ROCKVILLE FINANCIAL
"1Q 2013 Earnings Conference Call"

Friday, April 26, 2013, 9:30 A.M. Eastern

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OPERATOR: Good morning and welcome to the Rockville Financial First Quarter 2013 Earnings conference call. All participants will be in a listen only mode. Should you need assistance, please signal a conference specialist by pressing the star (*) key followed by zero (0). After today's presentation, there will be an opportunity to ask questions. To ask a question, you may press star (*) and then one (1) using a touchtone telephone. To withdraw your question, you may press star (*) and then two (2). Please note that today's event is being recorded. I would now like to turn the conference over to Ms. Marliese Shaw, Senior Vice President of Investor Relations. Ma'am, please go ahead.

MARLIESE SHAW: Thank you, Jamie, and good morning, everyone. Welcome to our first quarter conference call. Before we begin, we would like to remind you to read our Safe Harbor advisement on forward-looking statements on our earnings announcement. Forward-looking statements, by their nature, are subject to risks and uncertainties. Certain factors could cause actual results to differ materially from expected results. Our comments today are intended to qualify for the Safe Harbor afforded by that advisement. And now, I would like to introduce Bill Crawford, our Chief Executive Officer and President.

BILL CRAWFORD: Thanks, Marliese. Good morning and thank you for joining us on today's call and for your continued interest in our Company. Yesterday afternoon, we released first quarter earnings. This morning, I'll provide some insight into the strategies reflected in the first quarter results and then my team will provide a more detailed overview of the quarter and their business lines. With me this morning is John Lund, our CFO, Scott Bechtle, our Chief Risk Officer, Mark Kucia, Head of Commercial Banking, Eric Newell, Director of Treasury, Marino Santarelli, our Chief Operating Officer, and Brandon Lorey, our new Head of Consumer Lending.

I'm very pleased to announce that Rockville reported first quarter earnings of $0.17 per share, return on average assets for the quarter was 89 basis points. We achieved these results through our continued focus on organic growth, revenue growth, expense control, and prudent deployment of capital for our shareholders despite a tough operating environment for banks, in general. Increased profits continue to be driven by earning asset growth, mortgage banking originations and gain on sales of loans to secondary market. Average earning assets grew by $73 million, or 4%, from the prior quarter, led by commercial loan growth and supplemented with investment security purchases.

Our commercial loan team continues to successfully take market share from the larger institutions and receive positive results in our western region with the opening of our West Hartford Banking Center in the first quarter. Our commercial pipeline is strong. The residential mortgage pipeline is also robust and we're continuing to take market share in that business. Historically, mortgage lenders report light originations in the first quarter. Despite those pressures, the Company obtained a 74% increase in originations, compared to the prior year, and significantly outpaced the 29% national average. The Company recognized $2.1 million of gains on loan sales in the quarter as a result of its robust secondary market business line. Rockville's been working hard to transform the mortgage business and it continues to develop and achieve process improvements, which will be evolved more rapidly with the addition of Brandon, our new Head of Consumer Lending.

The Financial Advisory Service subsidiary is another evolving revenue driver. That division now is comprised of five highly experienced financial advisors and their profits will continue to grow as a percentage of non-interest income. The growth in the Financial Advisory business will be augmented by leads from the Company's new private banking division. On April 1st, Valerie Duncan joined the Company as Senior Vice President, Head of Private Banking. Valerie joins us from Wells Fargo Private Bank, where she served as a Vice President and Private Banker for their northeast region. We look forward to the opportunities that Valerie and her team will bring to the Company by way of increased relationships with high net worth individuals, professionals and business owners.

As we've stated and as is evident in the recruiting activity of the quarter, the Company is primarily focused hiring in revenue producing areas, such as commercial banking, mortgage banking, private banking, and financial advisory services. At Rockville, we will always work thoughtfully in the best interest of shareholders, carefully balancing investments in the Company with current period profitability. As a result of this focus and the emphasis on cost containment, non-interest expense is basically flat on the linked quarter. The Company will continue to evaluate cost saving measures.

Of note, our West Hartford Banking Center, opened in January, and we're pleased with the growth in all lines of business. The business model for that branch includes mortgage professionals, commercial bankers, private banking, and a financial advisor. All of our customers' financial needs are met in one location and this model will enhance our ongoing focus on organic business growth.

At Rockville, we remain committed to shareholder return and executing on sound capital management principles. The Company recently announced its 28th quarterly dividend and executed 67% of a stock buyback program at quarter end. At this time, I'd like to personally thank our employees for their continued focus on delivering superior customer service, which is the driver to our success every day. Now, I'd like to turn the call over to John Lund, our CFO, who will provide some further detail on the quarter's results.

JOHN LUND: Thank you, Bill, and good morning, everyone. Thank you for joining us on our call today. [Technical difficulty] first quarter operating results and financial position as described in our earnings release yesterday afternoon. As Bill indicated, the Company reported record first quarter earnings. Net income for the quarter ended March 31, 2013, of $4.6 million, or $0.17 per share, is largely reflective of the Company's strong fourth quarter growth in commercial banking and the continued mortgage banking business development, coupled with the Company's focus on cost containment from both an interest expense and non-interest expense perspective.

A key contributor to the quarter's success was the net gains from sale of loans, which were $2.1 million in the first quarter 2013, increased from $1.3 million in the linked quarter. This is a $1.5 million, or 292% increase in net gains from the sale of loans over the prior year. We experienced narrowing of spreads in the first quarter, to some extent, and are currently observing similar spreads in the market. First quarter is historically the slowest quarter for residential mortgage originations. However, these results reflect strong origination volume in the first quarter and the pipeline continues to be robust.

Regarding non-interest expenses, all comparisons will be made to the linked quarter on a core basis, which eliminates the unusual expenses in the fourth quarter related to Hurricane Sandy. Core operating expenses were relatively flat over the linked quarter and increased by 1%, or $145,000. Salaries and benefits expense decreased by $146,000., or 2%, comprised mainly of the $315,000 decline in pension expense and a $125,000.00 decline in short-term employment contracts, partially offset by the $204,000increase in commissions and incentives on increased loan originations.

The Company continues to focus new hires on revenue producing business lines and, inclusive of those hires, full-time equivalents increased by four net new positions in the quarter to 335 at March 31, 2013.

Occupancy and equipment expense increased by $138,000, or 11%, over the linked quarter due to the additional expense required to operate the new West Hartford Banking Center, and the training offices in Glastonbury, which both opened in January, 2013. The linked quarter was also slightly impact by the seasonal expenses related to the weather. Other expenses declined by $104,000 from the linked quarter, primarily as a result of $273,000 decline in human resources expenses related to the recruitment cost in the fourth quarter for purposes of building the mortgage department.

Additionally, the fourth quarter included expenses related to the hard freezing of the pension plan. This decline was partially offset by increased off- balance sheet provision expenses of $96,000 related to the growth in commercial letters of credit. The Company did begin work with an efficiency consultant in the first quarter, with the goal to benchmark itself against other high performers in order to fine tune processes and position the Company for success in the future and will continue to implement cost saving measures.

We were delighted to share the Company’s strong results with our shareholders by way of dividends representing 62% of the Company’s earnings for the quarter. The Company has completed 67% of its stock repurchase plan as of March 31, 2013. Including both stock buyback activity and dividends, the Company returned 113% of the quarter’s earnings to its shareholders.

To conclude, we are pleased with the strong operating results for the quarter and the continued organic growth the Company is experiencing. Going forward, we continue to focus on capital management, prudent growth, maintaining asset quality and on seeking opportunities to mitigate interest rate risk. Eric Newell, our Director of Treasury, will now provide further detail on the Company’s interest rate risk management strategy.

ERIC NEWELL: Thank you, John, and good morning. During the quarter, management continued to leverage the investment portfolio as a tool for interest rate risk management and yield, while continually ensuring that it remains a source of liquidity. In the first quarter, the available for-sale securities portfolio increased by $71 million, or 30%. The investment portfolio represents 15% of total assets at quarter end. The growth in the portfolio included $37 million of investment grade collateralized loan obligations, $7 million of investment grade corporate debt, $16 million of guaranteed student loans and SBA pools, and $23 million of mortgage backed collateral, all offset by approximately $11 million of amortization and reduction in unrealized gains.

Management evaluates all investments using a credit centric approach, while ensuring appropriate risk adjusted return on capital. As illustrated with the addition of the municipal portfolio in the first half of 2012, the investment philosophy is to ensure granularity, only considering high quality investment opportunities, all while achieving strategies to minimize interest rate risk. The majority of investments made in the quarter were adjustable rates, resulting in the duration shortening to 3.3 years at March 31, 2013, from 3.5 years at year-end.

Collateralized loan obligations have received a lot of attention over the past several quarters in the market. We only consider collateral managers with a proven track record, have a mix of positions between primary and secondary deals, many of which are approaching or are outside the reinvestment windows and largely have broadly syndicated loan collateral vs. middle market collateral. All investments are in senior tranches and are investment grade. The weighted average life of the portfolio is 3.6 years with a duration of .25 years due to the adjustable rate nature.

We continually assess the spreads of both primary and secondary market deals to ensure that risk and return are balanced and appropriate. Post-purchase due diligence includes monthly review of underlying collateral manager performance through independent trustee reports and development of forward-looking views to ensure proactive steps are taken to reduce exposure in the event management believes weaknesses are developing.

We have previously discussed on calls and meetings with analysts and investors our approach to interest rate risk and our focus on duration management of the balance sheet. Our goal is to modestly adjust duration of the assets shorter and extend the duration of liabilities longer to ensure that, when rates do rise, we are well positioned. The actions taken over the last six months have supported this strategy and this was evident in the decline of the net interest margins. The Company’s net interest margin declined by 26 basis points to 3.48% in the first quarter, from 3.74% in the linked quarter. Of the 26 basis points, 7 are attributed to a decline in the decrease in the prepayment penalty income recognized in the quarter ending March 31. The difference in prepayment penalty fee income was approximately $337,000 between the linked quarter.

In explaining remaining change over the linked quarter, we need to first look at the loan book. Of the commercial loan originations that occurred in the fourth quarter, the majority were late in the quarter due to our customers’ preferences to close deals in 2012, prior to potential tax changes. Because of the late originations, it did not have a significant impact on the average balances or yields in the period. Furthermore, the yields on these originations were the lowest the Company experienced throughout 2012. Consequently, the low origination, the low rate originations were impactful during the first quarter, resulting in a 9 basis point compression in the earning asset yields from the linked quarter.

Residential loans, representing 26% of average earning assets, experienced an 11 basis point decline in yields during the quarter and was a significant contributor to NIM compression. This yield decline is attributed to the ongoing strategy of selling the majority of new residential loan originations into the secondary market. Most of all new originations are long-duration, fixed rate mortgages with unfavorable interest rate characteristics. The implication of this strategy is the decline in higher yielding legacy loans through scheduled amortization and fast prepayment speeds due to the low interest rate risk environment. Management is evaluating different consumer loan products with strong credit and favorable interest rate characteristics that will be maintained in the held for investment portfolio.

Finally, the investment portfolio is another significant contributor to the decline in margins. With a portfolio increasing to 16% of average earning assets, yet the majority of growth was in adjustable rate securities that will perform nicely when rates rise but have a lower initial yield. With regards to interest bearing funding, we continue to exhibit price discipline with our maturity deposits and other non-maturity products that are perceived to be more rate sensitive and emphasize low-cost, non-maturity deposits. The success of this strategy will be the biggest factor in our ability to reduce the cost of funds further. However, the previous successes in driving down our funding costs will not be replicable.

Looking ahead to the remainder of 2013, we don’t anticipate the change in margin from last quarter to be linearly extrapolated for the remainder of the year. We are unable to give guidance on the margins, but strategic decisions may result in further compression, including the continued execution of our secondary market strategy for selling the majority of our residential loan originations, the continued addition of adjustable rate earning assets in the investment portfolio, success in our loan level hedging program in the commercial department, which may initially bring on lower yielding commercial loans that are adjustable, and finally, pricing strategies for interest bearing deposits, as well as the success of adding and expanding demand deposit relationships, which may reduce the all in cost of funds.

We also continually assess macro economic trends and market expectations for interest rates and will adjust our interest rate risk strategies accordingly. At this time, Mark will provide some further detail on the Company's commercial banking business.

MARK KUCIA: Thank you, Eric, and good morning, everyone. Following strong commercial loan growth in the fourth quarter of 2012 of 27% on an annualized basis, the emphasis for the first quarter of 2013 was on rebuilding the pipeline for the first half of the year. Production in the first quarter is typically light and growth for the quarter was essentially flat. An increase in the commercial real estate portfolio of $8 million for the quarter was offset by decreases to the C&I and commercial construction portfolios. The reduction in the C&I portfolio was driven by the Company's decision to allow a $10 million time-share loan to pay off, due to credit and structure considerations. This demonstrates the Company's continued commitment to maintain discipline around credit and pricing in this extremely competitive environment.

On a linked quarter basis, average commercial loans outstanding grew 6%, boosted in part by uncertainties with potential tax law changes, pulling many early 2013 deals into 2012. We continue to look for opportunities to recruit top commercial bankers to increase our production capacity, statewide, and we are pleased with our pipeline levels, which now includes strong numbers from our Western C&I initiative. We have a track record of year after year solid commercial loan growth while maintaining excellent asset quality and we believe that the current pipeline levels support a continuation of this trend. Thank you. At this time, Marino will discuss changes to the Company's consumer lending business.

MARINO SANTARELLI: Thank you, Mark, and good morning, everyone. Our team has been working diligently over the last year and a half to build the mortgage business to the robust program we have in place today. I'd like to thank our team for their dedication, enthusiasm, and continued commitment to delivering superior customer service. During the past quarter, the Company hired a new leader for this team after an extensive search for a highly experienced and talented consumer lending professional. Brandon Lorey comes to Rockville with over twenty years of experience at large national lenders and will be responsible for developing and implementing a mortgage and consumer lending business plan in order to build on the success the Company has achieved in the past. Brandon?

BRANDON LOREY: Thank you, Marino, and good morning, everyone. I joined Rockville Bank in February and am excited to be a part of this very energetic and professional team. I have quickly acclimated myself to the Company's products and processes and have identified several areas where we can optimize our current structure to improve efficiencies and turn around times. We continue to assess the opportunity ahead of us and are opportunistically seeking mortgage loan officers to grow the business to meet our existing retail and commercial footprint demands.

The Company is also investigating additional product offerings to continue to drive volume and profitability, despite tighter spreads observed in the first quarter and the projected decrease in demand for refinance transactions. As an example, we plan on adding jumbo mortgage as well as purchase incentive programs to our offering suite, so that we can continue to build on the success of the last few quarters. Concurrently, the Company has an opportunity to redesign the product and pricing structure of its home equity business, which has had very little activity over the last few years and has the potential to become a real growth opportunity for the organization.

The new products and processes compliment the dedicated efforts of our mortgage team, working diligently to bring our mortgage banking business to a new level with improved turn times, streamlined processes, and a best-in-class underwriting team. Gains on sales of loans to the secondary market have been, and will continue to be, a significant driver to the Company's profits. The residential mortgage pipeline remains very strong and our mortgage loan officers are taking market share every day.

With Rockville Bank increasing overall market share in both Tolland and Hartford Counties by 15%, to 3.8% when compared to the same quarter last year. This market share gain is further evidenced by the fact that the Mortgage Bankers Association reported the first quarter total U.S. residential mortgage originations up 29%, while Rockville's loan originations increased by 74% during that same time period.

Thank you all for your time this morning. And now Bill, John, Mark, Eric, Scott, Marino and I would be happy to answer any questions you may have.

OPERATOR: And at this time, we will begin the question and answer session. To ask a question, you may press star (*) and then one (1) using a touchtone telephone. If you're using a speakerphone, we do ask that you please pick up your handset before pressing the keys to ensure good sound quality. If at any time your question has been addressed and you would like to withdraw your question, you may press star (*) and then two (2). Again, it is star (*) and then one (1) to ask a question. And our first question comes from Mark Fitzgibbon from Sandler O'Neill and Partners. Please go ahead with your question.

MARK FITZGIBBON: Good morning. I wondered if you could detail for me, Eric, the securities purchases that you made in the first quarter, what those were.

ERIC NEWELL: Certainly. The, most of the purchases that we did in the quarter were adjustable rates, but we focused on adding come credit to the portfolio through the addition of the collateralized loan obligation. We added some adjustable rate government guaranteed SBA loans, as well as some other types of asset-backed securities. Also included in that was, collateral pass-throughs to ensure that we maintain the liquidity of the portfolio within our policy limit.

MARK FITZGIBBON: Okay, and then, secondly, I wondered if you feel like you're done at the moment for hiring of mortgage banking officers or do you feel like you can continue to, you know, add to that team?

BILL CRAWFORD: Hey, Mark, it's Bill. We continue to opportunistically look for highly talented mortgage bankers. We're around 14 now21 is kind of a number in the back of our head, given the size of our existing retail footprint. But it all comes down to us identifying exceptional talent before we'll pull the trigger on a new mortgage loan hire.

MARK FITZGIBBON: Okay, and then, lastly, I wondered if you could just update us on your de novo plans, whether you have any new branches in the works that you haven't already disclosed?

BILL CRAWFORD: Yes, we are looking at branch sites down in New Haven County to support our commercial loan production office. We're also looking at some in the Glastonbury area. What we want to do with de novo branches is make sure that we have the ability to fund the Company's loan growth, longer term right now we're in very good shape, but, as you know, we have the ability to generate assets in a pretty healthy way and so we want to make sure that we continue our deposit growth and we layer it in the right number of branches.

MARK FITSGIBBON: Okay. Thank you.

BILL CRAWFORD: Thanks, Mark.

OPERATOR: Our next question comes from Damon DelMonte from KBW. Please go ahead with your question.

DAMON DELMONTE: Hey, good morning, guys, how are you?

BILL CRAWFORD: Hey, Damon.

DAMON DELMONTE: My first question has to deal with the securities portfolio. So that's grown to be about 15%, I think, of earning assets, up from 10% a year ago. Can you give us a little color as to how big you expect that to get as a percentage of average earning assets?

BILL CRAWFORD: Yeah, Damon, we basically look at a RAROC model and, in evaluating that, we see opportunities there. We want to be mindful of where other high performing banks are, so we will take that up gradually, but we don't plan on being an outlier relative to other high performing banks and it's also subject to our ability to find relative value in that portfolio. Eric, did you want to add anything?

ERIC NEWELL: Yeah, I would stress, or highlight, the comment on the "we don't want to be an outlier", we definitely study other public banks in our asset size to make sure and look at, what their portfolios are representative, or relative to assets and earning assets. But we definitely are looking at ensuring that the risk adjusted return on those investments enhanced shareholder return.

DAMON DELMONTE: Okay, I'm just trying to kind of frame that with expectations for the margin when you detailed the outlook for the margin, you talked about numerous drivers that would impact it and, from a modeling standpoint, if you try to figure out directionally, it's probably going to go down, but, like, how much it's going to go down, just trying to figure out how much securities will weigh into that equation. Can you provide any more color on the outlook for the margin? I mean, it was a pretty sizable drop this quarter and saying that you don't expect to have a similar level of a drop, that's still25-30 basis points of wiggle room there. So is there any additional guidance you could provide on the margin?

ERIC NEWELL: Well, I think there's a couple things to think about when you're looking at the margin. First off, you know, the quarter had two less days than the fourth quarter, which had a notable impact that, at least on the dollars, you know net interest dollars. When we look at modeling, forward-looking, what's the NIM's going to look like, we always look at what the, for example, the commercial portfolio, the prepayments speeds and the re-pricing that's occurring there? And I think as you see that the interest rate environment has, the duration of the low-rate environment, the ability for that portfolio to re-price, kind of slows.

So I think if you take that into context with what Mark's comments were, in terms of the high level of origination that occurred and the timing of when those occurred in the fourth quarter when we model out growth for commercial, we typically use a more, you know, historical seasonal trend of what Mark expects and I would say that what occurred in the fourth quarter was definitely beyond our expectations, in terms of timing. So if we think that's going to normalize and the way, the pace of the originations in the commercial portfolio will kind of return to a historical, you know, timing, then you're not going to see the type of decline in the margin that you did in the fourth quarter, or first quarter.

BILL CRAWFORD: Damon, one other thing I would add is we're focused on the net interest income line, in growing that and also growing revenues and we do have, we believe, the expertise in our finance area to be able to manage that well.

DAMON DELMONTE: Okay, gotcha. I just, one quick question with, so could you give us some color as to where commercial loans are coming on the books vs. where they're coming off?

BILL CRAWFORD: Ah, Mark, I'll let you take that.

MARK KUCIA: In terms of, well, we had a significant payoff, as you know, in the first quarter we mentioned, that was in the C&I portfolio. But I would say the majority of kind of the prepays or the re-pricings, if you will, tend to happen in the commercial mortgage portfolio.

DAMON DELMONTE: Right, but as far as like the yield, like, you know, new loans are coming on at, I'm thinking a number, 3%, but they're coming off at 4.5%. Can you give us some color as to

MARK KUCIA: Well, I would say, yeah, if you look at the climate overall, the major kind of re-pricing or competitive lower pricing started in the second half of the year. But generally you're seeing deals coming a portfolio with high 4's and oftentimes we'll negotiate a prepayment penalty back into the spread, etc., so you could see either high 3's, low 4's on some of the re-pricings.

DAMON DELMONTE: Okay. That's helpful, thanks. And then, I guess my last question is regarding the efficiency ratio. I think you guys mentioned you did some work with a consultant in the first quarter trying to kind of go through and see where you may be able to curb expenses or just operate a little bit more efficiently. Can you talk a little bit about your outlook for the efficiency ratio, maybe some targets or goals that you have for the bank?

BILL CRAWFORD: Yeah, Damon, what we're really focused on is linked quarter expense growth and, as you noticed that non-interest expense had been going up a lot as we reinvest in the business. We've dialed that back very significantly, where we had 1% linked quarter expense growth and so that's what we're really focused on. Keep in mind, because our residential business through the loan officers, the mortgage loan officers, as they generate more mortgages, they generate more commission, so the efficiency ratio, the better our mortgage business gets it's tougher for us to move. That said, we want to continue to flatten and potentially even bend down the non-interest expense when you look at it on a quarterly basis and so we do continue to work with our consultants and I do think it's going to be very important to manage expenses very well in these future quarters because, obviously, revenue is, revenue growth is harder to come by and we're very mindful of that.

DAMON DELMONTE: Right. Okay, that's all that I had, thank you very much.

BILL CRAWFORD: Thanks, Damon.

OPERATOR: Once again, if you would like to ask a question, please press star (*) and then one (1) using a touchtone telephone. Our next question comes from Matthew Breese from Sterne Agee. Please go ahead with your question.

MATTHEW BREESE: Good morning, guys.

BILL CRAWFORD: Hey, Matt.

MATTHEW BREESE: Hey, could you just provide me with the actual dollar amount of prepayments in the fourth quarter and first quarter?

BILL CRAWFORD: Ah, let's see, do we, Mark, do we have, I don't know, do we have that number?

ERIC NEWELL: Ah, we, probably on the actual dollars, I mean, the change was, the fourth, or, okay, fourth quarter was $553,000and then the change was $337,000, so, I'd have to grab my calculator, here. So it went down to $216,000 in the first quarter.

MATTHEW BREESE: Okay. And, then, you guys had also mentioned that you were looking and evaluating different types of consumer products, consumer loan products?

BILL CRAWFORD: Yes.

MATTHEW BREESE: Could you give us an idea of what kind of avenues you're looking at and the timeline for initiating some of these?

BILL CRAWFORD: Sure. We don't do much in the jumbo mortgage space and we've come out with a new product there and, then, our home equity line business is something we've really done nothing with over the last couple years, now we have home prices rising a little bit, no longer declining. But, Brandon, you want to give some more color on our consumer products?

BRANDON LOREY: Absolutely. Yeah, and I think that's really, in addition to widening the mortgage suite with, again, continual care around the credit risk taken there, the home equity seems to be a place where there's some pent up demand within our marketplace. We, traditionally, have not done much in the way of marketing that product and haven't had a very robust suite of products and so that's really, you know, where we're going to be focusing once we get the mortgage group fully optimized and charging forward.

MATTHEW BREESE: My last question is you guys have a lot of irons in the fire right now, trying to put on adjustable rate assets. What has that done to your overall interest rate sensitivity? You know, in a 100-basis point rising environment, are we neutral at this point or are we still kind of liability sensitive?

BILL CRAWFORD: Ah, Matt, I would refer to us as minimally liability sensitive. So we're very close to the line of neutral and we've, we're proactive about that because I think it is difficult to tell where rates will really go.

MATTHEW BREESE: That's all I had, thank you, guys.

BILL CRAWFORD: All right, thanks, Matthew.

OPERATOR: And our final question comes from Eric Grubelich from Highlander Bank Holdings. Please go ahead with your question.

ERIC GRUBELICH: Yeah, hi, good morning. You know, just as a follow-up to the question about other types of consumer lending, so, these jumbo loans, or this product that I guess you're rolling out, you're going to portfolio this?

BILL CRAWFORD: Yes, some of it we'll portfolio.

ERIC GRUBELICH: Okay, and so, sort of in discussing your whole interest rate the balancing you're trying to do here with, you know, I think you said that you're trying to extend liabilities over time shorten up assets, how does that fit in if you're portfolioing jumbo loans, which are typically fixed rate assets?

BILL CRAWFORD: Yeah, I think it's a matter of magnitude, Eric. You know, we will obviously size this appropriately to where it's helpful in developing new customer relationships, it's helpful on the margin of increasing net interest income, but sized appropriately so it doesn't, cause us concern from an interest rate risk perspective.

ERIC GRUBELICH: And how, just a, let me just ask one more question on that subject – so, in terms of jumbo, how jumbo is jumbo? Is this just outside the conforming limit or are these like, you know, over a million dollar type loans?

Bill Crawford: Yeah, no, in Hartford County, in Tolland County, where we operate, jumbo is going to be over the $417,000 number and we don't we're not doing this in Fairfield County, for example, where housing values are much higher.

ERIC GRUBELICH: Okay, no, that's fine. And, then, if you could just clarify, Bill, you made the comment about the, someone made the comment; I thought it was you, about the, in regard to expenses and the residential mortgage banking business. Did you say as it grows, you know, your originators are going to, obviously, have more of a payout. So is that going to take the, is that going to be a negative to the efficiency ratio or a positive? I wasn't clear with what you were

BILL CRAWFORD: Well, I mean, when you look at it, obviously, we, as we do more mortgages, we grow that revenue very significantly, but we also increase compensation expense. With the way it's levered, we want mortgage volume to go as high as it can go safely. But, if you're just looking at what's happening to our comp expense, you also have to think about what's happening to our mortgage business. So, conversely, if our mortgage business were to start to decline, you would see our comp expense decline, as well.

ERIC GRUBELICH: So, in that case, is the efficiency ratio of the mortgage business higher or lower than the core bank right now?

BILL CRAWFORD: Ah, it would be lower.

ERIC GRUBELICH: Okay, okay. Thank you very much.

BILL CRAWFORD: Yep.

OPERATOR: And, ladies and gentlemen, at this time it's showing no additional questions. I'd like to turn the conference call over for any closing remarks.

BILL CRAWFORD: Okay, well, again, thank you for the interest in our Company. Obviously, we're very pleased with this quarter and we'll continue to work hard to build shareholder value. So, thanks, have a great day, everyone.

OPERATOR: Ladies and gentlemen, we do thank you for attending today's conference call. It has now concluded. You may now disconnect your telephone lines.