Rockville Financial Incorporated
"Third Quarter 2013 Earnings Conference Call"

Friday, October 25, 2013, 10:00 AM ET
Bill Crawford
John Lund
Scott Bechtle
Mark Kucia
Eric Newell
Marino Santarelli
Brandon Lorey
Marliese Shaw

Rockville Financial Incorporated
"Third Quarter 2013 Earnings Conference Call"

Friday, October 25, 2013, 10:00 AM ET
Bill Crawford
John Lund
Scott Bechtle
Mark Kucia
Eric Newell
Marino Santarelli
Brandon Lorey
Marliese Shaw

OPERATOR: Good morning and welcome to the Rockville Financials Third Quarter 2013 Earnings Conference Call. All participants will be in listen-only mode. Should you need assistance, please signal a conference specialist by pressing the "*" key followed by "0." After today's presentation, there will be an opportunity to ask questions. To ask a question, you may press "*" then "1" on your touchtone phone, to withdraw your question, please press "*" then "2." Please note this event is being recorded.

I would now like to turn the conference over to Marliese Shaw. Please go ahead.

MARLIESE SHAW: Thank you, Gary. Good morning everyone. Welcome to our third 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 third quarter earnings. This morning, I'll provide some insight into the strategies that supported the company's record quarterly operating revenue 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, Head of Treasury and Corporate Strategy, Marino Santarelli, Chief Operating Officer and Brandon Lorey, our Head of Consumer Lending.

I am pleased to announce that Rockville reported strong quarterly earnings of $0.18 per share or $4.6 million during the third quarter. Third quarter earnings were driven by strong execution in the secondary mortgage market, increased loan level hedge income, strong commercial loan growth and very solid residential mortgage production despite the current interest rate environment. Organic growth remained solid in the third quarter as seen in both the 25% annualized growth rate for commercial lending and the 26% annualized growth rate for deposits. On an average balance perspective the annualized growth rate for commercial loans was 36% and deposits were 21%. Rockville has experienced accelerated deposit growth since opening of our West Hartford Banking Center in the first quarter. We are looking forward to continuing this positive momentum with the fourth quarter opening of our Hamden branch, our first full service branch in New Haven County. In the third quarter, the company also announced a new branch location in North Haven which we anticipate to be operational in the third quarter of 2014.

Rockville will continue to seek opportunities for branch locations with substantial market share potential to support increased core deposit growth rates. The company's record quarterly revenue was supported by the evolving financial advisory services division, our private banking division and the recently introduced loan level hedge program and the continued strength of our mortgage banking business. While the linked quarter residential mortgage production was down slightly, we are pleased that so much of the application volume is comprised of purchased mortgage business and that Rockville is still increasing market share. Application volume remain steady, however we are cognizant that we are heading into a seasonal downturn in this business in the fourth quarter.

The company continues to work thoughtfully in the best interest of shareholders to carefully balance investments in the company with current period profitability. As a result of this focus, and the emphasis on cost containment, core operating expense has been relatively flat for the past five quarters. Any new hires are primarily in revenue producing areas. This quarter for example, the company's nine net new FTE's included two mortgage loan officers, one commercial banker, one cash management officer and three team members for the new Hamden branch location. The company will continue to focus on controlling expenses and evaluating cost saving measures.

At Rockville we remain committed to shareholder return and executing on sound capital management principles. The company recently announced its 30th quarterly dividend and has executed 39% of the company's second stock buyback program at the quarter end. Company has repurchased 4 million shares bringing the share count down to 25.5 million at September 30, 2013.

At this time, I'd like to personally thank our employees for their continued focus on delivering superior customer service everyday which is the driver to our success. Now, I'd like to turn the call over to John Lund, our CFO to 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. I will review our third quarter operating results and financial position as described in our earnings release yesterday afternoon.

Net income for the quarter ended September 30, 2013 of $4.6 million or $0.18 per share diluted is largely reflective of the company's stable net interest income, continued success in the mortgage banking business, expansion of revenue drivers within the organization and a well controlled non-interest expense.

. Despite the extended low interest rate environment, Rockville's net interest income has reflected stability and even growth on a quarterly basis since the company's conversion in 2011. While the net interest margin has been negatively impacted since mid-2012, net interest income continues to grow due to the company's strong earning asset growth.

On a linked quarter basis, pre-provision net interest income increased by a $172,000 or 1%. Average earning assets grew by $100 million or 5% over the linked quarter. Mortgage banking continues to be a key contributor to the company's success. In the third quarter, the net gains from sale of loans of $1.7

million had increased from $1 million in the linked quarter. On an earnings per basis, the effective mortgage banking was a positive $0.05 per share. Year-to-date net gains from sales of loans were $4.8 million as compared to $3.1 million for the first nine months of 2012. This is a $1.7 million or 56% increase in net gains from sales over the prior year.

We continue to observe narrow spreads in the market, however these results reflect the company's ability to sell residential mortgages opportunistically and execute efficiently in the secondary market. The pipeline continues to be healthy. As our earnings release reflects, in addition to the increased revenues from the mortgage banking business, non-interest income has benefited from the expansion and development of the financial advisory business and the loan level hedge program. These two programs together increased non-interest income by $300,000 or 4% on a linked quarter basis and increased year-to-date non-interest income by $1.1 million or 24% over the prior period.

Non-interest expense declined by $1.1 million or 7% in comparison to the linked quarter. This decline is reflective of larger expenses incurred by the company in the second quarter of 2013 to eliminate legacy expenses that were creating inefficiencies and hindering profitability. The second quarter included $438,000 of salary and benefits expense and a $774,000 of occupancy and equipment expense related to the elimination of nine redundant positions and the planned closure of a branch location respectively. These expenses are non-recurring and therefore reflected positively on the third quarter results.

Core operating expense which eliminates the impact of those non-recurring items increased by $275,000 or 2% and has been fairly flat over the past five consecutive quarters. The company will continue to seek and implement cost saving measures. We were delighted to share the company's strong operating results with our shareholders by way of dividends representing 57% of the company's earnings for the quarter. Rockville completed 39% of its second stock repurchase plan as of September 30, 2013. So far execution on this plan has been favorable. Shares were repurchased at an average cost of $13.13 while the average trading price was $13.18. Including both stock buyback activity and dividends, the company has returned $7 million to its shareholders in the quarter.

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 Head of Treasury and Corporate Strategy will now provide further detail on the impact that the growing adjustable rate asset portfolio has had on the interest rate sensitivity position as of quarter end.

ERIC NEWELL: Thanks John. Net interest margin during the quarter declined to 3.32% from 3.48% in the second quarter of 2013. Of the 16 basis point compression reported in the quarter, approximately 8 basis points are attributed to prepayment income realized during the second quarter that did not repeat in the third quarter, adjusting the margin compression to 8 basis points. For the last several quarters, we have spoken at length about our strategy to reduce the duration of our assets. The execution of this strategy is the main driver in the reduction of earning asset yields. Rather than increasing the duration of our assets to reach for yield, we are doing the opposite. This will better position the balance sheet for when interest rates rise and we have evidence of this in our interest rate risk model output for the September quarter.

Commercial loan yields fell 18 basis points during the quarter. Partially driving this compression is our loan level hedging program. While serving as a strong fee generator for the company, it converts fixed rate assets to floating rate, which typically have a lower yield at inception. During the quarter, the company added $50 million of floating rate commercial loans. To a lesser extent, the residential portfolio also contributed to margin compression, with yields in that portfolio falling 6 basis points.

On the funding side, our cost of interest bearing funds declined 1 basis point. This illustrates the difficulty of matching falling yields with commensurate changes in our funding costs. The funding strategy remains unchanged however. First, growing and deepening relationships with customers that include core, low and no cost transaction accounts. Second, respond to competitors with periodic pricing specials that incent customers to originate longer duration deposits, allowing us to incrementally increase the duration of our deposit base. And finally, using wholesale funding sources to remain relatively short, taking advantage of anchored yield curve, due to continued quantitative easing from the Federal Reserve Board. The steepening of the yield curve during the second quarter, generally remained in the third quarter, and this strategy allowed for us to take advantage of the curve.

As I previously mentioned; our interest rate risk modeling showed the effects of our strategy over the last several quarters. When we model a rise with interest rates, we do not include any growth of assets, which is a very conservative view as growth can obfuscate interest rate risk. The model output for the quarter showed half of the sensitivity to rising rates in the first year of our projection, from what we reported on our June 30 quarter and model output. Importantly, in the second year of the model output, we show an increase of net interest income with a rise of interest rates. This reflects the addition of adjustable rate assets over the third quarter, as well as the $50 million notional forward starting hedge that becomes effective in that second year, having the effect of increasing the duration of our liabilities.

In short, while we cannot claim to be asset (Ph) sensitive to rising interest rates, the liability sensitivity that we have previously reported has been reduced, and we see an inflection point to rising net interest income in our second year of modeling before we consider asset growth expectations. Looking to the fourth quarter; we expect compression of the NIM to be more muted than what we experienced in our third quarter, even when adjusting for the prepayment income realized during the second quarter.

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. Two consecutive quarters of strong growth in the commercial loan portfolio have resulted in a $125 million increase in the portfolio over that time, comprised of linked quarter growth of 6% in the third quarter and 7% in the second quarter. The $60 million of commercial loan growth in the third quarter was realized across both commercial real estate and C&I. The pipeline continues to be solid, boosted by the efforts of our private banking team and our C&I expansion west.

We are pleased, that we had the opportunity to add to the commercial team this quarter, with the hiring of a strong commercial banker in the West Hartford market, and a very experienced cash management officer in the New Haven market. We will continue to look for top commercial banking talent to increase our production capacity state wide.

We have a track record of year-after-year solid commercial loan growth; and we believe that the current pipeline levels support the continuation of that trend. It is important to note however, that the environment remains extremely competitive, and we will continue to exercise discipline around both credit and pricing. Rockville's asset quality remained strong, and is top amongst its peer group by nearly every performance metric. Non-performing assets decreased by $1.3 million during the third quarter, bringing the ratio of non-performing assets to total assets down to 0.66% and the annualized net charge-offs are a very nominal 4 basis points.

The commercial banking team increased its utilization of loan level hedging during the third quarter, which will benefit the company, from both, in interest rate risk perspective and in providing additional fee income opportunities in an extremely competitive market. This program was introduced in the second quarter of 2013, and we believe it will continue to provide favorable results, as the use of the program expands.

Thank you. At this time, Marino will discuss results of retail deposit and financial advisory initiatives.

MARINO SANTARELLI: Thank you, Mark, and good morning everyone. I would like to share with you the continued success of our new West Hartford Banking Center. After only eight months of operation, as of September 30, 2013, deposits at this location have grown to $105 million, and are comprised of strong growth, in both retail and commercial deposits. The West Hartford branch has grown to the fifth largest deposit office in our 22 branch location network, and the company continues to see very strong momentum in this new market.

Similar to our strategy in West Hartford, the company announced in the third quarter, that it will be opening two retail banking locations in New Haven County. The Hamden location, which will open next month; will be a nearly 2,000 square foot, full service branch that will provide retail and commercial deposit and loan products; investment advisory services, residential mortgage loans, and small business products. This retail banking presence by Rockville in Hamden will help support the successful and growing Hamden loan production office, while providing new and existing customers with convenient access to full service banking.

Also announced in the third quarter was the planned opening of the North Haven Banking Center. Like Hamden the 5,000 square foot North Haven office will be a full service banking location, providing retail and commercial deposit and loan products, investment advisory services, mortgage loans and small business products. This location is anticipated to open in the third quarter of 2014. Establishing a strong retail banking presence in this part of the state is an important pillar of the company's overall growth strategy that now extends along the 191 quarter from New Haven to Glastonbury and Hartford. I am pleased that investment advisory services will be featured at both of these new locations, and will enhance this already much expanded business line.

Rockville Financial Services risk was reorganized in the fourth quarter of 2012, and has realized significant revenue increases over the past four quarters. The company has added five very experienced investment advisors from local competitors, to assist our customers with their financial planning needs and together they have grown this business into $1.2 million annual revenue stream thus far. The fee (Ph) income from this business line for the entire year of 2012 was $383,000. The Company will continue to expand in this area as opportunities to recruit experienced advisors arise.

Customer service has always been a hallmark of Rockville Bank. The company is now closely measuring customer service to ensure continued success. We are currently using Greenwich Associates to survey our retail and commercial customers, in order to monitor our service quality performance by branch and commercial banker. Early results are very favorable with the vast majority of our customers indicating, they would recommend Rockville Bank to an associate or family member. A particular note, are the positive comments and very high ratings given when asked about their personal experience with individual branch and commercial bankers.

Now, I would like to hand it out to Brandon Lorey, for more information on the mortgage banking business.

BRANDON LOREY: Thank you, Marino and good morning. As expected, with the increase in mortgage rates, our residential mortgage origination volume declined this quarter, driven largely by a drop in refinance activity. Mortgage production declined by 9% over the linked-quarter and by 16% from the prior year period. That said; year-to-date activity remains favorable to the prior year due to the increased production capacity the company has developed over the last 18 months, with the introduction of mortgage loan officers in the first quarter of 2012.

Year-to-date 2013, the company has originated $222 million of residential mortgages, while from the first nine months of 2012 the company originated $206 million, during a heavy refinance market. Refinance volume declined to 43% of originations, down from 59% in the linked quarter and down from 61% in the third quarter of 2012. Conversely, purchase volume increased in the third quarter of 2013 to 57%, up from 41% in the linked quarter.

The expansion of our mortgage loan officer team and the relationships with realtors; has allowed the organization to successfully shift to a purchase market model, providing an opportunity for increased capacity and volume despite the recent rise in interest rates. If rates remain where they are today, we would expect lower origination volume in the fourth quarter, reflecting lower refinance volume and normal fourth quarter seasonality shifts in the purchase market.

Now, despite these pressures, we continue to opportunistically seek mortgage loan officers to grow the business to meet our existing retail and commercial footprint demands. As of September 30, 2013, I am pleased to announce that the company has increased the number of mortgage loan officers to 17 from 15 in the linked-quarter and from 12 at September 30, 2012. At the same time, we’ve been diligently working to optimize our current structure to improve efficiencies and turnaround times. The number of underwriters, processors and closers for this business has decreased to 18 at September 30th from 20 in the linked-quarter and 24 in the prior period. Additionally, turn times have decreased considerably despite a growing pipeline and increasing complexity in our product suite.

Increased production in 2013 has also translated to increased market share. During the third quarter, Rockville increased its mortgage market…production market share in Hartford County to 2.5% from 2.2% in the linked-quarter and has moved to sixth place from eighth place. In Tolland County, the company continues to hold the number one spot and increased market share to 11.1% in the third quarter from 10.1% in the linked-quarter. The company also improved market share position in New Haven and New London counties where we improved to 48th and 21st place from 61st and 22nd place respectively.

The company is also investigating additional product offerings to continue to drive volume and profitability. Rockville has begun 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 already seen an improvement in this sector as a result. As we ramp up the home equity production, we will expect to see some portfolio growth within those segments in the coming quarters.

Gains on sales of loans to the secondary market increased by 73% in the third quarter over the linked-quarter. The company has developed the expertise required to be an efficient and opportunistic seller of mortgages into the secondary market, and this will continue to be a significant driver to the company's profits.

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.

Q&A

OPERATOR: We will now begin the question and answer session. To ask a question, you may press “*” then “1” on your touchtone phone. If you are using a speakerphone, please pick up your handset before pressing the keys, to withdraw your question please press “*” then “2.” At this time we will pause momentarily to assemble our roster.

Our first question comes from Matthew Ferguson of Sandler O'Neill. Please go ahead.

MATTHEW FERGUSON: Hi, good morning everybody.

BILL CRAWFORD: Hi, good morning.

MATTHEW FERGUSON: Quick question for you. What was the dollar value of the loan pipeline at quarter end and can you remind us what it was last quarter?

BILL CRAWFORD: Which pipeline are we talking, commercial or residential?

MATTHEW FERGUSON: Well, I'll take both.

BILL CRAWFORD: Okay. Brandon, I'll let you take that.

BRANDON LOREY: Sure. At third quarter 2013, we were at 37 and we were at 39 give or take in the end of the second quarter. So it's relatively flat. The mix is what is significantly different as we shifted from that refi to the purchase mix.

MATTHEW FERGUSON: And then how about the commercial?

BILL CRAWFORD: The commercial pipeline after two quarters of strong closing, there is an element of rebuilding there. The pipeline is good, it's sufficient to meet the company objectives. We expect good growth in the fourth quarter; probably tempered I would say from Q2 and Q3.

MATTHEW FERGUSON: Okay. And can you give us a sense of what the compression is in the commercial pipeline and also maybe the blended yield?

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

MARK KUCIA: Yes, I mean in the commercial pipeline, it is weighted now towards C&I. The yield rates have come up pretty good since earlier in the year. So the yields are up a bit from our overall yields on the existing portfolio.

MATTHEW FERGUSON: Okay. And then second, just transitioning over to the margin, Eric, I think you had mentioned that on a core basis, the way to look at it is, the margin was down 8 bps linked and that the compression should moderate you know, relative to that level. So am I seeing that the right way?

MALE SPEAKER: Yes.

MATTHEW FERGUSON: Okay. And then just as far as operating expenses are concerned, is $14.8 million call it a good base, a good run rate moving forward or do we start to see that kind of well, continue to softly grow?

BILL CRAWFORD: Yes, we really focus on the operating leverage, and so we are trying to look at where our revenues are and keep our expenses in line. So we are always looking at cost saving ideas. For example, I believe we announced we did something with our ESOP and our 401(k) that will reduce expense $1.2 million next year, but as you can see, we have some additional branches coming on. And so really it's more around maintaining positive operating leverage when we think about expenses. But you can see we've been flat for, relatively flat I would say, for the last five quarters or so.

MATTHEW FERGUSON: Okay. Thank you.

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

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

BILL CRAWFORD: Hi, Damon.

DAMON DELMONTE: I guess my first question, just dealing with the loan level hedge program that you have; does that show up in the other income from the non-interest income on the income statement?

BILL CRAWFORD: Loan level hedge income shows up as…I think it's in the service charge area, so it's not in the margin.

DAMON DELMONTE: Okay, so service charges and fees, that line item?

MALE SPEAKER: Yes.

DAMON DELMONTE: Okay. Just from a modeling perspective, I wanted to kind of know where it was included. And then I guess with regards to that program, could you just maybe walk us through an example of kind of what you're giving up on the fixed rate yields versus what the floating rate is for the customer, and then what you are getting in fee income for that particular loan?

BILL CRAWFORD: Sure, Damon, we'll walk you through that. I think what's key about this, you know, coming from Wachovia and Wells Fargo, the large organizations really don't do anything fixed in their commercial area. Now, you know, we are never going to be that dramatic about it, but we do call on customers who really like the variable rate and the interest rate swap and so we think it's a good product for our customers, but I'll have Mark run through the mechanics and the math on it for you. Mark.

MARK KUCIA: Sure. We typically you know, the swap profit in there, we target a level which ends up being about 2% of the loan amount upfront. Obviously we are swapping out a fixed rate for floating. These deals are happening anywhere from I would say 175 over credit spread LIBOR to say 225-ish, and the yields you are giving up then, you could look at the 7 or 10-year FHLB advance rates and you know, the same credit spread would apply there.

DAMON DELMONTE: Okay. Alright, that's helpful. Okay, thank you. And then I guess with regards to the mortgage loan pipeline, I know you commented that it will be down somewhat in the fourth quarter just given where rates are. What are your expectations for like gain on sale? Your gain on sale I think was pretty healthy this quarter. What are you expecting for a gain on sale in the fourth quarter?

BILL CRAWFORD: Yes, well, I wouldn't expect it to be as strong in the fourth quarter just simply because production is going to be down, and I would say, while it is somewhat rate-driven, now that we've moved into a purchase market, there's some seasonality impacts that we wouldn't have seen in prior years as that refinance business has dried up. So you know, I think the combination of those two will drive to a lower expectation from a secondary sales perspective.

DAMON DELMONTE: Okay, that's helpful. And then I guess lastly, in the release, you had mentioned that one of the pressures on the yields of commercial loans was from the shared national credit growth. Could you just talk a little bit about that, how much shared national credits do you have outstanding and what are your average sizes?

BILL CRAWFORD: Mark, I'll let you comment on that.

MARK KUCIA: Sure. Right now, there's about 40 outstanding and they range anywhere from 2 to 15.

DAMON DELMONTE: Okay. Is this different than the regional commercial real estate portfolio?

MARK KUCIA: It is. This is you know, this is C&I lending, lending to…we are lending on deals you would recognize. For example, we are in the Heinz deal which there is $28 billion deal, $12 billion debt, the balance being basically equity and we have a piece of that deal. That would be an example.

BILL CRAWFORD: The key there, Damon is the rate lock, our risk adjusted return on capital is very strong there, and we underwrite all the credit ourselves.

DAMON DELMONTE: Okay, what's the total balance outstanding?

MALE SPEAKER: Approximately 40.

DAMONDELMONTE: Oh I'm sorry. I thought you meant 40 loans are outstanding, so it's $40 million outstanding?

MALE SPEAKER: Correct.

DAMONDELMONTE: Yes, okay.

MALE SPEAKER: On the entire shared national credit, right?

DAMON DELMONTE: Okay, right. Okay, not bad at all. And is this like a portion of your portfolio that you are going to look to expand going forward?

BILL CRAWFORD: Damon, you know, we look at things opportunistically based on our risk adjusted return on capital models. And so, we will continue to look at this business, you know, obviously we want to size it appropriately in terms of the individual deal sizes we are engaged in, and then as a percent of the portfolio we are mindful about keeping this within a reasonable limit, like we have done with our commercial real estate business.

DAMON DELMONTE: Okay, got you. Okay, that's all I had. Thank you very much.

OPERATOR: Our next question comes from Eric Grubelich of Highlander Bank Holdings. Please go ahead.

ERIC GRUBELICH: Hi good morning.

BILL CRAWFORD: Hi, Eric.

ERIC GRUBELICH: A couple of questions, maybe just a follow-up on the one Damon just asked you about the syndicated national credit. So could you maybe quantify it a little bit more in terms of what you think a reasonable limit is for that type of loan in your portfolio?

BILL CRAWFORD: Are we talking about size of individual loans?

ERIC GRUBELICH: No, I meant just like aggregates. So you are at about $40 million now, is this something that's going to be like you know, ten times the size or two times the size, do you think?

BILL CRAWFORD: You know, I think we think about it in terms of roughly 15% of our commercial loan book, you know, 10% to 15% of our commercial loan book, we are nowhere near that. But it also depends…we have to look at a lot of opportunities to do a deal there. So it really depends on more about what the markets really going to give us.

ERIC GRUBELICH: Okay, that's fair. I think people like me and perhaps others look at product like that as really, you know, it maybe a nice add from a [indiscernible], but you know, the customer relationship standpoint, maybe there's not a lot of value added there. So I just wanted to understand you know how big it could get? So second question I have is; you know, everybody is always asking banks about the pipeline on the loan side; maybe a question for Bill, what's your…what you pipeline look like on the people side, you have staffed up a lot in different areas.

What does that look like going forward in terms of the businesses you want to add to?

BILL CRAWFORD: Yes, we are very opportunistic, if you think about our financial advisory model. We have about five of those now, we want to take that to ten and it's just a function of recruiting talented financial advisors on the mortgage side. Brandon told you, we are around 17 now, if we can find the right people, we would take that up to 25 or so, on our current footprint, and not have to increase anything in its back office. But again, those are… we just talked about people that are basically entirely commissioned, and so they pay for themselves very quickly. On commercial bankers and commercial banking teams we're always in the market, looking for "A" talent, and again, that's really a function of how well we are doing recruiting and we continue to be opportunistic there as well.

ERIC GRUBELICH: Okay, that's fine. Thanks for the color. And maybe just one, if I may, for Eric Newell, just to clarify, you ripped through the numbers kind of quickly. Did you say you added $50 million of floating loans or you put on $50 million of fixed to floating hedges in the quarter?

ERIC NEWELL: It's a combination of both of them.

ERIC GRUBELICH: Okay, so then if I looked at your portfolio at least maybe on an average balance and you know when I am looking at the press release. I don't know what's the right way to look at it, but if I look all your loans, like particularly on the commercial business and the commercial real estate, where would you put the percentage of those portfolios, as either originated as a floating rate loan or where you've put some type of swap on it or forward starting swap?

ERIC NEWELL: I don't have those numbers in front of me, Eric. So I will have to…I have to get back to you on that one. I mean we've looked at it from a total portfolio basis where there is floating rate, variable rate and fixed rate, but I would rather kind of hone in on the commercial portfolio for you.

ERIC GRUBELICH: Yes, and so…but if I understood you correctly, you said you are…I guess theoretically still liability sensitive, but you've talked about like a…I think it's like a crossover point in year two, is that…did I hear that correctly where you'd be more asset sensitive?

BILL CRAWFORD: You did, so when we do our modeling, we look at year one and year two prospectively, and we look at it on a static balance sheet basis. So anything that rolls off…rolls back on at the new rate; whatever we are doing for the interest rate scenario. And the reason that we do that is because growth can obviously influence net interest income dollars. So by keeping that static balance sheet and then looking at year two, you get some benefit from a sensitivity standpoint based on swaps that we put on in 2012 because they become effective in the second half or the end of that second year of the model. And what it does is it increases the duration of our liabilities. And so therefore, when looking at it on a static balance sheet basis, NII dollars increase when rates are higher than when they are now, which is not something we reported in the past.

ERIC GRUBELICH: Okay, I got you. Thanks for…I know that's like a complicated issue, but thanks for trying to simplify it for me. I am done, thanks very much for answering the questions.

ERIC NEWELL: Alright, thanks Eric.

OPERATOR: Again, if you have a question, please press "*" then "1." Our next question comes from Matthew Breese of Sterne Agee. Please go ahead.

MATTHEW BREESE: Good morning, everybody.

BILL CRAWFORD: Hi Matt.

MATTHEW BREESE: Just…I had one quick question on the provision and the reserves. Obviously you guys have a very strong pace of growth here. And I am just curious as it relates to reserve, is there a coverage ratio that you guys are thinking of that we should hold in our models?

BILL CRAWFORD: Scott Bechtle, I'll let you take that.

SCOTT BECHTLE: Our provision and [indiscernible] coverage is really driven by the risk profile at various segments in the portfolio. We have got no specific target for an overall coverage ratio, but where we sit today, we feel we are very comfortably and adequately covered particularly against the NPLs.

MATTHEW BREESE: Okay. So you feel there is the need to continue to build it or you feel safe where it is?

SCOTT BECHTLE: We are comfortable with the coverage ratio right now.

MATTHEW BREESE: Alright, and then stepping back, you know, Bill, for you. I would just love to hear your thoughts on overall M&A, and the appetite for, to do deals in your markets or beyond?

BILL CRAWFORD: Yes, Matt, it's kind of the same issue. You know, we trade at 116 of tangible, and so trying to make math work on earn back and with dilution and all that is difficult. So that makes that a less attractive capital deployment tool relative to others. That said, we always have conversations about where are the opportunities in our market and our view really is the same there.

MATTHEW BREESE: That's all I had. Thank you.

BILL CRAWFORD: Alright thanks.

OPERATOR: This concludes our question and answer session. I would now like to turn the conference back over to Bill Crawford for any closing remarks.

BILL CRAWFORD: Okay. Well, again, thank you for your interest in our company, and if you have any follow-up questions, please don't hesitate to call me or Marliese Shaw, our head of investor relations. Have a great day. Thanks.

OPERATOR: The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.