 21.47	20,303	500,602
November 1 to November 30, 2016	4,697	21.76	4,697	495,905
December 1 to December 31, 2016	-	-	-	495,905
Total	25,000	$ 21.52	25,000	

On June 16, 2015, 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, 2016 and 2015, the Company repurchased 403,695 shares and 735,599 shares, respectively, of the Company's common stock at an average cost of $19.89 per share and $19.51 per share, respectively. At December 31, 2016, 495,905 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, 2016:

	(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	5,600	$ 9.61	489,320
Equity compensation plans not approved by security holders	-	-	-
	5,600	$ 9.61	489,320

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Stock Performance Graph

The following graph shows a comparison of cumulative total stockholder return on the Company's common stock since December 31, 2011 with the cumulative total returns of a broad equity market index as well as comparative published industry indices. The broad equity market index chosen was the Nasdaq Composite. The comparative published industry indices chosen were the SNL Bank $5 Billion to $10 Billion in Assets Index and the SNL Mid-Atlantic Bank Index. The SNL Mid-Atlantic Bank Index was chosen for inclusion in the Company's Stock Performance Graph because the Company believes it provides valuable comparative information reflecting the Company's geographic peer group. The SNL Bank $5 Billion to $10 Billion in Assets Index was chosen for inclusion in the Company's Stock Performance Graph because it uses a broader group of banks and therefore more closely reflects the Company's size. The Company believes that both geographic area and size are important factors in analyzing the Company's performance against its peers. The graph below reflects historical performance only, which is not indicative of possible future performance of the common stock.

Flushing Financial Corporation

The total return assumes $100 invested on December 31, 2011 and all dividends reinvested through the end of the Company's fiscal year ended December 31, 2016. The performance graph above is based upon closing prices on the trading date specified.

	Period Ending					
Index	12/31/11	12/31/12	12/31/13	12/31/14	12/31/15	12/31/16
Flushing Financial Corporation	100.00	126.07	175.27	176.87	194.93	272.62
NASDAQ Composite	100.00	117.45	164.57	188.84	201.98	219.89
SNL Bank $5 Billion to $10 Billion	100.00	117.63	181.48	186.94	212.96	305.09
SNL Mid-Atlantic Bank	100.00	133.96	180.57	196.72	204.10	259.43

Item 6. Selected Financial Data.

At or for the years ended December 31,	2016	2015	2014	2013	2012
	(Dollars in thousands, except per share data)				
Selected Financial Condition Data					
Total assets	$6,058,487	$5,704,634	$5,077,013	$4,721,501	$4,451,416
Loans, net	4,813,464	4,366,444	3,785,277	3,402,402	3,203,017
Securities held to maturity	37,735	6,180	-	-	-
Securities available for sale	861,381	993,397	973,310	1,017,790	949,566
Deposits	4,205,631	3,892,547	3,508,598	3,232,780	3,015,193
Borrowed funds	1,266,563	1,271,676	1,056,492	1,012,122	948,405
Total stockholders' equity	513,853	473,067	456,247	432,532	442,365
Book value per common share (1)	$17.95	$16.41	$15.52	$14.36	$14.39
Selected Operating Data					
Interest and dividend income	$220,997	$204,146	$197,128	$200,526	$213,714
Interest expense	53,911	49,726	49,554	52,284	63,275
Net interest income	167,086	154,420	147,574	148,242	150,439
Provision (benefit) for loan losses	-	(956)	(6,021)	13,935	21,000
Net interest income after provision for loan losses	167,086	155,376	153,595	134,307	129,439
Non-interest income:					
Net gains on sales of securities and loans	2,108	589	2,942	3,197	69
Net gains on sales of building	48,018	6,537	-	-	-
Other-than-temporary credit impairment charge on securities	-	-	-	(1,419)	(776)
Net (loss) gain from fair value adjustments	(3,434)	(1,841)	(2,568)	(2,521)	55
Other income	10,844	10,434	9,869	10,299	9,717
Total non-interest income	57,536	15,719	10,243	9,556	9,065
Non-interest expense	118,603	97,719	91,026	83,155	82,326
Income before income tax provision	106,019	73,376	72,812	60,708	56,178
Income tax provision	41,103	27,167	28,573	22,956	21,847
Net income	$64,916	$46,209	$44,239	$37,752	$34,331
Basic earnings per common share (2)	$2.24	$1.59	$1.49	$1.26	$1.13
Diluted earnings per common share (2)	$2.24	$1.59	$1.48	$1.26	$1.13
Dividends declared per common share (2)	$0.68	$0.64	$0.60	$0.52	$0.52
Dividend payout ratio	30.4%	40.3%	40.3%	41.3%	46.0%

(Footnotes on the following page)

At or for the years ended December 31,	2016	2015	2014	2013	2012
Selected Financial Ratios and Other Data					
Performance ratios:					
Return on average assets	1.10 %	0.86 %	0.91 %	0.82 %	0.79 %
Return on average equity	13.07	9.93	9.82	8.73	7.99
Average equity to average assets	8.40	8.68	9.31	9.45	9.83
Equity to total assets	8.48	8.29	8.99	9.16	9.94
Interest rate spread	2.86	2.94	3.10	3.32	3.50
Net interest margin	2.97	3.04	3.22	3.43	3.65
Non-interest expense to average assets	2.01	1.82	1.77	1.76	1.88
Efficiency ratio	59.64	58.57	54.40	50.64	50.73
Average interest-earning assets to average interest-bearing liabilities	1.12 x	1.11 x	1.11 x	1.10 x	1.09 x
Regulatory capital ratios: (3)					
Tier 1 leverage capital (well capitalized = 5%)	10.12 %	8.89 %	9.63 %	9.48 %	9.62 %
Common equity tier 1 risk-based capital (well capitalized = 6.5%)	14.12	12.62	n/a	n/a	n/a
Tier 1 risk-based capital (well capitalized =8%)	14.12	12.62	13.87	14.59	14.38
Total risk-based capital (well capitalized =10%)	14.64	13.17	14.60	15.63	15.43
Asset quality ratios:					
Non-performing loans to gross loans (4)	0.44 %	0.60 %	0.90 %	1.43 %	2.79 %
Non-performing assets to total assets (5)	0.36	0.54	0.80	1.14	2.21
Net (recoveries) charge-offs to average loans	(0.02)	0.06	0.02	0.41	0.64
Allowance for loan losses to gross loans	0.46	0.49	0.66	0.93	0.97
Allowance for loan losses to total non-performing assets (5)	101.28	69.45	61.94	59.04	31.59
Allowance for loan losses to total non-performing loans (4)	103.80	82.58	73.40	64.89	34.62
Full-service customer facilities	19	19	17	17	17

(1) Calculated by dividing stockholders’ equity of $513.9 million and $473.1 million at December 31, 2016 and 2015, respectively, by 28,632,904 and 28,830,558 shares outstanding at December 31, 2016 and 2015, respectively.

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

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

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

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

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

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

General

We are a Delaware corporation organized in May 1994. The Bank was organized in 1929 as a New York State-chartered mutual savings bank. In 1994, the Bank converted to a federally chartered mutual savings bank and changed its name from Flushing Savings Bank to Flushing Savings Bank, FSB. The 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 Bank. On February 28, 2013, the Bank's charter was changed to a full-service New York State chartered commercial bank, and its name was changed to Flushing Bank. As a result of the Bank's change in charter to a full-service New York State chartered commercial bank, the Bank's primary regulator became the New York State Department of Financial Services, and its primary 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 which focuses on the development of a full complement of commercial business deposit, loan and cash management products. As of December 31, 2016 and 2015, the business banking unit had

$613.0 million and $525.3 million, respectively, in gross loans outstanding and $144.4 million and $146.3 million, respectively, 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. IGObanking.com® does not currently accept loan applications. As of December 31, 2016 and 2015, iGObanking.com® had $417.3 million and $323.7 million, respectively, of customer deposits.

The Bank has a governmental banking unit, which provides 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. At December 31, 2016 and 2015, the government banking unit had $1,062.1 million and $975.9 million, respectively, in customer deposits.

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:

- Increase core deposits and continue to improve funding mix;
- increase net interest income by leveraging loan pricing opportunities;
- enhance earnings by managing net interest margin and improving scalability and efficiency;
- manage credit risk;
- maintain well capitalized levels under all stress test scenarios;
- increase our commitment to the multi-cultural marketplace, with a particular focus on the Asian community in Queens;
- 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.

<u>Increase core deposits and continue to improve funding mix.</u> We have a relatively stable retail deposit base drawn from our market area through our full-service offices. Although we seek to retain existing deposits and maintain depositor relationships by offering quality service and competitive interest rates to our customers, we also seek to keep deposit growth within reasonable limits and our strategic plan. In order to implement our strategic plan, we have built multi-channel deposit gathering capabilities. The business banking operation was designed specifically to develop full business relationships thereby bringing in lower-costing checking and money market deposits. At December 31, 2016, deposits balances in the business sector are $144.4 million. We also have "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 $417.3 million at December 31, 2016, at rates lower than our borrowings. We have a government banking division as an additional source of deposits. At December 31, 2016, deposits in our government banking division totaled $1,062.1 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. During 2016, we realized an increase in due to depositors of $309.7 million, as core deposits increased $340.9 million while certificates of deposit decreased $31.2 million.

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.

Increase net interest income by leveraging loan pricing opportunities. During 2016, we repositioned our strategy to focus more on loan pricing as opposed to volume. We saw yields on originations increase for the third and fourth quarters of 2016 as compared to the same period in 2015. The average interest rate obtained for third quarter 2016 originations was 3.74% as compared to 3.56% for the 2015 period. For fourth quarter 2016 originations, the average interest rate increased 13 basis points to 3.81% as compared to 3.68% for the 2015 period.

We have emphasized the strategic growth of multi-family residential mortgage loans and floating rate commercial business loans. We have re-entered the higher-yielding non-owner occupied commercial real estate lending during 2015. We continued to deemphasize one-to-four family – mixed-use property and construction lending and we no longer provide taxi medallion loans.

The following table shows loan originations and purchases during 2016, and loan balances as of December 31, 2016.

	Loan Originations and Purchases	Loan Balances December 31, 2016	Percent of Gross Loans
	(Dollars in thousands)		
Multi-family residential	$371,197	$2,178,504	45.21 %
Commercial real estate	322,721	1,246,132	25.86
One-to-four family mixed-use property	62,735	558,502	11.59
One-to-four family residential	24,820	185,767	3.85
Co-operative apartment	470	7,418	0.15
Construction	15,772	11,495	0.24
Small Business Administration	8,447	15,198	0.32
Taxi Medallion	-	18,996	0.39
Commercial Business and Other	326,776	597,122	12.39
Total	$1,132,938	$4,819,134	100.00%

At December 31, 2016, multi-family residential, commercial business and other loans and commercial real estate loans, totaled 83.5% of our gross loans. We have repositioned our loan growth since the Great Recession to reduce credit risk; however, our concentration in these types of loans could require us to increase our provisions for loan losses and to maintain an allowance for loan losses as a percentage of total loans in excess of the allowance currently maintained.

Enhance earnings by managing net interest margin and improving scalability and efficiency. By taking advantage of loan pricing opportunities and continuing to maintain a lower cost of funds, we actively manage the net interest margin. During the year ended December 31, 2016, the cost of interest-bearing liabilities decreased one basis point to

1.07% from 1.08% for the year ended December 31, 2015. During 2017, approximately 47% of our borrowings and certificates of deposits are scheduled to mature or reprice. During 2016, we renovated two branches to the Universal Banker model and plan to renovate three branches during 2017. The Universal Banker model will result in savings of both personnel and occupancy costs while providing our customers with cutting-edge technology.

Manage credit risk. By adherence to our conservative underwriting standards, we have been able to minimize net losses from impaired loans, recording net recoveries of $0.7 million for the year ended December 31, 2016 compared to net charge-offs of $2.6 million for the year ended December 31, 2015. The loan to value for the real estate dependent loan portfolio was 40.5% and the average loan to value for non-performing loans collateralized by real estate was 39.1% at December 31, 2016. 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 26 delinquent loans totaling $8.0 million, 23 delinquent loans totaling $9.0 million, and 34 delinquent loans totaling $15.9 million during the years ended December 31, 2016, 2015 and 2014, respectively. We recorded net recoveries on delinquent loans that were sold during 2016, 2015 and 2014 of $48,000, $0.1 million and $0.4 million. We realized gross gains of $0.3 million, $0.1 million and $0.1 million on the sale of delinquent loans for the years ended December 31, 2016, 2015 and 2014, respectively. We realized gross losses of $2,000 for the year ended December 31, 2015. We did not record any gross losses during the years ended December 31, 2016 and 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 loans totaled $21.9 million and $31.0 million at December 31, 2016 and 2015, respectively. Non-performing assets as a percentage of total assets were 0.36% and 0.54% at December 31, 2016 and 2015, respectively.

Maintain well capitalized levels under all stress test scenarios. The Bank faces several minimum capital requirements imposed by federal regulation. Failure to adhere to these minimums could limit the dividends the Bank is allowed to pay, including the payment of dividends to Flushing Financial Corporation, and could limit the annual growth of the Bank. Under the Dodd Frank Act, banks with assets greater than $10.0 billion in total assets are required to complete stress tests, which predict capital levels under certain stress levels. Although, our total assets are currently $6.1 billion, as a best practice, we completed these tests. As of December 31, 2016, under all stress scenarios, we remain well capitalized per current regulations.

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 is characterized with a high level of ethnic diversity. An important element of our strategy is to service multi-ethnic consumers and businesses. We have a particular presence and concentration in Asian communities, including in particular the Chinese and Korean populations. Both groups are noted for high levels of savings, education and entrepreneurship. In order to service these and other important ethnic groups in our market, our staff speaks more than 30 languages. We have an Asian advisory board to help broaden our links to the community by providing guidance and fostering awareness of our active role in the local community. Through our focus on and commitment to the Asian community in Queens, where we have four branches, we have obtained approximately $500 million in deposits in these branches. We also have over $450 million of loans and lines of credit outstanding to borrowers in the Asian community.

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

Trends and Contingencies. Our operating results are significantly affected by national and local economic and competitive conditions, including changes in market interest rates, the strength of the local economy, government policies and actions of regulatory authorities. We have remained strategically focused on the origination of multi-family residential mortgages and to a lesser extent, commercial real estate and one-to-four family mixed-use property mortgage loans. However, in late 2014 and throughout 2015 and 2016 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.

As we have seen improvements in the local economy, our non-performing loans have decreased. 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. Non-performing loans totaled $21.4 million, $26.1 million and $34.2 million at December 31, 2016, 2015 and 2014, respectively. 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. During the year ended December 31, 2016, we recorded net recoveries of $0.7 million compared to net charge-offs of $2.6 million and $0.7 million for the years ended December 31, 2015 and 2014, respectively. This improvement in net charge-offs allowed us to not record a provision for loan losses during the year ended December 31, 2016, compared to benefits of $1.0 million and $6.0 million for the years ended December 31, 2015 and 2014, respectively. We cannot predict the effect of these economic conditions on the Company’s future financial condition or operating results.

Loan originations and purchases were $1,132.9 million, $1,233.5 million and $958.2 million for the years ended December 31, 2016, 2015 and 2014, respectively. While we primarily rely on originating our own loans, we purchased $186.7 million, $278.9 million and $169.9 million during the years ended December 31, 2016, 2015 and 2014, respectively. We purchase loans when the loans complement our loan portfolio strategy. Loans purchased must meet our underwriting standards when they were originated.

During the three-year period ended December 31, 2016, the allocation of our loan portfolio has remained fairly consistent. The majority of our loans are collateralized by real estate, which comprised 86.9% of our portfolio at December 31, 2016 compared to 87.7% at December 31, 2015 and 87.4% at December 31, 2014. Multi-family residential mortgage loans comprised 45.2%, 47.0% and 50.6% of our loan portfolio at December 31, 2016, 2015 and 2014, respectively. Commercial real estate mortgage loans comprised 25.9%, 22.9% and 16.4% of our loan portfolio at December 31, 2016, 2015 and 2014, respectively. One-to-four family mixed-use property mortgage loans comprised 11.6%, 13.1% and 15.1% of loan portfolio at December 31, 2016, 2015 and 2014, respectively. One-to-four family residential mortgage loans comprised 3.9%, 4.3% and 4.9% of loan portfolio at December 31, 2016, 2015 and 2014, respectively.

Due to depositors increased $309.7 million, $382.8 million and $272.9 million in 2016, 2015 and 2014, respectively. Lower-costing core deposits increased $340.9 million, $285.3 million and $88.1 million in 2016, 2015 and 2014, respectively. Higher-costing certificates of deposit decreased $31.2 million during 2016 compared to increases $97.5 million during 2015 and $184.9 million during 2014. Brokered deposits represented 26.5%, 25.2% and 21.8% of total deposits at December 31, 2016, 2015 and 2014, 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.

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 2016, we sought performance under guarantees on three business loans, seeking judgment of approximately $3.6 million. As of December 31, 2016, we had received $6,000 on these business loans. During the year ended December 31, 2016, we realized recoveries of approximately $50,000 on business loans for which we sought judgments prior to 2016. During 2015, we sought performance under guarantees on two business loans, seeking judgment of approximately $2.5 million. During the year ended December 31, 2015, we realized recoveries of approximately $0.3 million on business loans and $0.1 million on real estate mortgage loans for which we sought judgments prior to 2015.

During 2016 our net interest income increased $12.7 million, or 8.20%, to $167.1 million for the twelve months ended December 31, 2016 from $154.4 million for the comparable prior year period, as a seven basis point decrease in the net interest margin to 2.97% for the twelve month ended December 31, 2016 was more than offset by balance sheet growth. The decrease in the net interest margin for 2016 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 2016 being lower than the yield of the existing portfolio. During 2016, the average balance of total loans, net increased $567.2 million to $4,600.7 million. During 2016, the average balance of borrowed funds increased by $126.6 million to $1,231.0 million compared to $1,104.4 million for 2015, while the cost of borrowed funds decreased nine basis points to 1.67% for the year ended December 31, 2016 from 1.76% in the comparable period. The cost of certificates of deposit accounts decreased nine basis points for the twelve months ended December 31, 2016 from the prior year, while the cost of money market accounts, NOW and savings accounts increased 21 basis points, seven basis points and four basis points, respectively, for the twelve months ended December 31, 2016 from the prior year. The cost of money market accounts increased primarily due to our shifting of Government NOW deposits to an Insured Cash Sweep service (“ICS”) brokered money market product, which does not require us to provide collateral. This allows us to invest our funds in higher yielding assets. The cost of savings and NOW accounts increased as we increased the rates we pay on certain accounts to attract additional deposits. This resulted in an increase in the cost of due to depositors of one basis point to 0.89% for the twelve months ended December 31, 2016 from 0.88% for the twelve months ended December 31, 2015. Overall, as a result of these changes to our funding mix we were able to reduce our cost of interest-bearing liabilities one basis point to 1.07% for the year ended December 31, 2016 from 1.08% for the year ended December 31, 2015.

We are unable to predict the direction or timing of future interest rate changes. Approximately 47% 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, 2016 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 36%, 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 14% and 23%, 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, 2016

	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	$307,930	$683,651	$1,493,473	$1,140,190	$532,657	$29,917	$4,187,818
Other loans	147,119	113,512	182,555	105,015	79,659	3,456	631,316
Short-term securities (1)	25,771	-	-	-	-	-	25,771
Securities held-to-maturity:							
Other	1,330	14,540	-	-	-	21,865	37,735
Securities available for sale:							-
Mortgage-backed securities	22,331	71,257	129,933	84,419	95,006	113,530	516,476
Other	127,849	17,103	144,144	51,086	1,809	2,914	344,905
Total interest-earning assets	632,330	900,063	1,950,105	1,380,710	709,131	171,682	5,744,021
Interest-Bearing Liabilities							
Savings accounts	9,589	28,767	52,320	48,782	114,825	-	254,283
NOW accounts	-	-	-	-	-	1,362,484	1,362,484
Money market accounts	37,188	111,563	105,206	589,413	-	-	843,370
Certificate of deposit accounts	281,713	362,623	649,794	76,711	1,274	-	1,372,115
Mortgagors' escrow deposits	-	-	-	-	-	40,216	40,216
Borrowings	353,713	231,227	408,200	273,423	-	-	1,266,563
Total interest-bearing liabilities (2)	$682,203	$734,180	$1,215,520	$988,329	$116,099	$1,402,700	$5,139,031
Interest rate sensitivity gap	$(49,873)	$165,883	$734,585	$392,381	$593,032	$(1,231,018)	$604,990
Cumulative interest-rate sensitivity gap	$(49,873)	$116,010	$850,595	$1,242,976	$1,836,008	$604,990	
Cumulative interest-rate sensitivity gap	-0.82 %	1.91 %	14.04 %	20.52 %	30.30 %	9.99 %	

as a percentage of total assets						
Cumulative net interest-earning assets as a percentage of interest-bearing liabilities	92.69 %	108.19 %	132.32 %	134.33 %	149.14 %	111.77 %

(1) Consists of interest-earning deposits.

(2) Does not include non-interest bearing demand accounts totaling $333.2 million at December 31, 2016.

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

Interest Rate Risk

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

We manage the mix of interest-earning assets and interest-bearing liabilities on a continuous basis to maximize return and adjust our exposure to interest rate risk. On a quarterly basis, management prepares the “Earnings and Economic Exposure to Changes in Interest Rate” report for review by the Board of Directors, as summarized below. This report quantifies the potential changes in net interest income and net portfolio value should interest rates go up or down (shocked) 200 basis points, assuming the yield curves of the rate shocks will be parallel to each other. Net portfolio value is defined as the market value of assets net of the market value of liabilities. The market value of assets and liabilities is determined using a discounted cash flow calculation. The net portfolio value ratio is the ratio of the net portfolio value to the market value of assets. All changes in income and value are measured as percentage changes from the projected net interest income and net portfolio value at the base interest rate scenario. The base interest rate scenario assumes interest rates at December 31, 2015. Various estimates regarding prepayment assumptions are made at each level of rate shock. Actual results could differ significantly from these estimates. At December 31, 2016, we were within the guidelines established by the Board of Directors for each interest rate level.

	Projected Percentage Change In				Net Portfolio	
Change in Interest Rate	Net Interest Income		Net Portfolio Value		Value Ratio	
	2016	2015	2016	2015	2016	2015
-200 basis points	0.74 %	-1.87 %	9.79 %	9.37 %	11.76%	12.05%
-100 basis points	2.11	0.83	7.47	6.93	11.77	12.03
Base interest rate					11.26	11.57
+100 basis points	-6.38	-4.96	-11.56	-11.34	10.26	10.57
+200 basis points	-13.97	-10.45	-26.43	-26.30	8.83	9.10

Analysis of Net Interest Income

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

The following table sets forth certain information relating to our Consolidated Statements of Financial Condition and Consolidated Statements of Income for the years ended December 31, 2016, 2015 and 2014, and reflects the average yield on assets and average cost of liabilities for the periods indicated. Such yields and costs are derived by dividing income or expense by the average balance of assets or liabilities, respectively, for the periods shown. Average balances are derived from average daily balances. The yields include amortization of fees that are considered adjustments to yields.

	For the year ended December 31,								
	2016			2015			2014		
	Average Balance	Interest	Yield/ Cost	Average Balance	Interest	Yield/ Cost	Average Balance	Interest	Yield/ Cost
	(Dollars in thousands)								
Interest-earning assets:									
Mortgage loans, net (1)(2)	$4,014,734	$173,419	4.32%	$3,524,331	$161,115	4.57%	$3,075,055	$154,316	5.02%
Other loans, net (1)(2)	585,948	21,706	3.70	509,147	17,605	3.46	446,852	16,011	3.58
Total loans, net	4,600,682	195,125	4.24	4,033,478	178,720	4.43	3,521,907	170,327	4.84
Taxable securities:									
Mortgage-backed securities	581,505	14,231	2.45	693,893	17,309	2.49	740,190	19,872	2.68
Other securities	243,567	8,243	3.38	163,604	4,398	2.69	147,883	3,437	2.32
Total taxable securities	825,072	22,474	2.72	857,497	21,707	2.53	888,073	23,309	2.62
Tax-exempt securities: (3)									
Other securities	142,472	3,148	2.21	134,807	3,593	2.67	131,921	3,413	2.59
Total tax-exempt securities	142,472	3,148	2.21	134,807	3,593	2.67	131,921	3,413	2.59
Interest-earning deposits and federal funds sold	58,522	250	0.43	58,397	126	0.22	41,770	79	0.19
Total interest-earning assets	5,626,748	220,997	3.93	5,084,179	204,146	4.02	4,583,671	197,128	4.30
Other assets	286,786			276,965			254,741		
Total assets	$5,913,534			$5,361,144			$4,838,412		
Interest-bearing liabilities:									
Deposits:									
Savings accounts	$260,948	1,219							