

FLUSHING FINANCIAL CORP  
Form 10-K  
March 16, 2011

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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, 2010

Commission file number 001-33013

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

Delaware  
(State or other jurisdiction of incorporation or  
organization)

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

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

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

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

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

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

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in rule 405 of the Securities Act.  Yes  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.  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

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(§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).  Yes  No

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

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

Large accelerated filer

Accelerated filer

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  No

As of June 30, 2010, 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 \$363,899,000. 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 \$12.23.

The number of shares of the registrant's Common Stock outstanding as of February 28, 2011 was 31,332,442 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Company's definitive Proxy Statement for the Annual Meeting of Stockholders to be held on May 17, 2011 are incorporated herein by reference in Part III.

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SIGNATURES

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CAUTIONARY NOTE REGARDING FORWARD LOOKING STATEMENTS

Statements contained in this Annual Report on Form 10-K (this “Annual Report”) relating to plans, strategies, economic performance and trends, projections of results of specific activities or investments and other statements that are not descriptions of historical facts may be forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking information is inherently subject to risks and uncertainties, and actual results could differ materially from those currently anticipated due to a number of factors, which include, but are not limited to, factors discussed under the captions “Business — General — Allowance for Loan Losses” and “Business — General — Market Area and Competition” in Item 1 below, “Risk Factors” in Item 1A below, in “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Overview” in Item 7 below, and elsewhere in this Annual Report and in other documents filed by the Company with the Securities and Exchange Commission from time to time. Forward-looking statements may be identified by terms such as “may,” “will,” “should,” “could,” “expects,” “plans,” “intends,” “anticipates,” “believes,” “estimates,” “predicts,” “forecast” 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, 2010, the Company had total assets of \$4.3 billion, deposits of \$3.2 billion and stockholders' equity of \$390.0 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 one-to-four family (focusing on mixed-use properties, which are properties that contain both residential dwelling units and

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commercial units), multi-family residential and, to a lesser extent, 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, 2010, we had gross loans outstanding of \$3,259.8 million (before the allowance for loan losses and net deferred costs), with gross mortgage loans totaling \$2,966.9 million, or 91.0% of gross loans, and non-mortgage loans totaling \$292.9 million, or 9.0% of gross loans. Mortgage loans are primarily multi-family, commercial and one-to-four family mixed-use properties, which combined totaled 81.1% of gross loans. Our revenues are derived principally from interest on our mortgage and other loans and mortgage-backed securities portfolio, and interest and dividends on other investments in our securities portfolio. Our primary sources of funds are deposits, Federal Home Loan Bank of New York (“FHLB-NY”) borrowings, repurchase agreements, principal and interest payments on loans, mortgage-backed and other securities, proceeds from sales of securities and, to a lesser extent, proceeds from sales of loans. As a federal savings bank, the Savings Bank’s primary regulator is the Office of Thrift Supervision (“OTS”), although as a result of the Dodd-Frank Wall Street Reform and Consumer Protection Act, the Office of the Comptroller of the Currency (“OCC”) will become the Savings Bank’s primary regulator on July 21, 2011, unless the Secretary of the Treasury of the United States (“Secretary of the Treasury”) opts to delay such date for up to an additional six months. 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 2009, unemployment has remained at elevated levels of 8.9% and 10.5% in December 2010 and 2009, 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 resulted in an increase in our non-performing loans, which increased to \$126.0 million at December 31, 2010 from \$85.9 million and \$40.0 million at December 31, 2009 and 2008, respectively. While non-performing loans have increased, 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 also increased to \$13.6 million for the year ended December 31, 2010 from \$10.2 million and \$1.2 million for the years ended December 31, 2009 and 2008, 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.

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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 2010 declined to \$416.5 million from \$500.6 million in 2009, \$667.6 million in 2008, and \$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

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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, 2010, the business banking unit had \$268.0 million in loans outstanding and \$32.2 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](http://www.iGObanking.com) or by mail. The internet branch does not currently accept loan applications. As of December 31, 2010, the internet branch had \$479.4 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, 2010, Flushing Commercial Bank had \$570.5 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 our Fixed Rate Cumulative Perpetual Preferred Stock Series B having a liquidation preference of \$1,000 per share (the “Series B Preferred Stock”), and (ii) a ten-year warrant (the “Warrant”) to purchase up to 751,611 shares of our common stock, par value \$0.01 per share, at an initial price of \$13.97 per share, for an aggregate purchase price of \$70.0 million in cash. The Series B Preferred Stock qualified as Tier 1 Capital under the risk-based capital guidelines of the 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, 2010, the Savings Bank operated out of 15 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 2011, the Savings Bank opened its sixteenth 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.

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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 105 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 20th 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, 2010, we had gross loans outstanding of \$3,259.8 million (before the allowance for loan losses and net deferred costs).

We focused our mortgage loan origination efforts on multi-family residential mortgage loans during 2010 and 2009. In the previous three 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 during the most

recent two years 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 during the past two years, and on multi-family residential, commercial real estate and one-to-four family mixed-use property mortgage loans during the previous three years, has increased the overall

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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 two 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.

The Company elected to reclassify owner-occupied commercial loans that were originated by the business banking unit prior to January 1, 2010, from commercial real estate loans to commercial business loans. All loan originations of this type from January 1, 2010 forward have been and will be reported as commercial business loans. These loans are underwritten using the same underwriting standards used to originate unsecured business loans, with the mortgage obtained as additional collateral. Based upon the underwriting standards used to originate the loans, it is more appropriate to report the loans as commercial business loans. Prior period amounts have been adjusted to reflect this change.

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.

	2010		2009		At December 31, 2008		2007		2006	
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total
(Dollars in thousands)										
Mortgage loans:										
Multi-family residential	\$1,252,176	38.41 %	\$1,158,700	36.17 %	\$999,185	33.80 %	\$964,455	35.79 %	\$870,912	37.52 %
Commercial real estate	662,794	20.33	686,210	21.42	686,630	23.24	586,598	21.77	505,865	21.79
One-to-four family - mixed-use property	728,810	22.36	744,560	23.24	751,952	25.45	686,921	25.49	588,092	25.33
One-to-four family - residential (1)	241,376	7.40	249,920	7.80	238,711	8.09	161,666	6.01	161,889	6.98
Co-operative apartment (2)	6,215	0.19	6,553	0.20	6,566	0.22	7,070	0.26	8,059	0.35
Construction	75,519	2.32	97,270	3.04	103,626	3.51	119,745	4.44	104,488	4.50
Cross mortgage loans	2,966,890	91.01	2,943,213	91.87	2,786,670	94.31	2,526,455	93.76	2,239,305	96.47
Non-mortgage loans:										
Small Business Administration	17,511	0.54	17,496	0.55	19,671	0.67	18,922	0.70	17,521	0.75
Taxi medallion	88,264	2.71	61,424	1.92	12,979	0.44	68,250	2.53	37,450	1.61
Commercial business and other	187,161	5.74	181,240	5.66	135,249	4.58	81,041	3.01	27,136	1.17
Cross non-mortgage loans	292,936	8.99	260,160	8.13	167,899	5.69	168,213	6.24	82,107	3.53
Cross loans	3,259,826	100.00%	3,203,373	100.00%	2,954,569	100.00%	2,694,668	100.00%	2,321,412	100.00%
Unearned loan fees and deferred costs, net	16,503		17,110		17,121		14,083		10,393	
Provision for losses:										
Allowance for loan losses	(27,699 )		(20,324 )		(11,028 )		(6,633 )		(7,057 )	

ans, net	\$3,248,630	\$3,200,159	\$2,960,662	\$2,702,118	\$2,324,748
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(1) One-to-four family residential mortgage loans also include home equity and condominium loans. At December 31, 2010, gross home equity loans totaled \$75.4 million and condominium loans totaled \$28.9 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,		
	2010	2009	2008
<b>Mortgage Loans</b>			
At beginning of year	\$2,943,213	\$2,786,670	\$2,526,455
<b>Mortgage loans originated:</b>			
Multi-family residential	171,238	212,274	153,023
Commercial real estate	33,697	32,557	147,911
One-to-four family mixed-use property	29,415	33,053	118,270
One-to-four family residential	34,694	54,669	57,292
Co-operative apartment	407	534	800
Construction	10,493	18,263	30,673
Total mortgage loans originated	279,944	351,350	507,969
<b>Mortgage loans purchased:</b>			
Multi-family residential	-	-	-
Commercial real estate	-	2,917	2,500
One-to-four family residential	-	-	62,330
Total mortgage loans purchased	-	2,917	64,830
<b>Less:</b>			
Principal reductions	229,951	183,712	298,348
Mortgage loan sales	8,755	6,233	13,641
Charge-offs	13,170	5,359	470
Mortgage loan foreclosures	4,391	2,420	125
At end of year	\$2,966,890	\$2,943,213	\$2,786,670
<b>Non-mortgage loans</b>			
At beginning of year	\$260,160	\$167,899	\$168,213
<b>Loans originated:</b>			
Small Business Administration	3,869	4,457	9,880
Taxi Medallion	59,551	20,702	7,101
Commercial business	52,505	76,161	74,779
Other	5,991	4,656	2,618
Total other loans originated	121,916	105,976	94,378
<b>Non-mortgage loans purchased:</b>			
Small Business Administration	-	-	423
Taxi Medallion	14,675	40,347	-



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Less:

Sales of Small Business Administration loans	-	2,005	2,988
Principal reductions	102,617	47,237	91,345
Charge-offs	1,198	4,820	782
At end of year	\$292,936	\$260,160	\$167,899

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Loan Maturity and Repricing. The following table shows the maturity of our total loan portfolio at December 31, 2010. Scheduled repayments are shown in the maturity category in which the payments become due.

(In thousands)	Mortgage loans					Non-mortgage loans					Total loans
	Multi-family residential	Commercial real estate	One-to-four family mixed-use property	One-to-four family residential	Co-operative apartment	Small Business Administration	Construction	Taxi Medallion	Commercial business and other		
Amounts due within one year	\$ 102,026	\$ 92,920	\$ 29,014	\$ 17,087	\$ 260	\$ 9,710	\$ 3,900	\$ 46,597	\$ 60,334	\$ 361,848	
Amounts due after one year:											
One to two years	88,483	73,525	30,760	8,754	270	65,809	3,406	27,332	12,952	311,291	
Two to three years	88,263	71,193	31,852	8,530	226	-	2,461	12,227	10,374	225,126	
Three to five years	163,062	132,984	66,310	15,937	450	-	2,460	2,108	19,567	402,878	
Over five years	810,342	292,172	570,874	191,068	5,009	-	5,284	-	83,934	1,958,683	
Total due after one year	1,150,150	569,874	699,796	224,289	5,955	65,809	13,611	41,667	126,827	2,897,978	
Total amounts due	\$ 1,252,176	\$ 662,794	\$ 728,810	\$ 241,376	\$ 6,215	\$ 75,519	\$ 17,511	\$ 88,264	\$ 187,161	\$ 3,259,826	
Sensitivity of loans to changes in interest rates - loans due after one year:											
Fixed rate loans	\$ 187,422	\$ 71,758	\$ 144,036	\$ 72,492	\$ 179	\$ 8,764	\$ -	\$ 38,156	\$ 35,370	\$ 558,177	
Adjustable rate loans	962,728	498,116	555,760	151,797	5,776	57,045	13,611	3,511	91,457	2,339,801	
Total loans due after one year	\$ 1,150,150	\$ 569,874	\$ 699,796	\$ 224,289	\$ 5,955	\$ 65,809	\$ 13,611	\$ 41,667	\$ 126,827	\$ 2,897,978	



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Multi-Family Residential Lending. Loans secured by multi-family residential properties were \$1,252.2 million, or 38.41% of gross loans, at December 31, 2010. Our multi-family residential mortgage loans had an average principal balance of \$553,000 at December 31, 2010, and the largest multi-family residential mortgage loan held in our portfolio had a principal balance of \$8.1 million. We offer both fixed-rate and adjustable-rate multi-family residential mortgage loans, with maturities of up to 30 years.

In underwriting multi-family residential mortgage loans, we review the expected net operating income generated by the real estate collateral securing the loan, the age and condition of the collateral, the financial resources and income level of the borrower and the borrower's experience in owning or managing similar properties. We typically require debt service coverage of at least 125% of the monthly loan payment. During 2008, we increased the required debt service coverage ratio for multi-family residential loans with ten units or less. We generally originate these loans up to only 75% of the appraised value or the purchase price of the property, whichever is less. Any loan with a final loan-to-value ratio in excess of 75% must be approved by the Savings Bank Board of Directors, the Loan Committee or its Executive Committee (the "Executive Committee") as an exception to policy. We generally rely on the income generated by the property as the primary means by which the loan is repaid. However, personal guarantees may be obtained for additional security from these borrowers. We typically order an environmental report on our multi-family and commercial real estate loans.

Loans secured by multi-family residential property generally involve a greater degree of risk than residential mortgage loans and carry larger loan balances. The increased credit risk is the result of several factors, including the concentration of principal in a smaller number of loans and borrowers, the effects of general economic conditions on income producing properties and the increased difficulty in evaluating and monitoring these types of loans. Furthermore, the repayment of loans secured by multi-family residential property is typically dependent upon the successful operation of the related property, which is usually owned by a legal entity with the property being the entity's only asset. If the cash flow from the property is reduced, the borrower's ability to repay the loan may be impaired. If the borrower defaults, our only remedy may be to foreclose on the property, for which the market value may be less than the balance due on the related mortgage loan. Loans secured by multi-family residential property also may involve a greater degree of environmental risk. We seek to protect against this risk through obtaining an environmental report. See "—Asset Quality — Environmental Concerns Relating to Loans."

At December 31, 2010, \$1,023.4 million, or 81.73%, of our multi-family mortgage loans consisted of ARM loans. We offer ARM loans with adjustment periods typically of five years and for terms of up to 30 years. Interest rates on ARM loans currently offered by us are adjusted at the beginning of each adjustment period based upon a fixed spread above the FHLB-NY corresponding Regular Advance Rate. From time to time, we may originate ARM loans at an initial rate lower than the index as a result of a discount on the spread for the initial adjustment period. Multi-family adjustable-rate mortgage loans generally are not subject to limitations on interest rate increases either on an adjustment period or aggregate basis over the life of the loan. We originated and purchased multi-family ARM loans totaling \$157.4 million, \$183.8 million and \$116.4 million during 2010, 2009 and 2008, respectively.

At December 31, 2010, \$228.8 million, or 18.27%, of our multi-family mortgage loans consisted of fixed rate loans. Our fixed-rate multi-family mortgage loans are generally originated for terms up to 15 years and are competitively priced based on market conditions and our cost of funds. We originated and purchased \$13.9 million, \$28.5 million and \$36.6 million of fixed-rate multi-family mortgage loans in 2010, 2009 and 2008, respectively.

Commercial Real Estate Lending. Loans secured by commercial real estate were \$662.8 million, or 20.33% of gross loans, at December 31, 2010. Our commercial real estate mortgage loans are secured by improved properties such as office buildings, hotels/motels, nursing homes, small business facilities, strip shopping centers, warehouses, and, to a lesser extent, religious facilities. At December 31, 2010, our commercial real estate mortgage loans had an average principal balance of \$776,000, and the largest of such loans, which was secured by a multi-tenant shopping center, had

a principal balance of \$10.9 million. Commercial real estate mortgage loans are generally originated in a range of \$100,000 to \$6.0 million.

In underwriting commercial real estate mortgage loans, we employ the same underwriting standards and procedures as are employed in underwriting multi-family residential mortgage loans.

Commercial real estate mortgage loans generally carry larger loan balances than one-to-four family residential mortgage loans and involve a greater degree of credit risk for the same reasons applicable to multi-family loans.

At December 31, 2010, \$565.8 million, or 85.36%, of our commercial mortgage loans consisted of ARM loans. We offer ARM loans with adjustment periods of one to five years and generally for terms of up to 15 years. Interest

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rates on ARM loans currently offered by us are adjusted at the beginning of each adjustment period based upon a fixed spread above the FHLB-NY corresponding Regular Advance Rate. From time to time, we may originate ARM loans at an initial rate lower than the index as a result of a discount on the spread for the initial adjustment period. Commercial adjustable-rate mortgage loans generally are not subject to limitations on interest rate increases either on an adjustment period or aggregate basis over the life of the loan. We originated and purchased commercial ARM loans totaling \$31.5 million, \$76.0 million and \$125.1 million during 2010, 2009 and 2008, respectively.

At December 31, 2010, \$97.0 million, or 14.64%, of our commercial mortgage loans consisted of fixed-rate loans. Our fixed-rate commercial mortgage loans are generally originated for terms up to 20 years and are competitively priced based on market conditions and our cost of funds. We originated and purchased \$2.2 million, \$3.2 million and \$57.3 million of fixed-rate commercial mortgage loans in 2010, 2009 and 2008, respectively.

**One-to-Four Family Mortgage Lending – Mixed-Use Properties.** We offer mortgage loans secured by one-to-four family mixed-use properties. These properties contain up to four residential dwelling units and a commercial unit. We offer both fixed-rate and adjustable-rate one-to-four family mixed-use property mortgage loans with maturities of up to 30 years and a general maximum loan amount of \$1,000,000. Loan originations primarily result from applications received from mortgage brokers and mortgage bankers, existing or past customers, and persons who respond to our marketing efforts and referrals. One-to-four family mixed-use property mortgage loans were \$728.8 million, or 22.36% of gross loans, at December 31, 2010.

In underwriting one-to-four family mixed-use property mortgage loans, we employ the same underwriting standards as are employed in underwriting multi-family residential mortgage loans.

At December 31, 2010, \$568.8 million, or 78.04%, of our one-to-four family mixed-use property mortgage loans consisted of ARM loans. We offer adjustable-rate one-to-four family mixed-use property mortgage loans with adjustment periods typically of five years and for terms of up to 30 years. Interest rates on ARM loans currently offered by the Savings Bank are adjusted at the beginning of each adjustment period based upon a fixed spread above the FHLB-NY corresponding Regular Advance Rate. From time to time, we may originate ARM loans at an initial rate lower than the index as a result of a discount on the spread for the initial adjustment period. One-to-four family mixed-use property adjustable-rate mortgage loans generally are not subject to limitations on interest rate increases either on an adjustment period or aggregate basis over the life of the loan. We originated and purchased one-to-four family mixed-use property ARM loans totaling \$23.7 million during 2010 and 2009 and \$96.6 million during 2008.

At December 31, 2010, \$160.0 million, or 21.96%, of our one-to-four family mixed-use property mortgage loans consisted of fixed-rate loans. Our fixed-rate one-to-four family mixed-use property mortgage loans are originated for terms of up to 30 years and are competitively priced based on market conditions and the Banks' cost of funds. We originated and purchased \$5.8 million, \$9.4 million and \$21.7 million of fixed-rate one-to-four family mixed-use property mortgage loans in 2010, 2009 and 2008, respectively.

**One-to-Four Family Mortgage Lending – Residential Properties.** We offer mortgage loans secured by one-to-four family residential properties, including townhouses and condominium units. For purposes of the description contained in this section, one-to-four family residential mortgage loans, co-operative apartment loans and home equity loans are collectively referred to herein as "residential mortgage loans." We offer both fixed-rate and adjustable-rate residential mortgage loans with maturities of up to 30 years and a general maximum loan amount of \$1,000,000. Loan originations generally result from applications received from mortgage brokers and mortgage bankers, existing or past customers, and referrals. Residential mortgage loans were \$247.6 million, or 7.59% of gross loans, at December 31, 2010.

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

In addition to income verified loans, we have in the past originated residential mortgage loans to self-employed individuals within our local community based on stated income and verifiable assets that allows us to assess repayment ability, provided that the borrower's stated income is considered reasonable for the borrower's type of business. The preponderance of stated income one-to-four family residential mortgage loans were made available to self-employed individuals within our local community for their primary residence. Our underwriting standards required that we verify the assets of the borrowers and the sources of their cash flows. The information reviewed for purchases included at least three months and refinances included at least one month of personal bank statements (checking and savings accounts), statements of investment accounts, business checking account statements (when applicable), and other information

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provided by the borrowers about their personal holdings. Our review of these bank statements allowed us to assess whether or not their stated income appeared reasonable in comparison to their cash flows, and if their income level supported their personal holdings. We also obtained and reviewed credit reports on these borrowers. An acceptable credit report was one of the key factors in approving this type of mortgage loan. We obtained appraisals from an independent third party for the property, and limited the amount we lent on the properties to 80% of the lesser of the property's appraised value or the purchase price. Home equity lines of credit were offered on one-to-four residential properties to homeowners based on various levels of income verification. We limited the amount available under a home equity line of credit to 80% of the lesser of the appraised value of the property and the purchase price. These loans involve a higher degree of risk as compared to our other fully underwritten residential mortgage loans as there is a greater opportunity for self-employed borrowers to falsify or overstate their level of income and ability to service indebtedness. This risk is mitigated by the requirements discussed above in our loan policy. In addition, since 2008, the underwriting standards for home equity loans were modified to discontinue originating home equity lines of credit without verifying the borrower's income. This was accomplished in two stages. Beginning in May 2008, we began verifying the borrower's income when the home equity line of credit exceeded \$100,000. Beginning in October 2009, we verified the income of all borrowers applying for a home equity line of credit. We also discontinued offering one-to-four family residential property mortgage loans to self-employed individuals based on stated income and verifiable assets in June 2010. We originated \$7.3 million, \$14.6 million and \$9.8 million of these one-to-four family residential mortgage loans during 2010, 2009 and 2008, respectively. We also extended \$6.9 million and \$34.4 million in home equity lines of credit during 2009 and 2008, respectively, with various levels of income verification. We had \$28.8 million outstanding of one-to-four family residential mortgage loans originated to individuals based on stated income and verifiable assets at December 31, 2010. We had \$60.1 million advanced on home equity lines of credit for which we did not verify the borrowers' income at December 31, 2010.

At December 31, 2010, \$170.6 million, or 68.91%, of our residential mortgage loans consisted of ARM loans. We offer ARM loans with adjustment periods of one, three, five, seven or ten years. Interest rates on ARM loans currently offered by us are adjusted at the beginning of each adjustment period based upon a fixed spread above the FHLB-NY corresponding Regular Advance Rate. From time to time, we may originate ARM loans at an initial rate lower than the index as a result of a discount on the spread for the initial adjustment period. ARM loans generally are subject to limitations on interest rate increases of 2% per adjustment period and an aggregate adjustment of 6% over the life of the loan. We originated and purchased adjustable rate residential mortgage loans totaling \$19.1 million, \$33.0 million and \$58.1 million during 2010, 2009 and 2008, respectively.

The retention of ARM loans in our portfolio helps us reduce our exposure to interest rate risks. However, in an environment of rapidly increasing interest rates, it is possible for the interest rate increase to exceed the maximum aggregate adjustment on one-to-four family residential ARM loans and negatively affect the spread between our interest income and our cost of funds.

ARM loans generally involve credit risks different from those inherent in fixed-rate loans, primarily because if interest rates rise, the underlying payments of the borrower rise, thereby increasing the potential for default. However, this potential risk is lessened by our policy of originating one-to-four family residential ARM loans with annual and lifetime interest rate caps that limit the increase of a borrower's monthly payment.

At December 31, 2010, \$77.0 million, or 31.09%, of our residential mortgage loans consisted of fixed-rate loans. Our fixed-rate residential mortgage loans typically are originated for terms of 15 and 30 years and are competitively priced based on market conditions and our cost of funds. We originated and purchased \$16.0 million, \$1.2 million and \$12.4 million in 15-year fixed-rate residential mortgages in 2010, 2009 and 2008, respectively. We did not originate or purchase any 30-year fixed-rate mortgages in 2010 and 2009. We originated and purchased \$50.0 million of 30-year fixed-rate mortgages in 2008.



At December 31, 2010, home equity loans totaled \$75.4 million, or 2.40%, of gross loans. Home equity loans are included in our portfolio of residential mortgage loans. These loans are offered as adjustable-rate “home equity lines of credit” on which interest only is due for an initial term of 10 years and thereafter principal and interest payments sufficient to liquidate the loan are required for the remaining term, not to exceed 30 years. These adjustable “home equity lines of credit” may include a “floor” and/or a “ceiling” on the interest rate that we charge for these loans. These loans also may be offered as fully amortizing closed-end fixed-rate loans for terms up to 15 years. The majority of home equity loans originated are owner occupied one-to-four family residential properties and condominium units. To a lesser extent, home equity loans are also originated on one-to-four residential properties held for investment and second homes. All home equity loans are subject to an 80% loan-to-value ratio computed on the basis of the aggregate of the first mortgage loan amount outstanding and the proposed home equity loan. They are generally granted in amounts from \$25,000 to \$300,000.

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Construction Loans. At December 31, 2010, construction loans totaled \$75.5 million, or 2.32%, of gross loans. Our construction loans primarily have been made to finance the construction of one-to-four family residential properties, multi-family residential properties and residential condominiums. We also, to a limited extent, finance the construction of commercial real estate. Our policies provide that construction loans may be made in amounts up to 70% of the estimated value of the developed property and only if we obtain a first lien position on the underlying real estate. However, we generally limit construction loans to 60% of the estimated value of the developed property. In addition, we generally require personal guarantees on all construction loans. Construction loans are generally made with terms of two years or less. Advances are made as construction progresses and inspection warrants, subject to continued title searches to ensure that we maintain a first lien position. We made advances on construction loans of \$10.5 million, \$18.3 million and \$30.7 million during 2010, 2009 and 2008, respectively.

Construction loans involve a greater degree of risk than other loans because, among other things, the underwriting of such loans is based on an estimated value of the developed property, which can be difficult to ascertain in light of uncertainties inherent in such estimations. In addition, construction lending entails the risk that the project may not be completed due to cost overruns or changes in market conditions.

Small Business Administration Lending. At December 31, 2010, SBA loans totaled \$17.5 million, representing 0.54%, of gross loans. These loans are extended to small businesses and are guaranteed by the SBA up to a maximum of 85% of the loan balance for loans with balances of \$150,000 or less, and to a maximum of 75% of the loan balance for loans with balances greater than \$150,000. Under The American Recovery and Reinvestment Act of 2009, the maximum loan guarantee to banks under the SBA 7a loan program was increased to 90% and the guarantee fee paid by the Savings Bank (up to 3.5% of guaranteed loan amount) has been waived. This program was extended to December 31, 2010 by the Small Business Jobs Act of 2010. We also provide term loans and lines of credit up to \$350,000 under the SBA Express Program, on which the SBA provides a 50% guaranty. The maximum loan size under the SBA guarantee program was \$2.0 million, with a maximum loan guarantee of \$1.5 million. The Small Business Jobs Act of 2010 permanently increased the limits to a maximum loan size of \$5.0 million, with a maximum loan guarantee of \$3.75 million. All SBA loans are underwritten in accordance with SBA Standard Operating Procedures which requires collateral and the personal guarantee of the owners with more than 20% ownership from SBA borrowers. Typically, SBA loans are originated in the range of \$25,000 to \$2.0 million with terms ranging from one to seven years and up to 25 years for owner occupied commercial real estate mortgages. SBA loans are generally offered at adjustable rates tied to the prime rate (as published in the Wall Street Journal) with adjustment periods of one to three months. We generally sell the guaranteed portion of certain SBA term loans in the secondary market, realizing a gain at the time of sale, and retain the servicing rights on these loans, collecting a servicing fee of approximately 1%. We originated and purchased \$3.9 million, \$4.5 million and \$10.3 million of SBA loans during 2010, 2009 and 2008, respectively.

Commercial Business and Other Lending. At December 31, 2010, commercial business and other loans totaled \$275.4 million, or 8.45%, of gross loans. We originate other loans for business, personal, or household purposes. Business loans generally require the personal guarantees of the owners and are typically secured by the business assets of the borrower, including accounts receivable, inventory, equipment and real estate. Included in commercial business loans are loans made to New York City taxi medallion owners. These loans, which totaled \$88.3 million at December 31, 2010, are secured through liens on the taxi medallions. We originate and purchase taxi medallion loans up to 80% of the value of the taxi medallion. The maximum loan size for a non real estate secured business loan is \$5,000,000, with a maximum term of seven years. We originated and purchased \$132.7 million, \$141.9 million and \$84.9 million of commercial business loans during 2010, 2009 and 2008, respectively. Consumer loans generally consist of overdraft lines of credit. Generally, unsecured consumer loans are limited to amounts of \$5,000 or less for terms of up to five years.

The underwriting standards employed by us for consumer and other loans include a determination of the applicant's payment history on other debts and assessment of the applicant's ability to meet payments on all of his or her obligations. In addition to the creditworthiness of the applicant, the underwriting process also includes a comparison of the value of the collateral, if any, to the proposed loan amount. Unsecured loans tend to have higher risk, and therefore command a higher interest rate.

Loan Extensions, Renewals, Modifications and Restructuring. Extensions, renewals, modifications or restructuring a loan, other than a loan that is classified as a TDR, requires the loan to be fully underwritten in accordance with our policy for new loans. The borrower must be current to have a loan extended, renewed or restructured. Our policy for modifying a mortgage loan due to the borrower's request for changes in the terms will depend on the changes requested. The borrower must be current and have a good payment history to have a loan modified. If the borrower is seeking additional funds, the loan is fully underwritten in accordance with our policy for new loans. If the borrower is seeking a reduction in the interest rate due to a decline in interest rates in the market, we generally limit our review as

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follows: (1) for income producing properties and business loans, to a review of the operating results of the property/business and a satisfactory inspection of the property, and (2) for one-to-four residential properties, to a satisfactory inspection of the property. Our policy on restructuring a loan when the loan will be classified as a TDR requires the loan to be fully underwritten in accordance with Company policy. The borrower must demonstrate the ability to repay the loan under the new terms. When the restructuring results in a TDR, we may waive some requirements of Company policy provided the borrower has demonstrated the ability to meet the requirements of the restructured loan and repay the restructured loan. While our formal lending policies do not prohibit making additional loans to a borrower or any related interest of the borrower who is past due in principal or interest more than 90 days, it has been our practice not to make additional loans to a borrower or a related interest of the borrower if the borrower is past due more than 90 days as to principal or interest. During the most recent three fiscal years, we did not make any additional loans to a borrower or any related interest of the borrower who was past due in principal or interest more than 90 days. All extensions, renewals, restructurings and modifications must be approved by either the Loan Committee or the Savings Bank Board of Directors.

**Loan Approval Procedures and Authority.** The Board of Directors of the Company (the “Board of Directors”) approved lending policies establishes loan approval requirements for our various types of loan products. Our Residential Mortgage Lending Policy (which applies to all one-to-four family mortgage loans, including residential and mixed-use property) establishes authorized levels of approval. One-to-four family mortgage loans that do not exceed \$750,000 require two signatures for approval, one of which must be from either the President, Executive Vice President or a Senior Vice President (collectively, “Authorized Officers”) and the other from a Senior Underwriter, Manager, Underwriter or Junior Underwriter in the Residential Mortgage Loan Department (collectively, “Loan Officers”). For one-to-four family mortgage loans from \$750,000 to \$1.0 million, three signatures are required for approval, at least two of which must be from Authorized Officers, and the other one may be a Loan Officer. The Loan Committee, the Executive Committee or the full Board of Directors also must approve one-to-four family mortgage loans in excess of \$1.0 million. Pursuant to our Commercial Real Estate Lending Policy, all loans secured by commercial real estate and multi-family residential properties must be approved by the President or the Executive Vice President upon the recommendation of the appropriate Senior Vice President. Such loans in excess of \$1.0 million also require Loan or Executive Committee or Board approval. In accordance with our Business Credit Policy all business and SBA loans up to \$1.0 million and commercial and industrial loans/professional mortgage loans up to \$1.5 million must be approved by the Business Loan Committee and ratified by the Management Loan Committee. Business and SBA loans in excess of \$1.0 million up to \$2.0 million, and commercial and industrial loans/professional mortgage loans in excess of \$1.5 million up to \$2.5 million, must be approved by the Management Loan Committee and ratified by the Loan Committee. Commercial business and other loans require two signatures for approval, one of which must be from an Authorized Officer. Our Construction Loan Policy requires that the Loan Committee or the Savings Bank Board of Directors must approve all construction loans. Any loan, regardless of type, that deviates from our written credit policies must be approved by the Loan Committee or the Savings Bank Board of Directors.

For all loans originated by us, upon receipt of a completed loan application, a credit report is ordered and certain other financial information is obtained. An appraisal of the real estate intended to secure the proposed loan is required. An independent appraiser designated and approved by us currently performs such appraisals. Our staff appraiser reviews all appraisals for properties where the loan amount is \$2,000,000 or greater. The Savings Bank Board of Directors annually approves the independent appraisers used by the Savings Bank and approves the Savings Bank’s appraisal policy. It is our policy to require borrowers to obtain title insurance and hazard insurance on all real estate loans prior to closing. For certain borrowers, the Savings Bank may require escrow funds on a monthly basis together with each payment of principal and interest to a mortgage escrow account from which we make disbursements for items such as real estate taxes and, in some cases, hazard insurance premiums.

**Loan Concentrations.** The maximum amount of credit that the Savings Bank can extend to any single borrower or related group of borrowers generally is limited to 15% of the Savings Bank’s unimpaired capital and surplus, or \$59.3

million at December 31, 2010. Applicable laws and regulations permit an additional amount of credit to be extended, equal to 10% of unimpaired capital and surplus, if the loan is secured by readily marketable collateral, which generally does not include real estate. See “-Regulation.” However, it is currently our policy not to extend such additional credit. At December 31, 2010, there were no loans in excess of the maximum dollar amount of loans to one borrower that the Savings Bank was authorized to make. At that date, the three largest concentrations of loans to one borrower consisted of loans secured by a combination of commercial real estate and multi-family income producing properties with an aggregate principal balance of \$39.2 million, \$34.5 million and \$21.9 million for each of the three borrowers, respectively.

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**Loan Servicing.** At December 31, 2010, we were servicing \$12.4 million of mortgage loans and \$14.4 million of SBA loans for others. Our policy is to retain the servicing rights to the mortgage and SBA loans that we sell in the secondary market. In order to increase revenue, management intends to continue this policy.

### Asset Quality

**Loan Collection.** When a borrower fails to make a required payment on a loan, we take a number of steps to induce the borrower to cure the delinquency and restore the loan to current status. In the case of mortgage loans, personal contact is made with the borrower after the loan becomes 30 days delinquent. We take a proactive approach to managing delinquent loans, including conducting site examinations and encouraging borrowers to meet with one of our representatives. When deemed appropriate, short-term payment plans have been developed that enable borrowers to bring their loans current, generally within six to nine months. At times, the Savings Bank may restructure a loan to enable a borrower to continue making payments when it is deemed to be in the best long-term interest of the Savings Bank. 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. The Savings Bank classifies these loans as “Troubled Debt Restructured,” and also classifies these loans as non-performing loans. At December 31, 2010, we had \$13.9 million of mortgage loans classified as Troubled Debt Restructured. We review delinquencies on a loan by loan basis, diligently exploring ways to help borrowers meet their obligations and return them back to current status, and we have increased staffing to handle delinquent loans by hiring people experienced in loan workouts.

When the borrower has indicated that they will be unable to bring the loan current, or due to other circumstances which, in our opinion, indicate the borrower will be unable to bring the loan current within a reasonable time, or if the collateral value is deemed to have been impaired, the loan is classified as non-performing. All loans classified as non-performing, which includes all loans past due 90 days or more, are classified as non-accrual unless there is, in our opinion, compelling evidence the borrower will bring the loan current in the immediate future. At December 31, 2010, there were five loans, which totaled \$3.4 million, past due 90 days or more and still accruing interest.

Upon classifying a loan as non-performing, we review available information and conditions that relate to the status of the loan, including the estimated value of the loan’s collateral and any legal considerations that may affect the borrower’s ability to continue to make payments. Based upon the available information, we will consider the sale of the loan or retention of the loan. If the loan is retained, we may continue to work with the borrower to collect the amounts due or start foreclosure proceedings. If a foreclosure action is initiated and the loan is not brought current, paid in full, or refinanced before the foreclosure sale, the real property securing the loan is sold at foreclosure or by us as soon thereafter as practicable.

Once the decision to sell a loan is made, we determine what we would consider adequate consideration to be obtained when that loan is sold, based on the facts and circumstances related to that loan. Investors and brokers are then contacted to seek interest in purchasing the loan. We have been successful in finding buyers for some of our non-performing loans offered for sale that are willing to pay what we consider to be adequate consideration. Terms of the sale include cash due upon closing of the sale, no contingencies or recourse to us, servicing is released to the buyer and time is of the essence. These sales usually close within a reasonably short time period.

This strategy of selling non-performing loans was implemented during 2003. This has allowed us to optimize our return by quickly converting our non-performing loans to cash, which can then be reinvested in earning assets. This strategy also allows us to avoid lengthy and costly legal proceedings that may occur with non-performing loans. We sold 20 delinquent mortgage loans totaling \$8.8 million, 17 delinquent mortgage loans totaling \$6.3 million, and 32 delinquent mortgage loans totaling \$13.6 million during the years ended December 31, 2010, 2009 and 2008, respectively. We recorded net charge-offs of \$0.7 million and \$0.1 million to the allowance for loan losses for the

non-performing loans that were sold during 2010 and 2009, respectively. We did not record any charges to the allowance for loan losses for the non-performing loans that were sold during 2008. We realized gross gains of \$21,000, \$4,000 and \$74,000 on the sale of non-performing mortgage loans for the years ended December 31, 2010, 2009 and 2008, respectively. We realized gross losses of \$3,000 and \$224,000 on the sale of non-performing mortgage loans for the years ended December 31, 2010 and 2008, respectively. We did not record any gross losses for the year ended December 31, 2009. There can be no assurances that we will continue this strategy in future periods, or if continued, we will be able to find buyers to pay adequate consideration.

On mortgage loans or loan participations purchased by us for whom the seller retains the servicing rights, we receive monthly reports with which we monitor the loan portfolio. Based upon servicing agreements with the servicers of the loans, we rely upon the servicer to contact delinquent borrowers, collect delinquent amounts and initiate

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foreclosure proceedings, when necessary, all in accordance with applicable laws, regulations and the terms of the servicing agreements between us and our servicing agents. The servicers are required to submit monthly reports on their collection efforts on delinquent loans. At December 31, 2010, we held \$62.9 million of loans that were serviced by others.

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

Delinquent Loans and Non-performing Assets. We generally discontinue accruing interest on delinquent loans when a loan is 90 days past due or foreclosure proceedings have been commenced, whichever first occurs. At that time, previously accrued but uncollected interest is reversed from income. Loans in default 90 days or more as to their maturity date but not their payments, however, continue to accrue interest as long as the borrower continues to remit monthly payments.

The following table shows our delinquent loans that are less than 90 days past due and still accruing interest at the periods indicated:

	December 31, 2010		December 31, 2009	
	60 - 89 days	30 - 59 days	60 - 89 days	30 - 59 days
	(In thousands)			
Multi-family residential	\$7,014	\$30,799	\$8,958	\$28,054
Commercial real estate	2,181	17,167	5,788	8,004
One-to-four family - mixed-use property	6,376	19,596	9,032	22,741
One-to-four family - residential	1,046	4,959	1,555	4,015
Co-operative apartments	-	-	-	-
Construction loans	5,485	2,900	-	7,619
Small Business Administration	991	418	10	262
Taxi medallion	-	-	-	-
Commercial business and other	3	4,534	21	1,633
Total	\$23,096	\$80,373	\$25,364	\$72,328



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The following table shows our non-performing assets at the dates indicated. During the years ended December 31, 2010, 2009 and 2008, the amounts of additional interest income that would have been recorded on non-accrual loans, had they been current, totaled \$7.4 million, \$4.9 million and \$1.6 million, respectively. These amounts were not included in our interest income for the respective periods.

(Dollars in thousands)	At December 31,				
	2010	2009	2008	2007	2006
Loans 90 days or more past due and still accruing:					
Multi-family residential	\$103	\$-	\$-	\$-	\$-
Commercial real estate	3,328	471	425	-	-
One-to-four family - residential	-	2,784	889	-	-
Construction	-	-	-	753	-
Commercial Business and other	6	-	-	-	-
Total	3,437	3,255	1,314	753	-
Troubled debt restructured:					
Multi-family residential	11,242	478	-	-	-
Commercial real estate	2,448	1,441	-	-	-
One-to-four family - mixed-use property	206	575	-	-	-
Total	13,896	2,494	-	-	-
Non-accrual mortgage loans:					
Multi-family residential	35,633	27,483	12,011	2,477	1,957
Commercial real estate	22,806	18,153	7,251	90	349
One-to-four family mixed-use property	30,478	23,422	10,639	2,204	608
One-to-four family residential	10,695	4,959	1,121	-	-
Co-operative apartments	-	78	-	-	-
Construction	4,465	1,639	4,457	-	-
Total	104,077	75,734	35,479	4,771	2,914
Non-accrual non-mortgage loans:					
Small Business Administration	1,159	1,232	354	366	212
Commercial Business and other	3,419	3,151	2,825	3	-
Total	4,578	4,383	3,179	369	212
Total non-accrual loans	108,655	80,117	38,658	5,140	3,126
Total non-performing loans	125,988	85,866	39,972	5,893	3,126
Other non-performing assets:					
Real Estate Owned	1,588	2,262	125	-	-
Investment securities	5,134	5,134	607	-	-
Total	6,722	7,396	732	-	-
Total non-performing assets	\$132,710	\$93,262	\$40,704	\$5,893	\$3,126
Non-performing loans to gross loans	3.86	% 2.68	% 1.35	% 0.22	% 0.13
Non-performing assets to total assets	3.07	% 2.32	% 1.03	% 0.18	% 0.11

Other Real Estate Owned. We aggressively market our Other Real Estate Owned (“OREO”) properties. At December 31, 2010, we owned six properties with a combined fair value of \$1.6 million. At December 31, 2009, we

owned four properties with a fair value of \$2.3 million. At December 31, 2008, we owned one property with a fair value of \$0.1 million.

**Investment Securities.** At December 31, 2010, non-performing investment securities included two pooled trust preferred securities with a fair value of \$5.1 million. At December 31, 2009, non-performing investment securities included two pooled trust preferred securities with a fair value of \$5.0 million and one issue of FHLMC preferred stock with a fair value of \$0.1 million. At December 31, 2008, non-performing investment securities included FHLMC and FNMA preferred stock with a fair value of \$0.6 million.

**Environmental Concerns Relating to Loans.** We currently obtain environmental reports in connection with the underwriting of commercial real estate loans, and typically obtain environmental reports in connection with the underwriting of multi-family loans. For all other loans, we obtain environmental reports only if the nature of the current

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or, to the extent known to us, prior use of the property securing the loan indicates a potential environmental risk. However, we may not be aware of such uses or risks in any particular case, and, accordingly, there is no assurance that real estate acquired by us in foreclosure is free from environmental contamination or that, if any such contamination or other violation exists, whether we will have any liability.

**Classified Assets.** Our policy is to review our assets, focusing primarily on the loan portfolio, real estate owned and the investment portfolios, to ensure that the credit quality is maintained at the highest levels. When weaknesses are identified, immediate action is taken to correct the problem through direct contact with the borrower or issuer. We then monitor these assets, and, in accordance with our policy and OTS regulations, we classify them as “Special Mention,” “Substandard,” “Doubtful,” or “Loss” as deemed necessary. We classify an asset as Substandard when a well-defined weakness is identified that jeopardizes the orderly liquidation of the debt. We classify an asset as Doubtful when it displays the inherent weakness of a Substandard asset with the added provision that collection of the debt in full, on the basis of existing facts, is highly improbable. We classify an asset as Loss if it is deemed the debtor is incapable of repayment. Loans that are classified as Loss are charged to the Allowance for Loan Losses. Assets that are non-accrual are classified as Substandard, Doubtful or Loss. We classify an asset 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. Our total classified assets were \$323.7 million at December 31, 2010, an increase of \$83.4 million from \$240.3 million at December 31, 2009.

The following table sets forth the Banks’ classified assets at December 31, 2010:

(In thousands)	Special Mention	Substandard	Doubtful	Loss	Total
<b>Loans:</b>					
Multi-family residential	\$20,277	\$ 51,626	\$-	\$-	\$71,903
Commercial real estate	13,228	32,120	-	-	45,348
One-to-four family - mixed-use property	15,546	33,539	-	-	49,085
One-to-four family - residential	2,849	10,874	-	-	13,723
Co-operative apartments	-	-	-	-	-
Construction loans	5,945	30,589	-	-	36,534
Small Business Administration	558	1,432	-	-	1,990
Commercial business and other	14,302	13,628	1,238	-	29,168
<b>Total loans</b>	<b>72,705</b>	<b>173,808</b>	<b>1,238</b>	<b>-</b>	<b>247,751</b>
<b>Investment Securities: (1)</b>					
Pooled trust preferred securities	-	16,457	-	-	16,457
Mutual funds	-	4,082	-	-	4,082
Private issue CMO	-	53,790	-	-	53,790
<b>Total investment securities</b>	<b>-</b>	<b>74,329</b>	<b>-</b>	<b>-</b>	<b>74,329</b>
<b>Other Real Estate Owned</b>	<b>-</b>	<b>1,588</b>	<b>-</b>	<b>-</b>	<b>1,588</b>
<b>Total</b>	<b>\$72,705</b>	<b>\$ 249,725</b>	<b>\$ 1,238</b>	<b>\$-</b>	<b>\$323,668</b>

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The following table sets forth the Banks' classified assets at December 31, 2009:

(In thousands)	Special Mention	Substandard	Doubtful	Loss	Total
<b>Loans:</b>					
Multi-family residential	\$ 15,311	\$ 31,150	\$ 2,018	\$ -	\$ 48,479
Commercial real estate	11,451	22,495	-	-	33,946
One-to-four family - mixed-use property	14,969	25,028	-	-	39,997
One-to-four family - residential	2,226	9,236	-	-	11,462
Co-operative apartments	-	78	-	-	78
Construction loans	3,839	9,132	-	-	12,971
Small Business Administration	404	1,087	-	-	1,491
Commercial business and other	2,758	1,991	1,472	-	6,221
<b>Total loans</b>	<b>50,958</b>	<b>100,197</b>	<b>3,490</b>	<b>-</b>	<b>154,645</b>
<b>Investment Securities: (1)</b>					
Pooled trust preferred securities	-	12,668	-	-	12,668
FHMLC preferred stock	-	50	-	-	50
Mutual funds	-	4,614	-	-	4,614
Private issue CMO	-	66,014	-	-	66,014
<b>Total investment securities</b>	<b>-</b>	<b>83,346</b>	<b>-</b>	<b>-</b>	<b>83,346</b>
Other Real Estate Owned	-	2,262	-	-	2,262
<b>Total</b>	<b>\$ 50,958</b>	<b>\$ 185,805</b>	<b>\$ 3,490</b>	<b>\$ -</b>	<b>\$ 240,253</b>

(1) Our investment securities are classified as securities available for sale and as such are carried at their fair value in our Consolidated Financial Statements. The securities above had a fair value of \$65.0 million and \$66.3 million at December 31, 2010 and 2009, respectively. Under current applicable regulatory guidelines, we are required to disclose the classified investment securities, as shown in the tables above, at their book values (amortized cost, or fair value for securities that are under the fair value option). Additionally, the requirement is only for the Banks' securities. Flushing Financial Corporation had one mutual fund security classified as Substandard with a market value of \$1.6 million and \$2.2 million at December 31, 2010 and 2009, respectively. In addition, Flushing Financial Corporation had two private issue trust preferred securities classified as Substandard at December 31, 2010 with a combined market value of \$0.8 million.

On a quarterly basis all mortgage loans that are classified as Substandard or Doubtful are internally reviewed for impairment, based on updated cash flows for income producing properties, or updated independent appraisals. The loan balances of collateral dependant impaired loans are then compared to the loans updated fair value. The balance which exceeds fair value is charged-off against the allowance for loan losses. At December 31, 2010, the current loan-to-value ratio on our impaired loans was 62.5%.

We classify investment securities as Substandard when the investment grade rating by one or more of the rating agencies is below investment grade. We have classified a total of 21 investment securities that are held at the Savings Bank as Substandard at December 31, 2010. Our classified investment securities at December 31, 2010 held by the Savings Bank include 16 private issue collateralized mortgage obligations ("CMOs") rated below investment grade by one or more of the rating agencies, three issues of pooled trust preferred securities, one mutual fund and one private issue trust preferred security. The Investment Securities which are classified as Substandard at December 31, 2010 are securities that were rated investment grade when we purchased them. These securities have each been subsequently

downgraded by at least one rating agency to below investment grade. Through December 31, 2010, these securities, with the exception of two of the pooled trust preferred securities and three private issue CMOs, continued to pay interest and principal as scheduled. We test each of these securities quarterly, through an independent third party, for impairment.

There were \$2.0 million, \$5.9 million and \$27.6 million in credit related other-than-temporary impairment (“OTTI”) charges recorded for the years ended December 31, 2010, 2009 and 2008, respectively. During 2010 we recorded OTTI charges of \$1.1 million on four private issue collateralized mortgage obligations and \$1.0 million on one pooled trust preferred security. During 2009 we recorded OTTI charges of \$3.1 million on four private issue collateralized mortgage obligations and \$2.8 million on two pooled trust preferred securities. The OTTI charges for the year ended December 31, 2008 was the result of reducing the carrying value of investments in FNMA and FHLMC preferred stocks to the securities market value of \$0.6 million at December 31, 2008.

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## Allowance for Loan Losses

We have established and maintain on our books an allowance for loan losses that is designed to provide a reserve against estimated losses inherent in our overall loan portfolio. The allowance is established through a provision for loan losses based on management's evaluation of the risk inherent in the various components of the loan portfolio and other factors, including historical loan loss experience (which is updated at least annually), changes in the composition and volume of the portfolio, collection policies and experience, trends in the volume of non-accrual loans and local and national economic conditions. The determination of the amount of the allowance for loan losses includes estimates that are susceptible to significant changes due to changes in appraisal values of collateral, national and local economic conditions and other factors. We review our loan portfolio by separate categories with similar risk and collateral characteristics. Impaired loans are segregated and reviewed separately. All non-accrual loans are classified impaired. Impaired loans secured by collateral are reviewed based on the fair value of their collateral. For non-collateralized impaired loans, management estimates any recoveries that are anticipated for each loan. In connection with the determination of the allowance, the market value of collateral ordinarily is evaluated by our staff appraiser. On a quarterly basis, the estimated values of impaired mortgage loans are internally reviewed, based on updated cash flows for income producing properties, and at times an updated independent appraisal is obtained. The loan balances of collateral dependant impaired loans are then compared to the loans updated fair value. The balance which exceeds fair value is charged-off. When evaluating a loan for impairment, we do not rely on guarantees, and the amount of impairment, if any, is based on the fair value of the collateral. We do not carry loans at a value in excess of the fair value due to a guarantee from the borrower. Impaired mortgage loans that were written down resulted from quarterly reviews or updated appraisals that indicated the properties' estimated value had declined from when the loan was originated. Current year charge-offs, charge-off trends, new loan production, current balance by particular loan categories, and delinquent loans by particular loan categories are also taken into account in determining the appropriate amount of allowance. The Board of Directors reviews and approves the adequacy of the allowance for loan losses on a quarterly basis.

In assessing the adequacy of the allowance, we review our loan portfolio by separate categories which have similar risk and collateral characteristics, e.g., multi-family residential, commercial real estate, one-to-four family mixed-use property, one-to-four family residential, co-operative apartment, construction, SBA, commercial business, taxi medallion and consumer loans. General provisions are established against performing loans in our portfolio in amounts deemed prudent based on our qualitative analysis of the factors, including the historical loss experience, delinquency trends and local economic conditions. We incurred total net charge-offs of \$13.6 million and \$10.2 million during the years ended December 31, 2010 and 2009, respectively. The national and local economies were generally considered to be in a recession from December 2007 through the middle of 2009. This has resulted in increased unemployment and declining property values, although the property value declines in the New York City metropolitan area have not been as great as many other areas of the country. While the national and local economies have shown signs of improvement since the second half of 2009, unemployment has remained at elevated levels. The deterioration in the economy has resulted in an increase in our non-performing loans, which totaled \$126.0 million and \$119.4 million at December 31, 2010 and 2009, respectively. The Savings Bank's underwriting standards generally require a loan-to-value ratio of no more than 75% at the time the loan is originated. At December 31, 2010, the average outstanding principal balance of our impaired mortgage loans was less than 63% of the estimated current value of the supporting collateral, after considering the charge-offs that have been recorded. We have not been affected by the defaults of sub-prime mortgages as we do not originate, or hold in portfolio, sub-prime mortgages. A provision for loan losses of \$21.0 million, \$19.5 million and \$5.6 million was recorded for the years ended December 31, 2010, 2009 and 2008, respectively. Management has concluded, and the Board of Directors has concurred, that at December 31, 2010, the allowance was sufficient to absorb losses inherent in our loan portfolio.

Our determination as to the classification of our assets and the amount of our valuation allowance is subject to review by the OTS and the FDIC, which can require the establishment of additional general allowances or specific loss

allowances or require charge-offs. Such authorities may require us to make additional provisions to the allowance based on their judgments about information available to them at the time of their examination. An OTS policy statement provides guidance for OTS examiners in determining whether the levels of general valuation allowances for savings institutions are adequate. The policy statement requires that if a savings institution's general valuation allowance policies and procedures are deemed to be inadequate, recommendations for correcting deficiencies, including any examiner concerns regarding the level of the allowance, should be noted in the report of examination. Additional supervisory action may also be taken based on the magnitude of the observed shortcomings in the allowance process, including the materiality of any error in the reported amount of the allowance.

Management believes that our current allowance for loan losses is adequate in light of current economic conditions, the composition of our loan portfolio, the level and type of delinquent loans, charge-offs recorded and other

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available information and the Board of Directors concurs in this belief. At December 31, 2010, the total allowance for loan losses was \$27.7 million, representing 21.99% of non-performing loans and 20.87% of non-performing assets, compared to 23.67% of non-performing loans and 21.79% of non-performing assets at December 31, 2009. We continue to monitor and, as necessary, modify the level of our allowance for loan losses in order to maintain the allowance at a level which we consider adequate to provide for probable loan losses based on available information.

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



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

(Dollars in thousands)	At and for the years ended December 31,									
	2010		2009		2008		2007		2006	
Balance at beginning of year	\$20,324		\$11,028		\$6,633		\$7,057		\$6,385	
Acquisition of Atlantic Liberty	-		-		-		-		753	
Provision for loan losses	21,000		19,500		5,600		-		-	
Loans charged-off:										
Multi-family residential	(5,790 )		(2,327 )		(496 )		-		-	
Commercial real estate	(2,685 )		(728 )		-		-		-	
One-to-four family mixed-use property	(2,580 )		(1,009 )		-		-		-	
One-to-four family residential	(236 )		(284 )		-		-		-	
Co-operative apartment	-		-		-		-		-	
Construction	(1,879 )		(1,075 )		-		-		-	
SBA	(925 )		(1,106 )		(759 )		(470 )		(57 )	
Commercial business and other loans	(500 )		(3,842 )		(36 )		(2 )		(36 )	
Total loans charged-off	(14,595 )		(10,371 )		(1,291 )		(472 )		(93 )	
Recoveries:										
Mortgage loans	183		1		-		29		2	
SBA, commercial business and other loans	787		166		86		19		10	
Total recoveries	970		167		86		48		12	
Net charge-offs	(13,625 )		(10,204 )		(1,205 )		(424 )		(81 )	
Balance at end of year	\$27,699		\$20,324		\$11,028		\$6,633		\$7,057	
Ratio of net charge-offs during the year to average loans outstanding during the year										
	0.42	%	0.33	%	0.04	%	0.02	%	0.00	%
Ratio of allowance for loan losses to gross loans at end of the year										
	0.85	%	0.63	%	0.37	%	0.25	%	0.30	%
Ratio of allowance for loan losses to non-performing loans at the end of the year										
	21.99	%	23.67	%	27.59	%	112.57	%	225.72	%
Ratio of allowance for loan losses to non-performing assets at the end of the year										
	20.87	%	21.79	%	27.09	%	112.57	%	225.72	%

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

Loan Category	At December 31, 2010		2009		2008		2007		2006	
	Amount (Dollars in thousands)	Percent of Loans in Category to Total loans	Amount	Percent of Loans in Category to Total loans	Amount	Percent of Loans in Category to Total loans	Amount	Percent of Loans in Category to Total loans	Amount	Percent of Loans in Category to Total loans
Mortgage loans:										
Multi-family residential	\$9,007	38.41 %	\$6,581	36.17 %	\$3,233	33.80 %	\$1,644	35.79 %	\$1,122	37.52 %
Commercial real estate	4,905	20.33	4,395	21.42	1,360	23.24	933	21.77	668	21.79
One-to-four family mixed-use property	5,997	22.36	4,339	23.24	2,904	25.45	1,223	25.49	661	25.33
One-to-four family residential	938	7.40	844	7.80	393	8.09	251	6.01	80	6.98
Co-operative apartment	17	0.19	17	0.20	9	0.22	15	0.26	10	0.35
Construction	589	2.32	1,281	3.04	910	3.51	1,172	4.44	851	4.50
Gross mortgage loans	21,453	91.01	17,457	91.87	8,809	94.31	5,238	93.76	3,392	96.47
Non-mortgage loans:										
Small Business Administration	1,303	0.54	965	0.55	464	0.67	373	0.70	1,895	0.75
Taxi Medallion	639	2.71	583	1.92	91	0.44	391	2.53	239	1.61
Commercial business and other	4,304	5.74	1,319	5.66	1,664	4.58	631	3.01	1,531	1.17
	6,246	8.99	2,867	8.13	2,219	5.69	1,395	6.24	3,665	3.53

Gross  
non-mortgage  
loans

Total loans	\$27,699	100.00%	\$20,324	100.00%	\$11,028	100.00%	\$6,633	100.00%	\$7,057	100.00%
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Investment Activities

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

Federally chartered savings institutions have authority to invest in various types of assets, including U.S. government obligations, securities of various federal agencies, mortgage-backed and mortgage-related securities, certain certificates of deposit of insured banks and savings institutions, certain bankers acceptances, reverse repurchase agreements, loans of federal funds, and, subject to certain limits, corporate securities, commercial paper and mutual funds. We primarily invest in mortgage-backed securities, U. S. government obligations, and mutual funds that purchase these same instruments.

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

We classify our investment securities as available for sale. We carry some of our investments under the fair value option. Unrealized gains and losses for investments carried under the fair value option are included in our Consolidated Statements of Income. Unrealized gains and losses on the remaining investment portfolio, other than unrealized credit losses considered other than temporary, are excluded from earnings and included in Accumulated Other Comprehensive Income (a separate component of equity), net of taxes. At December 31, 2010, we had \$804.2 million in securities available for sale, which represented 18.60% of total assets. These securities had an aggregate market value at December 31, 2010 that was approximately 2.1 times the amount of our equity at that date. At December 31, 2010, the balance of unrealized net losses on securities available for sale was \$0.9 million, net of taxes. This impairment was deemed to be temporary based on the direct relationship of the decline in fair value to: (1) movements in interest rates; (2) widening of credit spreads; and (3) the effect of illiquid markets. We do 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 we deemed these declines in market value to be temporary.

There were \$2.0 million, \$5.9 million and \$27.6 million in credit related OTTI charges recorded for the years ended December 31, 2010, 2009 and 2008, respectively. During 2010, we recorded OTTI charges of \$1.1 million on four private issue collateralized mortgage obligations and \$1.0 million on one pooled trust preferred security. During 2009, we recorded OTTI charges of \$3.1 million on four private issue collateralized mortgage obligations and \$2.8 million on two pooled trust preferred securities. The OTTI charges for the year ended December 31, 2008 was the result of reducing the carrying value of investments in FNMA and FHLMC preferred stocks to the securities market value of \$0.6 million at December 31, 2008. As a result of the magnitude of our holdings of securities available for sale, changes in interest rates could produce significant changes in the value of such securities and could produce significant fluctuations in our operating results and equity. See Notes 5 and 16 of Notes to Consolidated Financial Statements, included in Item 8 of this Annual Report.

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The table below sets forth certain information regarding the amortized cost and market values of our securities portfolio, interest bearing deposits and federal funds sold, at the dates indicated. Securities available for sale are recorded at market value. See Notes 5 and 16 of Notes to Consolidated Financial Statements, included in Item 8 of this Annual Report.

	2010		At December 31, 2009		2008	
	Amortized Cost	Market Value	Amortized Cost	Market Value	Amortized Cost	Market Value
	(In thousands)					
Securities available for sale						
Bonds and other debt securities:						
U.S. government and agencies	\$ 10,556	\$ 10,459	\$ 3,277	\$ 3,389	\$ 12,616	\$ 12,658
Municipal securities	5,412	5,413	2,250	2,250	17,652	17,811
Corporate debentures	2,698	2,698	2,627	2,627	2,268	2,268
Total bonds and other debt securities	18,666	18,570	8,154	8,266	32,536	32,737
Mutual funds	10,625	10,625	6,860	6,860	19,114	19,114
Equity securities:						
Common stock	967	967	1,036	1,036	994	994
Preferred stock	22,346	19,950	22,805	19,199	25,709	19,652
Total equity securities	23,313	20,917	23,841	20,235	26,703	20,646
Mortgage-backed securities:						
FNMA	192,750	194,540	124,199	127,364	165,375	167,592
REMIC and CMO	456,210	453,465	388,891	380,325	330,767	304,511
FHLMC	19,561	20,117	29,201	29,909	47,815	48,108
GNMA	81,439	85,955	107,144	110,845	152,350	154,553
Total mortgage-backed securities	749,960	754,077	649,435	648,443	696,307	674,764
Total securities available for sale	802,564	804,189	688,290	683,804	774,660	747,261
Interest-earning deposits and Federal funds sold	23,542	23,542	23,542	23,542	21,901	21,901
Total	\$ 826,106	\$ 827,731	\$ 711,832	\$ 707,346	\$ 796,561	\$ 769,162

Mortgage-backed securities. At December 31, 2010, we had \$754.1 million invested in mortgage-backed securities, of which \$59.3 million was invested in adjustable-rate mortgage-backed securities. The mortgage loans underlying these

adjustable-rate securities generally are subject to limitations on annual and lifetime interest rate increases. We anticipate that investments in mortgage-backed securities may continue to be used in the future to supplement mortgage-lending activities. Mortgage-backed securities are more liquid than individual mortgage loans and may be used more easily to collateralize our obligations, including collateralizing of the governmental deposits of our Commercial Bank. However, during 2008 and continuing throughout 2010, the market for private issued mortgage-backed securities was somewhat illiquid. In addition, the ratings assigned to our holdings of private issued mortgage-backed securities were reduced to below investment grade. As a result, we are not able to use private issued mortgage-backed securities to collateralize our obligations.

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

	For the years ended December 31,		
	2010	2009	2008
	(In thousands)		
Balance at beginning of year	\$648,443	\$674,764	\$362,729
Purchases of mortgage-backed securities	345,257	177,036	473,891
Amortization of unearned premium, net of accretion of unearned discount	(2,343 )	(1,668 )	(86 )
Net change in unrealized gains (losses) on mortgage-backed securities available for sale	5,110	20,550	(21,567 )
Net realized gains recorded on mortgage-backed securities carried at fair value	730	3,941	339
Net change in interest due on securities carried at fair value	(127 )	(122 )	(69 )
Sales of mortgage-backed securities	(56,479 )	(44,854 )	(87,461 )
Other-than-temporary impairment charges	(1,057 )	(3,144 )	-
In-kind distribution of a mutual fund in the form of mortgage-backed securities	-	11,494	-
Principal repayments received on mortgage-backed securities	(185,457 )	(189,554 )	(53,012 )
Net increase (decrease) in mortgage-backed securities	105,634	(26,321 )	312,035
Balance at end of year	\$754,077	\$648,443	\$674,764

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

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The table below sets forth certain information regarding the amortized cost, fair value, annualized weighted average yields and maturities of our investment in debt and equity securities at December 31, 2010. The stratification of balances is based on stated maturities. Equity securities are shown as immediately maturing, except for preferred stocks with stated redemption dates, which are shown in the period they are scheduled to be redeemed. Assumptions for repayments and prepayments are not reflected for mortgage-backed securities. We carry these investments at their estimated fair value in the consolidated financial statements.

	One year or Less		One to Five Years		Five to Ten Years		More than Ten Years		Average Remaining Years		Total Securities	
	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Maturity	Amortized Cost	Estimated Fair Value	
	(Dollars in thousands)											
Securities available for sale												
Bonds and other debt securities:												
U.S. government and agencies	\$-	-	\$2,556	4.15%	\$-	-	\$8,000	4.35%	11.90	\$10,556	\$10,459	
Municipal securities	5,412	0.94	-	-	-	-	-	-	0.50	5,412	5,413	
Corporate debentures	-	-	2,698	5.28	-	-	-	-	1.62	2,698	2,698	
Total bonds and other debt securities	5,412	0.94	5,254	4.73	-	-	8,000	4.35	7.11	18,666	18,570	
Mutual funds	10,625	3.28	-	-	-	-	-	-	N/A	10,625	10,625	
Equity securities:												
Common stock	-	-	-	-	-	-	967	13.36	N/A	967	967	
Preferred stock	-	-	5,000	0.25	-	-	17,346	3.83	N/A	22,346	19,950	
Total equity securities	-	-	5,000	0.25	-	-	18,313	4.33	N/A	23,313	20,917	
Mortgage-backed securities:												
FNMA	120	5.61	298	5.98	10,239	3.65	182,093	4.28	19.33	192,750	194,540	
REMIC and CMO	-	-	-	-	13,778	4.15	442,432	4.64	22.82	456,210	453,465	
FHLMC	-	-	235	6.03	39	2.46	19,287	5.05	18.47	19,561	20,117	
GNMA	-	-	-	-	-	-	81,439	5.33	27.76	81,439	85,955	
Total mortgage-backed securities	120	5.61	533	6.00	24,056	3.93	725,251	4.64	22.35	749,960	754,077	



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Interest-bearing deposits	42,551	0.20	-	-	-	-	-	-	N/A	42,551	42,551
Total securities	\$58,708	0.84%	\$10,787	2.72%	\$24,056	3.93%	\$751,564	4.63%	21.98	\$845,115	\$846,740

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Sources of Funds

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

Deposits. We offer a variety of deposit accounts having a range of interest rates and terms. Our deposits primarily consist of savings accounts, money market accounts, demand accounts, NOW accounts and certificates of deposit. We have a relatively stable retail deposit base drawn from our market area through our 15 full-service offices. We seek to retain existing depositor relationships by offering quality service and competitive interest rates, while keeping deposit growth within reasonable limits. It is management's intention to balance its goal to maintain competitive interest rates on deposits while seeking to manage its cost of funds to finance its strategies.

In November, 2006, we launched "iGObanking.com®", an internet branch, which currently offers savings accounts, money market accounts, checking accounts, and certificates of deposit. This allows us to compete on a national scale without the geographical constraints of physical locations. Since the number of U.S. households with accounts at Web-only banks has grown more than tenfold in the past six years, our strategy was to join the market place by creating a branch that offers clients the simplicity and flexibility of a virtual online bank, which is a division of a stable, traditional bank that was established in 1929. At December 31, 2010 and 2009, total deposits for the internet branch were \$479.4 million and \$323.7 million, respectively.

In 2007, the Savings Bank formed a new 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 offers a full range of deposit products to these entities similar to the products currently being offered by the Savings Bank. At December 31, 2010 and 2009, total deposits for the Commercial Bank were \$570.5 million and \$359.3 million, respectively.

Our core deposits, consisting of savings accounts, NOW accounts, money market accounts, and non-interest bearing demand accounts, are typically more stable and lower costing than other sources of funding. However, the flow of deposits into a particular type of account is influenced significantly by general economic conditions, changes in prevailing money market and other interest rates, and competition. We saw an increase in our deposits during each of the past three years, including an increase in Due to depositors during 2010 of \$497.0 million. During the year ended December 31, 2010, the cost of deposits decreased 72 basis points to 1.89% from 2.61% for the year ended December 31, 2009. This decrease in the cost of deposits is primarily attributable to the Banks' reducing the rates it pays on its deposit products and the Banks' focus on increasing lower-costing core deposits during 2010. While we are unable to predict the direction of future interest rate changes, if interest rates rise during 2010, the result could be an increase in our cost of deposits, which could reduce our net interest margin. Similarly, if interest rates remain at their current level or decline in 2011, we could see a decline in our cost of deposits, which could increase our net interest margin.

Included in deposits are certificates of deposit with balances of \$100,000 or more totaling \$474.9 million, \$323.7 million and \$413.7 million at December 31, 2010, 2009 and 2008, respectively.

We utilize brokered certificates of deposit as an additional funding source and to assist in the management of our interest rate risk. We have obtained brokered certificates of deposit when the interest rate on these deposits is below the prevailing interest rate for non-brokered certificates of deposit with similar maturities in our market, or when obtaining them allowed us to extend the maturities of our deposits at favorable rates compared to borrowing funds with similar maturities, when we are seeking to extend the maturities of our funding to assist in the management of our interest rate risk. Brokered certificates of deposit provide a large deposit for us at a lower operating cost as

compared to non-brokered certificates of deposit since we only have one account to maintain versus several accounts with multiple interest and maturity checks. The Depository Trust Company is used as the clearing house, maintaining each deposit under the name of CEDE & Co. These deposits are transferable just like a stock or bond investment and the customer can open the account with only a phone call, just like buying a stock or bond. Unlike non-brokered certificates of deposit, where the deposit amount can be withdrawn with a penalty for any reason, including increasing interest rates, a brokered certificate of deposit can only be withdrawn in the event of the death, or court declared mental incompetence, of the depositor. This allows us to better manage the maturity of our deposits and our interest rate risk. We also utilize brokers to obtain money market account deposits. The rate we pay on brokered money market accounts is the same or below the rate we pay on non-brokered money market

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accounts, and the rate is agreed to in a contract between the Savings Bank and the broker. These accounts are similar to brokered certificates of deposit accounts in that we only maintain one account for the total deposit per broker, with the broker maintaining the detailed records of each depositor.

We also offer access to \$50 million per customer in FDIC insurance coverage through a Certificate of Deposit Account Registry Service (“CDARS®”). CDARS® is a deposit placement service. This network arranges for placement of funds into certificate of deposit accounts issued by other member banks of the network in increments of less than \$250,000 to ensure that both principal and interest are eligible for full FDIC deposit insurance. This allows us to accept deposits in excess of \$250,000 from a depositor, and place the deposits through the network to other member banks to provide full FDIC deposit insurance coverage. We may receive deposits from other member banks in exchange for the deposits we place into the network. We may also obtain deposits from other network member banks without placing deposits into the network. We will obtain deposits in this manner primarily as a short-term funding source. We also can place deposits with other member banks without receiving deposits from other member banks. Depositors are allowed to withdraw funds, with a penalty, from these accounts at one or more of the member banks that hold the deposits.

Brokered deposits and funds obtained through the CDARS® network are classified as brokered deposits for financial reporting purposes. At December 31, 2010, we had \$513.6 million classified as brokered deposits, with \$478.5 million in brokered certificates of deposit and \$35.1 million in brokered money market accounts. The brokered certificates of deposit include \$25.5 million obtained through the CDARS® network.

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

	2010		At December 31,				2008		
	Amount	Percent of Total Deposits	Weighted Average Nominal Rate	Amount	Percent of Total Deposits	Weighted Average Nominal Rate	Amount	Percent of Total Deposits	Weighted Average Nominal Rate
	(Dollars in thousands)								
Savings accounts	\$ 388,512	12.17 %	0.53 %	\$ 426,821	15.85 %	0.91 %	\$ 359,595	14.57 %	1.84 %
NOW accounts	786,015	24.63	0.84	503,159	18.68	1.26	265,762	10.76	2.26
Demand accounts	96,198	3.02	-	91,376	3.39	-	69,624	2.82	-
Mortgagors' escrow deposits	27,315	0.86	0.21	26,791	0.99	0.21	31,225	1.26	0.16
<b>Total</b>	<b>1,298,040</b>	<b>40.68</b>	<b>0.67</b>	<b>1,048,147</b>	<b>38.91</b>	<b>0.98</b>	<b>726,206</b>	<b>29.41</b>	<b>1.75</b>
Money market accounts (7)	371,998	11.66	0.56	414,457	15.40	1.17	306,178	12.41	2.58
Certificate of deposit accounts with original maturities of:									
Less than 6 Months (2)	21,245	0.67	0.37	9,670	0.36	0.29	43,472	1.76	2.27
6 to less than 12 Months (3)	38,959	1.22	0.59	54,855	2.04	0.73	259,444	10.51	3.24
12 to less than 30 Months (4)	620,737	19.46	1.92	511,728	19.00	2.64	643,044	26.05	3.86
30 to less than 48 Months (5)	88,659	2.78	2.36	17,479	0.65	3.03	10,732	0.43	3.95
48 to less than 72 Months (6)	714,948	22.40	3.09	596,262	22.14	3.84	431,312	17.47	4.54
72 Months or more	36,024	1.13	4.68	40,517	1.50	4.80	48,446	1.96	4.77
	1,520,572	47.66	2.50	1,230,511	45.69	3.19	1,436,450	58.18	3.94

Total  
certificate of  
deposit  
accounts

Total deposits (1)	\$ 3,190,610	100.00%	1.53%	\$ 2,693,115	100.00%	2.02%	\$ 2,468,834	100.00%	3.12%
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(1) Included in the above balances are IRA and Keogh deposits totaling \$178.2 million, \$169.3 million and \$171.1 million at December 31, 2010, 2009 and 2008, respectively.

(2) Includes brokered deposits of \$15.7 million, \$4.8 million and \$7.0 million at December 31, 2010, 2009 and 2008, respectively.

(3) Includes brokered deposits of \$0.5 million, \$0.7 million and \$46.3 million at December 31, 2010, 2009 and 2008, respectively.

(4) Includes brokered deposits of \$28.9 million, \$90.7 million and \$171.7 million at December 31, 2010, 2009 and 2008, respectively.

(5) Includes brokered deposits of \$187.3 million, \$139.9 million and \$101.0 million at December 31, 2010, 2009 and 2008, respectively.

(6) Includes brokered deposits of \$246.0 million, \$159.6 million and \$59.0 million at December 31, 2010, 2009 and 2008, respectively.

(7) Includes brokered deposits of \$35.1 and \$35.0 million at December 31, 2010 and 2009, respectively.

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The following table presents by various rate categories, the amount of time deposit accounts outstanding at the dates indicated, and the years to maturity of the certificate accounts outstanding at December 31, 2010.

		At December 31,			Within One Year (In thousands)	At December 31, 2010		Total
		2010	2009	2008		One to Three Years	Thereafter	
Interest rate:								
1.99% or less	(1)	\$411,507	\$276,894	\$33,006	\$136,071	\$223,361	\$52,075	\$411,507
2.00% to 2.99%	(2)	575,103	186,821	173,754	108,398	368,745	97,960	575,103
3.00% to 3.99%	(3)	414,464	408,580	533,434	40,642	59,606	314,216	414,464
4.00% to 4.99%	(4)	52,371	210,420	458,418	32,839	19,095	437	52,371
5.00% to 5.99%	(5)	67,127	147,796	237,838	44,442	3,385	19,300	67,127
Total		\$1,520,572	\$1,230,511	\$1,436,450	\$362,392	\$674,192	\$483,988	\$1,520,572

(1)Includes brokered deposits of \$86.6 million, \$18.6 million and \$4.8 million at December 31, 2010, 2009 and 2008, respectively.

(2)Includes brokered deposits of \$156.9 million, \$93.0 million and \$48.5 million at December 31, 2010, 2009 and 2008, respectively.

(3)Includes brokered deposits of \$185.0 million, \$178.0 million and \$142.8 million at December 31, 2010, 2009 and 2008, respectively.

(4)Includes brokered deposits of \$10.1 million, \$21.9 million and \$54.4 million at December 31, 2010, 2009 and 2008 respectively.

(5)Includes brokered deposits of \$39.9 million, \$84.2 million and \$134.5 million at December 31, 2010, 2009 and 2008, respectively

The following table presents by remaining maturity categories the amount of certificate of deposit accounts with balances of \$100,000 or more at December 31, 2010 and their annualized weighted average interest rates.

Maturity Period:	Amount (Dollars in thousands)	Weighted Average Rate	
			%
Three months or less	\$ 34,588	2.29	%
Over three through six months	12,921	1.22	
Over six through 12 months	43,808	1.89	
Over 12 months	383,582	2.42	
Total	\$ 474,899	2.33	%

The above table does not include brokered deposits of \$478.5 million with a weighted average rate of 2.77%.

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

	For the year ended December 31,		
	2010	2009	2008
	(In thousands)		
Net deposits	\$ 443,020	\$ 156,696	\$ 366,633

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Amortization of premiums, net	820	677	789
Interest on deposits	53,655	66,778	75,965
Net increase in deposits	\$ 497,495	\$ 224,151	\$ 443,387



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

	At December 31,									
	2010		2009		2008		2007		2006	
	Average	Percent	Average	Average	Percent	Average	Average	Percent	Average	Average
	Balance	of Total	Cost	Balance	of Total	Cost	Balance	of Total	Balance	Cost
	(Dollars in thousands)									
Savings accounts	\$413,657	13.94 %	0.81 %	\$422,399	15.84 %	1.31 %	\$365,885	16.63 %		2.13 %
NOW accounts	683,390	23.04	1.10	373,854	14.02	1.58	147,003	6.68		2.51
Demand accounts	88,238	2.97	-	76,559	2.86	-	71,613	3.26		-
Mortgagors' escrow deposits	38,245	1.29	0.14	35,879	1.35	0.18	35,465	1.61		0.19
Total	1,223,530	41.24	0.89	908,691	34.07	1.27	619,966	28.18		1.86
Money market accounts	394,536	13.30	0.94	334,703	12.55	1.58	303,776	13.81		3.19
Certificate of deposit accounts	1,348,439	45.46	2.90	1,423,746	53.38	3.51	1,275,964	58.01		4.35
Total deposits	\$2,966,505	100.00 %	1.81 %	\$2,667,140	100.00 %	2.50 %	\$2,199,706	100.00 %		3.49 %

**Borrowings.** Although deposits are our primary source of funds, we also use borrowings as an alternative and cost effective source of funds for lending, investing and other general purposes. The Banks are members of, and are eligible to obtain advances from, the FHLB-NY. Such advances generally are secured by a blanket lien against the Banks' mortgage portfolio and the Banks' investment in the stock of the FHLB-NY. In addition, the Banks may pledge mortgage-backed securities to obtain advances from the FHLB-NY. See "— Regulation — Federal Home Loan Bank System." The maximum amount that the FHLB-NY will advance for purposes other than for meeting withdrawals fluctuates from time to time in accordance with the policies of the FHLB-NY. The Banks may also enter into repurchase agreements with broker-dealers and the FHLB-NY. These agreements are recorded as financing transactions and the obligations to repurchase are reflected as a liability in our consolidated financial statements. In addition, we issued junior subordinated debentures with a total par of \$61.9 million in June and July 2007. These junior subordinated debentures are carried at fair value in the consolidated statement of financial position. The average cost of borrowings was 4.41%, 4.65% and 4.71% for the years ended December 31, 2010, 2009 and 2008, respectively. The average balances of borrowings were \$864.2 million, \$1,043.2 million and \$1,107.6 million for the same years, respectively.

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

	At or for the years ended December 31,					
	2010		2009		2008	
	(Dollars in thousands)					
<b>Securities Sold with the Agreement to Repurchase</b>						
Average balance outstanding	\$174,750		\$204,192		\$222,688	
Maximum amount outstanding at any month end during the period	186,900		222,439		223,191	
Balance outstanding at the end of period	166,000		186,900		222,657	
Weighted average interest rate during the period	3.44	%	4.33	%	4.50	%
Weighted average interest rate at end of period	4.35		4.19		4.52	
<b>FHLB-NY Advances</b>						
Average balance outstanding	\$656,244		\$804,545		\$829,955	
Maximum amount outstanding at any month end during the period	772,115		854,457		883,240	
Balance outstanding at the end of period	510,457		838,835		883,240	
Weighted average interest rate during the period	4.00	%	4.39	%	4.56	%
Weighted average interest rate at end of period	3.93		3.84		4.16	
<b>Other Borrowings</b>						
Average balance outstanding	\$33,179		\$34,465		\$54,991	
Maximum amount outstanding at any month end during the period	34,823		38,417		63,643	
Balance outstanding at the end of period	32,226		34,510		33,052	
Weighted average interest rate during the period	13.04	%	12.56	%	7.88	%
Weighted average interest rate at end of period	13.89		12.63		13.20	
<b>Total Borrowings</b>						
Average balance outstanding	\$864,173		\$1,043,202		\$1,107,634	
Maximum amount outstanding at any month end during the period	993,838		1,110,043		1,138,949	
Balance outstanding at the end of period	708,683		1,060,245		1,138,949	
Weighted average interest rate during the period	4.24	%	4.65	%	4.71	%
Weighted average interest rate at end of period	4.47		4.18		4.49	

**Subsidiary Activities**

At December 31, 2010, Flushing Financial Corporation had four wholly owned subsidiaries: the Savings Bank and the Trusts. In addition, the Savings Bank had four wholly owned subsidiaries: the Commercial Bank, FSB Properties, Inc. ("Properties"), Flushing Preferred Funding Corporation ("FPFC"), and Flushing Service Corporation.

(a) The Commercial Bank, a New York State chartered commercial bank, was formed in response to a New York State Finance Law which requires that municipal deposits and state funds be deposited into a bank or trust company designated by the New York State Comptroller. It was formed 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.

(b) Properties, which is incorporated in the State of New York, was formed in 1976 under the Savings Bank's New York State leeway investment authority. The original purpose of Properties was to engage in joint venture real

estate equity investments. The Savings Bank discontinued these activities in 1986. The last joint venture in which Properties was a partner was dissolved in 1989. The last remaining property acquired by the dissolution of these joint ventures was disposed of in 1998. Properties is currently used to hold title to real estate owned that is obtained via foreclosure.

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

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

Personnel

At December 31, 2010, we had 345 full-time employees and 34 part-time employees. None of our employees are represented by a collective bargaining unit, and we consider our relationship with our employees to be good. At the present time, Flushing Financial Corporation only employs certain officers of the Banks. These employees do not receive any extra compensation as officers of Flushing Financial Corporation.

Omnibus Incentive Plan

The 2005 Omnibus Incentive Plan (“Omnibus Plan”) became effective on May 17, 2005 after adoption by the Board of Directors and approval by the stockholders. The Omnibus Plan authorizes the Compensation Committee to grant a variety of equity compensation awards as well as long-term and annual cash incentive awards, all of which can be structured so as to comply with Section 162(m) of the Internal Revenue Code. As of December 31, 2010, there are 277,343 shares available under the full value award plan and 300 shares under the non-full value plan. We have applied the shares previously authorized by stockholders under the 1996 Stock Option Incentive Plan and the 1996 Restricted Stock Incentive Plan for use under the non-full value and full value plans, respectively, for future awards under the Omnibus Plan. All grants and awards under the 1996 Stock Option Incentive Plan and 1996 Restricted Stock Incentive Plan prior to the effective date of the Omnibus Plan remained outstanding as issued. We will continue to maintain separate pools of available shares for full value as opposed to non-full value awards, except that shares can be moved from the non-full value pool to the full value pool on a 3-for-1 basis. During the year ended December 31, 2010, we removed 301,333 shares from the non-full value pool and moved those shares to the full value pool on a 3-for-1 basis resulting in 100,444 shares being added to the full value pool. In May 2008, the Company’s stockholders approved an additional 350,000 shares for the full value pool and 250,000 shares for the non-full value pool. The exercise price per share of a stock option grant may not be less than the fair market value of the common stock of the Company on the date of grant, and may not be repriced without the approval of the Company’s stockholders. Options, stock appreciation rights, restricted stock, restricted stock units and other stock based awards granted under the Omnibus Plan are generally subject to a minimum vesting period of three years.

For additional information concerning this plan, see “Note 10 of Notes to Consolidated Financial Statements” in Item 8 of this Annual Report.

FEDERAL, STATE AND LOCAL TAXATION

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

Federal Taxation

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

Bad Debt Reserves. Prior to the enactment of the Act, which was signed into law on August 20, 1996, savings institutions which met certain definitional tests primarily relating to their assets and the nature of their business

(“qualifying thrifts”), such as the Savings Bank, were allowed deductions for bad debts under methods more favorable than those granted to other taxpayers. Qualifying thrifts could compute deductions for bad debts using either the specific charge off method of Section 166 of the Internal Revenue Code (the “Code”) or the reserve method of Section 593 of the Code. Section 1616(a) of the Act repealed the Section 593 reserve method of accounting for bad debts by qualifying thrifts, effective for taxable years beginning after 1995. Qualifying thrifts that are treated as large banks, such as the Savings Bank, are required to use the specific charge off method, pursuant to which the amount of any debt may be deducted only as it actually becomes wholly or partially worthless.

Distributions. To the extent that the Savings Bank makes “non-dividend distributions” to stockholders that are considered to result in distributions from its pre-1988 reserves or the supplemental reserve for losses on loans (“excess distributions”), then an amount based on the amount distributed will be included in the Savings Bank’s taxable income. Non-dividend distributions include distributions in excess of the Savings Bank’s current and post-1951 accumulated earnings and profits, as calculated for federal income tax purposes, distributions in redemption of stock and distributions in partial or complete liquidation. The amount of additional taxable income resulting from an excess distribution is an amount that when reduced by the tax attributable to the income is equal to the amount of the excess distribution. Thus,

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slightly more than one and one-half times the amount of the excess distribution made would be includable in gross income for federal income tax purposes, assuming a 35% federal corporate income tax rate. See “Regulation 3/4 Restrictions on Dividends and Capital Distributions” for limits on the payment of dividends by the Savings Bank. The Savings Bank does not intend to pay dividends or make non-dividend distributions described above that would result in a recapture of any portion of its pre-1988 bad debt reserves.

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

## State and Local Taxation

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

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

amount which, when added to the additions to reserves for non-qualifying loans, equal the amount by which 12% of the total deposits or withdrawable accounts of depositors of the Savings Bank at the close of the taxable year exceeded the sum of the Savings Bank's surplus, undivided profits and reserves at the beginning of such year.

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

The Savings Bank has historically reported in its New York State and City income tax returns a deduction for bad debts based on the amount allowed under the percentage of taxable income method. This amount has historically exceeded actual bad debts incurred by the Savings Bank. Since the Savings Bank has consistently stated its intention to

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convert a more “commercial like” bank, which would have previously required the Savings Bank to recapture this excess bad debt reserve if it failed to meet the definition of a thrift under the New York State and City tax law, the Savings Bank has, in prior periods, recorded the tax liability related to the possible recapture of the excess tax bad debt reserve. As a result of the legislation passed by the New York State legislature, this tax liability will no longer be required to be recaptured. As a result, the Savings Bank reversed approximately \$5.5 million of net tax liabilities through income during the year ended December 31, 2010.

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

## REGULATION

### General

Flushing Financial Corporation is registered with the OTS as a savings and loan holding company and is subject to OTS regulations, examinations, supervision and reporting requirements. In addition, the OTS has enforcement authority over Flushing Financial Corporation and any non-savings institution subsidiaries it may form or acquire. Among other things, this authority permits the OTS to restrict or prohibit activities that it determines may pose a serious risk to the Savings Bank. As a publicly owned company, we are required to file certain reports with the Securities and Exchange Commission (“SEC”) under federal securities laws. The Banks are members of the FHLB System. The Savings Bank is subject to extensive regulation by the OTS, as its chartering agency, and the FDIC, as the insurer of the Savings Bank’s deposits. The Savings Bank is also subject to certain regulations promulgated by the other federal agencies. The Savings Bank must file reports with the OTS and the FDIC concerning its activities and financial condition, in addition to obtaining regulatory approvals prior to entering into certain transactions such as mergers with or acquisitions of other savings institutions. The Savings Bank is subject to periodic examinations by the OTS and the FDIC to examine whether the Savings Bank is in compliance with various regulatory requirements. The Commercial Bank is subject to extensive regulations promulgated by the FDIC and the New York State Banking Department, similar to those imposed on the Savings Bank. This regulation and supervision establishes a comprehensive framework of activities in which an institution is permitted to engage and is intended primarily to ensure the safe and sound operation of the Banks for the protection of the insurance fund and depositors. The regulatory structure also gives the regulatory authorities extensive discretion in connection with their supervisory and enforcement activities and examination policies, including policies with respect to the classification of assets and the establishment of an adequate allowance for possible loan losses for regulatory purposes. Any change in such regulation, whether by the OTS, the FDIC, other federal agencies, the New York State Banking Department, or the United States Congress, could have a material adverse impact on us and our operations.

The activities of federal savings institutions are governed primarily by the Home Owners’ Loan Act, as amended (“HOLA”) and, in certain respects, the Federal Deposit Insurance Act (“FDIA”). Most regulatory functions relating to deposit insurance and to the administration of conservatorships and receiverships of insured institutions are exercised by the FDIC. The Federal Deposit Insurance Corporation Improvement Act of 1991 (“FDICIA”), among other things, requires that federal banking regulators intervene promptly when a depository institution experiences financial difficulties, mandated the establishment of a risk-based deposit insurance assessment system, and required imposition of numerous additional safety and soundness operational standards and restrictions. FDICIA and the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (“FIRREA”) each contain provisions affecting numerous aspects of the operations and regulations of federal savings banks, and these laws empower the OTS and the FDIC, among other agencies, to promulgate regulations implementing their provisions.



Set forth below is a brief description of certain laws and regulations which relate to the regulation of the Banks and the Company. The description does not purport to be a comprehensive description of applicable laws, rules and regulations and is qualified in its entirety by reference to applicable laws, rules and regulations.

#### Holding Company Regulation

Flushing Financial Corporation is a unitary savings and loan holding company within the meaning of the HOLA. As such, we are required to register with the OTS and are subject to OTS regulations, examinations, supervision and reporting requirements. In addition, the OTS has enforcement authority over us and any non-savings institution subsidiaries we may form or acquire. Among other things, this authority permits the OTS to restrict or prohibit activities that it determines may pose a serious risk to the Banks. See “—Restrictions on Dividends and Capital Distributions.”

HOLA prohibits a savings and loan holding company, directly or indirectly, or through one or more subsidiaries, from (1) acquiring another savings institution or holding company thereof, without prior written approval of the OTS; (2) acquiring or retaining, with certain exceptions, more than 5% of a non-subsidiary savings institution, a non-

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subsidiary holding company, or a non-subsidiary company engaged in activities other than those permitted by HOLA; or (3) acquiring or retaining control of a depository institution that is not federally insured. In evaluating applications by holding companies to acquire savings institutions, the OTS will consider the financial and managerial resources and future prospects of the company and institution involved, the effect of the acquisition on the risk to the insurance funds, the convenience and needs of the community, and the impact of any competitive factors that may be involved.

As a unitary savings and loan holding company, Flushing Financial Corporation currently is not restricted as to the types of business activities in which it may engage, provided that the Savings Bank continues to meet the qualified thrift lender (“QTL”) test. See “—Qualified Thrift Lender Test.” Upon any non-supervisory acquisition by the Company of another savings association or savings bank, Flushing Financial Corporation would become a multiple savings and loan holding company (if the acquired institution is held as a separate subsidiary) and would be subject to extensive limitations on the types of business activities in which it could engage. HOLA limits the activities of a multiple savings and loan holding company and its non-insured institution subsidiaries primarily to activities permissible for bank holding companies under Section 4(c)(8) of the Bank Holding Company Act, subject to the prior approval of the OTS, and activities authorized by OTS regulation.

The OTS is prohibited from approving any acquisition that would result in a multiple savings and loan holding company controlling savings institutions in more than one state, subject to two exceptions: (1) emergency acquisitions authorized by the FDIC and (2) the acquisition of a savings institution in another state if the laws of the state of the target savings institution specifically permit such acquisitions. Under New York law, reciprocal interstate acquisitions are authorized for savings and loan holding companies and savings institutions. Certain states do not authorize interstate acquisitions under any circumstances; however, federal law authorizing acquisitions in supervisory cases preempts such state law.

Federal law generally provides that no “person” acting directly or indirectly or through or in concert with one or more other persons, may acquire “control,” as that term is defined in OTS regulations, of a federally insured savings institution without giving at least 60 days’ written notice to the OTS and providing the OTS an opportunity to disapprove the proposed acquisition. Such acquisitions of control may be disapproved if it is determined, among other things, that (1) the acquisition would substantially lessen competition; (2) the financial condition of the acquiring person might jeopardize the financial stability of the savings institution or prejudice the interests of its depositors; or (3) the competency, experience or integrity of the acquiring person or the proposed management personnel indicates that it would not be in the interest of the depositors or the public to permit the acquisition of control by such person.

## Investment Powers

The Savings Bank is subject to comprehensive regulation governing its investments and activities. Among other things, the Savings Bank may invest in (1) residential mortgage loans, mortgage-backed securities, education loans and credit card loans in an unlimited amount, (2) non-residential real estate loans up to 400% of total capital, (3) commercial business loans up to 20% of total assets (however, amounts over 10% of total assets must be used only for small business loans) and (4) in general, consumer loans and highly rated commercial paper and corporate debt securities in the aggregate up to 35% of total assets. In addition, the Savings Bank may invest up to 3% of its total assets in service corporations, an unlimited percentage of its assets in operating subsidiaries (which may only engage in activities permissible for the Savings Bank itself) and under certain conditions may invest in finance subsidiaries. Other than investments in service corporations, operating subsidiaries, finance subsidiaries and certain government-sponsored enterprises, such as FHLMC and FNMA, the Savings Bank generally is not permitted to make equity investments. See “— General — Investment Activities.” A service corporation in which the Savings Bank may invest is permitted to engage in activities that a federal savings bank may conduct directly, other than taking deposits, as well as certain activities pre-approved by the OTS, which include providing certain support services for the institution; originating, investing in, selling, purchasing, servicing or otherwise dealing with specified types of loans and

participations (principally loans that the parent institution could make); specified real estate activities, including limited real estate development; securities brokerage services; certain insurance brokerage activities; and other specified investments and services.

#### Real Estate Lending Standards

FDICIA requires each federal banking agency to adopt uniform regulations prescribing standards for extensions of credit which are either (1) secured by real estate, or (2) made for the purpose of financing the construction of improvements on real estate. In prescribing these standards, the banking agencies must consider the risk posed to the deposit insurance funds by real estate loans, the need for safe and sound operation of insured depository institutions and the availability of credit. The OTS and the other federal banking agencies adopted uniform regulations, effective March 19, 1993. The OTS regulation requires each savings association to establish and maintain written internal real estate lending standards consistent with safe and sound banking practices and appropriate to the size of the institution and the

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nature and scope of its real estate lending activities. The policy must also be consistent with accompanying OTS guidelines, which include maximum loan-to-value ratios for the following types of real estate loans: raw land (65%), land development (75%), nonresidential construction (80%), improved property (85%) and one-to-four family residential construction (85%). Owner-occupied one-to-four family mortgage loans and home equity loans do not have maximum loan-to-value ratio limits, but owner-occupied one-to-four family mortgage loans with a loan-to-value ratio at origination of 90% or greater are to be backed by private mortgage insurance or readily marketable collateral. Institutions are also permitted to make a limited amount of loans that do not conform to the proposed loan-to-value limitations so long as such exceptions are appropriately reviewed and justified. The guidelines also list a number of lending situations in which exceptions to the loan-to-value standard are justified.

### Loans-to-One Borrower Limits

The Savings Bank generally is subject to the same loans-to-one borrower limits that apply to national banks. With certain exceptions, total loans and extensions of credit outstanding at one time to one borrower (including certain related entities of the borrower) may not exceed, for loans not fully secured, 15% of the Savings Bank's unimpaired capital and unimpaired surplus, plus, for loans fully secured by readily marketable collateral, an additional 10% of the Savings Bank's unimpaired capital and unimpaired surplus. At December 31, 2010, the largest amount the Savings Bank could lend to one borrower was approximately \$59.3 million, and at that date, the Savings Bank's largest aggregate amount of loans-to-one borrower was \$39.2 million, all of which were performing according to their terms. The Commercial Bank does not originate loans. See "— General — Lending Activities."

### Insurance of Accounts

On July 21, 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Reform Act") was signed into law. The Reform Act permanently increases deposit insurance coverage to \$250,000 per depositor. The Reform Act also provides for unlimited FDIC insurance for non interest-bearing transaction accounts effective December 31, 2010 through December 31, 2012. In the past several years, prior to the passage of the Reform Act, the level of deposit coverage per depositor went through a number of revisions. The Emergency Economic Stabilization Act of 2008 ("EESA") increased this coverage, effective October 3, 2008, for all accounts in an amount up to \$250,000 through December 31, 2009. On May 20, 2009, the Helping Families Save Their Homes Act was signed into law. Included in this legislation was a provision that extended the temporary increase in the standard maximum insured deposit amount to \$250,000 per depositor through December 31, 2013. The legislation provided that the insured deposit coverage limit would return to \$100,000 on January 1, 2014. In addition, the FDIC had implemented a Transaction Account Guarantee Program ("TAGP") under which, effective October 14, 2008 and through December 31, 2009, transaction accounts that earned interest at a rate of no more than 0.50% were insured for 100% of their balance. The TAGP was provided at no cost to banks through November 12, 2008. Banks had the option to opt out of this program no later than November 12, 2008. Banks which did not opt out of the TAGP paid additional deposit insurance at an annual rate of 0.10% for balances in covered deposit accounts in excess of \$250,000. Both the Savings Bank and the Commercial Bank opted to remain in the TAGP. On August 26, 2009, the FDIC adopted a final rule extending the TAGP through June 30, 2010. The extension increased the rate institutions paid to 15 basis points, 20 basis points or 25 basis points, depending on the risk category assigned to the institution under the FDIC's risk-based premium system. Any institution participating in the TAGP could elect to opt out on or before November 2, 2009. The Banks did not opt out and continued to participate in the TAGP.

The Reform Act will also change the way deposit assessments are calculated, from a risk-based assessment base, to average total consolidated assets of the bank minus average tangible equity of the bank, first effective for the assessment of the second quarter of 2011. The assessment rate is to change so to provide approximately the same amount collected under the new assessment method as was collected under the risk-based assessment method. In the past several years, prior to the passage of the Reform Act, the calculation of deposit assessments went through a

number of revisions. The FDIC utilized a risk-based deposit insurance assessment system. Through December 31, 2006, under this system, the FDIC assigned each institution to one of three capital categories — “well capitalized,” “adequately capitalized” and “undercapitalized” — which are defined in the same manner as the regulations establishing the prompt corrective action system under Section 38 of FDIA, as discussed below. These three categories were then divided into three subcategories which reflect varying levels of supervisory concern. The matrix so created resulted in nine assessment risk classifications. Effective January 1, 2007, the FDIC revised their risk-based deposit insurance assessment system, and placed institutions into four risk categories based upon supervisory and capital evaluations. Risk Category 1 is further subdivided based upon supervisory ratings and other risk measures to differentiate risk. Due to the insurance fund falling below its required reserve ratio of 1.15% during 2008, effective January 1, 2009, the FDIC increased rates uniformly by seven basis points for the first quarter of 2009 to replenish the insurance fund within five years. The FDIC subsequently adopted additional changes to its risk categories effective April 1, 2009, and extended the period to replenish the

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insurance fund to seven years. Effective April 1, 2009, the FDIC continued to utilize four risk categories, but to determine initial base assessment rates, the FDIC: (1) introduced a new financial ratio into the financial ratios method applicable to most Risk Category I institutions to include brokered deposits above a threshold that are used to fund rapid asset growth; (2) for a large Risk Category I institution with long-term debt issuer ratings, combined weighted average CAMELS component ratings, the debt issuer ratings, and the financial ratios method assessment rate; and (3) uses a new uniform amount and pricing multipliers for each method. The FDIC also introduced three adjustments that could be made to an institution's initial base assessment rate: (1) a decrease for long-term unsecured debt, and, for small institutions, a portion of Tier 1 Capital; (2) an increase for secured liabilities above a threshold amount; and (3) for non-Risk Category I institutions, an increase for brokered deposits above a threshold amount. At December 31, 2008, the Banks' annual assessment rate was 0.05%. This assessment rate for the first quarter of 2009 was increased to a range of 0.12% to 0.14%. This base assessment beginning in the second quarter of 2009 was in a range of 0.12% to 0.16%. The Savings Bank also saw a further increase in its deposit insurance premium beginning in the second quarter of 2009 since it had seen an increase in its secured liabilities above the threshold level defined by the FDIC. The FDIC also imposed a 20 basis point emergency special assessment that was collected on September 30, 2009 based on deposit balances as of June 30, 2009. The rule also provided that, after June 30, 2009, if the reserve ratio of the DIF is estimated to fall to a level that the Board of the FDIC believes would adversely affect public confidence or to a level which shall be close to zero or negative at the end of a calendar quarter, an emergency special assessment of up to 10 basis points may be imposed by a vote of the Board of the FDIC on all insured depository institutions for the corresponding assessment period. Additionally, on September 29, 2009, the Board of Directors of the FDIC proposed to require institutions to prepay their estimated quarterly risk-based assessments for the fourth quarter of 2009 and for all of 2010, 2011 and 2012, which was collected on December 31, 2009. The Banks prepaid a total of \$16.9 million in risk-based assessments. Prior to the enactment of the Reform Act, the FDIC Board also voted to adopt a uniform three-basis point increase in assessment rates effective on January 1, 2011, and to extend the restoration period from seven to eight years. The Savings Bank's assessment rate in effect from time to time will depend upon the risk category to which it is assigned. In addition, the FDIC is authorized to increase federal deposit insurance assessment rates to the extent necessary to protect the fund under current law. Any increase in deposit insurance assessment rates, as a result of a change in the category or subcategory to which the Banks are assigned or the exercise of the FDIC's authority to increase assessment rates generally, could have an adverse effect on the earnings of the Banks.

All of the Banks' deposits are presently insured, to the maximum extent allowed, by the FDIC under the Deposit Insurance Fund ("DIF"). Previously, the majority of the Savings Bank's deposits were insured by the Bank Insurance Fund ("BIF"), and the remainder by the Savings Association Insurance Fund ("SAIF"). As insurer, the FDIC is authorized to conduct examinations of, and to require reporting by, insured institutions. It also may prohibit any insured institution from engaging in any activity the FDIC determines by regulation or order to pose a serious threat to the insurance fund. The FDIC also has the authority to initiate enforcement actions where the OTS has failed or declined to take such action after receiving a request to do so from the FDIC.

On February 8, 2006, as part of the Deficit Reduction Act of 2005, the Federal Deposit Insurance Reform Act of 2005 ("Deposit Act") was enacted. The Deposit Act required the FDIC to merge the BIF and SAIF into a new insurance fund, the DIF, no later than July 1, 2006. The funds were merged on March 31, 2006. The FDIC was also required to propose regulations to implement the Deposit Act's provisions. These regulations have been finalized and became effective January 1, 2007. Other major provisions of the Deposit Act include: (1) maintaining basic deposit insurance coverage at \$100,000, and increasing deposit insurance coverage to \$250,000 for certain retirement accounts, with increases for inflation each five years beginning in 2011, (2) giving the FDIC flexibility to manage the insurance fund by setting the designated reserve ratio between 1.15% and 1.50% (thereby eliminating the 1.25% trigger), (3) requiring all banks to be assessed premiums, (4) providing a one-time assessment credit of \$4.7 billion to banks and savings institutions in existence on December 31, 1996, that capitalized the FDIC in the 1990s to offset future premiums under a new risk-based assessment system, and (5) imposing a cap on the growth of the insurance fund by requiring a premium dividend to institutions when certain levels of the DIF are exceeded. The Savings Bank was

provided a one-time assessment credit of \$1.1 million, which was used to offset the FDIC assessment. During 2007, the Savings Bank utilized \$1.0 million of this credit to offset the FDIC assessment, and utilized the remaining credit in 2008 to offset its FDIC assessment.

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

On September 30, 1996, as part of an omnibus appropriations bill, the Deposit Insurance Funds Act of 1996 (the "Funds Act") was enacted. The Funds Act required BIF institutions, beginning January 1, 1997, to pay a portion of the interest due on the Finance Corporation ("FICO") bonds issued in connection with the savings and loan association crisis

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in the late 1980s, and required BIF institutions to pay their full pro rata share of the FICO payments starting the earlier of January 1, 2000 or the date at which no savings institution continues to exist. We were required, as of January 1, 2000, to pay our full pro rata share of the FICO payments. The FICO assessment rate is subject to change. The Banks paid \$298,000, \$271,000 and \$238,000 for their share of the interest due on FICO bonds in 2010, 2009 and 2008, respectively, which was included in FDIC insurance expense.

### Qualified Thrift Lender Test

Institutions regulated by the OTS are required to meet a QTL test to avoid certain restrictions on their operations. FDICIA and applicable OTS regulations require such institutions to maintain at least 65% of their portfolio assets (total assets less intangibles, properties used to conduct the institution's business and liquid assets not exceeding 20% of total assets) in "qualified thrift investments" on a monthly average basis in nine of every 12 months. Qualified thrift investments constitute primarily residential mortgage loans and related investments, including certain mortgage-backed and mortgage-related securities. A savings institution that fails the QTL test must either convert to a bank charter or, in general, it will be prohibited from: (1) making an investment or engaging in any new activity not permissible for a national bank, (2) paying dividends not permissible under national bank regulations and (3) establishing any new branch office in a location not permissible for a national bank in the institution's home state. One year following the institution's failure to meet the QTL test, any holding company parent of the institution must register and be subject to supervision as a bank holding company. In addition, beginning three years after the institution failed the QTL test, the institution would be prohibited from retaining any investment or engaging in any activity not permissible for a national bank. At December 31, 2010 the Savings Bank had maintained more than 65% of its "portfolio assets" in qualified thrift investments in at least nine of the preceding 12 months. Accordingly, on that date, the Savings Bank had met the QTL test.

Under the Economic Growth and Paperwork Reduction Act of 1996 ("Regulatory Paperwork Reduction Act"), Congress modified and expanded investment authority under the QTL test. The Regulatory Paperwork Reduction Act amendments permit federal thrifts to invest in, sell, or otherwise deal in education and credit card loans without limitation and raised from 10% to 20% of total assets the aggregate amount of commercial, corporate, business, or agricultural loans or investments that may be made by a thrift, subject to a requirement that amounts in excess of 10% of total assets be used only for small business loans. In addition, the Regulatory Paperwork Reduction Act defines "qualified thrift investment" to include, without limit, education, small business, and credit card loans; and removes the 10% limit on personal, family, or household loans for purposes of the QTL test. The legislation also provides that a thrift meets the QTL test if it qualifies as a domestic building and loan association under the OTS regulations.

### Transactions with Affiliates

Transactions between the Savings Bank and any related party or "affiliate" are governed by Sections 23A and 23B of the Federal Reserve Act. An affiliate is generally any company or entity which controls, is controlled by or is under common control with the Savings Bank, including Flushing Financial Corporation, the Commercial Bank, the Trusts, the Savings Bank's subsidiaries, and any other qualifying subsidiary of the Savings Bank or Flushing Financial Corporation that may be formed or acquired in the future. Generally, Sections 23A and 23B: (1) limit the extent to which the Savings Bank or its subsidiaries may engage in "covered transactions" with any one affiliate to an amount equal to 10% of the Savings Bank's capital stock and surplus, and impose an aggregate limit on all such transactions with all affiliates to an amount equal to 20% of such capital stock and surplus, and (2) require that all such transactions be on terms substantially the same, or at least as favorable, to the Savings Bank or subsidiary as those provided to a non-affiliate. The term "covered transaction" includes the making of loans, purchase of assets, issuance of a guarantee and other similar types of transactions. Each loan or extension of credit to an affiliate by the Savings Bank must be secured by collateral with a market value ranging from 100% to 130% (depending on the type of collateral) of the amount of credit extended. In addition, the Savings Bank may not: (1) loan or otherwise extend credit to an



affiliate, except to any affiliate which engages only in activities which are permissible for bank holding companies under Section 4(c) of the Bank Company Act, or (2) purchase or invest in any stocks, bonds, debentures, notes or similar obligations of any affiliates, except subsidiaries of the Savings Bank.

In addition, the Savings Bank is subject to Regulation O promulgated under Sections 22(g) and 22(h) of the Federal Reserve Act. Regulation O requires that loans by the Savings Bank to a director, executive officer or to a holder of more than 10% of the Common Stock, and to certain affiliated interests of any such insider, may not, in the aggregate, exceed the Savings Bank's loans-to-one borrower limit. Loans to insiders and their related interests must also be made on terms substantially the same as offered, and follow credit underwriting procedures that are not less stringent than those applied, in comparable transactions to other persons. Prior Board approval is required for certain loans. In addition, the aggregate amount of extensions of credit by the Savings Bank to all insiders cannot exceed the institution's unimpaired capital and unimpaired surplus. These laws place additional restrictions on loans to executive officers of the Savings Bank. The Savings Bank is in compliance with these regulations.

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### Restrictions on Dividends and Capital Distributions

The Savings Bank is subject to OTS limitations on capital distributions, which include cash dividends, stock redemptions or repurchases, cash-out mergers, interest payments on certain convertible debt and some other distributions charged to the Savings Bank's capital account. In general, the applicable regulation permits specified levels of capital distributions by a savings institution that meets at least its minimum capital requirements, so long as the OTS is provided with at least 30 days' advance notice and has no objection to the distribution.

Under OTS capital distribution regulations, an institution is not required to file an application with, or to provide a notice to, the OTS if neither the institution nor the proposed capital distribution meets any of the criteria for any such application or notice as provided below. An institution will be required to file an application with the OTS if the institution is not eligible for expedited treatment by the OTS; if the total amount of all its capital distributions for the applicable calendar year exceeds the net income for that year to date plus the retained net income (net income less capital distributions) for the preceding two years; if it would not be at least adequately capitalized following the distribution; or if its proposed capital distribution would violate a prohibition contained in any applicable statute, regulation, or agreement between the association and the OTS. By contrast, only notice to the OTS is required for an institution that is not required to file an application as provided in the preceding sentence, if it would not be well capitalized following the distribution; if the association's proposed capital distribution would reduce the amount of or retire any part of its common or preferred stock or retire any part of debt instruments such as notes or debentures included in capital under OTS regulations; or if the association is a subsidiary of a savings and loan holding company. The Savings Bank is a subsidiary of a savings and loan holding company and, therefore, is subject to the 30-day advance notice requirement. As of December 31, 2010, the Savings Bank had \$68.6 million in retained earnings available to distribute to the Holding Company in the form of cash dividends.

### Federal Home Loan Bank System

In connection with converting to a federal charter, the Savings Bank became a member of the FHLB-NY, which is one of 12 regional FHLB governed and regulated by the Federal Housing Finance Board. The Commercial Bank is also a member of the FHLB-NY. Each FHLB serves as a source of liquidity for its members within its assigned region. It is funded primarily from proceeds derived from the sale of consolidated obligations of the FHLB System. It makes loans to members (i.e., advances) in accordance with policies and procedures established by its Board of Directors.

As members, the Banks are mandated to purchase and maintain membership stock in the FHLB-NY based on their respective asset sizes. In addition, for all borrowing activity, the Banks are required to purchase or redeem shares of FHLB-NY non-marketable capital stock at par. Pursuant to this requirement, at December 31, 2010, the Savings Bank was required to maintain \$31.6 million of FHLB-NY stock, and the Commercial Bank was required to maintain \$54,700 of FHLB-NY stock. The Banks were in compliance with these requirements at that time.

### Assessments

Savings institutions are required by OTS regulations to pay assessments to the OTS to fund the operations of the OTS. The general assessment, paid on a semi-annual basis, as determined from time to time by the Director of the OTS, is computed upon the savings institution's total assets, including consolidated subsidiaries, as reported in the institution's latest quarterly thrift financial report. Based on the average balance of the Savings Bank's total assets for the year ended December 31, 2010, the Savings Bank's OTS assessments were \$0.8 million for that period. The Commercial Bank is a New York State chartered commercial bank, and as such is required by the New York State Banking Department to pay an annual assessment. For the year ended December 31, 2010, the Commercial Bank paid an assessment of \$44,000.

### Branching

OTS regulations permit federally chartered savings institutions to branch nationwide to the extent allowed by federal statute. This permits federal savings associations to geographically diversify their loan portfolios and lines of business. The OTS authority preempts any state law purporting to regulate branching by federal savings institutions.

### Community Reinvestment

Under the Community Reinvestment Act (“CRA”), as implemented by OTS regulations, the Savings Bank has an obligation, consistent with its safe and sound operation, to help meet the credit needs of its entire community, including low and moderate income neighborhoods located in the community. The CRA does not establish specific lending requirements or programs for financial institutions, nor does it limit an institution’s discretion to develop the types of products and services that it believes are best suited to its particular community, consistent with the CRA. The CRA requires the OTS, in connection with its examination of a savings institution, to assess the institution’s record of meeting the credit needs of its community and to take such record into account in its evaluation of certain applications by the institution. The methodology used by the OTS for determining an institution’s compliance with the CRA focuses on

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three tests: (a) a lending test, to evaluate the institution's record of making loans in its service areas; (b) an investment test, to evaluate the institution's record of investing in community development projects, affordable housing, and programs benefiting low or moderate income individuals and businesses; and (c) a service test, to evaluate the range of the institution's services and the delivery of services through its branches, ATMs, and other offices. The Savings Bank received a CRA rating of "Satisfactory" in its most recent completed CRA examination, which was completed as of August 3, 2009. Institutions that receive less than a satisfactory rating may face difficulties in securing approval for new activities or acquisitions. The CRA requires all institutions to make public disclosures of their CRA ratings. As a special purpose commercial bank, the Commercial Bank is not required to comply with the CRA.

### Brokered Deposits

The FDIC has promulgated regulations implementing the FDICIA limitations on brokered deposits. Under the regulations, well-capitalized institutions are not subject to brokered deposit limitations, while adequately capitalized institutions are able to accept, renew or roll over brokered deposits only with a waiver from the FDIC and subject to restrictions on the interest rate that can be paid on such deposits. Undercapitalized institutions are not permitted to accept brokered deposits and may not solicit deposits by offering an effective yield that exceeds by more than 75 basis points the prevailing effective yields on insured deposits of comparable maturity in the institution's normal market area or in the market area in which such deposits are being solicited. Pursuant to the regulation, the Savings Bank, as a well-capitalized institution, may accept brokered deposits. At December 31, 2010, the Savings Bank had \$513.6 million in brokered deposit accounts.

### Capital Requirements

**General.** The Savings Bank is required to maintain minimum levels of regulatory capital. Since FIRREA, capital requirements established by the OTS generally must be no less stringent than the capital requirements applicable to national banks. The OTS also is authorized to impose capital requirements in excess of these standards on a case-by-case basis.

Any institution that fails any of its applicable capital requirements is subject to possible enforcement actions by the OTS or the FDIC. Such actions could include a capital directive, a cease and desist order, civil money penalties, the establishment of restrictions on the institution's operations and the appointment of a conservator or receiver. The OTS' capital regulation provides that such actions, through enforcement proceedings or otherwise, could require one or more of a variety of corrective actions. See "—Prompt Corrective Action."

The OTS' capital regulations create three capital requirements: a tangible capital requirement, a leverage and core capital requirement and a risk-based capital requirement. At December 31, 2010, the Savings Bank's capital levels exceeded applicable OTS capital requirements. The three OTS capital requirements are described below.

**Tangible Capital Requirement.** Under current OTS regulations, each savings institution must maintain tangible capital equal to at least 1.50% of its adjusted total assets (as defined by regulation). Tangible capital generally includes common stockholders' equity and retained income, and certain non-cumulative perpetual preferred stock and related income. In addition, all intangible assets, other than a limited amount of purchased mortgage servicing rights, must be deducted from tangible capital. Tangible capital also excludes adjustments to accumulated other comprehensive income recorded for postretirement benefits. At December 31, 2010, the Savings Bank had \$13.9 million in goodwill and \$1.4 million in a core deposit intangible which were classified as intangible assets, and no purchased mortgage servicing rights. At that date, the Savings Bank's tangible capital ratio was 9.18%.

In calculating adjusted total assets, adjustments are made to total assets to give effect to the exclusion of certain assets from capital and to appropriately account for the investments in and assets of both includable and non-includable

subsidiaries.

**Leverage and Core Capital Requirement.** The current OTS requirement for leverage and core capital (commonly referred to as core capital) ranges between 3% and 5% of adjusted total assets. Savings institutions that receive the highest supervisory rating for safety and soundness are required to maintain a minimum core capital ratio of 3%, while the capital floor for all other savings institutions generally ranges from 4% to 5%, as determined by the OTS on a case-by-case basis. Core capital includes common stockholders' equity (including retained income), non-cumulative perpetual preferred stock and related surplus. At December 31, 2010, the Savings Bank's core capital ratio was 9.18%.

OTS regulations limit the amount of servicing assets, together with purchased credit card receivables, includable in core capital to 100% of such capital, subject to limitations on fair value. At December 31, 2010, the Savings Bank had \$0.1 million in capitalized servicing rights and no purchased credit card receivables.

**Risk-Based Requirement.** The risk-based capital standard adopted by the OTS requires savings institutions to maintain a minimum ratio of total capital to risk-weighted assets of 8%. Total capital consists of core capital, defined

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above, and supplementary capital, but excludes the effect of recognizing deferred taxes based upon future income after one year. Supplementary capital consists of certain capital instruments that do not qualify as core capital, and general valuation loan and lease loss allowances up to a maximum of 1.25% of risk-weighted assets. Supplementary capital may be used to satisfy the risk-based requirement only in an amount equal to the amount of core capital. In determining the risk-based capital ratios, total assets, including certain off-balance sheet items, are multiplied by a risk weight based on the risks inherent in the type of assets. The risk weights assigned by the OTS for significant categories of assets are (1) 0% for cash and securities issued by the federal government or unconditionally backed by the full faith and credit of the federal government; (2) 20% for securities (other than equity securities) issued by federal government sponsored agencies and mortgage-backed securities issued by, or fully guaranteed as to principal and interest by, the FNMA or the FHLMC, except for those classes with residual characteristics or stripped mortgage-related securities; (3) 50% for prudently underwritten permanent one-to-four family first lien mortgage loans and certain qualifying multi-family mortgage loans not more than 90 days delinquent and having a loan-to-value ratio of not more than 80% at origination unless insured to such ratio by an insurer approved by the FNMA or the FHLMC; and (4) 100% for all other loans and investments, including consumer loans, home equity loans, commercial loans, and one-to-four family residential real estate loans more than 90 days delinquent, and all repossessed assets or assets more than 90 days past due. At December 31, 2010, the Savings Bank's risk-based capital ratio was 14.34%.

The Commercial Bank is required to maintain minimum levels of regulatory capital, which are similar to those of the Savings Bank. At December 31, 2010, the Commercial Bank exceeded the regulatory capital requirements to be considered well capitalized, with tangible, leverage and core, and risk-based capital ratios of 8.89%, 8.89%, and 62.65%, respectively.

### Federal Reserve System

The Federal Reserve Board requires all depository institutions to maintain reserves against their transaction accounts (primarily NOW and checking accounts) and non-personal time deposits. At December 31, 2010, the Banks were in compliance with these requirements.

The balances maintained to meet the reserve requirements imposed by the Federal Reserve Board may be used to satisfy liquidity requirements imposed by the OTS. Because required reserves must be maintained in the form of vault cash or an account at a Federal Reserve Bank directly or through another bank, the effect of this reserve requirement is to reduce an institution's earning assets. Effective October 9, 2008, the Federal Reserve Bank pays interest on deposits maintained at its bank at a rate that approximates the overnight federal funds rate. The amount of funds necessary to satisfy this requirement has not had a material effect on the Banks' operations.

As a creditor and financial institution, the Savings Bank is also subject to additional regulations promulgated by the Federal Reserve Board, including, without limitation, regulations implementing requirements of the Truth in Savings Act, the Expedited Funds Availability Act, the Equal Credit Opportunity Act and the Truth in Lending Act.

### Financial Reporting

The Savings Bank is required to submit independently audited annual reports to the FDIC and the OTS. These publicly available reports must include (a) annual financial statements prepared in accordance with accounting principles generally accepted in the United States and such other disclosures as required by the FDIC or the OTS and (b) a report, signed by the Savings Bank's Chief Executive Officer and Chief Financial Officer which contains statements about the adequacy of internal controls and compliance with designated laws and regulations, and an opinion by independent auditors related thereto. The Commercial Bank is required to submit independently audited annual reports to the FDIC and New York State Banking Department. The Banks are each required to monitor the foregoing activities through independent audit committees.

### Standards for Safety and Soundness

The FDIA, as amended by the FDICIA and the Riegle Community Development and Regulatory Improvement Act of 1994 (the “Community Development Act”), requires each federal bank regulatory agency to establish safety and soundness standards for institutions under its authority. On July 10, 1995, the federal banking agencies, including the OTS, jointly released Interagency Guidelines Establishing Standards for Safety and Soundness and published a final rule establishing deadlines for submission and review of safety and soundness compliance plans. The guidelines, among other things, require savings institutions to maintain internal controls, information systems and internal audit systems that are appropriate to the size, nature and scope of the institution’s business. The guidelines also establish general standards relating to loan documentation, credit underwriting, interest rate risk exposure, asset growth, compensation, fees and benefits. Savings institutions are required to maintain safeguards to prevent the payment of excessive compensation to an executive officer, employee, director or principal shareholder. The OTS may determine that a savings institution is not in compliance with the safety and soundness guidelines and, upon doing so, may require the institution to submit an

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acceptable plan to achieve compliance with the guidelines. An institution must submit an acceptable compliance plan to the OTS within 30 days of receipt or request for such a plan. Failure to submit or implement a compliance plan may subject the institution to regulatory actions. Management believes that the Savings Bank currently meets the standards adopted in the interagency guidelines.

Additionally, under FDICIA, as amended by the Community Development Act, federal banking agencies are required to establish standards relating to asset quality and earnings that the agencies determine to be appropriate. Effective October 1, 1998, the federal banking agencies, including the OTS, adopted guidelines relating to asset quality and earnings which require insured institutions to maintain systems, consistent with their size and the nature and scope of their operations, to identify problem assets and prevent deterioration in those assets as well as to evaluate and monitor earnings and insure that earnings are sufficient to maintain adequate capital and reserves.

### Gramm-Leach-Bliley Act

The Gramm-Leach-Bliley Act (the “Modernization Act”) was signed into law on November 12, 1999. Among other things, the Modernization Act permits qualifying bank holding companies to affiliate with securities firms and insurance companies and engage in other activities that are financial in nature or complementary thereto, as determined by the Federal Reserve Board. Subject to certain limitations, a national bank may, through a financial subsidiary, engage in similar activities. The Modernization Act also prohibits the creation or acquisition of new unitary savings and loan holding companies that are affiliated with non-banking firms, but “grandfathers” existing savings and loan holding companies, such as the Company. Grandfathered companies retain the existing powers available to unitary savings and loan holding companies. See “— Holding Company Regulation.” Certain business combinations which were impermissible prior to the effective date of the Modernization Act are now possible. Management believes the Modernization Act has led to some consolidation in the financial services industry and could lead to further consolidation, which, if completed, would likely result in an increase in the service offerings of our competitors. We cannot assure you that the Modernization Act will not result in further changes in the competitive environment in our market area or otherwise impact us.

In addition, the Modernization Act calls for heightened privacy protection of customer information gathered by financial institutions. The OTS has enacted regulations implementing the privacy protection provisions of the Modernization Act. Under the regulations, each financial institution is to (1) adopt procedures to protect customers’ “non-public personal information,” (2) disclose its privacy policy, including identifying to customers others with whom it shares “non-public personal information,” at the time of establishing the customer relationship and annually thereafter, and (3) provide its customers with the ability to “opt-out” of having the financial institution share their personal information with affiliated third parties. The regulations became effective on November 13, 2000, with compliance voluntary prior to July 1, 2001. Management has reviewed and amended our privacy protection policy and believes we are in compliance with these regulations.

### USA Patriot Act

On October 26, 2001, the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism (USA PATRIOT) Act of 2001 (the “Patriot Act”) was signed into law. The purpose of the Patriot Act is to enhance protections against money laundering and criminal laws against terrorist activities, and give law enforcement authorities greater investigative powers. Among other things, the Patriot Act (1) requires financial institutions that administer, maintain or manage private bank accounts or correspondent accounts for foreign persons to establish due diligence policies; (2) prohibits correspondent accounts with foreign shell banks; (3) permits sharing of information among financial institutions, regulators and law enforcement regarding persons engaged in terrorist or money laundering activities; (4) requires financial institutions to verify customer identification at account opening; (5) requires financial institutions to report suspicious activities; and (6) requires financial institutions to establish an



anti-money laundering compliance program. Management believes we are in compliance with the Patriot Act.

#### Prompt Corrective Action

Under Section 38 of the FDIA, as added by the FDICIA, each appropriate banking agency is required to take prompt corrective action to resolve the problems of insured depository institutions that do not meet minimum capital ratios. Such action must be accomplished at the least possible long-term cost to the appropriate deposit insurance fund.

The federal banking agencies, including the OTS and the FDIC, adopted substantially similar regulations to implement Section 38 of the FDIA. Under the regulations, an institution is deemed to be (1) "well capitalized" if it has total risk-based capital ratio of 10% or more, has a Tier 1 risk-based capital ratio of 6% or more, has a leverage capital ratio of 5% or more and is not subject to any order or final capital directive to meet and maintain a specific capital level for any capital measure, (2) "adequately capitalized" if it has a total risk-based capital ratio of 8% or more, a Tier 1 risk-based capital ratio of 4% or more and a leverage capital ratio of 4% or more (3% under certain circumstances) and does

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not meet the definition of “well capitalized,” (3) “undercapitalized” if it has a total risk-based capital ratio that is less than 8%, a Tier 1 risk-based capital ratio that is less than 4% or a leverage capital ratio that is less than 4% (3% under certain circumstances), (4) “significantly undercapitalized” if it has a total risk-based capital ratio that is less than 6%, a Tier 1 risk-based capital ratio that is less than 3% or a leverage capital ratio that is less than 3%, and (5) “critically undercapitalized” if it has a ratio of tangible equity to total assets that is equal to or less than 2%. Section 38 of the FDIA and the regulations promulgated thereunder also specify circumstances under which a federal banking agency may reclassify a well capitalized institution as adequately capitalized and may require an adequately capitalized institution or an undercapitalized institution to comply with supervisory actions as if it were in the next lower category (except that the FDIC may not reclassify a significantly undercapitalized institution as critically undercapitalized). At December 31, 2009, each of the Banks met the criteria to be considered a “well capitalized” institution.

Emergency Economic Stabilization Act of 2008

On October 3, 2008, the Emergency Economic Stabilization Act of 2008 (“EESA”) was signed into law. EESA’s stated purpose is to provide the Secretary of the Treasury with the authority and facilities to restore liquidity and stability to the United States financial system and to ensure that such authority and facilities are used to protect home values, college funds, retirement accounts and life savings, preserve homeownership and promote jobs and economic growth, maximize overall returns to U.S. taxpayers and provide accountability for the Secretary of the Treasury’s exercise of such authority.

EESA includes a federal program to purchase troubled mortgages and financial instruments from financial institutions, which is referred to as the TARP. EESA also includes provisions that place limits on executive pay practices by institutions participating in the TARP, measures to facilitate acquisitions of financial institutions with troubled assets without government assistance, temporary enhancements to the federal deposit insurance program, enhanced tax benefits for losses incurred in the sale of certain assets, possible relief from fair value accounting, and an acceleration of the date on which the Board of Governors of the Federal Reserve System (“FRB”) can pay interest to banks on reserves on deposit with the FRB. On October 6, 2008, the FRB stated that it will begin paying interest on both excess and required reserves on October 9, 2008. The Banks each maintain funds on deposit at the Federal Reserve Bank of New York, and each has received interest on these deposits since October 9, 2008.

The Secretary of the Treasury utilized his authority under the TARP to invest in preferred stocks of financial institutions under a Capital Purchase Program (“CPP”). Under the CPP, we were eligible to submit an application for between \$23 million and \$70 million. We submitted an application for \$70 million, for which we received preliminary approval on December 3, 2008.

On December 19, 2008, as part of the CPP, we entered into a Letter Agreement (including the Securities Purchase Agreement – Standard Terms incorporated by reference therein, the “Purchase Agreement”) with 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 (“Common Stock”), 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 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 the Common Stock with respect to the payment of dividends and distributions and amounts payable upon liquidation and winding up of the Company.

The Warrant was scheduled to expire ten years from the issuance date and was immediately exercisable and transferable. If, on or prior to December 31, 2009, we received from one or more Qualified Equity Offerings gross proceeds of at least \$70.0 million, one-half of the number of shares of Common Stock underlying the Warrant would be retired unexercised. The U.S. Treasury agreed not to transfer one-half of the Warrant prior to the earlier of the date of closing of such Qualified Equity Offering and December 31, 2009. The U.S. Treasury also agreed not to exercise voting power with respect to any shares of Common Stock issued upon exercise of the Warrant.

The Purchase Agreement contained limitations on the payment of dividends on and the repurchase of the 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 would take all necessary action to ensure that benefit plans with respect to senior executive officers comply with Section 111(b) of 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.

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The Series B Preferred Stock and the Warrant were issued in a private placement exempt from registration pursuant to Section 4(2) of the Securities Act of 1933, as amended. We agreed to register the resale of the Series B Preferred Stock and the Warrant, and the issuance of Common Stock upon exercise of the Warrant, as soon as practicable. We registered these securities with the SEC, with the registration statement being declared effective on February 20, 2009.

We completed a Qualified Equity Offering in September 2009, which resulted in one-half of the number of shares of Common Stock underlying the Warrant being retired. We redeemed the Series B Preferred Stock on October 28, 2009 for \$70.0 million plus all accrued and unpaid dividends, and repurchased the Warrant on December 30, 2009 for \$0.9 million.

EESA immediately raised the FDIC insurance limit from \$100,000 to \$250,000 effective through December 31, 2009.

EESA also provided that gains or losses from the sale or exchange of Fannie Mae and Freddie Mac preferred stocks by an applicable institution (which includes banks, thrifts and their holding companies) shall be treated as ordinary gains or losses. Previously, these gains or losses were treated as capital gains or losses. This provision allowed us to deduct losses realized on the sale of the preferred stocks of Fannie Mae and Freddie Mac that we held. Prior to the passage of the Act, the tax deductibility of these losses for us was limited to offset capital gains. Due to the provisions of the tax code, we have a limited ability to realize capital gains other than from the sale of our facilities.

The FDIC adopted the Temporary Liquidity Guarantee Program to free up credit markets and maintain confidence in uninsured transaction accounts. The FDIC guaranteed senior unsecured debt issued between October 14, 2008 and October 31, 2009. The insurance will run through June 30, 2012. The annualized guarantee fee is a 75 basis point charge of the debt issued. All FDIC-insured institutions were eligible for the program, except “troubled” institutions and a small number of grandfathered savings and loan holding companies with commercial owners. The FDIC also provided full insurance coverage for non-interest bearing transaction accounts and NOW accounts with interest rates no higher than 50 basis points at insured institutions through December 31, 2009 under the TAGP. The cost was a 10 basis point annualized charge on amounts in excess of \$250,000. Both programs had no cost for the first 30 days. After that, institutions remained in the program unless they notified the FDIC that they were opting out of one or both programs by December 12, 2008. For those institutions that opted out of the program, they were not allowed to opt back in. Participating banks in both programs are subject to enhanced supervisory oversight to prevent rapid growth or excessive risk-taking. If the costs of the programs are not covered by the special fees, all FDIC-insured institutions will be assessed even if they did not participate in the programs. The Banks each opted to participate in these programs. On August 26, 2009, the FDIC adopted a final rule extending the TAGP through June 30, 2010. The extension increased the rate institutions will pay to 15 basis points, 20 basis points or 25 basis points, depending on the risk category assigned to the institution under the FDIC’s risk-based premium system. Any institution participating in the TAGP could elect to opt out on or before November 2, 2009. The Banks did not opt out, and are therefore continued to participate in the TAGP through June 30, 2010.

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### The American Recovery and Reinvestment Act of 2009

On February 17, 2009, the American Recovery and Reinvestment Act of 2009 (the “Stimulus Act”) was signed into law. The purpose of the Stimulus Act is to provide stimulus for the U.S. economy. The Stimulus Act provided additional restrictions and standards throughout the period during which our obligations under the CPP Purchase Agreement remained outstanding, including:

- Limits on compensation incentives for risk taking by senior executive officers;
- Recovery of any compensation paid based on inaccurate financial information;
- Prohibition on “Golden Parachute Payments”;
- Prohibition on compensation plans that would encourage manipulation of reported earnings to enhance the compensation of employees;
- Publicly registered TARP recipients must establish a board compensation committee comprised entirely of independent directors, for the purpose of reviewing employee compensation plans;
- Prohibition on bonuses, retention awards, or incentive compensation, except for payments of long term restricted stock;
- Limitation on luxury expenditures;
- TARP recipients may be required to permit a separate shareholder vote to approve the compensation of executives, as disclosed pursuant to the SEC’s compensation disclosure rules; and
- The chief executive officer and chief financial officer of each TARP recipient will be required to provide a written certification of compliance with these standards to the SEC.

The Stimulus Act required the Secretary of the Treasury to issue additional regulations governing executive compensation at institutions participating in the CPP. These regulations did not have a significant effect on our operations and, as noted above, we no longer have any outstanding obligations under the CPP as of December 30, 2009.

### Helping Families Save Their Homes Act

On May 20, 2009, the Helping Families Save Their Homes Act (the “HFSTHA”) was signed into law. The purpose of the HFSTHA is to protect homeowners. The HFSTHA:

- Amended the Housing Act of 1949 with respect to guaranteed rural housing loans to require mortgagees, upon either actual or imminent default of a guaranteed mortgage, to engage in loss mitigation actions as an alternative to foreclosure;
- Amended the Foreclosure Prevention Act of 2008, with respect to emergency assistance for the redevelopment of abandoned and foreclosed homes;
  - Amended the Truth in Lending Act to modify the fiduciary duty requirements of servicers of pooled residential mortgages as duty requirements for any servicer of residential mortgages that agrees to enter into a qualified loss mitigation plan for residential mortgages originated before the date of enactment of the HFSTHA;
  - Amended the ESSA to extend to December 31, 2013 the temporary increase in FDIC deposit insurance;
- Amended the FDIA to extend from five years to eight years the time period applicable to a DIF restoration plan;
- Amended the FDIA by increasing the borrowing authority of the FDIC from \$30 billion to \$100 billion. Permits a temporary increase up to \$500 billion, ending on December 31, 2010, in order to fund losses under TARP; and
- Instructed the Secretary of the Treasury, when using certain ESSA funds, to prevent and mitigate foreclosures on residential properties.



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Dodd-Frank Wall Street Reform and Consumer Protection Act

On July 21, 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Reform Act”) was signed into law. The Reform Act is designed to restructure the nation’s system of financial regulations. The Reform Act includes numerous revisions to the existing structure of regulatory oversight of financial institutions, including, but not limited, to the following:

- Abolishes the Company’s primary regulator, the OTS, which is to be merged into the Office of the Comptroller of the Currency (“OCC”) on July 21, 2011, unless the Secretary of the Treasury opts to delay the transfer for up to an additional six months.
  - Requires the OCC to issue rules and conduct studies on a wide range of subjects by July 21, 2011.
- Amends the Truth in Lending Act to impose new standards for residential mortgage loan originations on all lenders.
  - Adoption of a number of investor protection measures, including enhancing the Securities and Exchange Commission’s (“SEC”) enforcement powers and creating an expanded whistleblower program.
- Creates a new Consumer Financial Protection Bureau to write consumer-protection rules for banks and nonbank financial firms and ensure that consumers are protected from unfair, deceptive or abusive practices.
- Directs the FDIC to base deposit-insurance assessments on assets minus tangible capital instead of on domestic deposits.
  - Permanently increases FDIC deposit-insurance coverage to \$250,000.
- Provides unlimited FDIC insurance for noninterest bearing transaction accounts in all banks effective December 31, 2010 through December 31, 2012.
  - Allows banks to pay interest on business checking accounts.
- Establishes a Financial Stability Oversight Council to identify potential risks to the financial stability of the United States posed by the activities of or financial distress of large, interconnected financial institutions.
  - Creates greater regulatory oversight of derivatives financial markets.
- Imposes new restrictions and establishes an independent office of the SEC to improve regulation of credit rating agencies.
- Requires regulatory agencies to issue new rules governing incentive compensation paid by financial institutions.
  - Imposes new executive compensation and corporate governance requirements on public companies.

We cannot determine the full effect of the Reform Act on the Company at this time as all of the regulations required under the Reform Act have not yet been written. There can be no assurance that the Reform Act will not have a material adverse effect on us or our results of operations.

Federal Securities Laws

Our Common Stock is registered with the Securities and Exchange Commission (the “SEC”) under Section 12(b) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). We are subject to the information and reporting requirements, regulations governing proxy solicitations, insider trading restrictions and other requirements applicable to companies whose stock is registered under the Exchange Act.

Sarbanes-Oxley Act of 2002. The Sarbanes-Oxley Act of 2002 (the “2002 Act”), enacted on July 30, 2002, aims to increase the reliability of financial information by, among other things, (1) heightening accountability of Chief Executive Officers and Chief Financial Officers to issue accurate financial statements, (2) increasing the authority and independence of corporate audit committees, (3) creating a new regulatory entity to oversee the activities of accountants that audit public companies, (4) prohibiting activities and relationships that may compromise the independence of auditors, (5) increasing required financial statement disclosures, and (6) providing tough new penalties for issuing noncompliant financial statements and for other violations related to securities laws.



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In furtherance of the 2002 Act, the SEC has issued rules. Compliance with these rules, and the related corporate governance rules adopted by NASDAQ with the approval of the SEC, has, and will continue to, increase costs to the Company, including, but not limited to, fees to our independent accountants, consultants, legal fees and Board service fees, and may require additions to staff. To date, compliance with the 2002 Act has not had a material effect on our results of operations. We cannot assure you that compliance with the 2002 Act and its regulations will not have a material effect on our business or operations in the future.

### Available Information

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

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

### Item 1A. Risk Factors.

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

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

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

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

could adversely affect our net interest income if rates were to subsequently decline. Additionally, adjustable rate mortgage loans and mortgage-backed securities generally contain interim and lifetime caps that limit the amount the interest rate can increase or decrease at repricing dates. Significant increases in prevailing interest rates may significantly affect demand for loans and the value of bank collateral. See “— Local Economic Conditions.”

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

At December 31, 2010, our gross loan portfolio was \$3,259.8 million, of which 91% was mortgage loans secured by real estate. The majority of these real estate loans were secured by multi-family residential property (\$1,252.2 million), commercial real estate (\$662.8 million) and one-to-four family mixed-use property (\$728.8 million), which combined represent 81% of our loan portfolio. Our loan portfolio is concentrated in the New York City metropolitan area. Multi-family residential, one-to-four family mixed-use property, and commercial real estate mortgage loans, and construction loans, are generally viewed as exposing the lender to a greater risk of loss than fully underwritten one-to-four family residential mortgage loans and typically involve higher principal amounts per loan. Multi-family residential,

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one-to-four family mixed-use property and commercial real estate mortgage loans are typically dependent upon the successful operation of the related property, which is usually owned by a legal entity with the property being the entity's only asset. If the cash flow from the property is reduced, the borrower's ability to repay the loan may be impaired. If the borrower defaults, our only remedy may be to foreclose on the property, for which the market value may be less than the balance due on the related mortgage loan. We attempt to mitigate this risk by generally requiring a loan-to-value ratio of no more than 75% at a time the loan is originated. Repayment of construction loans is contingent upon the successful completion and operation of the project. The repayment of commercial business loans (the increased origination of which is part of management's strategy), is contingent on the successful operation of the related business. Changes in local economic conditions and government regulations, which are outside the control of the borrower or lender, also could affect the value of the security for the loan or the future cash flow of the affected properties. We continually review the composition of our mortgage loan portfolio to manage the risk in the portfolio.

In addition, from time to time, we have originated one-to-four family residential mortgage loans without verifying the borrower's level of income. These loans involve a higher degree of risk as compared to our other fully underwritten one-to-four family residential mortgage loans. These risks are mitigated by our policy to generally limit the amount of one-to-four family residential mortgage loans to 80% of the appraised value or sale price, whichever is less, as well as charging a higher interest rate than when the borrower's income is verified. At December 31, 2010, we had \$28.8 million outstanding of one-to-four family residential properties originated to individuals based on stated income and verifiable assets, and \$60.1 million advanced on home equity lines of credit for which we did not verify the borrowers income. The total loans for which we did not verify the borrower's income at December 31, 2010 was \$88.9 million, or 2.7% of gross loans. These types of loans are generally referred to as "Alt A" loans since the borrower's income was not verified. These loans are not as readily saleable in the secondary market as our other fully underwritten loans, either as whole loans or when pooled or securitized. We no longer originate one-to-four family residential mortgage loans or home equity lines of credit to individuals without verifying their income. We have not originated, nor do we hold in portfolio, any sub prime loans.

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

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

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

We utilize brokered certificates of deposit as an additional funding source and to assist in the management of our interest rate risk. The Savings Bank had \$513.6 million, or 16.1% of total deposits, and \$430.8 million, or 16.0% of total deposits, in brokered deposit accounts at December 31, 2010 and December 31, 2009, respectively. We have obtained brokered certificates of deposit when the interest rate on these deposits is below the prevailing interest rate for non-brokered certificates of deposit with similar maturities in our market, or when obtaining them allowed us to extend the maturities of our deposits at favorable rates compared to borrowing funds with similar maturities, when we are seeking to extend the maturities of our funding to assist in the management of our interest rate risk. Brokered

certificates of deposit provide a large deposit for us at a lower operating cost as compared to non-brokered certificates of deposit since we only have one account to maintain versus several accounts with multiple interest and maturity checks. Unlike non-brokered certificates of deposit where the deposit amount can be withdrawn with a penalty for any reason, including increasing interest rates, a brokered certificate of deposit can only be withdrawn in the event of the death or court declared mental incompetence of the depositor. This allows us to better manage the maturity of our deposits and our interest rate risk. We also utilize brokers to obtain money market account deposits. The rate we pay on brokered money market accounts is the same or below the rate we pay on non-brokered money market accounts, and the rate is agreed to in a contract between the Savings Bank and the broker. These accounts are similar to brokered certificates of deposit accounts in that we only maintain one account for the total deposit per broker, with the broker maintaining the detailed records of each depositor.

The FDIC has promulgated regulations implementing limitations on brokered deposits. Under the regulations, well-capitalized institutions, such as the Savings Bank, are not subject to brokered deposit limitations, while adequately

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

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

### The Markets in Which We Operate Are Highly Competitive

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

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

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

Our operating results are affected by national and local economic and competitive conditions, including changes in market interest rates, the strength of the local economy, government policies and actions of regulatory authorities. The national and our local economies were generally considered to be in a recession from December 2007 through the middle of 2009. This resulted in increased unemployment and declining property values, although the property value declines in the New York City metropolitan area have not been as great as many other areas of the country. While the national and local economies showed signs of improvement since the second half of 2009, unemployment has remained at elevated levels. The housing market in the United States continued to see a significant slowdown during 2009, and foreclosures of single family homes rose to levels not seen in the prior five years. The downturn in the housing market continued in 2010, although the downturn has slowed. These economic conditions can result in borrowers defaulting on their loans, or withdrawing their funds on deposit at the Banks to meet their

financial obligations. While we have seen an increase in deposits, we have also seen a significant increase in delinquent loans, resulting in an increase in our provision for loan losses. This increase in delinquent loans primarily consists of mortgage loans collateralized by residential income producing properties that are located in the New York City metropolitan market. Given New York City's low vacancy rates, the properties have retained their value and have provided us with low loss content in our non-performing loans. We cannot predict the effect of these economic conditions on our financial condition or operating results.

A decline in the local or national economy or the New York City metropolitan area real estate market could adversely affect our financial condition and results of operations, including through decreased demand for loans or increased competition for good loans, increased non-performing loans and loan losses and resulting additional provisions for loan losses and for losses on real estate owned. Although management believes that the current allowance for loan losses is adequate in light of current economic conditions, many factors could require additions to the allowance for loan

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losses in future periods above those currently maintained. These factors include: (1) adverse changes in economic conditions and changes in interest rates that may affect the ability of borrowers to make payments on loans, (2) changes in the financial capacity of individual borrowers, (3) changes in the local real estate market and the value of our loan collateral, and (4) future review and evaluation of our loan portfolio, internally or by regulators. The amount of the allowance for loan losses at any time represents good faith estimates that are susceptible to significant changes due to changes in appraisal values of collateral, national and local economic conditions, prevailing interest rates and other factors. See “Business — General — Allowance for Loan Losses” in Item 1 of this Annual Report.

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

### Changes in Laws and Regulations Could Adversely Affect Our Business

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

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

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

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

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

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New Regulatory Regime. On July 21, 2011, unless the Secretary of the Treasury opts to delay such date for up to an additional six months, the OTS, our primary federal regulator, will be eliminated and the OCC will take over the regulation of all federal savings banks, such as the Savings Bank. The Federal Reserve will acquire the OTS's authority over all savings and loan holding companies, such as the Holding Company, and will also become the supervisor of all subsidiaries of savings and loan holding companies other than depository institutions. As a result, we will be subject to regulation, supervision and examination by two federal banking agencies, the OCC and the Federal Reserve, rather than just by the OTS, as is currently the case. The Reform Act also provides for the creation of the Consumer Financial Protection Bureau (the "CFPB"). The CFPB will have the authority to implement and enforce a variety of existing consumer protection statutes and to issue new regulations. As a new independent bureau within the FRB, it is



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possible that the CFPB will focus more attention on consumers and may impose requirements more severe than the previous bank regulatory agencies.

- **Consolidated Holding Company Capital Requirements.** The Reform Act requires the federal banking agencies to establish consolidated risk-based and leverage capital requirements for insured depository institutions, depository institution holding companies and systemically important nonbank financial companies. These requirements must be no less than those to which insured depository institutions are currently subject, and the new requirements will effectively eliminate the use of newly-issued trust preferred securities as a component of Tier 1 Capital for depository institution holding companies of our size. As a result, on the fifth anniversary of the effective date of the Reform Act, we will become subject to consolidated capital requirements to which we have not previously been subject.
- **Roll Back of Federal Preemption.** The Reform Act significantly rolls back the federal preemption of state consumer protection laws that federal savings associations and national banks currently enjoy by (1) permitting federal preemption of a state consumer financial law only if such law prevents or significantly interferes with the exercise of a federal savings association's or national bank's powers or such state law is preempted by another federal law, (2) mandating that any preemption decision be made on a case by case basis rather than a blanket rule and (3) ending the applicability of preemption to subsidiaries and affiliates of national banks and federal savings associations. As a result, we may now be subject to state laws in each state where we do business, and those laws may be interpreted and enforced differently in different states.

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

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

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

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

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

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

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

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

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

### We May Experience Increased Delays in Foreclosure Proceedings

Law enforcement authorities in all 50 states, as well as the United States Department of Justice and other federal agencies, have stated that they are investigating whether mortgage servicers have had irregularities in their foreclosure practices. As a result, foreclosure proceedings face increasing delays and many banks have declared a temporary moratorium on foreclosures. While we cannot predict the ultimate impact of any delay in foreclosure sales, we may be subject to additional borrower and non-borrower litigation and governmental and regulatory scrutiny related to our past and current foreclosure activities. Delays in foreclosure sales, including any delays beyond those currently anticipated, could increase the costs associated with our mortgage operations and make it more difficult for us to prevent losses in our loan portfolio.

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

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

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

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

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

### We May Not Pay Dividends on Our Common Stock

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

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

Goodwill is presumed to have an indefinite life and is tested annually, or when certain conditions are met, for impairment. If the fair value of the reporting unit is greater than the goodwill amount, no further evaluation is required and no impairment is recorded. If the fair value of the reporting unit is less than the goodwill amount, further evaluation would be required to compare the fair value of the reporting unit to the goodwill amount and determine if a write down is required. At December 31, 2010, we had goodwill with a carrying amount of \$16.1 million. Declines in the fair value of the reporting unit may result in a future impairment charge. Any such impairment charge could have a material affect on our earnings and capital.

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

At December 31, 2010, we have a deferred tax asset of \$30.8 million. This represents the anticipated federal, state and local tax benefits expected to be realized in future years upon the utilization of the underlying tax attributes comprising this balance. In order to use the future benefit of these deferred tax assets, we will need to report taxable income for federal, state and local tax purposes. Although we have reported taxable income for federal, state, and local tax purposes in each of the past three years, there can be no assurance that this will continue in the future.

Item 1B. Unresolved Staff Comments.

None.

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## Item 2. Properties.

At December 31, 2010, the Savings Bank conducted its business through 15 full-service offices and its internet branch, “iGObanking.com®”. The Commercial Bank conducted its business through three full-service branch offices which it shares with the Savings Bank. In January 2011, the Savings Bank opened its sixteenth full-service office. The Company’s executive offices are located in Lake Success, in Nassau County, NY.

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

## Item 3. Legal Proceedings.

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

## Item 4. Reserved.

## PART II

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

Flushing Financial Corporation Common Stock is traded on the NASDAQ Global Select Market® under the symbol “FFIC.” As of December 31, 2010, we had approximately 806 shareholders of record, not including the number of persons or entities holding stock in nominee or street name through various brokers and banks. Our stock closed at \$14.00 on December 31, 2010. The following table shows the high and low sales price of the Common Stock and the dividends declared on the Common Stock during the periods indicated. Such prices do not necessarily reflect retail markups, markdowns, or commissions. See Note 12 of Notes to Consolidated Financial Statements in Item 8 of this Annual Report for dividend restrictions.

	2010			2009		
	High	Low	Dividend	High	Low	Dividend
First Quarter	\$ 13.86	\$ 11.28	\$ 0.13	\$ 12.16	\$ 4.03	\$ 0.13
Second Quarter	15.00	11.86	0.13	11.86	5.86	0.13
Third Quarter	13.42	10.51	0.13	14.18	8.09	0.13
Fourth Quarter	14.68	11.52	0.13	11.89	10.17	0.13

The following table sets forth information regarding the shares of common stock repurchased by us during the quarter ended December 31, 2010.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased	Maximum Number of Shares That May

			as Part of Publicly Announced Plans or Programs	Yet Be Purchased Under the Plans or Programs
October 1 to October 31, 2010	-	\$-	-	362,050
November 1 to November 30, 2010	-	-	-	362,050
December 1 to December 31, 2010	-	-	-	362,050
Total	-	\$-	-	



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Our current common stock repurchase program was approved by the Company's Board of Directors on August 17, 2004. This repurchase program authorized the repurchase of 1,000,000 common shares. The repurchase program does not have an expiration date or a maximum dollar amount that may be paid to repurchase the common shares. Stock repurchases under this program will be made from time to time, on the open market or in privately negotiated transactions, at the discretion of the management of the Company.

The following table sets forth securities authorized for issuance under all equity compensation plans of the Company at December 31, 2010:

	( a ) Number of securities to be issued upon exercise	( b ) Weighted-average exercise price of outstanding options, warrants and rights	( c ) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders	1,247,888	\$ 14.51	277,643 (1)
Equity compensation plans not approved by security holders	¾	¾	¾
Total	1,247,888	\$ 14.51	277,643 (1)

(1) Consists of 300 shares available for future non-full value awards and 277,343 shares available for future full value awards.

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## Stock Performance Graph

The following graph shows a comparison of cumulative total stockholder return on the Company's common stock since December 31, 2005 with the cumulative total returns of a broad equity market index as well as two published industry indices. The broad equity market index chosen was the Nasdaq Composite. The published industry indices chosen were the SNL Thrift Index and SNL Mid-Atlantic Thrift Index. The SNL Mid-Atlantic Thrift Index has been included in the Company's Stock Performance Graph because the Company believes it provides valuable comparative information reflecting the Company's geographic peer group. The SNL Thrift Index has been included in the Stock Performance because it uses a broader group of thrifts and therefore more closely reflects the Company's size. The Company believes that both geographic area and size are important factors in analyzing the Company's performance against its peers. The graph below reflects historical performance only, which is not indicative of possible future performance of the common stock.

The total return assumes \$100 invested on December 31, 2005 and all dividends reinvested through the end of the Company's fiscal year ended December 31, 2010. The performance graph above is based upon closing prices on the trading date specified.

Index	Period Ending					
	12/31/05	12/31/06	12/31/07	12/31/08	12/31/09	12/31/10
Flushing Financial Corporation	\$ 100.00	\$ 112.53	\$ 109.01	\$ 83.92	\$ 84.04	\$ 109.00
NASDAQ Composite	100.00	110.39	122.15	73.32	106.57	125.91
SNL Thrift Index	100.00	116.57	69.93	44.50	41.50	43.37
SNL Mid-Atlantic Thrift Index	100.00	116.61	96.01	79.57	75.89	87.15

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## Item 6. Selected Financial Data.

At or for the years ended December 31,	2010	2009	2008	2007	2006
	(Dollars in thousands, except per share data)				
<b>Selected Financial Condition Data</b>					
Total assets	\$4,324,745	\$4,143,246	\$3,949,471	\$3,354,519	\$2,836,521
Loans, net	3,248,630	3,200,159	2,960,662	2,702,118	2,324,748
Securities available for sale	804,189	683,804	747,261	440,100	330,587
Deposits	3,190,610	2,693,115	2,468,834	2,025,447	1,764,150
Borrowed funds	708,683	1,060,245	1,138,949	1,072,551	832,413
Total stockholders' equity	390,045	360,144	301,492	233,654	218,415
Common stockholders' equity	390,045	360,144	231,492	233,654	218,415
Book value per common share (1)	\$12.48	\$11.57	\$10.70	\$10.96	\$10.34
<b>Selected Operating Data</b>					
Interest and dividend income	\$229,628	\$230,061	\$216,701	\$193,562	\$158,384
Interest expense	91,767	115,275	128,972	122,624	90,680
Net interest income	137,861	114,786	87,729	70,938	67,704
Provision for loan losses	21,000	19,500	5,600	-	-
Net interest income after provision for loan losses	116,861	95,286	82,129	70,938	67,704
<b>Non-interest income:</b>					
Net gains on sales of securities and loans	7	1,613	354	700	813
Other-than-temporary credit impairment charge on securities	(2,045 )	(5,894 )	(27,575 )	(4,710 )	-
Net gain from fair value adjustments	47	4,968	20,090	2,685	-
Other income	10,291	10,268	14,099	11,578	8,982
Total non-interest income	8,300	10,955	6,968	10,253	9,795
Non-interest expense	70,385	64,909	54,781	50,076	42,742
Income before income tax provision	54,776	41,332	34,316	31,115	34,757
Income tax provision	15,941	15,771	12,057	10,930	13,118
Net income	\$38,835	\$25,561	\$22,259	\$20,185	\$21,639
Basic earnings per common share (2)	\$1.28	\$0.91	\$1.10	\$1.02	\$1.16
Diluted earnings per common share (2)	\$1.28	\$0.91	\$1.09	\$1.01	\$1.14
Dividends declared per common share (2)	\$0.52	\$0.52	\$0.52	\$0.48	\$0.44
Dividend payout ratio	40.6 %	57.1 %	47.3 %	47.1 %	37.9 %
(Footnotes on the following page)					

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At or for the years ended December 31,                      2010                      2009                      2008                      2007                      2006

## Selected Financial Ratios and Other Data

## Performance ratios:

Return on average assets	0.92	%	0.63	%	0.62	%	0.66	%	0.84	%
Return on average equity	10.32		7.80		9.55		9.15		11.14	
Average equity to average assets	8.89		8.06		6.54		7.19		7.58	
Equity to total assets	9.02		8.69		7.63		6.97		7.70	
Interest rate spread	3.27		2.76		2.43		2.23		2.54	
Net interest margin	3.43		2.96		2.60		2.44		2.78	
Non-interest expense to average assets	1.66		1.60		1.54		1.63		1.67	
Efficiency ratio	47.37		51.76		55.11		60.20		55.21	
Average interest-earning assets to average interest-bearing liabilities	1.07	x	1.07	x	1.04	x	1.05	x	1.06	x

## Regulatory capital ratios: (3)

Tangible capital	9.18	%	8.84	%	7.92	%	7.27	%	6.91	%
Core capital	9.18		8.84		7.92		7.27		6.91	
Total risk-based capital	14.34		13.49		13.02		11.20		10.99	

## Asset quality ratios:

Non-performing loans to gross loans (4)	3.86	%	2.68	%	1.35	%	0.22	%	0.13	%
Non-performing assets to total assets (5)	3.07		2.32		1.03		0.18		0.11	
Net charge-offs to average loans	0.42		0.33		0.04		0.02		-	
Allowance for loan losses to gross loans	0.85		0.63		0.37		0.25		0.30	
Allowance for loan losses to total non-performing assets (5)	20.87		21.10		27.09		112.57		225.72	
Allowance for loan losses to total non-performing loans (4)	21.99		23.67		27.59		112.57		225.72	
Full-service customer facilities	15		15		14		14		12	

(1) Calculated by dividing common stockholders' equity of \$390.0 million and \$360.1 million at December 31, 2010 and 2009, respectively, by 31,255,934 and 31,127,664 shares outstanding at December 31, 2010 and 2009, respectively. Common stockholders' equity is total stockholders' equity less the liquidation preference value of preferred shares outstanding.

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

(3) Represents Flushing Savings Bank's capital ratios, which exceeded all minimum regulatory capital requirements during the periods presented.

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

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

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

As used in this discussion and analysis, the words "we," "us," "our" and the "Company" are used to refer to Flushing Financial Corporation and 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").

General

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 in 1995. As a federal savings bank, the Savings Bank's primary regulator is the Office of Thrift Supervision ("OTS"). The Banks' deposits are insured to the maximum allowable amount by the Federal Deposit Insurance Corporation ("FDIC"). The Savings Bank owns four subsidiaries: Flushing Commercial Bank, Flushing Preferred Funding Corporation, Flushing Service Corporation, and FSB Properties Inc.

Flushing Financial Corporation also owns Flushing Financial Capital Trust II, Flushing Financial Capital Trust III, and Flushing Financial Capital Trust IV (the "Trusts"), which are special purpose business trusts formed during 2007 to issue a total of \$60.0 million of capital securities, and \$1.9 million of common securities (which are the only voting securities). Flushing Financial Corporation owns 100% of the common securities of the Trusts. The Trusts used the proceeds from the issuance of these securities to purchase junior subordinated debentures from Flushing Financial Corporation. The Trusts are not included in our consolidated financial statements as we would not absorb the losses of the Trusts if losses were to occur.

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

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, 2010, the business banking unit had \$268.0 million in loans outstanding and \$32.2 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](http://www.iGObanking.com) or by mail. The internet branch does not currently accept loan applications. As of December 31, 2010, the internet branch had \$479.4 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, 2010, the Commercial Bank had \$570.5 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 U.S. 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 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 the Common Stock with respect to the payment of dividends and distributions and amounts payable upon liquidation. 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 the 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 EESA as implemented

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by any guidance or regulation under Section 111(b) of EESA that had 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 were 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. At the time we redeemed the preferred stock, we wrote off the unamortized issuance costs of the preferred stock of \$1.3 million. This write-off reduced diluted earnings per common share by \$0.06 for the full year of 2009.

Overview

Our principal business is attracting retail deposits from the general public and investing those deposits together with funds generated from ongoing operations and borrowings, primarily in (1) originations and purchases of one-to-four family (focusing on mixed-use properties, which are properties that contain both residential dwelling units and commercial units), multi-family residential and, to a lesser extent, 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.

Our results of operations depend primarily on net interest income, which is the difference between the income earned on its interest-earning assets and the cost of our interest-bearing liabilities. Net interest income is the result of our interest rate margin, which is the difference between the average yield earned on interest-earning assets and the average cost of interest-bearing liabilities, adjusted for the difference in the average balance of interest-earning assets as compared to the average balance of interest-bearing liabilities. We also generate non-interest income from loan fees, service charges on deposit accounts, mortgage servicing fees, and other fees, income earned on Bank Owned Life Insurance (“BOLI”), dividends on Federal Home Bank of New York (“FHLB-NY”) stock and net gains and losses on sales of securities and loans. Our operating expenses consist principally of employee compensation and benefits, occupancy and equipment costs, other general and administrative expenses and income tax expense. Our results of operations also can be significantly affected by our periodic provision for loan losses and specific provision for losses on real estate owned.

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

- continue our emphasis on the origination of multi-family residential and one-to-four family mixed-use property mortgage loans;
  - transition from a traditional thrift to a more ‘commercial-like’ banking institution;
- increase our commitment to the multi-cultural marketplace, with a particular focus on the Asian community in Queens;
  - maintain asset quality;
  - manage deposit growth and maintain a low cost of funds through

§ business banking deposits,  
§ municipal deposits through government banking, and  
§ new customer relationships via iGObanking.com®;

- cross sell to lending and deposit customers;
- take advantage of market disruptions to attract talent and customers from competitors; and
  - manage interest rate risk and capital.

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



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Multi-Family Residential and One-to-Four Family Lending. In recent years, we have emphasized the origination of higher-yielding multi-family residential, commercial real estate and one-to-four family mixed-use property mortgage loans. During 2009 and 2010, we reduced our emphasis on commercial real estate lending. We expect to continue this emphasis on higher-yielding multi-family residential and one-to-four family mixed-use property mortgage loan products, while we continue to deemphasize commercial real estate lending.

The following table shows loan originations and purchases during 2010, and loan balances as of December 31, 2010.

	Loan Originations and Purchases	Loan Balances December 31, 2010	Percent of Gross Loans	
(Dollars in thousands)				
Multi-family residential	\$ 171,238	\$ 1,252,176	38.41	%
Commercial real estate	33,697	662,794	20.33	
One-to-four family mixed-use property	29,415	728,810	22.36	
One-to-four family residential	34,694	241,376	7.40	
Co-operative apartment	407	6,215	0.19	
Construction	10,493	75,519	2.32	
Small Business Administration	3,869	17,511	0.54	
Taxi Medallion	74,226	88,264	2.71	
Commercial Business and Other	58,496	187,161	5.74	
Total	\$ 416,535	\$ 3,259,826	100.00	%

Our increased emphasis in recent years on multi-family residential, commercial real estate and one-to-four family mixed-use property mortgage loans has increased the overall level of credit risk inherent in our loan portfolio. The greater risk associated with multi-family, 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 currently maintained.

Transition to a More 'Commercial-like' Banking Institution. We established a business banking unit during 2006 staffed with a team of experienced commercial bankers. We have developed a complement of deposit, loan and cash management products to support this initiative, and expanded these product offerings. The business banking unit is responsible for building business relationships in order to obtain lower-costing deposits, generate fee income, and originate commercial business loans. Building these business relationships could provide us with a lower-costing source of funds and higher-yielding adjustable-rate loans, which would help us manage our interest-rate risk.

Increase Our Commitment to the Multi-Cultural Marketplace, with a Particular Focus on the Asian Community in Queens. Our branches are all located in the New York City metropolitan area with particular concentration in the borough of Queens. Queens in particular exhibits a high level of ethnic diversity. An important element of our strategy is to service the multi-ethnic consumer and business. We have a particular concentration in the Asian communities- among them Chinese and Korean populations. Both groups are noted for high levels of savings, education and entrepreneurship. In order to service these and other important ethnic groups in our market, our staff speaks more than 30 languages. We have an Asian advisory board to help broaden our link to the community by providing guidance and fostering awareness of our active role in the local community. Our focus on the Asian community in Queens, where we have four branches, has resulted in us obtaining approximately \$400 million in deposits in these branches. We also have over \$200 million of loans and lines of credit outstanding to borrowers in the Asian community.

**Maintain Asset Quality.** By adherence to our conservative underwriting standards, we have been able to minimize net losses from impaired loans with net charge-offs of \$13.6 million and \$10.2 million for the years ended December 31, 2010 and 2009, respectively. We seek to maintain our loans in performing status through, among other things, disciplined collection efforts, and consistently monitoring non-performing assets in an effort to return them to performing status. To this end, we review the quality of our loans and report to the Loan Committee of the Board of Directors of the Savings Bank on a monthly basis. We have sold and may continue to sell delinquent mortgage loans. We sold 20 delinquent mortgage loans totaling \$8.8 million and 17

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delinquent mortgage loans totaling \$6.3 million during the years ended December 31, 2010 and 2009, respectively. We recorded net charge-offs of \$0.7 million and \$0.1 million to the allowance for loan losses for the non-performing loans that were sold during 2010 and 2009, respectively. We realized gross gains of \$21,000 and \$4,000 on the sale of non-performing mortgage loans for the years ended December 31, 2010 and 2009, respectively. We realized gross losses of \$3,000 on the sale of non-performing mortgage loans for the year ended December 31, 2010. We did not record any gross losses for the year ended December 31, 2009. There can be no assurances that we will continue this strategy in future periods, or if continued, we will be able to find buyers to pay adequate consideration. Non-performing assets amounted to \$132.7 million and \$93.3 million at December 31, 2010 and 2009, respectively. Non-performing assets as a percentage of total assets were 3.07% and 2.25% at December 31, 2010 and 2009, respectively.

**Manage Deposit Growth and Maintain Low Cost of Funds.** We have a relatively stable retail deposit base drawn from our market area through our full-service offices. Although we seek to retain existing deposits and maintain depositor relationships by offering quality service and competitive interest rates to our customers, we also seek to keep deposit growth within reasonable limits and our strategic plan. In order to implement our strategic plan, we have a business banking operation that we designed specifically to develop full business relationships thereby bringing in lower cost checking and money market deposits. At December 31, 2010, deposits balances in the business sector are \$32.2 million. We also have an internet branch, "iGObanking.com®", as a division of the Savings Bank, to compete for deposits from sources outside the geographic footprint of our full-service offices. In creating iGObanking.com®, our strategy is to reduce our reliance on wholesale borrowings and reduce our funding costs. Deposit balances in iGObanking.com® were \$479.4 million at December 31, 2010, at rates lower than our current certificates of deposit base and borrowings. The Savings Bank's wholly owned subsidiary, Flushing Commercial Bank, is a New York State chartered commercial bank, formed for the limited purpose of accepting municipal deposits and state funds, including certain court ordered funds from New York State Courts as an additional source of deposits. At December 31, 2010, deposits in Flushing Commercial Bank totaled \$570.5 million at rates below our average cost of funds. We also obtain deposits through brokers and the CDARS® network. Management intends to balance its goal to maintain competitive interest rates on deposits while seeking to manage its overall cost of funds to finance its strategies. We generally rely on our deposit base as our principal source of funding. In addition, the Banks are members of the FHLB-NY, which provides us with a source of borrowing. We also utilize reverse purchase agreements, established with other financial institutions. These borrowings help us fund asset growth and increase net interest income. During 2010, we realized an increase in Due to depositors of \$497.0 million, as core deposits increased \$206.9 million and certificates of deposit increased \$290.1 million. At the same time we were able to reduce our borrowed funds by \$351.6 million.

**Cross Sell to Lending and Deposit Customers.** A significant portion of our lending and deposit customers do not have both their loans and deposits with us. We intend to focus on obtaining additional deposits from our lending customers and originating additional loans to our deposit customers. Product offerings were expanded in the past four years and are expected to be further expanded in 2011 to accommodate perceived customer demands. In addition, specific employees are assigned responsibilities of generating these additional deposits and loans by coordinating efforts between lending and deposit gathering departments.

**Take Advantage of Market Disruptions to Attract Talent and Customers From Competitors.** The New York City market place has been dominated by large institutions, many of which recently have run into difficult situations due to the recessionary environment. During this time period we have been able to attract talent from such large commercial banks. That talent has brought with it significant business relationships. The preoccupation of our large competitors with significant profitability concerns has caused them to reduce lending and make their customer base more vulnerable. We have been able to see a larger number of strong companies that have been caught in a retrenchment by their existing large institution. We anticipate this environment remaining for some period of time as large banks work through their continuing problems.

We have in the past increased growth through acquisitions of financial institutions and branches of other financial institutions, and will continue to pursue growth through acquisitions that are, or are expected to be within a reasonable time frame, accretive to earnings, as well as evaluating the feasibility of opening additional branches. We have in the past opened new branches. One branch opened in Brooklyn in the first quarter of 2011. We plan to continue to seek and review potential acquisition opportunities that complement our current business, are consistent with our strategy to build a bank that is focused on the unique personal and small business banking needs of the multi-ethnic communities we serve.

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

Trends and Contingencies Our operating results are significantly affected by national and local economic and competitive conditions, including changes in market interest rates, the strength of the local economy, government policies and actions of regulatory authorities. As short-term interest rates rose during the first half of 2006, remained at those levels throughout most of 2007, and declined from 2008 through 2010, we remained strategically focused on the origination of multi-family residential mortgages and to a lesser extent, commercial real estate and one-to-four family mixed-use property mortgage loans. As a result of this strategy, we were able to continue to achieve a higher yield on our mortgage portfolio than we would have otherwise experienced.

The New York City metropolitan area, our primary market for lending, was generally considered to be in a recession from December 2007 through the middle of 2009. In the New York City metropolitan area, building permits for one-to-four family residential properties, multi-family residential properties, and commercial properties all declined over this time period to historically low levels. The home price index for the New York City metropolitan area declined from the beginning of 2007 to the end of 2009 by approximately 19.5%, before increasing approximately 3.2% in 2010. The value of multi-family and commercial properties showed similar price movements. Sales of residential real estate in 2010 were approximately half of the level of sales seen in 2007, while sales of commercial real estate showed a greater decline.

Building permits for one-to-four family residential properties, multi-family residential properties, and commercial properties all declined over this time period to historically low levels. This resulted in increased unemployment and declining property values. The majority of our impaired loans are income producing residential properties located in the New York City metropolitan market. Due to the low vacancy rates for these types of properties, they have retained more of their value, thereby reducing their loss content. While the national and local economies showed signs of improvement since the second half of 2009, unemployment has remained at elevated levels. The unemployment rate in our market was 8.9%, 10.5% and 6.9% for December 2010, 2009 and 2008, respectively 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 resulted in an increase in our non-performing loans to \$126.0 million at December 31, 2010 from \$85.9 million at December 31, 2009 and \$40.1 million at December 31, 2008. While non-performing loans have increased, we have not yet experienced a significant increase in foreclosed properties due to an extended foreclosure process in our market. The extended foreclosure process in our market is due to the high number of foreclosure actions filed in the court system in the counties for which we are seeking foreclosure on delinquent mortgage loans. We have not encountered significant issues with documentation relating to mortgages for which we are seeking foreclosure as we maintain custody of all loan documents and review them prior to providing them to our legal counsel to initiate the foreclosure action. The deterioration in the economy also resulted in an increase in charge-offs from impaired loans, which increased to \$13.6 million in 2010 from \$10.4 million in 2009 and \$1.3 million in 2008. The majority of charge-offs we recorded were to reduce the carrying value of impaired loans to their fair value. We increased our provision for loan losses to \$21.0 million in 2010 compared to \$19.5 million in 2009 and \$5.6 million in 2008. We cannot predict the effect of these economic conditions on the Company's future financial condition or operating results.

In addition, in response to the economic conditions in our market combined with the increase in non-performing loans, we began tightening our underwriting standards in 2008 to reduce the risk associated with lending.

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

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

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§ 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.

During 2010 and 2009, we reduced our focus on commercial real estate and one-to-four family mixed-use residential property mortgage loans, which represented \$300.6 million, or 50%, of our mortgage loan originations and purchases in 2008 compared to \$112.3 million, or 28%, in 2009, and \$63.1 million, or 15%, in 2010. In addition to reducing our focus on commercial real estate lending, we further reduced our origination of smaller commercial real estate properties. We also reduced our focus on construction lending, which we reduced from \$30.7 million in advances on

existing loans in 2008 to \$10.5 million in advances on existing loans in 2010, and new construction loan approvals from \$27.2 million in 2008 to \$2.2 million in 2010. We reduced our focus on these types of loans due to changes in market conditions, increasing delinquencies and losses incurred on delinquent loans associated with these types of loans.

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

While we primarily rely on originating our own loans, we purchased \$14.7 million of loans in 2010 compared to \$43.3 million in 2009 and \$65.3 million in 2008. We purchase loans when the loans complement our loan portfolio strategy. Loans purchased must meet our underwriting standards when they were originated.

The economic conditions we have experienced since the end of 2007 reduced loan demand in our market. In addition, the tightening of our underwriting standards and the shift in our lending focus also contributed to reducing our



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total loan originations and purchases. While we had not targeted a reduced level of loan originations for 2010 and 2009, the combination of the above events resulted in a decline in our loan originations to \$416.5 million in 2010 from \$500.6 million in 2009 and \$667.6 million in 2008. The number of loans originated during this three year period also declined, while the average loan size increased during the same period.

During the three year period ended December 31, 2010, the allocation of our loan portfolio has remained fairly consistent. The majority of our loans are collateralized by real estate, which comprised 91.0% of our portfolio at December 31, 2010 compared to 91.9% at December 31, 2009 and 94.3% at December 31, 2008. Multi-family residential mortgage loans comprised 38.4%, 36.2% and 33.8% of our loan portfolio at December 31, 2010, 2009 and 2008, respectively. Commercial real estate mortgage loans comprised 20.3%, 21.4% and 23.2% of our loan portfolio at December 31, 2010, 2009 and 2008, respectively. One-to-four family mixed-use property mortgage loans comprised 22.4%, 23.2% and 25.5% of loan portfolio at December 31, 2010, 2009 and 2008, respectively. One-to-four family residential mortgage loans comprised 7.6%, 8.0% and 8.3% of loan portfolio at December 31, 2010, 2009 and 2008, respectively.

Due to depositors increased \$497.0 million, \$228.7 million and \$434.7 million in 2010, 2009 and 2008, respectively. Lower-costing core deposits increased \$206.9 million, \$434.7 million and \$165.6 million during 2010, 2009 and 2008, respectively. Higher-costing certificates of deposit increased \$205.9 million and \$269.1 million during 2010 and 2008, respectively and decreased \$205.9 million during 2009. Brokered deposits represented 16.1%, 16.0% and 15.6% of total deposits at December 31, 2010, 2009 and 2008, respectively.

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

During the year ended December 31, 2010, we extended the term of ten business loans totaling \$5.4 million, 31 mortgage loans totaling \$28.4 million, and 20 construction loans with total available lines of credit of \$56.3 million, which we did not consider as non-performing loans nor troubled debt restructured. Each of these loans was extended in accordance with our lending policies, which required the loans to be fully underwritten, and that each of the borrowers is current as to payments. None of these borrowers was experiencing financial difficulties, and none received a below market interest rate or other favorable terms at the time the loans were extended. Therefore, we did not consider these loans to be troubled debt restructured.

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

During 2010, we sought performance under guarantees on 26 business loans, seeking judgments in excess of \$0.5 million, and ten real estate mortgage loans, seeking judgments in excess of \$4.0 million. As of December 31, 2010, we had realized recoveries of \$0.1 million on the business loans, and had not received any recoveries on the real estate mortgage loans. During 2009, we sought performance under guarantees on 30 business loans, seeking judgments in excess of \$4.0 million, and two real estate mortgage loans, seeking judgments in excess of \$1.2 million. As of December 31, 2009, we had realized recoveries of \$0.1 million on the business loans, and had not received any recoveries on the real estate mortgage loans. In addition, during the year ended December 31, 2010, we realized recoveries of \$0.8 million on business loans for which we sought judgments during the year ended December 31, 2009.

During 2010 our net interest margin improved 47 basis points to 3.43% for the year ended December 31, 2010 from 2.96% for the comparable period in 2009. This increase in the net interest margin resulted in a \$23.1 million

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increase in net interest income to \$137.9 million for the year ended December 31, 2010 from \$114.8 million in the comparable period in 2009. The improvement in the net interest margin for 2010 was generated through a reduction in our funding costs. During 2010 we continued to focus on growing our core deposits, which increased \$206.9 million in 2010, and reducing our borrowed funds, which decreased \$351.6 million in 2010. At the same time we also looked to extend the maturity of deposits to protect against future rising interest rates. We therefore increased certificates of deposit accounts by \$290.1 million to \$1,520.6 million at December 31, 2010 from \$1,230.5 million at December 31, 2009. As a result of these changes to our funding mix, and a favorable interest rate environment, we were able to reduce our cost of funds 72 basis points to 2.45% for the year ended December 31, 2010 from 3.17% for the year ended December 31, 2009.

We are unable to predict the direction of future interest rate changes. Approximately 23% of our certificates of deposit accounts and borrowings reprice or mature during the next year, which could result in a decrease in the cost of our interest-bearing liabilities. Also, in a decreasing interest rate environment, mortgage loans and mortgage-backed securities with higher rates tend to prepay, which could result in a reduction in the yield on our interest-earning assets.

Interest Rate Sensitivity Analysis

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

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The table below sets forth the amounts of interest-earning assets and interest-bearing liabilities outstanding at December 31, 2010 which are anticipated by the Company, based upon certain assumptions, to reprice or mature in each of the future time periods shown. Except as stated below, the amount of assets and liabilities shown that reprice or mature during a particular period was determined in accordance with the earlier of the term to repricing or the contractual terms of the asset or liability. Prepayment assumptions for mortgage loans and mortgage-backed securities are based on our experience and industry averages, which generally range from 6% to 40%, depending on the contractual rate of interest and the underlying collateral. Money market accounts and savings accounts were assumed to have a withdrawal or "run-off" rate of 16% and 21%, respectively, based on our experience. While management bases these assumptions on actual prepayments and withdrawals experienced by us, there is no guarantee that these trends will continue in the future.

Interest Rate Sensitivity Gap Analysis at December 31, 2010							
	Three Months And Less	More Than Three Months To One Year	More Than One Year To Three Years	More Than Three Years To Five Years	More Than Five Years To Ten Years	More Than Ten Years	Total
(Dollars in thousands)							
<b>Interest-Earning Assets</b>							
Mortgage loans	\$ 240,638	\$ 647,270	\$ 1,102,134	\$ 640,565	\$ 306,450	\$ 46,716	\$ 2,983,773
Other loans	54,670	56,161	69,437	75,453	25,839	10,996	292,556
Short-term securities (1)	42,551	-	-	-	-	-	42,551
<b>Securities available for sale:</b>							
Mortgage-backed securities	41,700	88,055	292,977	181,619	104,535	45,191	754,077
Other	10,624	5,413	10,366	-	-	23,709	50,112
<b>Total interest-earning assets</b>	<b>390,183</b>	<b>796,899</b>	<b>1,474,914</b>	<b>897,637</b>	<b>436,824</b>	<b>126,612</b>	<b>4,123,069</b>
<b>Interest-Bearing Liabilities</b>							
Savings accounts	20,397	61,191	163,176	71,874	71,874	-	388,512
NOW accounts	-	-	-	-	-	786,015	786,015
Money market accounts	14,880	44,640	119,040	119,040	74,398	-	371,998
Certificate of deposit accounts	156,874	205,517	674,192	441,634	42,355	-	1,520,572
Mortgagors' escrow deposits	-	-	-	-	-	27,315	27,315
Borrowings	47,396	104,154	278,752	92,287	186,094	-	708,683
<b>Total interest-bearing liabilities (2)</b>	<b>\$ 239,547</b>	<b>\$ 415,502</b>	<b>\$ 1,235,160</b>	<b>\$ 724,835</b>	<b>\$ 374,721</b>	<b>\$ 813,330</b>	<b>\$ 3,803,095</b>

Interest rate sensitivity gap	\$ 150,636	\$ 381,397	\$ 239,754	\$ 172,802	\$ 62,103	\$(686,718)	\$ 319,974					
Cumulative interest-rate sensitivity gap	\$ 150,636	\$ 532,033	\$ 771,787	\$ 944,589	\$ 1,006,692	\$ 319,974						
Cumulative interest-rate sensitivity gap as a percentage of total assets	0.19	%	-0.55	%	8.97	%	15.59	%	14.56	%	6.00	%
Cumulative net interest-earning assets as a percentage of interest-bearing liabilities	162.88	%	181.22	%	140.83	%	136.12	%	133.67	%	108.41	%

(1) Consists of interest-earning deposits.

(2) Does not include non-interest bearing demand accounts totaling \$96.2 million at December 31, 2010.

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

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Interest Rate Risk

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

We manage the mix of interest-earning assets and interest-bearing liabilities on a continuous basis to maximize return and adjust our exposure to interest rate risk. On a quarterly basis, management prepares the "Earnings and Economic Exposure to Changes in Interest Rate" report for review by the Board of Directors, as summarized below. This report quantifies the potential changes in net interest income and net portfolio value should interest rates go up or down (shocked) 200 basis points, assuming the yield curves of the rate shocks will be parallel to each other. The OTS currently places its focus on the net portfolio value ratio, focusing on a rate shock up or down of 200 basis points. The OTS uses the change in Net Portfolio Value Ratio to measure the interest rate sensitivity of the Company. Net portfolio value is defined as the market value of assets net of the market value of liabilities. The market value of assets and liabilities is determined using a discounted cash flow calculation. The net portfolio value ratio is the ratio of the net portfolio value to the market value of assets. All changes in income and value are measured as percentage changes from the projected net interest income and net portfolio value at the base interest rate scenario. The base interest rate scenario assumes interest rates at December 31, 2010. Various estimates regarding prepayment assumptions are made at each level of rate shock. Actual results could differ significantly from these estimates. At December 31, 2010, we were within the guidelines established by the Board of Directors for each interest rate level.

Change in Interest Rate	Projected Percentage Change In	Net Portfolio
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