FLUSHING FINANCIAL CORP
Form 10-Q
May 11, 2015

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2015

Commission file number 001-33013

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

Delaware
(State or other jurisdiction of incorporation or organization)

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

220 RXR Plaza, Uniondale, New York 11556
(Address of principal executive offices)

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

1979 Marcus Avenue, Suite E140, Lake Success, New York 11042
(Former address of Principal executive offices)

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 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.

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

The number of shares of the registrant's Common Stock outstanding as of April 30, 2015 was 29,408,584.

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Consolidated Statements of Financial Condition
(Unaudited)

Item 1. Financial Statements

(Dollars in thousands, except per share data)	March 31, 2015	December 31, 2014
ASSETS		
Cash and due from banks	$ 21,104	$ 34,265
Securities available for sale:		
Mortgage-backed securities (including assets pledged of $470,116 and $464,626 at March 31, 2015 and December 31, 2014, respectively; $4,458 and $4,678 at fair value pursuant to the fair value option at March 31, 2015 and December 31, 2014, respectively)	717,729	704,933
Other securities (including assets pledged of $69,372 and $57,562 at March 31, 2015 and December 31, 2014, respectively; $28,170 and $27,915 at fair value pursuant to the fair value option at March 31, 2015 and December 31, 2014, respectively)	289,955	268,377
Loans:		
Multi-family residential	2,013,249	1,923,460
Commercial real estate	687,823	621,569
One-to-four family mixed-use property	573,927	573,779
One-to-four family residential	190,366	187,572
Co-operative apartments	9,413	9,835
Construction	2,828	5,286
Small Business Administration	8,005	7,134
Taxi medallion	21,346	22,519
Commercial business and other	477,823	447,500
Net unamortized premiums and unearned loan fees	13,274	11,719
Allowance for loan losses	(24,091)	(25,096)
Net loans	3,973,963	3,785,277
Interest and dividends receivable	17,263	17,251
Bank premises and equipment, net	30,167	21,868
Federal Home Loan Bank of New York stock	50,488	46,924
Bank owned life insurance	113,373	112,656
Goodwill	16,127	16,127
Other assets	40,326	69,335
Total assets	$ 5,270,495	$ 5,077,013
LIABILITIES		
Due to depositors:		
Non-interest bearing	$ 250,084	$ 255,834
Interest-bearing:		
Certificate of deposit accounts	1,292,721	1,305,823
Savings accounts	269,610	261,942
Money market accounts	301,587	290,263
NOW accounts	1,438,239	1,359,057
Total interest-bearing deposits	3,302,157	3,217,085

Mortgagors' escrow deposits		53,901		35,679
Borrowed funds ($28,244 and $28,771 at fair value pursuant to the fair value option at March 31, 2015 and December 31, 2014, respectively)		1,019,291		940,492
Securities sold under agreements to repurchase		116,000		116,000
Other liabilities		63,176		55,676
Total liabilities		4,804,609		4,620,766
Commitments and contingencies (Notes 4 & 5)				
STOCKHOLDERS' EQUITY				
Preferred stock ($0.01 par value; 5,000,000 shares authorized; None issued)		-		-
Common stock ($0.01 par value; 100,000,000 shares authorized; 31,530,595 shares issued at March 31, 2015 and December 31, 2014; 29,407,259 shares and 29,403,823 shares outstanding at March 31, 2015 and December 31, 2014, respectively)		315		315
Additional paid-in capital		208,368		206,437
Treasury stock, at average cost (2,123,336 shares and 2,126,772 shares at March 31, 2015 and December 31, 2014, respectively)		(37,521)		(37,221)
Retained earnings		293,131		289,623
Accumulated other comprehensive income (loss), net of taxes		1,593		(2,907)
Total stockholders' equity		465,886		456,247
Total liabilities and stockholders' equity	$	5,270,495	$	5,077,013

The accompanying notes are an integral part of these consolidated financial statements.

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PART I – FINANCIAL INFORMATION

FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES
Consolidated Statements of Income
(Unaudited)

(Dollars in thousands, except per share data)	For the three months ended March 31, 2015	2014
Interest and dividend income		
Interest and fees on loans	$ 43,534	$ 42,120
Interest and dividends on securities:		
Interest	5,870	6,875
Dividends	118	189
Other interest income	21	27
Total interest and dividend income	49,543	49,211
Interest expense		
Deposits	7,458	7,718
Other interest expense	4,531	5,006
Total interest expense	11,989	12,724
Net interest income	37,554	36,487
Provision (benefit) for loan losses	(734)	(1,119)
Net interest income after provision (benefit) for loan losses	38,288	37,606
Non-interest income		
Banking services fee income	884	709
Net gain on sale of loans	2	-
Net loss from fair value adjustments	(595)	(644)
Federal Home Loan Bank of New York stock dividends	518	551
Bank owned life insurance	717	776
Other income	404	318
Total non-interest income	1,930	1,710
Non-interest expense		
Salaries and employee benefits	14,666	12,578
Occupancy and equipment	2,713	2,035
Professional services	1,779	1,210
FDIC deposit insurance	749	697
Data processing	1,075	1,068
Depreciation and amortization	668	715
Other real estate owned/foreclosure expense	520	256
Other operating expenses	3,769	3,534
Total non-interest expense	25,939	22,093
Income before income taxes	14,279	17,223
Provision for income taxes		

Federal	4,252	4,758
State and local	1,294	2,169
Total taxes	5,546	6,927
Net income	$ 8,733	$ 10,296
Basic earnings per common share	$ 0.30	$ 0.34
Diluted earnings per common share	$ 0.30	$ 0.34
Dividends per common share	$ 0.16	$ 0.15

The accompanying notes are an integral part of these consolidated financial statements.

PART I – FINANCIAL INFORMATION

FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES
Consolidated Statements of Comprehensive Income
(Unaudited)

(Dollars in thousands)	For the three months ended March 31, 2015	2014
Comprehensive Income, net of tax		
Net income	$ 8,733	$ 10,296
Amortization of actuarial losses	174	63
Amortization of prior service credits	(6)	(3)
Net unrealized gains on securities	4,332	5,360
Comprehensive income	$ 13,233	$ 15,716

The accompanying notes are an integral part of these consolidated financial statements.

PART I – FINANCIAL INFORMATION

FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES
Consolidated Statements of Cash Flows
(Unaudited)

	For the three months ended March 31,	
(Dollars in thousands)	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 8,733	$ 10,296
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision (benefit) for loan losses	(734)	(1,119)
Depreciation and amortization of bank premises and equipment	668	715
Amortization of premium, net of accretion of discount	2,143	1,821
Net loss from fair value adjustments	595	644
Net gain from sale of loans	(2)	-
Income from bank owned life insurance	(717)	(776)
Stock-based compensation expense	2,778	2,581
Deferred compensation	(1,392)	(1,192)
Excess tax benefit from stock-based payment arrangements	(318)	(675)
Deferred income tax provision	1,925	2,925
Decrease in other liabilities	(4,403)	(2,748)
Decrease in other assets	3,336	1,917
Net cash provided by operating activities	12,612	14,389
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of bank premises and equipment	(5,229)	(342)
Net (purchases) redemptions of Federal Home Loan Bank of New York shares	(3,564)	1,327
Purchases of securities available for sale	(48,962)	(48,277)
Proceeds from sales and calls of securities	-	1,871
Proceeds from maturities and prepayments of securities available for sale	31,019	20,715
Net (originations) and repayment of loans	(59,071)	(57,488)
Purchases of loans	(111,296)	(11,649)
Proceeds from sale of real estate owned	1,594	1,062
Proceeds from sale of delinquent loans	1,522	5,424
Net cash used in investing activities	(193,987)	(87,357)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase (decrease) in non-interest bearing deposits	(5,750)	3,604
Net increase in interest-bearing deposits	84,816	98,091
Net increase in mortgagors' escrow deposits	18,222	16,072
Net proceeds (repayments) from short-term borrowed funds	41,500	(29,500)
Proceeds from long-term borrowings	47,706	-
Repayment of long-term borrowings	(10,000)	-
Purchases of treasury stock	(3,876)	(1,659)
Excess tax benefit from stock-based payment arrangements	318	675
Proceeds from issuance of common stock upon exercise of stock options	-	343
Cash dividends paid	(4,722)	(4,513)

Net cash provided by financing activities	168,214	83,113
Net increase (decrease) in cash and cash equivalents	(13,161)	10,145
Cash and cash equivalents, beginning of period	34,265	33,485
Cash and cash equivalents, end of period	$ 21,104	$ 43,630
SUPPLEMENTAL CASH FLOW DISCLOSURE		
Interest paid	$ 11,948	$ 12,646
Income taxes paid	1,596	4,680
Taxes paid if excess tax benefits were not tax deductible	1,914	5,355
Non-cash activities:		
Securities purchased not yet settled	9,877	1,000
Loans transferred to Other Real Estate Owned	483	115
Loans provided for the sale of Other Real Estate Owned	175	308

The accompanying notes are an integral part of these consolidated financial statements.

PART I – FINANCIAL INFORMATION

FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES
Consolidated Statements of Changes in Stockholders' Equity
(Unaudited)

(Dollars in thousands, except per share data)	For the three months ended March 31, 2015	2014
Common Stock		
Balance, beginning of period	$ 315	$ 315
No activity	-	-
Balance, end of period	$ 315	$ 315
Additional Paid-In Capital		
Balance, beginning of period	$ 206,437	$ 201,902
Award of common shares released from Employee Benefit Trust (136,114 and 126,650 common shares for the three months ended March 31, 2015 and 2014, respectively)	1,917	1,929
Shares issued upon vesting of restricted stock unit awards (59,532 and 1,000 common shares for the three months ended March 31, 2015 and 2014, respectively)	160	3
Issuance upon exercise of stock options (1,100 and 50,215 common shares for the three months ended March 31, 2015 and 2014, respectively)	1	122
Stock-based compensation activity, net	(465)	(26)
Stock-based income tax benefit	318	675
Balance, end of period	$ 208,368	$ 204,605
Treasury Stock		
Balance, beginning of period	$ (37,221)	$ (22,053)
Purchases of outstanding shares (142,315 and 28,120 common shares for the three months ended March 31, 2015 and 2014, respectively)	(2,766)	(556)
Shares issued upon vesting of restricted stock unit awards (204,110 and 183,864 common shares for the three months ended March 31, 2015 and 2014, respectively)	3,577	2,897
Issuance upon exercise of stock options (1,100 and 50,215 common shares for the three months ended March 31, 2015 and 2014, respectively)	19	797
Purchases of shares to fund options exercised (998 and 23,003 common shares for the three months ended March 31, 2015 and 2014, respectively)	(20)	(478)
Repurchase of shares to satisfy tax obligations (58,461 and 53,504 common shares for the three months ended March 31, 2015 and 2014, respectively)	(1,110)	(1,103)
Balance, end of period	$ (37,521)	$ (20,496)
Retained Earnings		
Balance, beginning of period	$ 289,623	$ 263,743
Net income	8,733	10,296
Cash dividends declared and paid on common shares ($0.16 and $0.15 per common share for the three months ended March 31, 2015 and 2014, respectively)	(4,722)	(4,513)
Issuance upon exercise of stock options (7,140 common shares for the three months ended March 31, 2014)	-	(44)
	(503)	(389)

Shares issued upon vesting of restricted stock unit awards (144,578 and 182,864 common shares for the three months ended March 31, 2015 and 2014, respectively)						
Balance, end of period	$	293,131		$	269,093	
Accumulated Other Comprehensive Income (loss)						
Balance, beginning of period	$	(2,907	)	$	(11,375	)
Change in net unrealized gains on securities available for sale, net of taxes of approximately ($3,293) and ($4,237) for the three months ended March 31, 2015 and 2014, respectively		4,332			5,360	
Amortization of actuarial losses, net of taxes of approximately ($133) and ($112) for the three months ended March 31, 2015 and 2014, respectively		174			63	
Amortization of prior service credits, net of taxes of approximately $5 and $8 for the three months ended March 31, 2015 and 2014, respectively)		(6	)		(3	)
Balance, end of period	$	1,593		$	(5,955	)
Total Stockholders' Equity	$	465,886		$	447,562	

The accompanying notes are an integral part of these consolidated financial statements.

PART I – FINANCIAL INFORMATION

FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES
Notes to Consolidated Financial Statements
(Unaudited)

1. Basis of Presentation

The primary business of Flushing Financial Corporation (the “Holding Company”), a Delaware corporation, is the operation of its wholly-owned subsidiary, Flushing Bank (the “Bank”).

The unaudited consolidated financial statements presented in this Quarterly Report on Form 10-Q (“Quarterly Report”) include the collective results of the Holding Company and its direct and indirect wholly-owned subsidiaries, including the Bank, Flushing Preferred Funding Corporation, Flushing Service Corporation, and FSB Properties Inc., which are collectively herein referred to as “we,” “us,” “our” and the “Company.”

The Holding Company also owns Flushing Financial Capital Trust II, Flushing Financial Capital Trust III, and Flushing Financial Capital Trust IV (the “Trusts”), which are special purpose business trusts. The Trusts are not included in the Company’s consolidated financial statements as the Company would not absorb the losses of the Trusts if any losses were to occur.

The accompanying unaudited consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) and general practices within the banking industry. The information furnished in these interim statements reflects all adjustments which are, in the opinion of management, necessary for a fair statement of the results for such presented periods of the Company. Such adjustments are of a normal recurring nature, unless otherwise disclosed in this Quarterly Report. All inter-company balances and transactions have been eliminated in consolidation. The results of operations in the interim statements are not necessarily indicative of the results that may be expected for the full year.

The accompanying unaudited consolidated financial statements have been prepared in conformity with the instructions to Quarterly Report on Form 10-Q and Article 10, Rule 10-01 of Regulation S-X for interim financial statements. Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). The unaudited consolidated interim financial information should be read in conjunction with the Company’s Annual Report on Form 10-K for the year ended December 31, 2014.

2. Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and reported amounts of revenue and expenses during the reporting period. Estimates that are particularly susceptible to change in the near term are used in connection with the determination of the allowance for loan losses (“ALLL”), the evaluation of goodwill for impairment, the evaluation of the need for a valuation allowance of the Company’s deferred tax assets, the evaluation of other-than-temporary impairment (“OTTI”) on securities and the valuation of certain financial instruments. The current economic environment has increased the degree of uncertainty inherent in these material estimates. Actual results could differ from these estimates.

3. Earnings Per Share

Basic earnings per common share is computed by dividing net income available to common shareholders by the total weighted average number of common shares outstanding, which includes unvested participating securities. Unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and as such are included in the calculation of earnings per share. The Company's unvested restricted stock and restricted stock unit awards are considered participating securities. Therefore, weighted average common shares outstanding used for computing basic earnings per common share includes common shares outstanding plus unvested restricted stock and restricted stock unit awards. The computation of diluted earnings per share includes the additional dilutive effect of stock options outstanding and other common stock equivalents during the period. Common stock equivalents that are anti-dilutive are not included in the computation of diluted earnings per common share. The numerator for calculating basic and diluted earnings per common share is net income available to common shareholders. The shares held in the Company's Employee Benefit Trust are not included in shares outstanding for purposes of calculating earnings per common share.

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FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES
Notes to Consolidated Financial Statements
(Unaudited)

Earnings per common share have been computed based on the following:

(In thousands, except per share data)	For the three months ended March 31, 2015	2014
Net income, as reported	$ 8,733	$ 10,296
Divided by:		
Weighted average common shares outstanding	29,397	29,984
Weighted average common stock equivalents	22	38
Total weighted average common shares outstanding and common stock equivalents	29,419	30,022
Basic earnings per common share	$ 0.30	$ 0.34
Diluted earnings per common share (1)	$ 0.30	$ 0.34
Dividend payout ratio	53.3 %	44.1 %

(1) For the three months ended March 31, 2015 and 2014, there were no stock options that were anti-dilutive.

4. Debt and Equity Securities

The Company's investments in equity securities that have readily determinable fair values and all investments in debt securities are classified in one of the following three categories and accounted for accordingly: (1) trading securities, (2) securities available for sale and (3) securities held-to-maturity.

The Company did not hold any trading securities or securities held-to-maturity during the three months ended March 31, 2015 and December 31, 2014. Securities available for sale are recorded at fair value.

The following table summarizes the Company's portfolio of securities available for sale at March 31, 2015:

	Amortized Cost	Fair Value	Gross Unrealized Gains	Gross Unrealized Losses
		(In thousands)		
Corporate	$ 95,785	$ 95,750	$ 939	$ 974
Municipals	144,152	148,377	4,258	33
Mutual funds	21,278	21,278	-	-
Other	24,550	24,550	2	2
Total other securities	285,765	289,955	5,199	1,009
REMIC and CMO	514,592	521,312	8,857	2,137
GNMA	13,359	13,733	455	81
FNMA	166,451	168,556	2,786	681
FHLMC	13,912	14,128	216	-
Total mortgage-backed securities	708,314	717,729	12,314	2,899

Total securities available for sale	$ 994,079	$ 1,007,684	$ 17,513	$ 3,908

Mortgage-backed securities shown in the table above include three private issue collateralized mortgage obligations ("CMOs") that are collateralized by commercial real estate mortgages with amortized cost and market value of $12.4 million at March 31, 2015.

PART I – FINANCIAL INFORMATION

FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES
Notes to Consolidated Financial Statements
(Unaudited)

The following table shows the Company's available for sale securities with gross unrealized losses and their fair value aggregated by category and length of time the individual securities had been in a continuous unrealized loss position at March 31, 2015:

	Total		Less than 12 months		12 months or more	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In thousands)					
Corporate	$49,026	$ 974	$19,389	$ 611	$29,637	$ 363
Municipals	5,268	33	5,268	33	-	-
Other	298	2	-	-	298	2
Total other securities	54,592	1,009	24,657	644	29,935	365
REMIC and CMO	158,838	2,137	55,749	134	103,089	2,003
GNMA	8,099	81	8,099	81	-	-
FNMA	62,834	681	29,897	179	32,937	502
Total mortgage-backed securities	229,771	2,899	93,745	394	136,026	2,505
Total securities available for sale	$284,363	$ 3,908	$118,402	$ 1,038	$165,961	$ 2,870

OTTI losses on impaired securities must be fully recognized in earnings if an investor has the intent to sell the debt security or if it is more likely than not that the investor will be required to sell the debt security before recovery of its amortized cost. However, even if an investor does not expect to sell a debt security, the investor must evaluate the expected cash flows to be received and determine if a credit loss has occurred. In the event that a credit loss has occurred, only the amount of impairment associated with the credit loss is recognized in earnings in the Consolidated Statements of Income. Amounts relating to factors other than credit losses are recorded in accumulated other comprehensive income ("AOCI") within Stockholders' Equity.

The Company reviewed each investment that had an unrealized loss at March 31, 2015. An unrealized loss exists when the current fair value of an investment is less than its amortized cost basis. Unrealized losses on available for sale securities, that are deemed to be temporary, are recorded in AOCI, net of tax. Unrealized losses that are considered to be other-than-temporary are split between credit related and noncredit related impairments, with the credit related impairment being recorded as a charge against earnings and the noncredit related impairment being recorded in AOCI, net of tax.

Corporate:
The unrealized losses in Corporate securities at March 31, 2015 consist of losses on six Corporate securities. The unrealized losses were caused by movements in interest rates. It is not anticipated that these securities would be settled at a price that is less than the amortized cost of the Company's investment. Each of these securities is performing according to its terms and, in the opinion of management, will continue to perform according to its terms. The Company does not have the intent to sell these securities and it is more likely than not the Company will not be required to sell the securities before recovery of the securities' amortized cost basis. This conclusion is based upon considering the Company's cash and working capital requirements and contractual and regulatory obligations, none of which the Company believes would cause the sale of the securities. Therefore, the Company did not consider these investments to be other-than-temporarily impaired at March 31, 2015.

Municipal Securities:
The unrealized losses in Municipal securities at March 31, 2015, consist of losses on two municipal securities. The unrealized losses were caused by movements in interest rates. It is not anticipated that these securities would be settled at a price that is less than the amortized cost of the Company's investment. Each of these securities is performing according to its terms and, in the opinion of management, will continue to perform according to its terms. The Company does not have the intent to sell these securities and it is more likely than not the Company will not be required to sell the securities before recovery of the securities amortized cost basis. This conclusion is based upon considering the Company's cash and working capital requirements and contractual and regulatory obligations, none of which the Company believes would cause the sale of the securities. Therefore, the Company did not consider these investments to be other-than-temporarily impaired at March 31, 2015.

PART I – FINANCIAL INFORMATION

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(Unaudited)

Other Securities:
The unrealized losses in Other Securities at March 31, 2015, consist of a loss on one single issuer trust preferred security. The unrealized losses on this security were caused by market interest volatility, a significant widening of credit spreads across markets for these securities and illiquidity and uncertainty in the financial markets. This security is currently rated below investment grade. It is not anticipated that this security would be settled at a price that is less than the amortized cost of the Company's investment. This security is performing according to its terms and, in the opinion of management, will continue to perform according to its terms. The Company does not have the intent to sell this security and it is more likely than not the Company will not be required to sell this security before recovery of the security's amortized cost basis. This conclusion is based upon considering the Company's cash and working capital requirements and contractual and regulatory obligations, none of which the Company believes would cause the sale of the security. Therefore, the Company did not consider this investment to be other-than-temporarily impaired at March 31, 2015.

REMIC and CMO:
The unrealized losses in Real Estate Mortgage Investment Conduit ("REMIC") and CMO securities at March 31, 2015 consist of six issues from the Federal Home Loan Mortgage Corporation ("FHLMC"), 10 issues from the Federal National Mortgage Association ("FNMA"), six issues from Government National Mortgage Association ("GNMA") and one private issue CMO collateralized by commercial real estate mortgages.

The unrealized losses on the REMIC and CMO securities issued by FHLMC, FNMA, GNMA and the one private issue were caused by movements in interest rates. It is not anticipated that these securities would be settled at a price that is less than the amortized cost of the Company's investment. Each of these securities is performing according to its terms, and, in the opinion of management, will continue to perform according to its terms. The Company does not have the intent to sell these securities and it is more likely than not the Company will not be required to sell the securities before recovery of the securities amortized cost basis. This conclusion is based upon considering the Company's cash and working capital requirements, and contractual and regulatory obligations, none of which the Company believes would cause the sale of the securities. Therefore, the Company did not consider these investments to be other-than-temporarily impaired at March 31, 2015.

GNMA:
The unrealized losses in GNMA securities at March 31, 2015 consist of a loss on one security. The unrealized losses were caused by movements in interest rates. It is not anticipated that this security would be settled at a price that is less than the amortized cost of the Company's investment. This security is performing according to its terms and, in the opinion of management, will continue to perform according to its terms. The Company does not have the intent to sell this security and it is more likely than not the Company will not be required to sell the security before recovery of the security's amortized cost basis. This conclusion is based upon considering the Company's cash and working capital requirements and contractual and regulatory obligations, none of which the Company believes would cause the sale of the security. Therefore, the Company did not consider this security to be other-than-temporarily impaired at March 31, 2015.

FNMA:
The unrealized losses in FNMA securities at March 31, 2015 consist of losses on nine securities. The unrealized losses were caused by movements in interest rates. It is not anticipated that these securities would be settled at a price that is less than the amortized cost of the Company's investment. Each of these securities is performing according to its terms

and, in the opinion of management, will continue to perform according to its terms. The Company does not have the intent to sell these securities and it is more likely than not the Company will not be required to sell the securities before recovery of the securities amortized cost basis. This conclusion is based upon considering the Company's cash and working capital requirements and contractual and regulatory obligations, none of which the Company believes will cause the sale of the securities. Therefore, the Company did not consider these investments to be other-than-temporarily impaired at March 31, 2015.

PART I – FINANCIAL INFORMATION

FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES
Notes to Consolidated Financial Statements
(Unaudited)

The following table represents the activity related to the credit loss component recognized in earnings on debt securities held by the Company for which a portion of OTTI was recognized in AOCI for the periods indicated:

	For the three months ended March 31,	
	2015	2014
	(In thousands)	
Beginning balance	$ -	$ 3,738
Recognition of actual losses	-	-
OTTI charges due to credit loss recorded in earnings	-	-
Securities sold during the period	-	-
Securities where there is an intent to sell or requirement to sell	-	-
Ending balance	$ -	$ 3,738

The following table details the amortized cost and estimated fair value of the Company's securities classified as available for sale at March 31, 2015, by contractual maturity. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Fair Value
	(In thousands)	
Due in one year or less	$37,469	$37,706
Due after one year through five years	26,104	26,768
Due after five years through ten years	79,662	79,130
Due after ten years	142,530	146,351
Total other securities	285,765	289,955
Mortgage-backed securities	708,314	717,729
Total securities available for sale	$994,079	$1,007,684

We did not sell any securities during the three months ended March 31, 2015 and 2014.

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The following table summarizes the Company's portfolio of securities available for sale at December 31, 2014:

	Amortized Cost	Fair Value	Gross Unrealized Gains	Gross Unrealized Losses
			(In thousands)	
Corporate	$90,719	$ 91,273	$ 1,268	$ 714
Municipals	145,864	148,896	3,093	61
Mutual funds	21,118	21,118	-	-
Other	7,098	7,090	-	8
Total other securities	264,799	268,377	4,361	783
REMIC and CMO	504,207	505,768	6,188	4,627
GNMA	13,862	14,159	421	124
FNMA	169,956	170,367	2,128	1,717
FHLMC	14,505	14,639	142	8
Total mortgage-backed securities	702,530	704,933	8,879	6,476
Total securities available for sale	$967,329	$ 973,310	$ 13,240	$ 7,259

Mortgage-backed securities shown in the table above include three private issue CMOs that are collateralized by commercial real estate mortgages with an amortized cost and market value of $12.4 million at December 31, 2014.

The following table shows the Company's available for sale securities with gross unrealized losses and their fair value, aggregated by category and length of time that individual securities have been in a continuous unrealized loss position, at December 31, 2014.

	Total		Less than 12 months		12 months or more	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
			(In thousands)			
Corporate	$39,287	$ 714	$9,573	$ 428	$29,714	$ 286
Municipals	8,810	61	3,546	11	5,264	50
Other	292	8	-	-	292	8
Total other securities	48,389	783	13,119	439	35,270	344
REMIC and CMO	216,190	4,627	77,382	399	138,808	4,228
GNMA	8,358	124	-	-	8,358	124
FNMA	95,148	1,717	-	-	95,148	1,717
FHLMC	6,773	8	6,773	8	-	-
Total mortgage-backed securities	326,469	6,476	84,155	407	242,314	6,069
Total securities available for sale	$374,858	$ 7,259	$97,274	$ 846	$277,584	$ 6,413

5. Loans

Loans are reported at their principal outstanding balance net of any unearned income, charge-offs, deferred loan fees and costs on originated loans and unamortized premiums or discounts on purchased loans. Interest on loans is recognized on the accrual basis. The accrual of income on loans is generally discontinued when certain factors, such as contractual delinquency of 90 days or more, indicate reasonable doubt as to the timely collectability of such income. Uncollected interest previously recognized on non-accrual loans is reversed from interest income at the time the loan is placed on non-accrual status. A non-accrual loan can be returned to accrual status when contractual delinquency returns to less than 90 days delinquent. Subsequent cash payments received on non-accrual loans that do not bring the loan to less than 90 days delinquent are recorded on a cash basis. Subsequent cash payments can also be applied first as a reduction of principal until all principal is recovered and then subsequently to interest, if in management's opinion, it is evident that recovery of all principal due is likely to occur. Loan fees and certain loan origination costs are deferred. Net loan origination costs and premiums or discounts on loans purchased are amortized into interest income over the contractual life of the loans using the level-yield method. Prepayment penalties received on loans which pay in full prior to their scheduled maturity are included in interest income in the period they are collected.

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The Company maintains an allowance for loan losses at an amount, which, in management's judgment, is adequate to absorb probable estimated losses inherent in the loan portfolio. Management's judgment in determining the adequacy of the allowance is based on evaluations of the collectability of loans. This evaluation is inherently subjective, as it requires estimates that are susceptible to significant revisions as more information becomes available. 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 the Company's lenders, collection policies and experience, internal loan review function and other external factors. The Company segregated its loans into two portfolios based on year of origination. One portfolio was reviewed for loans originated after December 31, 2009 and a second portfolio for loans originated prior to January 1, 2010. Our decision to segregate the portfolio based upon origination dates was based on changes made in our underwriting standards during 2009. By the end of 2009, all loans were being underwritten based on revised and tightened underwriting standards. Loans originated prior to 2010 have a higher delinquency rate and loss history. Each of the years in the portfolio for loans originated prior to 2010 has a similar delinquency rate. The determination of the amount of the allowance for loan losses includes estimates that are susceptible to significant changes due to changes in appraisal values of collateral, national and local economic conditions and other factors. We review our loan portfolio by separate categories with similar risk and collateral characteristics. Impaired loans are segregated and reviewed separately. All non-accrual loans are classified as impaired loans. The Company's Board of Directors reviews and approves management's evaluation of the adequacy of the allowance for loan losses on a quarterly basis.

The allowance for loan losses is established through charges to earnings in the form of a provision for loan losses. Increases and decreases in the allowance other than charge-offs and recoveries are included in the provision for loan losses. When a loan or a portion of a loan is determined to be uncollectible, the portion deemed uncollectible is charged against the allowance, and subsequent recoveries, if any, are credited to the allowance.

The Company recognizes a loan as non-performing when the borrower has demonstrated the inability to bring the loan current, or due to other circumstances which, in management's opinion, indicate the borrower will be unable to bring the loan current within a reasonable time. 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. Appraisals are obtained and/or updated internal evaluations are prepared as soon as practical, and before the loan becomes 90 days delinquent. The loan balances of collateral dependent impaired loans are compared to the property's updated fair value. The Company considers fair value of collateral dependent loans to be 85% of the appraised or internally estimated value of the property. The balance which exceeds fair value is generally charged-off. The 85% is based on the actual net proceeds the Bank has received from the sale of other real estate owned ("OREO") as a percentage of OREO's appraised value.

A loan is considered impaired when, based upon current information, the Company believes it is probable that it will be unable to collect all amounts due, both principal and interest, in accordance with the original terms of the loan. Impaired loans are measured based on the present value of the expected future cash flows discounted at the loan's effective interest rate or at the loan's observable market price or, as a practical expedient, the fair value of the collateral if the loan is collateral dependent. Interest income on impaired loans is recorded on the cash basis. The Company's management considers all non-accrual loans impaired.

The Company reviews each impaired loan on an individual basis to determine if either a charge-off or a valuation allowance needs to be allocated to the loan. The Company does not charge-off or allocate a valuation allowance to loans for which management has concluded the current value of the underlying collateral will allow for recovery of the loan balance either through the sale of the loan or by foreclosure and sale of the property.

The Company evaluates the underlying collateral through a third party appraisal, or when a third party appraisal is not available, the Company will use an internal evaluation. The internal evaluations are prepared using an income approach or a sales approach. The income approach is used for income producing properties and uses current revenues less operating expenses to determine the net cash flow of the property. Once the net cash flow is determined, the value of the property is calculated using an appropriate capitalization rate for the property. The sales approach uses comparable sales prices in the market. When an internal evaluation is used, we place greater reliance on the income approach to value the collateral.

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In preparing internal evaluations of property values, the Company seeks to obtain current data on the subject property from various sources, including: (1) the borrower; (2) copies of existing leases; (3) local real estate brokers and appraisers; (4) public records (such as for real estate taxes and water and sewer charges); (5) comparable sales and rental data in the market; (6) an inspection of the property and (7) interviews with tenants. These internal evaluations primarily focus on the income approach and comparable sales data to value the property.

As of March 31, 2015, we utilized recent third party appraisals of the collateral to measure impairment for $31.0 million, or 66.4%, of collateral dependent impaired loans, and used internal evaluations of the property’s value for $15.7 million, or 33.6%, of collateral dependent impaired loans.

The Company may restructure a loan to enable a borrower experiencing financial difficulties to continue making payments when it is deemed to be in the Company’s best long-term interest. This restructure may include reducing the interest rate or amount of the monthly payment for a specified period of time, after which the interest rate and repayment terms revert to the original terms of the loan. We classify these loans as Troubled Debt Restructured (“TDR”).

These restructurings have not included a reduction of principal balance. The Company believes that restructuring these loans in this manner will allow certain borrowers to become and remain current on their loans. Restructured loans are classified as a TDR when the Bank grants a concession to a borrower who is experiencing financial difficulties. All loans classified as TDR are considered impaired, however TDR loans which have been current for six consecutive months at the time they are restructured as TDR remain on accrual status and are not included as part of non-performing loans. Loans which were delinquent at the time they are restructured as a TDR are placed on non-accrual status and reported as non-performing loans until they have made timely payments for six consecutive months. Loans that are restructured as TDR but are not performing in accordance with the restructured terms are placed on non-accrual status and reported as non-performing loans.

The allocation of a portion of the allowance for loan losses for a performing TDR loan is based upon the present value of the future expected cash flows discounted at the loan’s original effective rate, or for a non-performing TDR which is collateral dependent, the fair value of the collateral. At March 31, 2015, there were no commitments to lend additional funds to borrowers whose loans were modified to a TDR. The modification of loans to a TDR did not have a significant effect on our operating results, nor did it require a significant allocation of the allowance for loan losses.

The following table shows loans modified and classified as TDR during the period indicated:

	For the three months ended March 31, 2015		
(Dollars in thousands)	Number	Balance	Modification description
Small Business Administration	1	$ 41	Received a below market interest rate and the loan amortization was extended
Total	1	$ 41	

The Bank did not modify and classify any loans as TDR during the three months ended March 31, 2014.

The recorded investment of the loan modified and classified to a TDR, presented in the table above, was unchanged as there was no principal forgiven in this modification.

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

	March 31, 2015		December 31, 2014	
(Dollars in thousands)	Number of contracts	Recorded investment	Number of contracts	Recorded investment
Multi-family residential	9	$ 2,669	10	$ 3,034
Commercial real estate	3	2,364	3	2,373
One-to-four family - mixed-use property	7	2,369	7	2,381
One-to-four family - residential	1	351	1	354
Small business administration	1	41	-	-
Commercial business and other	4	2,208	4	2,249
Total performing troubled debt restructured	25	$ 10,002	25	$ 10,391

During the three months ended March 31, 2015 one TDR loan of $0.4 million was transferred to non-performing status, which resulted in this loan being included in non-performing loans.

The following table shows our recorded investment for loans classified as TDR that are not performing according to their restructured terms at the periods indicated:

	March 31, 2015		December 31, 2014	
(Dollars in thousands)	Number of contracts	Recorded investment	Number of contracts	Recorded investment
Multi-family residential	1	$ 359	-	$ -
Commercial real estate	-	-	1	2,252
One-to-four family - mixed use property	1	188	1	187
Total troubled debt restructurings that subsequently defaulted	2	$ 547	2	$ 2,439

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The following table shows our non-performing loans at the periods indicated:

(In thousands)	March 31, 2015	December 31, 2014
Loans ninety days or more past due and still accruing:		
Multi-family residential	$ -	$ 676
Commercial real estate	753	820
One-to-four family - mixed-use property	195	405
One-to-four family - residential	13	14
Commercial Business and other	1,932	386
Total	2,893	2,301
Non-accrual mortgage loans:		
Multi-family residential	6,902	6,878
Commercial real estate	3,021	5,689
One-to-four family - mixed-use property	7,224	6,936
One-to-four family - residential	11,212	11,244
Total	28,359	30,747
Non-accrual non-mortgage loans:		
Small business administration	232	-
Commercial business and other	1,035	1,143
Total	1,267	1,143
Total non-accrual loans	29,626	31,890
Total non-accrual loans and loans ninety days or more past due and still accruing	$ 32,519	$ 34,191

The following is a summary of interest foregone on non-accrual loans and loans classified as TDR for the periods indicated:

	For the three months ended March 31, 2015	2014
	(In thousands)	
Interest income that would have been recognized had the loans performed in accordance with their original terms	$ 691	$ 1,067
Less: Interest income included in the results of operations	148	155
Total foregone interest	$ 543	$ 912

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The following table shows an age analysis of our recorded investment in loans at March 31, 2015:

(in thousands)	30 - 59 Days ast Due	60 - 89 Days Past Due	Greater than 90 Days	Total Past Due	Current	Total Loans
Multi-family residential	$ 8,595	$ -	$ 6,903	$ 15,498	$ 1,997,751	$ 2,013,249
Commercial real estate	3,202	-	3,774	6,976	680,847	687,823
One-to-four family - mixed-use property	10,522	-	7,418	17,940	555,987	573,927
One-to-four family - residential	1,694	175	11,022	12,891	177,475	190,366
Co-operative apartments	-	-	-	-	9,413	9,413
Construction loans	-	-	-	-	2,828	2,828
Small Business Administration	56	93	232	381	7,624	8,005
Taxi medallion	-	-	-	-	21,346	21,346
Commercial business and other	4	-	2,688	2,692	475,131	477,823
Total	$ 24,073	$ 268	$ 32,037	$ 56,378	$ 3,928,402	$ 3,984,780

The following table shows an age analysis of our recorded investment in loans at December 31, 2014:

(in thousands)	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater than 90 Days	Total Past Due	Current	Total Loans
Multi-family residential	$ 7,721	$ 1,729	$ 7,554	$ 17,004	$ 1,906,456	$ 1,923,460
Commercial real estate	2,171	1,344	6,510	10,025	611,544	621,569
One-to-four family - mixed-use property	10,408	1,154	7,341	18,903	554,876	573,779
One-to-four family - residential	1,751	2,244	11,051	15,046	172,526	187,572
Co-operative apartments	-	-	-	-	9,835	9,835
Construction loans	3,000	-	-	3,000	2,286	5,286
Small Business Administration	90	-	-	90	7,044	7,134
Taxi medallion	-	-	-	-	22,519	22,519
Commercial business and other	6	1,585	740	2,331	445,169	447,500
Total	$ 25,147	$ 8,056	$ 33,196	$ 66,399	$ 3,732,255	$ 3,798,654

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The following table shows the activity in the allowance for loan losses for the three months ended March 31, 2015:

(in thousands)	Multi-family residential	Commercial real estate	One-to-four family - mixed-use property	One-to-four family- residential	Co-operative apartments	Construction loans	Small Business Administration	Taxi Medallion	Commercial business and other	Total
Allowance for credit losses:										
Beginning balance	$8,827	$4,202	$5,840	$1,690	$-	$42	$279	$11	$4,205	$25,096
Charge-offs	(97)	(18)	(78)	(153)	-	-	-	-	(51)	(397)
Recoveries	23	72	3	-	-	-	20	-	8	126
Provision (Benefit)	(124)	(354)	(336)	(72)	-	(19)	(33)	-	204	(734)
Ending balance	$8,629	$3,902	$5,429	$1,465	$-	$23	$266	$11	$4,366	$24,091
Ending balance: individually evaluated for impairment	$267	$19	$566	$54	$-	$-	$-	$-	$139	$1,045
Ending balance: collectively evaluated for impairment	$8,362	$3,883	$4,863	$1,411	$-	$23	$266	$11	$4,227	$23,046
Financing Receivables:										
Ending Balance	$2,013,249	$687,823	$573,927	$190,366	$9,413	$2,828	$8,005	$21,346	$477,823	$3,984,780
Ending balance: individually evaluated for impairment	$13,743	$6,575	$14,548	$13,954	$-	$-	$359	$-	$8,848	$58,027
Ending balance: collectively evaluated for impairment	$1,999,506	$681,248	$559,379	$176,412	$9,413	$2,828	$7,646	$21,346	$468,975	$3,926,753

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The following table shows the activity in the allowance for loan losses for the three months ended March 31, 2014:

(in thousands)	Multi-family residential	Commercial real estate	One-to-four family - mixed-use property	One-to-four family- residential	Co-operative apartments	Construction loans	Small Business Administration	Taxi Medallion	Commercial business and other	Total
Allowance for credit losses:										
Beginning balance	$12,084	$4,959	$6,328	$2,079	$104	$ 444	$458	$-	$5,320	$31,776
Charge-offs	(605)	(47)	(83)	(42)	-	-	-	-	(124)	(901)
Recoveries	7	382	40	68	7	-	10	-	-	514
Provision (Benefit)	(383)	85	857	(161)	(111)	(404)	(77)	14	(939)	(1,119)
Ending balance	$11,103	$5,379	$7,142	$1,944	$-	$ 40	$391	$14	$4,257	$30,270
Ending balance: individually evaluated for impairment	$304	$210	$617	$57	$-	$ 9	$-	$-	$218	$1,415
Ending balance: collectively evaluated for impairment	$10,799	$5,169	$6,525	$1,887	$-	$ 31	$391	$14	$4,039	$28,855
Financing Receivables:										
Ending Balance	$1,722,764	$509,728	$587,482	$194,611	$9,974	$ 4,859	$7,628	$24,127	$427,406	$3,488,579
Ending balance: individually evaluated for impairment	$20,898	$19,558	$16,060	$13,941	$-	$ 1,316	$-	$-	$10,155	$81,928
Ending balance: collectively evaluated for impairment	$1,701,866	$490,170	$571,422	$180,670	$9,974	$ 3,543	$7,628	$24,127	$417,251	$3,406,651

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The following table shows our recorded investment, unpaid principal balance, allocated allowance for loan losses, average recorded investment and interest income recognized for loans that were considered impaired at or for the three month period ended March 31, 2015:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
			(In thousands)		
With no related allowance recorded:					
Mortgage loans:					
Multi-family residential	$11,329	$ 12,423	$ -	$ 10,905	$ 56
Commercial real estate	6,033	6,173	-	6,567	39
One-to-four family mixed-use property	11,471	12,668	-	11,749	57
One-to-four family residential	13,603	16,523	-	13,210	25
Co-operative apartments	-	-	-	-	-
Construction	-	-	-	-	-
Non-mortgage loans:					
Small Business Administration	318	318	-	159	1
Taxi Medallion	-	-	-	-	-
Commercial Business and other	6,242	6,612	-	4,511	69
Total loans with no related allowance recorded	48,996	54,717	-	47,101	247
With an allowance recorded:					
Mortgage loans:					
Multi-family residential	2,414	2,414	267	2,597	32
Commercial real estate	542	542	19	1,458	7
One-to-four family mixed-use property	3,077	3,077	566	3,085	42
One-to-four family residential	351	351	54	353	4
Co-operative apartments	-	-	-	-	-
Construction	-	-	-	-	-
Non-mortgage loans:					
Small Business Administration	41	41	-	21	1
Taxi Medallion	-	-	-	-	-
Commercial Business and other	2,606	2,606	139	2,660	35
Total loans with an allowance recorded	9,031	9,031	1,045	10,174	121
Total Impaired Loans:					
Total mortgage loans	$48,820	$ 54,171	$ 906	$ 49,924	$ 262
Total non-mortgage loans	$9,207	$ 9,577	$ 139	$ 7,351	$ 106

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The following table shows our recorded investment, unpaid principal balance, allocated allowance for loan losses, average recorded investment and interest income recognized for loans that were considered impaired at or for the year ended December 31, 2014:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
			(In thousands)		
With no related allowance recorded:					
Mortgage loans:					
Multi-family residential	$10,481	$ 11,551	$ -	$ 14,168	$ 194
Commercial real estate	7,100	7,221	-	11,329	51
One-to-four family mixed-use property	12,027	13,381	-	12,852	321
One-to-four family residential	12,816	15,709	-	13,015	103
Co-operative apartments	-	-	-	-	-
Construction	-	-	-	285	-
Non-mortgage loans:					
Small Business Administration	-	-	-	-	-
Taxi Medallion	-	-	-	-	-
Commercial Business and other	2,779	3,149	-	3,428	137
Total loans with no related allowance recorded	45,203	51,011	-	55,077	806
With an allowance recorded:					
Mortgage loans:					
Multi-family residential	2,779	2,779	286	2,936	149
Commercial real estate	2,373	2,373	21	3,242	167
One-to-four family mixed-use property	3,093	3,093	579	3,249	170
One-to-four family residential	354	354	54	358	14
Co-operative apartments	-	-	-	-	-
Construction	-	-	-	187	-
Non-mortgage loans:					
Small Business Administration	-	-	-	-	-
Taxi Medallion	-	-	-	-	-
Commercial Business and other	2,713	2,713	154	3,149	115
Total loans with an allowance recorded	11,312	11,312	1,094	13,121	615
Total Impaired Loans:					
Total mortgage loans	$51,023	$ 56,461	$ 940	$ 61,621	$ 1,169
Total non-mortgage loans	$5,492	$ 5,862	$ 154	$ 6,577	$ 252

In accordance with our policy and the current regulatory guidelines, we designate loans as "Special Mention," which are considered "Criticized Loans," and "Substandard," "Doubtful," or "Loss," which are considered "Classified Loans". If a lo does not fall within one of the previous mentioned categories then the loan would be considered "Pass." These loan designations are updated quarterly. We designate a loan as Substandard when a well-defined weakness is identified that jeopardizes the orderly liquidation of the debt. We designate a loan Doubtful when it displays the inherent weakness of a Substandard loan with the added provision that collection of the debt in full, on the basis of existing facts, is highly improbable. We designate a loan as Loss if it is deemed the debtor is incapable of repayment. The Company does not hold any loans designated as Loss, as loans that are designated as Loss are charged to the Allowance for Loan Losses. Loans that are non-accrual are designated as Substandard or Doubtful. We designate a loan as Special Mention if the asset does not warrant classification within one of the other classifications, but does contain a potential weakness that deserves closer attention.

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The following table sets forth the recorded investment in loans designated as Criticized or Classified at March 31, 2015:

(In thousands)	Special Mention	Substandard	Doubtful	Loss	Total
Multi-family residential	$ 3,492	$ 11,076	$ -	$ -	$ 14,568
Commercial real estate	3,426	4,211	-	-	7,637
One-to-four family - mixed-use property	4,455	12,179	-	-	16,634
One-to-four family - residential	1,560	12,984	-	-	14,544
Co-operative apartments	-	618	-	-	618
Construction loans	-	-	-	-	-
Small Business Administration	294	222	-	-	516
Commercial business and other	1,293	7,164	-	-	8,457
Total loans	$ 14,520	$ 48,454	$ -	$ -	$ 62,974

The following table sets forth the recorded investment in loans designated as Criticized or Classified at December 31, 2014:

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

The following table shows the changes in the allowance for loan losses for the periods indicated:

	For the three months ended March 31	
(In thousands)	2015	2014
Balance, beginning of period	$ 25,096	$ 31,776
Benefit for loan losses	(734)	(1,119)
Charge-off's	(397)	(901)
Recoveries	126	514
Balance, end of period	$ 24,091	$ 30,270

PART I – FINANCIAL INFORMATION

FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES
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The following table shows net loan charge-offs for the periods indicated:

	Three Months Ended	
(In thousands)	March 31, 2015	March 31, 2014
Multi-family residential	$74	$ 598
Commercial real estate	(54)	(335)
One-to-four family – mixed-use property	75	43
One-to-four family – residential	153	(26)
Co-operative apartments	-	(7)
Construction	-	-
Small Business Administration	(20)	(10)
Commercial business and other	43	124
Total net loan charge-offs	$271	$ 387

Commitments to extend credit (principally real estate mortgage loans) and lines of credit (principally home equity lines of credit and business lines of credit) amounted to $62.7 million and $174.5 million, respectively, at March 31, 2015.

6. Loans held for sale

Loans held for sale are carried at the lower of cost or estimated fair value. At March 31, 2015 and December 31, 2014, the Bank did not have any loans held for sale.

The Company has implemented a strategy of selling certain delinquent and non-performing loans. Once the Company has decided to sell a loan, the sale usually closes in a short period of time, generally within the same quarter. Loans designated held for sale are reclassified from loans held for investment to loans held for sale. Terms of sale include cash due upon the closing of the sale, no contingencies or recourse to the Company and servicing is released to the buyer.

The following table shows delinquent and non-performing loans sold during the period indicated:

	For the three months ended March 31, 2015			
(Dollars in thousands)	Loans sold	Proceeds	Net (charge-offs) recoveries	Net gain
Multi-family residential	2	$836	$ -	$2
One-to-four family - mixed-use property	3	686	-	-
Total	5	$1,522	$ -	$2

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FLUSHING FINANCIAL CORPORATION and SUBSIDIARIES
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The following table shows delinquent and non-performing loans sold during the period indicated:

	For the three months ended March 31, 2014			
(Dollars in thousands)	Loans sold	Proceeds	Net (charge-offs) recoveries	Net gain (loss)
Multi-family residential	4	$1,738	$ (146)	$ -
Commercial real estate	2	1,617	295	-
One-to-four family - mixed-use property	6	2,069	38	-
Total	12	$5,424	$ 187	$ -

7. Other Real Estate Owned

The following are changes in OREO during the periods indicated:

	For the three months ended March 31,	
	2015	2014
	(In thousands)	
Balance at beginning of period	$ 6,326	$ 2,985
Acquisitions	483	115
Write-down of carrying value	-	(54)
Sales	(1,557)	(1,346)
Balance at end of period	$ 5,252	$ 1,700

The following table shows the gross gains, gross losses and write-downs of OREO reported in the Consolidated Statements of Income during the periods indicated:

	For the three months ended March 31,	
	2015	2014
	(In thousands)	
Gross gains	$ 216	$ 54
Gross losses	(6)	(30)
Write-down of carrying value		