

FLUSHING FINANCIAL CORP
Form 10-K
March 15, 2012

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, 2011

Commission file number 001-33013

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

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

1979 Marcus Avenue, Suite E140, Lake Success, New York 11042
(Address of principal executive offices)

(718) 961-5400
(Registrant's telephone number, including area code)

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

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

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

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

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

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

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

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

Large accelerated filer_____	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, 2011, 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 \$388,226,000. 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 \$13.00.

The number of shares of the registrant's Common Stock outstanding as of February 29, 2012 was 31,001,218 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Company's definitive Proxy Statement for the Annual Meeting of Stockholders to be held on May 15, 2012 are incorporated herein by reference in Part III.

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SIGNATURES

POWER OF ATTORNEY

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,” “forecasts,” “continues,” 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 Flushing Savings Bank, FSB (the “Savings Bank”) and Flushing Commercial Bank (the “Commercial Bank” and together with the Savings Bank, the “Banks”).

Item 1. Business.

GENERAL

Overview

We are a Delaware corporation organized in May 1994 at the direction of the Savings Bank. The Savings Bank was organized in 1929 as a New York State chartered mutual savings bank. In 1994, the Savings Bank converted to a federally chartered mutual savings bank and changed its name from Flushing Savings Bank to Flushing Savings Bank, FSB. The Savings Bank converted from a federally chartered mutual savings bank to a federally chartered stock savings bank on November 21, 1995, at which time Flushing Financial Corporation acquired all of the stock of the Savings Bank. The primary business of Flushing Financial Corporation at this time is the operation of its wholly owned subsidiary, the Savings Bank. The Savings Bank owns four subsidiaries: Flushing Commercial Bank, Flushing Preferred Funding Corporation, Flushing Service Corporation, and FSB Properties Inc. In November, 2006, the Savings Bank launched an internet branch, iGObanking.com®. The activities of Flushing Financial Corporation are primarily funded by dividends, if any, received from the Savings 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 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.

Unless otherwise disclosed, the information presented in this Annual Report reflects the financial condition and results of operations of Flushing Financial Corporation, the Savings Bank and the Savings Bank's subsidiaries on a consolidated basis (collectively, the "Company"). Management views the Company as operating a single unit – a community savings bank. Therefore, segment information is not provided. At December 31, 2011, the Company had total assets of \$4.3 billion, deposits of \$3.1 billion and stockholders' equity of \$416.9 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 and, to a lesser extent, one-to-four family (focusing on mixed-use properties, which are

properties that contain both residential dwelling units and commercial units) and commercial real estate mortgage loans; (2) construction loans, primarily for residential properties; (3) Small Business Administration (“SBA”) loans and other small business loans; (4) mortgage loan surrogates such as mortgage-backed securities; and (5) U.S. government securities, corporate fixed-income securities and other marketable securities. We also originate certain other consumer loans including overdraft lines of credit. At December 31, 2011, we had gross loans outstanding of \$3,214.0 million (before the allowance for loan losses and net deferred costs), with gross mortgage loans totaling \$2,939.0 million, or 91.4% of gross loans, and non-mortgage loans totaling \$275.0 million, or 8.6% of gross loans. Mortgage loans are primarily multi-family, commercial and one-to-four family mixed-use properties, which combined totaled 82.9% of gross loans. Our revenues are derived principally from interest on our mortgage and other loans and mortgage-backed securities portfolio, and interest and dividends on other investments in our securities portfolio. Our primary sources of funds are deposits, Federal Home Loan Bank of New York (“FHLB-NY”) borrowings, repurchase agreements, principal and interest payments on loans, mortgage-backed and other securities, proceeds from sales of securities and, to a lesser extent, proceeds from sales of loans. On July 21, 2011, as a result of the Dodd-Frank Wall Street Reform and Consumer Protection Act, the Savings Bank’s primary regulator became the Office of the Comptroller of the Currency (“OCC”) and Flushing Financial Corporation’s primary regulator became the Federal Reserve Board of Governors (“Federal Reserve”). Deposits are insured to the maximum allowable amount by the Federal Deposit Insurance Corporation (“FDIC”). Additionally, the Banks are members of the Federal Home Loan Bank (“FHLB”) system.

Our operating results are significantly affected by national and local economic conditions, including the strength of the local economy. The national and local economies were generally considered to be in a recession from December 2007 through the middle of 2009. This resulted in increased unemployment and declining property values, although the property value declines in our market, the New York City metropolitan area, have not been as great as many other areas of the country. While the national and local economies have shown signs of improvement since the middle of 2010, unemployment has remained at elevated levels of 8.8% and 8.6% in December 2011 and 2010, respectively, for the New York City region, according to the New York State Department of Labor. These economic conditions can result in borrowers defaulting on their loans. This deterioration in the economy has resulted in the balance of our non-performing loans remaining at an elevated level. Non-performing loans totaled \$117.4 million, \$112.1 million and \$83.4 million at December 31, 2011, 2010 and 2009, respectively. While non-performing loans have remained elevated, we have not yet experienced a significant increase in foreclosed properties due to an extended foreclosure process in our market. Net charge-offs of impaired loans have increased to \$18.9 million for the year ended December 31, 2011 from \$13.6 million and \$10.2 million for the years ended December 31, 2010 and 2009, respectively. In response to the economic conditions in our market and the increase in non-performing loans, we began tightening our conservative underwriting standards in 2008 to reduce the risk associated with lending.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The economic conditions we have experienced since December 2007 have also resulted in a reduction in loan demand. Combining the reduced demand with our tightened underwriting standards, our loan originations and purchases for 2011 declined to \$411.2 million from \$757.1 million in 2007.

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

days as to principal or interest. During the most recent three fiscal years, we did not make any additional loans to a borrower or any related interest of the borrower who was past due in principal or interest more than 90 days. All extensions, renewals, restructurings and modifications must be approved by either the Board of Directors of the Savings Bank (the “Savings 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.

During 2006, the Savings Bank established a business banking unit. Our business plan includes a transition from a traditional thrift to a more “commercial-like” banking institution by focusing on the development of a full complement of commercial business deposit, loan and cash management products. As of December 31, 2011, the business banking unit had \$251.9 million in loans outstanding and \$68.7 million of customer deposits.

On November 27, 2006, the Savings Bank launched an internet branch, iGObanking.com®, which provides us access to consumers in markets outside our geographic locations. Accounts can be opened online at www.iGObanking.com or by mail. The internet branch does not currently accept loan applications. As of December 31, 2011, the internet branch had \$470.6 million of customer deposits.

During 2007, the Savings Bank formed a wholly owned subsidiary, Flushing Commercial Bank, a New York State chartered commercial bank, for the limited purpose of providing banking services to public entities including counties, cities, towns, villages, school districts, libraries, fire districts and the various courts throughout the New York City metropolitan area. The Commercial Bank was formed in response to New York State law, which requires that municipal deposits and state funds must be deposited into a bank or trust company as defined in New York State law. The Savings Bank is not considered an eligible bank or trust company for this purpose. The Commercial Bank does not originate loans. As of December 31, 2011, Flushing Commercial Bank had \$591.0 million of customer deposits.

On December 19, 2008, under the Troubled Asset Relief Program (“TARP”), we entered into a Letter Agreement (including the Securities Purchase Agreement – Standard Terms incorporated by reference therein, the “Purchase Agreement”) with the United States Department of the Treasury (the “U.S. Treasury”) pursuant to which we issued and sold to the U.S. Treasury (i) 70,000 shares of the our Fixed Rate Cumulative Perpetual Preferred Stock Series B having a liquidation preference of \$1,000 per share (the “Series B Preferred Stock”), and (ii) a ten-year warrant (the “Warrant”) to purchase up to 751,611 shares of the our common stock, par value \$0.01 per share, at an initial price of \$13.97 per share, for an aggregate purchase price of \$70.0 million in cash. The Series B Preferred Stock qualified as Tier 1 Capital under the risk-based capital guidelines of the Office of Thrift Supervision (“OTS”) (“Tier 1 Capital”) and paid cumulative dividends at a rate of 5% per annum. Dividends were payable on the Series B Preferred Stock quarterly and were payable on February 15, May 15, August 15 and November 15 of each year. The Series B Preferred Stock had no maturity date and ranked senior to our common stock with respect to the payment of dividends and distributions and amounts payable upon liquidation and winding up of the Company. The Warrant would have expired ten years from the issuance date and was immediately exercisable and transferable. The Purchase Agreement contained limitations on the payment of dividends on and the repurchase of our common stock and certain preferred stock. The Purchase Agreement also required that, until such time as the U.S. Treasury ceased to own any securities acquired from us thereunder, we take all necessary action to ensure that benefit plans with respect to senior executive officers complied with Section 111(b) of the Emergency Economic Stabilization Act of 2008 (“EESA”) as implemented by any guidance or regulation under Section 111(b) of EESA that has been issued and was in effect as of the date of issuance of the Series B Preferred Stock and the Warrant and not adopt any benefit plans with respect to, or which cover, senior executive officers that do not comply with EESA. Our senior executive officers consented to the foregoing. During 2009, we issued, in a public offering, 9.3 million common shares for total consideration, after expenses, of \$101.5 million. This public offering was a Qualified Equity Offering as defined in the Warrant. As a result of this Qualified Equity Offering, the number of shares of common stock underlying the Warrant was reduced by one-half. On October 28, 2009, we redeemed the Series B Preferred Stock for \$70.0 million plus all accrued and unpaid dividends. On December 30, 2009, we repurchased the Warrant for \$0.9 million.

Market Area and Competition

We are a community oriented savings institution offering a wide variety of financial services to meet the needs of the communities we serve. The Savings Bank's main office is in Flushing, New York, located in the Borough of Queens, and the Commercial Bank's main office is in New Hyde Park, New York. At December 31, 2011, the Savings Bank operated out of 16 full-service offices, located in the New York City Boroughs of Queens, Brooklyn, and Manhattan, and in Nassau County, New York, and the Commercial Bank operated out of three offices, one in Brooklyn and two in Nassau County, New York, it shares with the Savings Bank. In January 2012, the Savings Bank opened its seventeenth full-service office, which is located in Brooklyn. We also operate an internet branch, iGObanking.com®. We maintain our executive offices in Lake Success in Nassau County, New York. Substantially all of our mortgage loans are secured by properties located in the New York City metropolitan area.

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

Our market area has a high density of financial institutions, many of which have greater financial resources, name recognition and market presence, and all of which are competitors to varying degrees. Particularly intense competition exists for deposits, as we compete with over 104 banks and thrifts in the counties in which we have branch locations. Our market share of deposits in these counties is approximately 0.5% of the total deposits of these competing financial institutions, and we are the 19th 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 construction loans. In addition, we also offer SBA loans, other small business loans and consumer loans. Substantially all of our mortgage loans are secured by properties located within our market area. At December 31, 2011, we had gross loans outstanding of \$3,214.0 million (before the allowance for loan losses and net deferred costs).

Since 2009 we have focused our mortgage loan origination efforts on multi-family residential mortgage loans. In prior years we had focused our mortgage loan originations on multi-family residential, commercial real estate and one-to-four family mixed-use property mortgage loans. These loans generally have higher yields than one-to-four family residential properties, and include prepayment penalties that we collect if the loans pay in full prior to the contractual maturity. We expect to continue this emphasis on multi-family residential mortgage loans through marketing and by maintaining competitive interest rates and origination fees. Our marketing efforts include frequent contacts with mortgage brokers and other professionals who serve as referral sources. The reduced emphasis on commercial real estate, one-to-four family mixed-use property mortgage loans, and construction loans since 2009 was due to the increased level of risk in these types of loans in the current economic environment. We expect to continue

this reduced emphasis on the origination of commercial real estate and one-to-four family mixed-use property mortgage loans, and construction loans, in the near term.

Fully underwritten one-to-four family residential mortgage loans generally are considered by the banking industry to have less risk than other types of loans. Multi-family residential, commercial real estate and one-to-four family mixed-use property mortgage loans generally have higher yields than one-to-four family residential property mortgage loans and shorter terms to maturity, but typically involve higher principal amounts and may expose the lender to a greater risk of credit loss than one-to-four family residential property mortgage loans. Our increased emphasis on multi-family residential mortgage loans since 2009, and on multi-family residential, commercial real estate and one-to-four family mixed-use property mortgage loans during years prior to 2009, has increased the overall level of credit risk

inherent in our loan portfolio. The greater risk associated with multi-family residential, commercial real estate and one-to-four family mixed-use property mortgage loans could require us to increase our provisions for loan losses and to maintain an allowance for loan losses as a percentage of total loans in excess of the allowance we currently maintain. We continually review the composition of our mortgage loan portfolio to manage the risk in the portfolio. As a result of this ongoing review, we reduced our reliance on commercial real estate and one-to-four family mixed-use property mortgage loans during the most recent two years, and tightened our conservative underwriting standards to further reduce the risk associated with lending. See “General – Overview” in this Item 1 of this Annual Report. To date, we have not experienced significant losses in our multi-family residential, commercial real estate and one-to-four family mixed-use property mortgage loan portfolios.

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

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

Prior to 2007, we had grown our construction loan portfolio. During 2007, we began to deemphasize construction loans, as originations of new construction loans declined. We have continued to deemphasize construction loans throughout the past four years as we further reduced originations and reduced the balance of our construction loan portfolio. We intend to continue to deemphasize construction loans in the near term. We obtain a first lien position on the underlying collateral, and generally obtain personal guarantees on construction loans. These loans generally have a term of two years or less. Construction loans involve a greater degree of risk than other loans because, among other things, the underwriting of such loans is based on an estimated value of the developed property, which can be difficult to ascertain in light of uncertainties inherent in such estimations. In addition, construction lending entails the risk that the project may not be completed due to cost overruns or changes in market conditions. The greater risk associated with construction loans could require us to increase our provision for loan losses, and to maintain an allowance for loan losses as a percentage of total loans in excess of the allowance we currently maintain. To date, we have not incurred significant losses in our construction loan portfolio.

The business banking unit was formed in 2006 to focus on loans to businesses located within our market area. These loans are generally personally guaranteed by the owners, and may be secured by the assets of the business, including real estate. The interest rate on these loans is generally an adjustable rate based on a published index. These loans, while providing us a higher rate of return, also present a higher level of risk. The greater risk associated with business loans could require us to increase our provision for loan losses, and to maintain an allowance for loan losses as a percentage of total loans in excess of the allowance we currently maintain. To date, we have not incurred significant losses in our business loan portfolio.

From time to time, we may purchase loans from mortgage bankers and other financial institutions when the loans complement our loan portfolio strategy. Loans purchased must meet our underwriting standards when they were originated.

Our lending activities are subject to federal and state laws and regulations. See “— Regulation.”

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

	2011		2010		At December 31, 2009		2008		2007
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total	Amount
(Dollars in thousands)									
Mortgage Loans:									
Multi-family residential	\$1,391,221	43.28 %	\$1,252,176	38.41 %	\$1,158,700	36.16 %	\$999,185	33.80 %	\$964,455
Commercial real estate	580,783	18.07	662,794	20.33	686,210	21.42	686,630	23.24	586,598
One-to-four family - mixed-use property	693,932	21.59	728,810	22.36	744,560	23.24	751,952	25.45	686,921
One-to-four family - residential (1)	220,431	6.86	241,376	7.40	249,920	7.81	238,711	8.09	161,666
Co-operative apartment (2)	5,505	0.17	6,215	0.19	6,553	0.20	6,566	0.22	7,070
Construction	47,140	1.47	75,519	2.32	97,270	3.04	103,626	3.51	119,745
Gross mortgage loans	2,939,012	91.44	2,966,890	91.01	2,943,213	91.87	2,786,670	94.31	2,526,455
Non-mortgage loans:									
Small Business Administration	14,039	0.44	17,511	0.54	17,496	0.55	19,671	0.67	18,922
Taxi medallion	54,328	1.69	88,264	2.71	61,424	1.92	12,979	0.44	68,250
Commercial business and other	206,614	6.43	187,161	5.74	181,240	5.66	135,249	4.58	81,041
Gross non-mortgage loans	274,981	8.56	292,936	8.99	260,160	8.13	167,899	5.69	168,213
Gross loans	3,213,993	100.00 %	3,259,826	100.00 %	3,203,373	100.00 %	2,954,569	100.00 %	2,694,668
Unearned loan fees and deferred costs, net	14,888		16,503		17,110		17,121		14,083
	(30,344)		(27,699)		(20,324)		(11,028)		(6,633

Less:

Allowance for
loan losses

Loans, net	\$3,198,537	\$3,248,630	\$3,200,159	\$2,960,662	\$2,702,118
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(1) One-to-four family residential mortgage loans also include home equity and condominium loans. At December 31, 2011, gross home equity loans totaled \$70.2 million and condominium loans totaled \$28.5 million.

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

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

(In thousands)	For the years ended December 31,		
	2011	2010	2009
Mortgage Loans			
At beginning of year	\$2,966,890	\$2,943,213	\$2,786,670
Mortgage loans originated:			
Multi-family residential	249,010	171,238	212,274
Commercial real estate	7,070	33,697	32,557
One-to-four family mixed-use property	23,754	29,415	33,053
One-to-four family residential	24,075	34,694	54,669
Co-operative apartment	-	407	534
Construction	1,723	10,493	18,263
Total mortgage loans originated	305,632	279,944	351,350
Mortgage loans purchased:			
Commercial real estate	-	-	2,917
Total mortgage loans purchased	-	-	2,917
Less:			
Principal reductions	284,327	229,951	183,712
Mortgage loan sales	24,832	8,755	6,233
Charge-offs	17,845	13,170	5,359
Mortgage loan foreclosures	6,506	4,391	2,420
At end of year	\$2,939,012	\$2,966,890	\$2,943,213
Non-mortgage loans			
At beginning of year	\$292,936	\$260,160	\$167,899
Loans originated:			
Small Business Administration	3,528	3,869	4,457
Taxi Medallion	11,779	59,551	20,702
Commercial business	66,352	52,505	76,161
Other	4,859	5,991	4,656
Total other loans originated	86,518	121,916	105,976
Non-mortgage loans purchased:			
Taxi Medallion	19,053	14,675	40,347
Less:			
Sales of Small Business Administration loans	4,104	-	2,005
Principal reductions	118,032	102,617	47,237

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Charge-offs	1,390	1,198	4,820
At end of year	\$274,981	\$292,936	\$260,160

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Loan Maturity and Repricing. The following table shows the maturity of our total loan portfolio at December 31, 2011. Scheduled repayments are shown in the maturity category in which the payments become due.

(In thousands)	Mortgage loans						Non-mortgage loans			Total loans
	Multi-family residential	Commercial real estate	One-to-four family mixed-use property	One-to-four family residential	Co-operative apartment	Construction	Small Business Administration	Taxi Medallion	Commercial business and other	
Amounts due within one year	\$120,814	\$94,882	\$31,696	\$5,640	\$310	\$47,140	\$4,294	\$32,251	\$59,338	\$396,365
Amounts due after one year:										
One to two years	101,990	70,740	32,189	5,489	215	-	2,745	17,245	14,741	245,354
Two to three years	95,801	68,904	32,345	5,363	211	-	1,496	3,656	13,359	221,135
Three to five years	180,297	118,404	64,969	10,714	443	-	1,860	1,176	26,546	404,409
Over five years	892,319	227,853	532,733	193,225	4,326	-	3,644	-	92,630	1,946,730
Total due after one year	1,270,407	485,901	662,236	214,791	5,195	-	9,745	22,077	147,276	2,817,628
Total amounts due	\$1,391,221	\$580,783	\$693,932	\$220,431	\$5,505	\$47,140	\$14,039	\$54,328	\$206,614	\$3,213,993