ROCKVILLE FINANCIAL
"Fourth Quarter 2013 Earnings Conference Call"

January 28, 2014, 10:00 AM Eastern
William H.W. Crawford, IV
Eric Newell
Mark Kucia
Brandon Lorey
Marino Santarelli
Marliese Shaw

ROCKVILLE FINANCIAL
"Fourth Quarter 2013 Earnings Conference Call"

January 28, 2014, 10:00 AM Eastern
William H.W. Crawford, IV
Eric Newell
Mark Kucia
Brandon Lorey
Marino Santarelli
Marliese Shaw

OPERATOR: Good day, and welcome to the Rockville Financial fourth 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 star key followed by zero. After today's presentation, there will be an opportunity to ask questions. To ask a question, you may press star, then 1 on your telephone keypad. To withdraw your question, please press star, then 2. Please note this event is being recorded.

I would now like to turn the conference over to Ms. Marliese Shaw, Senior Vice President Investor Relations. Please go ahead.

MARLIESE SHAW: Thank you, Denise, and good morning, everyone. Welcome to our fourth 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 fourth quarter and annual 2013 earnings. This morning I'll provide some insight into the company's key strategies and my thoughts on the pending merger with United Financial Bancorp, and then my team will provide a more detailed overview of the quarter in their respective business lines.

With me this morning is Eric Newell, our CFO; Marino Santarelli, our Chief Operating Officer; Scott Bechtle, our Chief Risk Officer; Mark Kucia, Head of Commercial Banking; and Brandon Lorey, Head of Consumer Lending.

I'm pleased the company achieved 11 percent core earnings per share growth in 2013, particularly given the difficult operating environment for banks during the year. As of the year end, Rockville's one-year total shareholder return was 14 percent. Our three-year total shareholder return was 95 percent and has increased the cash dividend to our shareholders by 54 percent, since the 2011 conversion.

Our asset quality and overall risk management practices remain strong. In fact, Rockville's asset quality metrics are in the top quartile for all U.S. banks and thrifts.

We had 17 percent loan growth, 15 percent deposit growth, record annual residential lending originations; and continued excellent customer service metrics in all lines of business, evidences our success in community banking.Although the mortgage market dynamics in the fourth quarter were challenging, I'm pleased with the progress we're making towards increasing our capacity to produce quality consumer and mortgage asset generation. While this business has volatility, we are well prepared to manage risk and opportunity in this business throughout the cycle.

We continue to attract and retain many of the very best bankers in New England. This is our ultimate sustainable competitive advantage. Recruitment highlights for the year included introduction of a very successful private banking team and additional highly experienced commercial lender for our West Hartford market, a new team for our recently opened Hamden branch location, and 11 additional commissioned mortgage loan officers, and our newly-created position, SVP of Virtual Banking.

As you can see in 2013, we continued to make investments in revenue producers, technology, and branches, yet we held core non-interest expense relatively flat for the last six quarters, by finding cost saves to fund investments in our future. We also have better positioned the company for a potential rise in interest rates through the introduction of the loan-level hedge program as well as additional variable-rate loans and investments placed into our portfolio during the year.

We're diligently working at executing on our strategic merger of equals with United Financial Bancorp, and we're making good progress. This merger gives us the opportunity to transform both companies into a highly efficient growth company focused on providing a differentiated customer experience enabling us to take share and provide solid risk-adjusted returns for our shareholders.Iwould like to thank my Rockville Bank teammates and our Board of Directors for their dedication and commitment in 2013. While we are prepared for a continued difficult operating environment, I'm very bullish for our prospects in the years ahead, particularly as we join forces with United Financial.

Now I'd like to turn the call over to Eric Newell, our Chief Financial Officer, to provide some further detail on the quarter and year-end results.

ERIC NEWELL: Thank you, Bill.And good morning. My comments today will complement the information we've provided in the earnings release. The quarter was influenced by non-core items which we provide reconciliation for at the end of the release. Core net income for the quarter of $3.3 million, or 13 cents per share, was negatively influenced by changes in strategy with our mortgage business during the quarter. I'll speak more on that line of business in a moment.

First, however, I wanted to speak to the net interest margin. We reported generally flat net interest income on a linked-quarter basis despite growing earning assets 4 percent. The margin compressed 9 basis points in the quarter. In my commentary on our last earnings release call, I mentioned that the compression would moderate from earlier experience in 2013.

The major drivers for this period's compression are the following in order of magnitude.

First, the yields of new loans we are originating in the residential mortgage portfolio are weighted towards adjustable-rate products which have lower yields than our current portfolio yields. Furthermore, with the sale of higher yielding loans into the secondary market during the third quarter, yields were negatively impacted in the fourth quarter, causing a 17 basis point compression in the residential mortgage portfolio, which represents 22 percent of earning assets.

Second, the commercial portfolio representing 49 percent of earning assets experienced a compression of 10 basis points during the quarter, driven by the high origination level of LIBOR-based adjustable-rate loans.

Next, we had a 1-basis point increase in the cost of interest-bearing funding, largely driven by promotional pricing made available for new customers and as a retention tool to mitigate disintermediation of deposits out of the bank. The promotional prices that we offer allow for flexibility to step down to lower rates, meaning the company is not locked into expensing promotional rates for fixed terms, and we may continue to offer promotional products when relevant.Finally, while the investment portfolio yield remained flat, it did become slightly more of our earnings asset mix.

Looking ahead to the first half of 2014, the trend in our margin will not be reflective of what we reported in 2013. We have communicated our strategy to reduce interest rate risk and become neutral, by emphasizing the origination of variable-rate assets. We have been successful in adjusting the balance sheet structure to position us for a rising rate environment. However, we will look to balance current-period net interest income and interest rate risk by looking at potential opportunities to maintain or moderately increase the duration of assets and continue to take advantage of anchored short-term rates with our wholesale funding channels.

The investment portfolio which we signaled would grow as a percentage of assets in 2013 will not likely become a bigger portion on the balance sheet in 2014. Given the duration of the low interest rate environment and the increase of interest rates between three and ten years, continued addition of adjustable-rate residential originations will not have a significant impact on our yields, because new production is approaching the overall portfolio yield.

Finally, we will continue to emphasize and reward our producers for growing low-cost funding. The success of which will hopefully reduce any upward bias in the cost of interest-bearing deposits to fund our earning asset growth.

Mortgage banking influenced our core results during the quarter as evidenced in the significant reduction in the gain on sales loans. With rising interest rates and volatility during the second half of 2013, we found that our local competition is often slow to react to interest rate increases, preventing the company from changing its posted rates as quickly as we wish.

Furthermore, in order for management to understand the decision of hold versus selling new mortgage originations, we developed a return-on-equity model to report on the level of shareholder value created when holding or selling originations at given interest rates. This model complements ongoing analysis on breakeven spreads, we wish to see in order to sell new originations into the secondary market.

During the end of the third quarter, new originations fell under model breakeven spread and our ROE model showed it was more advantageous on a return basis to hold current production. As we mentioned in the release, market spreads have improved somewhat over the last couple of weeks. If we continue to see spreads at this level, we anticipate selling a portion of our loans into the secondary market, which would be reflected in our second quarter results.

We have invested in talent and technology on our secondary market desk which continually monitors rates and if markets rally, we have the capability to sell recent production. Importantly, we continue to show market share gains and the ability to produce originations that will improve net interest income over time.We remain cognizant of ensuring mortgage banking is right sized for our balance sheet. At a time when many of our peers are withdrawing from the mortgage business, we continue to invest.

Brandon Lorey will provide more details on how we are shaping the business.

We continue to show disciplined expense management. Our core linked-quarter non-interest expense was relatively flat at $15 million and has been reported at this level for the last six consecutive quarters. For the year, core expense increased $4.9 million, or 9 percent. This expense represents continued investment in revenue-producing FTEs, success of our producers which drove incentive payouts and higher commissions, as well as non-revenue-generating expenses such as occupancy costs to support our growth in the Connecticut market.While core operating leverage slipped 1 percent in 2013, actions taken in the second and third quarters to reduce staff and close an underperforming branch are examples of actions we undertook to position the company for improved operating leverage in future periods.

I wanted to spend some time updating you on the progress Rockville and United are making with the merger-of-equals we announced on November 15th last year. As you likely know, we have filed our S-4 with the Securities and Exchange Commission and filed our first amendment on January 17th. Rockville has filed regulatory applications with the Connecticut Department of Banking, the FDIC, and the Federal Reserve Bank. At this time, we continue to believe that an early second quarter legal close is achievable.

Since our announcement, we have pulled together nearly 60 individuals from both Rockville and United to work together on several integration teams that assist six senior leaders in the Integration Management Office. These teams are diligently working together in the discovery process and preparing to make recommendations on go-forward strategy and decisions for the new United.

Importantly, we are making progress with the recently announced staff selection process that our senior managers will use to build out their teams. I've been working very closely with the Human Resources Integration Team in order to ensure modeled cost savings are delivered. The Technology Steering Committee has hired a consultant and that team has been actively working with both companies to understand how they currently interact with our technology partners and to also understand strategically how management expects the new United to interact with our customers.

The process of selecting a core provider is on schedule and will be an important inflection point for the integration discovery process. We are not prepared to discuss specifics on our technology provider as we continue to be in negotiations with both Rockville and United's current technology partners. We continue to expect we can achieve a data conversion in the fourth quarter of 2014.

We recognized $2.1 million of merger expenses in the quarter, which impacted our GAAP net income. Of the expenses recognized, the majority are related to professional services used during the due diligence and regulatory application process, as well as consultancy to support integration management teams.

At this time, Brandon Lorey will provide further details on the developments in the mortgage banking business.

BRANDON LOREY: Thank you, Eric, and good morning, everyone. We communicated to investors last quarter that we would expect lower origination volume in the fourth quarter, reflecting lower refinance volume and normal fourth quarter seasonality shifts in the purchase market. Production for the quarter reflected those expectations and declined to $60 million from $70 million, or 14 percent, from the linked quarter.

Despite this fourth quarter decline, Rockville increased its overall position from a market share perspective in the State of Connecticut, moving from 21st in 2012 to 16th in 2013. Furthermore, this decline is not reflective of the stability in production for the year or management's expectations for production going forward. The company continues to initiate actions to increase production capacity while maintaining current processing expense, introducing further efficiencies, and implementing the ability to sell to multiple investors at high margins.

The expansion of our mortgage loan officer team and their relationships with realtors, has allowed the organization to successfully shift to a purchase-market model, with purchase volume constituting over 62 percent of fourth quarter 2013 volume compared to 31 percent a year ago. The company continues to enhance its production capacity, both in the numbers of experienced mortgage loan officers, and in expanding to additional robust markets. As of year-end, the company had increased the number of loan officers to 23, from 17 in the linked quarter and from 12 at the prior year end.

Additionally, the company announced last week the expansion of its mortgage lending market through the introduction of loan production offices in Fairfield County, Connecticut, and Eastern Massachusetts. Both of these new locations will be led by very experienced, recognized, and accomplished mortgage banking professionals. The opening of these loan production offices will allow the company some diversification from slower-to-respond competitors in the Hartford market as well as a greater application base.

At the same time, we are opportunistically seeking mortgage loan officers to grow the business, we have 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 year end, from 24 at the prior-period year end.Products growing in volume over the last quarter include adjustable-rate mortgages and jumbo mortgages, which totaled $26 million, or 43 percent, of total originations in the fourth quarter compared to just over-compared to just over a 11 percent of ARM and jumbo production in the first quarter.

Given that the company sold $212 million and $139 million of residential mortgages into the secondary market in 2013 and 2012 respectively. We have the capacity to introduce current mortgage production into portfolio and are comfortable with the resulting impact on the company's interest-sensitivity position, particularly given the mix of the current production.

Additionally it is important for the company to retain a strong on balance sheet residential mortgage position for purposes of collateral for corporate borrowings, as well as the contribution to earning asset growth. While the company reported a net increase in on balance sheet residential mortgages for the first quarter since mid-2012, gains on sales of loans to the secondary market decreased significantly. At times, the gain on sales will be volatile or at a disadvantage to a portfolio-based approach, due to market conditions and competitive pricing. As Eric discussed, the company has implemented a return-on-equity model to determine when it is more favorable to sell loans than to portfolio production, and the company retains the ability to sell shelved production when an attractive secondary market returns. Additionally, the company is implementing multiple secondary options, in order to ensure maximum pricing on loan sales, when it is in our best interest to do so.

Furthermore, the division continues to move towards variable cost structures where possible, through expansion of incentive-based pay constructs and investigation of mortgage subservicing. As a result, mortgage banking will continue to be a significant driver to the company's profits.

Once the company merges with United Financial Bancorp, we expect to keep accelerating our gain on sales and earning asset growth from the mortgage business line. But it will become a smaller segment of the company's total revenue and core earnings per share, thus removing some of the volatility from the company's revenue base. Given the thrift background and balance sheets of both institutions, residential mortgage lending is a core business line for the company going forward. And we will continue to improve and refine our operations to maximize shareholder value throughout different markets as well as interest rate and secondary market spread cycles.

And now I will turn the call over to Mark Kucia, who will discuss the company's commercial banking business.

MARK KUCIA: Thank you, Brandon, and good morning, everyone. The company reported strong 17 percent growth in the commercial loan portfolio in 2013, increasing the portfolio by $155 million over the year. The growth for the year was realized almost equally across both the commercial real estate and C&I portfolios. The pipeline continues to be solid and has been boosted by the introduction and expansion of our private banking team and the expansion of our Western Region C&I team during the year.We also expanded our cash management team in 2013, adding a cash management officer to our New Haven Region. We continue to look for top commercial banking talent to increase our loan production capacity statewide.

We have a track record of year-after-year solid commercial loan growth, and we believe that the current pipeline levels support a continuation of that trend.During 2013, we allowed approximately $25 million in commercial credits to pay off due to aggressive terms being offered by competing banks. While the environment remains extremely competitive, the bank will continue to exercise discipline around both credit and pricing.Rockville maintains excellent asset quality, and is top amongst its peer group by nearly every asset quality performance metric. The ratio of non-performing assets to total assets decreased to 0.66 percent over the year, with net charge-offs being a nominal 8 basis points for the year.

The commercial banking team introduced the utilization of loan-level hedging in 2013, recognizing $658,000 in fee income during the year under this program. This program will benefit the company from both an interest rate-risk perspective going forward and in providing additional fee income opportunities in an extremely competitive market. We believe the loan-level hedge program will continue to provide favorable results, as the anticipated use of the program expands in 2014.

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

MARINO SANTARELLI: Thank you, Mark, and good morning, everyone. I'd like to share with you this morning the continued success of our West Hartford Banking Center. After less than a year of operation, as of December 31, 2013, deposits at this location have grown to $104 million and are comprised of strong growth in both retail and commercial deposits.

The balance is down slightly from the prior quarter due to seasonality of commercial deposits. But the trends remain very strong in this new market. The new location was a key contributor to the company's 15 percent deposit growth in 2013.We're also excited about the opening of our Hamden Branch location last month.

In addition to retail deposit services, this branch includes representatives for investment advisory services, residential mortgage loan originations, and cash management products. We have received positive feedback thus far, and this retail banking presence is supporting the Hamden loan production office, which has been successfully operating since 2011.

The upcoming opening of the company's second New Haven County Branch, the North Haven Banking Center, is scheduled to open in the third quarter of this year, further complementing the company's overall growth strategy that now extends along the I-91 corridor from New Haven to Glastonbury and Hartford.

I am pleased that investment advisory services are prominently featured at both of these new locations and will enhance this already much expanded business line. After reorganizing the Rockville Financial services advisory business in late 2012, the company has realized significant revenue increases over the past year. The company has added six very experienced investment advisors from local competitors to assist our customers with their financial planning needs, and together they have grown this business into a $1 million annual revenue stream thus far.

The fee income from this business line increased by 162 percent in 2013,up from $383,000 for the entire year of 2012.

The company will continue to expand in this area as opportunities to recruit experienced advisors arise. We also look forward to replicating the success in new markets after the merger with United.

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

OPERATOR: Ladies and gentlemen, we will now begin the question-and-answer session. To ask a question, you may press star, then 1 on your telephone keypad. If you are using a speaker phone, we ask that you pick up your handset before pressing the keys. If your question has been addressed and you would like to withdraw from the queue, you may press star, then 2. Once again, it is star, then 1 to ask a question. At this time we will pause momentarily to assemble our roster.

The first question will come from Mark Fitzgibbon of Sandler O'Neill & Partners. Please go ahead.

MATT [Forgotson]: Hi, good morning. This is actually Matt filling in for Mark. How are you?

BILL CRAWFORD: Hey, Matt.

MATT [Forgotson]: Just a quick question here on the residential paper you're holding in portfolio. Can you give us a sense of the typical loan, term and call it duration, et cetera?

BILL CRAWFORD: Sure. Brandon, how about you take that question?

BRANDON LOREY: Yeah, absolutely. Good morning, Matt. Yes, so we're actually seeing a nice shift from fixed-rate production into ARM — ARM production, so what we've been throwing on the portfolio has been, you know — we've seen a significant increase, particularly in our 5/1 and 7/1 ARM production.

MATT [Forgotson]: Okay. And then you mentioned that you're seeing more compelling returns with your hold-versus-sell approach. Just out of curiosity, what kind of ROEs are you generating on this typical loan that you're holding in portfolio?

BILL CRAWFORD: Matt, I don't know that we want to put a number out there for you, but we look at it relative to the ROE that we're targeting and we're sensitive to that, and we're really trying to look at both options and see which one makes the most sense.The other thing I would say, though, is, as Brandon mentioned in his comments, we are developing tools to help us become more effective in the sale of mortgage loans.And we're in process in developing those tools.So, once we get them fully implemented, we'll be in a position to be more effective in selling these loans in a more difficult market like, the one we've been in.

MATT: Okay. And then, just at a higher level, could you give us a sense of your asset sensitivity positioning today and how the hold-versus-sell strategy kind of feeds into that?

BILL CRAWFORD: Sure. I'll let Eric take it, but I think the important thing is to realize the magnitude of the loans we're putting on. It's — I think it was $22 million gross, so it's fairly de minimis relative to our balance sheet, but, Eric, why don't you take that one?

ERIC NEWELL: Hey, Matt. You know, at this point, we're fairly neutral when it comes to our modeling of interest rate risk on the balance sheet, that's really driven by activities that we took in 2013 to bring on adjustable-rate assets in the commercial portfolio and the investment portfolio. And we also have some tools on the — as a reminder, some tools on the liability side to help extend out the duration of the liability structure, but in future periods, essentially that's the swap. We've also taken some advantage of some promotional pricing with customers and tried to have them go out on the curve a little more.But in terms of the hold strategy that you saw us employ in the fourth quarter with loans, as Bill just mentioned, it's fairly de minimis. Ithas little impact, just because with primarily five and seven-year adjustable rate.The average lives of those are a little shorter than the re-price period.And we have the ability to easily find retail as well as wholesale funding to properly fund that and manage our current position at the top of the house.

MATT [Forgotson]: Thank you very much.

OPERATOR: And our next question will come from Damon Delmonte of KBW. Please go ahead.

DAMON DELMONTE: Hey, good morning, guys. How are you?

BILL CRAWFORD: Hey, Damon.

DAMON DELMONTE: Bill, I guess my first question just in relation to your commercial loan growth outlook, obviously a very strong fourth quarter. How do the pipelines look, kind of going into year end, and what should we expect as we head into 2014?

BILL CRAWFORD: Thanks, Damon. Yeah, our commercial loan growth on the Rockville side has been in the mid-teens for a number of years, and we anticipate that to continue. First quarter is always a little slower for us.But in terms of being able to, on the Rockville side, generate the sort of commercial loan growth that we have in 2013, 2012, we fully expect that to continue.

DAMON DELMONTE: Okay. And we could probably expect a little bit more in the way of portfolioing residential mortgages.So in the past, we've had a run-off in residential mortgages, so the net growth was more in the high single-digit range. So could we expect overall kind of double-digit loan growth, then?

BILL CRAWFORD: Yeah. Damon, you're going to see us be able to grow on balance sheet on the residential side, and you're exactly right. Our growth rate used to be like negative two percent, because we pretty much absolutely sold everything.But now we are doing, as Brandon mentioned, some of the ARMs. We're also seeing more jumbo product, which will go on balance sheet.So overall at the top of the house, we expect our loan growth at the top of the house on the Rockville side to be significantly higher than it has in the past, because we're getting better traction out of consumer, and we really haven't seen the impact yet of what we're trying to do on the equity line business. We've got some things Brandon's working on there to accelerate loan growth.

DAMON DELMONTE: Okay. That's helpful. Thank you. And then, with regards to the mortgage banking revenue line, is it fair to assume that we'll see a little bit of a bounce-back from this quarter — from this past quarter's results?

BILL CRAWFORD: How about this? Eric, do you want to talk about sort of what our projection is there for Q1 and Q2?

ERIC NEWELL: Yeah. So part of the process in our secondary desk, given the fact that we weren't selling much in the first quarter, it takes some time to kind of restart that process, so to speak.And so, given what we've been seeing for the last couple of weeks with spreads — actually, spreads have kind of came in last week, but let's say spreads that we've seen in the month to date, so to speak, kind of continue, I would expect that we would be able to kind of start that process up and a lot of that just comes down to, we have locks that come in, and generally there's a period of 60 days. So a lot of that revenue would actually be realized kind of closer to the end of the first quarter, into the second quarter. So it's just kind of a long-winded way of saying that, you're probably going to see us bounce on the bottom of gain on sale like what we experienced in the fourth quarter, in the first quarter, and then you'll see an increase again in the second quarter.

BILL CRAWFORD: But, Damon, one other thing I wanted to share. Brandon, sort of talk about pipeline and what we look like there.

BRANDON LOREY: Yeah, absolutely. So we've —and this is partially a result of our mortgage expansion along with just the folks that we've been putting onboard, with kind of that purchase focus. The pipeline is as strong as I've seen it since I've been here, whichincludes some time during a refi market.So, we're very happy to see the growth within the pipeline that we've experiencedin the first quarter, and in a purchase market.It's — we're feeling very strong about that.

DAMON DELMONTE: Okay.

BRANDON LOREY: And to add to that, the really — the thing that we're able to do, and I mentioned this in the comments, is we're adding these variable-rate, incentive-based loan officers. We're not adding anything to the back office. In fact, over the last year we've reduced that total group by 25 percent in total numbers. So, I think the combination there is a good story.

DAMON DELMONTE: Okay. That's helpful. Thanks. So then I guess my last question, probably for you, Eric, on the margin, if you guys are going to be portfolioing more residential mortgages, should we expect a little bit more compression? And, if so, to the extent that we saw this quarter, or not so much?

ERIC NEWELL: In terms of the addition of the adjustable-rate mortgages, the yields that Brandon is putting on are getting ever so much closer to the portfolio yield.So I would expect that if we were to hold that portion of the portfolio as it relates to earning assets level, the impact of what Brandon's putting on the balance sheet would have less of an impact in '14 than what it would have in 2013. As well as on the commercial side, it really — it comes down to what type of loans Mark is putting on the books. If there's LIBOR-based funding, again, that's going to put a little more pressure versus some term real estate funding that isn't swapped, that's going to have — actually, it might even benefit us a little. So I would say that you're probably going to see modest compression in the first —definitely in the first and second quarters. We obviously are very mindful of the funding side. When you saw an increase in the cost of our interest-bearing liabilities, and we're going to take every step we can to ensure that we don't continue to see an upward bias on that.And a lot of that comes down to competitive pricing as —to kind of combat some of the disintermediation that we saw out of the bank or into other price-sensitive products, just because equity markets were going gangbusters last year, or people are being — have more confidence and want to buy homes and boats and cars. So we've been dealing with that, but then it also deals with some of the success of our producers to bring in low-cost funding, particularly on the commercial side. So, we feel pretty good about the ability to, keep that funding measured and flat.And so, I think a lot of it's going to come — that modest compression is going to come in from the asset side.

DAMON DELMONTE: Okay. That's great. Thank you very much, guys.

OPERATOR: And, once again, if you would like to ask a question, please press star, then 1. Our next question will come from Matthew Breese of Sterne Agee. Please go ahead.

MATTHEW BREESE: Good morning, everybody.

BILL CRAWFORD: Hey, Matt.

MATTHEW BREESE: I was hoping you could give us some color on the yields for commercial real estate assets this quarter.

BILL CRAWFORD: Sure. Mark Kucia, do you want to take that?

MARK KUCIA: Sure. We're quoting, of course, in real time rates have come up pretty good from this time last year. We're quoting deals over federal home loan bank advances. Now, the full impact of that increase in rates, which was probably, I don't know, 70, 80 bps — probably 20 or 30 of that has been eaten up in kind of spread compression due to competitive forces. So we're seeing five-year deals, probably low fours, plus or minus, and looking at ten-year deals now, 5.25 upwards to close to 6 percent. And then of course 7 would be somewhere in the middle.

MATTHEW BREESE: And what about on regular-way commercial loans, C&I loans?

MARK KUCIA: C&I, much of that, kind of the traditional C&I, the lines, et cetera, are prime based.So you would see anywhere from prime, prime and 0.75 to 1.5,and the term there, which of course are typically amortizing very quickly over a three-, five-, or seven-year period, those are spreads over the federal home loan bank advance rates.

MATTHEW BREESE: Okay. And then maybe talk about overall loan yields of the quarter. What was the average yield this quarter on originated loans?

BILL CRAWFORD: Eric, would you have that?

ERIC NEWELL: On originated loans? I mean, let's see. I'm just looking at our disclosure on this. Matt, I would have to probably get back to you on that. I don't want to quote — misquote, and I don't have that information right in front of me.

MATTHEW BREESE: Bill, maybe could you talk about the new Senior Vice President of Virtual Banking, and, what does this mean over the long term.And are there any necessary investments that need to be made to your web-based platform as a result?

BILL CRAWFORD: Yeah, thanks, Matt. I think if you look at how customers' lives are changing via the iPad, iPhone, Android, et cetera..ou look at the adoption rate of mobile, for example, Brian Moynihan of Bank of America talks about — that hire is really — I mean, we have basic technology that we get through our current provider and it's pretty good,but that hire is more about us becoming opportunistic with this and making sure that we, over the next three to five years, we are able to really develop just best-in-class in terms of the customer experience around an online strategy, mobile strategy, but there's not any massive technology spend we have out there. It's just more about working with our vendors and how we do our marketing to become more effective, because I believe that is going to be a significant growth channel for us. And my view is if you're not really good at virtual, you risk becoming irrelevant to your customers. So that's what we're doing there.

MATTHEW BREESE: Yeah, I agree, and so no major investments, though, to speak of?

BILL CRAWFORD: No. No, there's nothing out there that's a big game changer. We're always investing in technology but it's incremental type of stuff.

MATTHEW BREESE: Okay. And then what's a good tax rate to use going forward?

BILL CRAWFORD: Eric, I'll let you take that one.

ERIC NEWELL: Given the merger, the effective tax rate is going to be pretty distorted.So I would —our effective tax rate for 2013, I believe, was 27, 28 percent, so, my bias for 2014 would be much closer to our statutory rate and maybe even higher than that, so statutory is 35. But, I mean, Matt, there's a lot of stuff that's going to come down if we get the approval and then we close the deal. There are a lot of items that are not tax deductible and will have the impact of increasing our effective tax rate.

MATTHEW BREESE: Got it. Okay. Thank you.

OPERATOR: And, ladies and gentlemen, that will conclude our question-and-answer session. I would like to turn the conference back over to Mr. Bill Crawford for his closing remarks.

BILL CRAWFORD: Okay. Well, thanks again for your interest in our company. We remain very bullish on our outlook for 2014. We're very excited about what we're working on with United Financial to become a more efficient company into the future, but, as always, if you have questions, feel free to give us a call, and I hope everybody has a terrific day. Thanks.

OPERATOR: Ladies and gentlemen, the conference has now concluded. We thank you for attending today's presentation. You may now disconnect your lines.