United Financial Bancorp, Inc.

United Financial Bancorp, Inc. Q1 2016 Earnings Conference Call

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CORPORATE PARTICIPANTS

Marliese Shaw - Executive Vice President, Investor Relations
William Crawford – Chief Executive Officer
Eric Newell – Chief Financial Officer
Brandon Lorey – Executive Vice President, Head of Consumer Strategy

PRESENTATION

Operator
Good morning everyone and welcome to the United Financial Bancorp, Incorporated Q1 2016 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 (*) then one (1). To withdraw your question you may press star (*) and two (2). Please also note that today's event is being recorded. At this time I would like to turn the conference call over to Ms. Marliese Shaw, Executive Vice President of Investor Relations. Ma'am please go ahead.

Marliese Shaw - Executive Vice President, Investor Relations
Thank you, Jamie. 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.

Bill Crawford – Chief Executive Officer
Thank you, Marliese, and thanks to all of you for joining us on today's call. Today my comments will focus on our strategic path forward and our CFO, Eric Newell, will discuss our first quarter earnings results. We also have other members of our executive team here today

Since our last earnings call, Eric Newell and I visited with numerous investors and potential investors, spent time with our Board, thought about interest rates and what we're seeing in our markets. As a result, United's management team has updated our strategic plan and three year earnings model. I will share with you now a high level overview of our four key management objectives.

Our first objective is to align the earning asset growth rate with organic capital and low cost core deposit generation to maintain strong capital and liquidity ratios. You can expect to see loan growth to be in the mid-single digit range, low cost core deposit growth will be equal or higher than earning asset growth, and DDA growth will be in the low double digits. You already see this trend in our first quarter 2016 results. In fact, over the last 12 months United has averaged 16% non-interest-bearing deposit growth and 9% total deposit growth but the company had 19% loan growth with the gap funded by borrowings.

We believe we can drive more favorable earning asset yields and lower funding costs on lower loan growth which should gradually improve our net interest margin and resulting return on assets and drive stronger earnings per share. The company's organic capital generation after paying its dividend to shareholders has a mid-single-digit growth rate; therefore, we should maintain strong capital and liquidity capital ratios.

The second objective is to re-mix cash flows into better yielding risk-adjusted earning assets and to reduce funding costs relative to peers. The goal is to transition the thrift deposit base to a mix that's more reflective of a commercial bank deposit base. The investor commercial real estate market is overheated on many levels. Portfolio jumbo mortgage coupons are simply too low. United has about $1 billion in annual cash flow for our balance sheet that can be reinvested. We're focusing our lending on relationship customers and where we can generate favorable risk-adjusted returns, grow core deposits, and fee income. Slower loan growth is expected to reduce pressure on funding costs. Reducing funding costs is a significant opportunity for United.

Over the last 90 days the company has passed on several hundred million dollars of new loan opportunities which either didn't meet our credit or return standards. We could have easily booked enough good credit quality but low-priced variable commercial real estate loans to generate an additional $1.4 million in current quarter's swap income but we're taking a different path. Over the previous 12 months we were shortening loan book duration and that effort is now complete. We think the industry is late stage in the business cycle, and we see irrationally price lending throughout our core Connecticut and Massachusetts community banking markets. United maintains a very strong credit culture so lower loan growth rates is our best choice for now. On the deposit side we will use technology like our new cash management system to get into the wiring and plumbing of our customers financial operations versus simply being a place to park their excess cash for a price. Our new cash management system went live this quarter.

Our third objective is to invest in people, systems, and technology to grow revenue and improve customer experience while maintaining a very attractive cost structure. This week we implemented an efficiency-driven organizational restructure. Our goal is to centralize operational responsibilities throughout our company while we add positions in information technology and operations. Centralizing certain operational functions into our back-office will allow our sales teams to increase the service provided to our customers. These organizational changes will result in about $3 million of pretax cost saves and $1.5 million pretax of one-time restructure charges in the second quarter of 2016 related to severance costs. Over time we're confident that we can drive improved sales and service at lower total operating costs. We're very focused on lower funding cost by growing low cost core deposits. We believe this action this week will help us achieve this goal. These decisions are never easy but it's what we need to do to drive revenue, new revenue opportunities, improve customer experience, and lower our operating costs. Our projected annual non-interest expense run rate will decline from $133 million to $130 million which is expected to improve the non-interest expense to average assets ratio to 2% or below by the year-end 2016. Non-interest expense is expected to grow by 2% to 3% in 2017. The effective implementation of technology can bend down the cost structure for banks, provide a better customer experience, and grow profitable revenue. Reducing operating costs is essential in today's operating environment for banks.

Our fourth objective is to grow operating revenue, maximize our operating earnings, grow tangible book value, and pay our dividend. We plan to map more of our revenue into net interest income and core fee income while more volatile loan level hedging and mortgage banking revenues are planned to decline relative to total revenue. The last five years has been about acquiring talent, growing the balance sheet, integrating a merger, generating earnings to pay for investments, and normalizing excess capital levels. The path forward is about maximizing predictable core earnings, growing tangible book value, paying our dividend, and increasing franchise value by building an even more valuable low cost core deposit base and maintaining a strong balance sheet with pristine asset quality. I'm excited about the progress United is making to grow core fee income which you'll be able to observe in our earnings results during the second half of 2016. All of these objectives should operate together over time to normalize our valuation, and clearly it's a very challenging environment so we will focus on controlling that which we can control. The valuation sweet spot for banks is $5 billion to $10 billion. We believe the plan outlined above will enhance shareholder value over time.

In five years, United Bank has grown from $1.7 billion to $6.3 billion in assets. That's a lot of change. Management has been aggressive in making changes to improve operating performance and contend with a very difficult operating environment. That said, our strategic plan is set and you should expect to see us execute against this plan. We expect our three year earnings plan to deliver significantly improved return on assets and higher earnings per share. Now I will turn the call over to our CFO, Eric Newell to discuss first quarter results and then we'll take questions.

Eric Newell – Chief Financial Officer
Thank you Bill. Yesterday we announced GAAP earnings per share for the first quarter of $0.24 per diluted share. Notable items in the quarter included an optimization of our investment portfolio in which we took advantage of the shape of the yield curve, adding longer duration investments in the portfolio to optimize income for the remainder of the year, as well as reducing higher cost borrowings. You'll note that we had a gain on sale of securities and a similar amount of prepayment penalties expense from the extinguishment of FHLB debt during the quarter.

Second, mortgage banking income was negatively impacted by the nearly 50 basis point drop in longer term rates. This rate decline resulted in a $1.6 million reduction in the value of our mortgage servicing asset during the quarter. Our GAAP net interest margin improved to 3.09% this quarter from 3.02% in the linked period. A large portion of the benefit was expected from the on boarding of the late fourth quarter loan portfolio purchases. Further, during the quarter we had higher short-term interest rates which had the impact of increasing yields on our adjustable rate portfolios that are exposed to short-term rates, and this was partially offset by increased cost of funds given our relatively neutral balance sheet positioning for interest rates.

In the fourth quarter due to the expectation of more rate tightening that actually occurred in the first quarter, we went out on a curve for funding on CDs which was a main driver for the increase in the cost of funds for that line item. We pulled back on those specials given the change in market expectations and we hope to see some benefit in coming quarters. As Bill mentioned in the quarter we have made some shifts in the long-term decisions about the direction of our balance sheet in terms of growth and composition. In an effort to stabilize net interest margin we made a decision to reduce the level of originations that are swapped to LIBOR which reduced our net hedging income recognized in the quarter by $1.4 million from the linked period. While we do not expect to bring this line item to zero, we do not anticipate that we will show as meaningful of a contributor to income in 2016 from loan level hedging income as the prior year and instead will see a relative benefit in net interest income. Due to the change in our expectation of the composition of our balance sheet we revised spread expectations up by about 6 basis points in 2016 which was the result of lower level of swapped loan originations, lower originations of investor commercial real estate, and lower assumptions of adjustable-rate mortgage production placed on our balance sheet.

Given our expectation of higher yields in the commercial loans and slower expected loan growth, the GAAP NIM is forecasted to be consistent with the first quarters NIM for the remainder of 2016. As Bill noted in his earlier comments the areas of balance sheet growth changed during the quarter which is indicative of the long-term goals the company has for balance sheet composition. High level, we seek to reduce the level of first mortgages on balance sheet and investor commercial real estate loans while we increase commercial business, owner occupied commercial real estate, and other consumer loan products which have more favorable rate characteristics particularly in a flat rate curve environment.

The more moderate loan growth should improve our funding composition and assist in preserving our net interest margin during a flat rate curve environment. While the investment portfolio showed linked quarter growth, year-over-year growth you can see was flat while total assets showed strong growth which is indicative of our strategy pursuant to the investment portfolio.

Over the next 12 months you can expect mid-single-digit loan and earning asset growth. You'll find some additional estimates for 2016 from a revised plan in our earnings release deck. Non-interest expense was impacted by the aforementioned expenses related to the FHLB prepayment penalties. When adjusted for the one-time expense our non-interest expense was in line with our expectations as set on our last earnings call. Nevertheless, we are continually evaluating for operational efficiencies to deliver products and services that meet our customers' needs and expectations as well as set us up to acquire new customers. Monday we executed on a reorganization process that will result in $3 million of annual expense savings reducing our expense run rate to $130 million for the year.

Finally, you will note our effective tax rate is lower than initially planned for the year. In late December Congress approved a 5-year extension to the investment tax credit for solar energy properties and that credit will remain in full effect through 2018 before it phases down gradually through 2022. Prior to the latest extension in December the investment tax credit was to be reduced in 2017. As a result of the legislation and given the favorable returns of these investments and our desire to build book value, we closed on a new tax investment in the late first quarter which will drive our effective tax rate down to 15% for 2016.

We expect to leverage our new financial holding company designation from the Federal Reserve and the extension of the law to maintain our effective tax rate at around 15% for the foreseeable future. We have a strong enterprise risk management approach to our due diligence before entering into these investments as well as ongoing monitoring for compliance to all associated rules and regulations to ensure a reduced level of accounting and recapture risks.

Thank you for your time this morning and the management team and I would be happy to answer questions you have.

Question-and-Answer Session

Operator
Ladies and gentleman, at this time we'll begin the question and answer session. To ask a question you may press star (*) and then one (1). If you are using a speaker phone we do ask that you please pick up your handset before pressing the keys to ensure the best sound quality. To withdraw your question you may press star (*) and two (2). Once again, that is star (*) and then one (1) to join the question queue. Our first question today comes from Kevin Fitzsimmons from Hovde Group. Please go ahead with your question.

Kevin Fitzsimmons – Hovde Group
Hey, good morning guys.

Bill Crawford - Chief Executive Officer
Hey, Kevin.

Kevin Fitzsimmons – Hovde Group
So, I just want to get it straight on this change in the profile and the composition. It's just – is it really being driven by the recognition that we're kind of in this lower for longer environment and rate hikes may be slower than might have been anticipated, so you want to pull back on loan growth because of the pressure it may be applying on the funding side. Is that the right way to think about it?

Bill Crawford - Chief Executive Officer
Yeah, Kevin. Sort of the way I would think about it is, right now when you look at the areas we're trying to slow down, commercial real estate, what you're seeing is those spreads on those loans have just been going lower and lower and so the attractiveness of doing that and doing a swap and hoping rates are going to go higher doesn't really work quite as well. And the other thing we look at it is we can grow loans more efficiently and grow net interest income more efficiently actually at lower levels because we're more efficient on the funding side. The harder we push loan growth as you go out the more inefficient the funding becomes and when you combine that with the dynamics of the market, our people are being very, very aggressive in how they price these loans. The economics just don't make as much sense, whereas on the owner occupied and the C&I and some of our consumer areas, we get credit that we really like and we get it at a price that gives us a nice return on equity.

Kevin Fitzsimmons - Hovde Group
Got it, okay. And, if I could just ask on the margin, I guess the one thing I was a little surprised at that we didn't see a little more lift from the new portfolios coming in because I thought a lot of that was driven on getting higher-yielding loans in. Is part of that though that you really, you bought the portfolios but that business really has not started going, specifically the Marine Finance Unit, and you expect more lift in the yields?

Eric Newell - Chief Financial Officer
I think that's one factor, as well as the fact that short-term rates were more elevated than what I initially modeled, in our plan when we do margin modeling and so that had the effect of increasing our cost of funds a bit more than I initially thought.

Kevin Fitzsimmons - Hovde Group
Got it. And, one last one. Any change in how you guys are looking at buybacks? I know last quarter it wasn't really something that was on the front burner in terms of how it was looking on the RAROC model and I'm just curious how you are looking at it today?

Bill Crawford - Chief Executive Officer
It's always a tool we have. We don't have a lot of excess capital so I don't know that we would materially improve earnings per share using the buyback but it's a tool and we have an authorization out there. We've certainly used it in the past, and we reserve full optionality to use that. We did have a nice increase in our share price from where we closed at the earnings call last quarter till now.

Kevin Fitzsimmons - Hovde Group
Right. Fair point, okay, thank you.

Operator
Our next question comes from Mark Fitzgibbons from Sandler O'Neill. Please go ahead with your question.

Mark Fitzgibbons – Sandler O'Neill
Hey guys, good morning.

Bill Crawford - Chief Executive Officer
Hey, Mark.

Mark Fitzgibbons – Sandler O'Neill
It looked like you guys had pretty solid commercial loan growth this quarter. I wondered if you could update us on how many commercial lenders you have or teams and maybe what your plans are for adding additional people in this area?

Bill Crawford - Chief Executive Officer
Sure. Let me have Dave Paulson sort of take the commercial lending question. Go ahead Dave?

Dave Paulson – EVP Head of Wholesale Banking
Sure. Hey Mark, so what we're looking at in terms of bankers on the field, we have about 21 commercial lenders, true C&I lenders on the field as complemented with seven or eight business bankers, five or six commercial real estate lenders, and about 10 cash management officers. So, that complement, post our reorg just recently announced, that puts us in a really good place to execute on our three year plan.

Mark Fitzgibbons - Sandler O'Neill
Are there plans to add some new folks?

Dave Paulson – EVP Head of Wholesale Banking
In terms of our plans for new folks, that's something we're always going to look at but the key is are these people that are coming from banks that have significant portfolio, they're sort of marquee players in their marketplace, and for the moment that's probably not something that we're going to exercise immediately but we are always looking and are always opportunistic.

Mark Fitzgibbons - Sandler O'Neill
Great. So I assume that lending team is capable of handling a much bigger book than you have today?

Bill Crawford - Chief Executive Officer
Mark, what I would say is to hit this goal we really don't need to add that many lenders. Dave, do you want to talk sort of about the quarter and what our production looked like or our opportunities look like?

Dave Paulson – EVP Head of Wholesale Banking
Yeah. So let me provide a quick analysis on Q1. So we closed two times the loan production in Q1 of 2016 versus what we accomplished in Q1 of 2015 which as you'll remember is our seasonally lowest production quarter, and we did that at a better margin. So it's difficult to annualize any banks Q1 numbers because those are, again, our seasonal low numbers.

Last year in Q1 our production was insufficient to cover amortization and so our loan outstandings on the commercial book actually declined last year in Q1. This year with more disciplined production we actually covered amortization and grew the overall commercial book by about $38 million. On top of that, our gross pipeline in terms of giving you sort of a view going forward, while it might be 84% about of what our pipeline was this time in Q1 of 2015, we've passed on 3.7 times more deals during the first quarter than we did in the comparable first quarter of last year, and what's really important about that sort of 3.7 times pass rate is that 60% of the deals that we passed on are exactly what Bill alluded to earlier. It was not because of credit decisions that we passed on them, it would have been resulting in transactions that had sub-optimal return, probably sort of below a 10% ROE and that would have been destructive to our net interest margin. So, I mean really we could have booked with relative ease at least another $100 million in lower margin longer durations in the transactional commercial real estate business, but this would have adversely impacted NIM and ROE. So what we are focused on, as both Eric and Bill alluded to, is relationship-based pricing on C&I transaction that comes with better returns and more importantly a materially better opportunity to drive low cost deposit growth.

Bill Crawford - Chief Executive Officer
Thanks Dave.

Mark Fitzgibbons - Sandler O'Neill
Great. And just one other question if I could. Eric, you had said that effective tax rate should be in the 15% range for this year, and It sounded like based on what you said about the change in the tax laws that it will be fairly stable going forward. So we shouldn't see an awful lot of volatility in that effective tax rate from quarter to quarter?

Eric Newell - Chief Financial Officer
Yeah, I mean that's the desire. Effective tax rate is an annualized number so sometimes things pop in and out for a particular quarter that when you annualize it, it kind of will exemplify it or amplify it, but I think the focus would be that when you look at the effective tax rate for the full year you're going to be at around that 15%, and we think that that's sustainable for the foreseeable future beyond 2016 as well.

Mark Fitzgibbons - Sandler O'Neill
Terrific. Thank you.

Operator
Our next question comes from Travis Lan from KBW. Please go ahead with your question.

Travis Lan - KBW
Yeah, thanks, good morning everyone. I just, on expenses to start with, just to clarify, so your first quarter annualized expenses were $135 million with the debt prepayment penalty. If you back that out the core expense was closer to $32.3 million, which annualized I guess to $130 million. So I guess my question is for the rest of the year we're looking at kind of stability on the core expense line as opposed any absolute reduction. Does that make sense?

Eric Newell – Chief Financial Officer
You're going to have to do that math for me again.

Travis Lan - KBW
So, you, the forecast slide in the presentation say that this quarter's actual expenses were $135 million annualized. That includes the debt prepayment penalty. If you exclude that you're at $130 million annualized for the first quarter and that's what you project for the rest of the year. So there is no absolute expense reduction coming. It's just stability from these levels. Does that make sense?

Eric Newell – Chief Financial Officer
Well, we originally, when we talked about 2016 last quarter, we had forecasted $133 million of NIE spend. So there were some benefits that we had experienced in the quarter on a core basis for NIE, but we were, trending towards a $133 million annualized and that's what we guided to last quarter, and I think you're going to see that bend down to $129 million to $130 million.

Travis Lan - KBW
Okay, got it. That's helpful. And then just on the change to the provision outlook is that a product of lower charge-offs expectations or something else that you guys see?

Eric Newell - Chief Financial Officer
It's a function of the lower origination, the lower net growth that we're expecting. We're expecting high single digit loan growth now and it's mid-single-digit loan growth, so that net growth is reducing the level of provisioning that we need to have.

Travis Lan- KBW
Okay.

Eric Newell- Chief Financial Officer
As well, Travis, I would say that's number one and number two is the pace of transition from the purchase portfolio that does not have any allowance to a covered portfolio. That phenomenon which we've been experiencing since we closed on the merger of equals is slowing and so, therefore, we're not having to cover as much of the purchase portfolio.

Travis Lan - KBW
Got it. Okay. That's helpful. Just on the margins, so your outlook for the GAAP NIM is stability from here but you've gotten, you got $2 million of purchased accounting benefit in the first quarter and you expect $4 million to $5 million for the year, so that's going to fall pretty significantly it would seem like for the rest of the year, so that would just imply I guess that core NIM is going to expand pretty meaningfully. Does that kind of make sense?

Eric Newell – Chief Financial Officer
Yes, the phenomenon there is because of the shift in what we're producing in terms of in the commercial as well as the consumer portfolio, as well as our ability to grow deposits at a faster pace than the earning asset production, we're going to see some benefits in the cost of funds as well as the earning asset side of the equation.

Travis Lan - KBW
Alright. And then just lastly on the fee side, the new tax strategies, I think you said hit late in the first quarter, so what does the full quarter look like in the LP loss line?

Eric Newell - Chief Financial Officer
I think for the year on the limited partnership line you're looking at about $2 million of, I'll call it a contra fee, but that is included in the guidance on the fee income for 2016.

Travis Lan - KBW
That was my next question. So that $24 million to $27 million range includes this $2 million of contra fees?

Eric Newell – Chief Financial Officer
Correct.

Travis Lan - KBW
Got it, okay, alright, that's good. Yeah, that's it. Thank you guys very much.

Bill Crawford – Chief Executive Officer
Thanks Travis.

Operator
And our next question comes from Matthew Breese from Piper Jaffray. Please go ahead with your question.

Matthew Breese – Piper Jaffray
How are you doing guys?

Bill Crawford – Chief Executive Officer
Good.

Matthew Breese – Piper Jaffray
Good. Could we just walk through the difference between the GAAP and the core margin this quarter? I just wanted to make sure I had the numbers right. What was the total accretable yield impact and was there any prepayment penalty income in there?

Eric Newell - Chief Financial Officer
The accretable impact for the quarter was $1.9 million which is one of the last tables that we have on the press release, so you could see the detail there. So that would result in an operating NIM of 2.95% and that would reconcile to the 3.09% on the GAAP NIM. In terms of prepayment we did have some but it was not meaningful. Generally, or I think if you compare it to last year that we had a lot higher prepayment fee income in the first and second quarters last year. I would say it probably may not have even adjusted the GAAP NIM this quarter.

Matthew Breese - Piper Jaffray
Okay. And then the FHLB prepayment, what was the dollar amount, the terms, and when did that happen in the quarter? So what would be the ultimate margin impact from that prepayment?

Eric Newell – Chief Financial Officer
What happened Matt, it won't significantly alter what you're going to see going forward and in fact that's incorporated in the guidance on just stability of the GAAP NIM of around 3.10%. The cost of that debt was much higher than our current stated rate for borrowings, but it happened in the middle of the quarter, and I think that the reason you're not seeing a benefit in the borrowings line in the quarter in terms of the cost was first it just wasn't a meaningful amount relative to the average balance, as well as that portfolio or that sleeve of funding is fairly short and short rates were up 20 to 30 basis points and so the large kind of influencing factor there was that the cost of our Federal Home Loan Bank advances increased because of the rates.

Matthew Breese – Piper Jaffray

Okay, got it.

Eric Newell – Chief Financial Officer
Short-term rates up.

Matthew Breese - Piper Jaffray
Maybe you could walk us through – so the projection is stable NIM around 3.10%. What are the factors on the loan side? What loan yields are helping that, so are accretive to your current average yield and then conversely what are the deposit products you're looking to put on that will help lower the cost of funds?

Eric Newell – Chief Financial Officer
Well, when you look at, we want to reduce the on balance sheet exposure for investor CRE for example. When David Paulson was talking about the deals, or Bill, I don't know one of them was talking about the deals that we passed in the quarter, a lot it is actually in that investor CRE category and the spreads are just so narrow on that, that when you reduce our production estimates and the exposure on our balance sheet it has the effect of actually helping us on our earning asset yields. So it's kind of two-fold. It's what we're not expecting to put on the balance sheet in terms of the investor CRE and residential real estate and even some ARMs, and it's more focused on more adjustable rate products, but whether it's C&I, home equity, other types of consumer products, and then also looking at owner occupied CRE, which is more probably fixed versus variable.

On the funding side because we're moderately slowing our earning asset growth to mid-single digits because we've been growing assets for several years now faster than our deposits, with our focus on deposit growth and particularly DDA or transaction accounts, whether it's in our commercial business with leveraging our new cash management system that went live this quarter or whether it's executing on our small business strategy in terms of growing deposits there which is definitely a huge opportunity for us. I think that you're going to start to see our DDA as a percentage of total increase which will help us bend down the cost of our deposits as well as our all-in cost of funds will bend down because we'll be able to grow those deposits faster than our earning assets so then we'll be able to reduce our use of wholesale funding which generally is just more expensive than deposits, and it doesn't allow us to get that fee income that we often times can get when we build a relationship, particularly around a transaction.

Matthew Breese - Piper Jaffray
Right, right. Okay. And then last question. Can you just give us an update on the Marine lending team and the balances related to floor plan lending, and then also the balances related to retail versus where they were on 4Q?

Bill Crawford – Chief Executive Officer
Sure. It's going as expected and I'll have Brandon Lorey, our Head of Consumer talk about that. Brandon?

Brandon Lorey - Executive Vice President, Head of Consumer Strategy
Yeah, thank you. So the portfolio itself is still below the 3.5% of total assets. We're expecting as we bid out last quarter to see $100 million in growth in that pool between the C&I, a mix between the C&I and retail. I'll tell you, we really like the credit quality and particularly the asset strength of the borrowers that we're seeing coming through that channel on both the C&I and the retail side, so we continue to be

very optimistic with that business. The team is in Baltimore and functioning as expected. And on the flipside of that even internally our self-generated home equity variable rate line of credit business has seen some record production as well as our retail network is really moving to that consistent sales culture.

Matthew Breese - Piper Jaffray
Okay. Do you have the balances for that? I was just curious to see what kind of progress was made on growing the floor plans.

Eric Newell - Chief Financial Officer
Well, I think, Matt, in terms of the balances relative to what you saw at year-end we're down a little bit and that was expected because of the on boarding of the whole unit and team, and a lot of the growth that Brandon was talking about, and what we alluded to in the last earnings call, was more in the second half.

Bill Crawford - Chief Executive Officer
Yeah. And what I'll say is we closed one significant floor plan deal and we're in negotiations on others. They just take a little while to get through our system, and when you have dealers involved it's just a little more complex because we have to underwrite them as well, but the business is going as we planned.

Matthew Breese - Piper Jaffray
Okay. That's all I had. Thank you.

Bill Crawford – Chief Executive Officer
Thanks.

Operator
And ladies and gentlemen, this will conclude our question-and-answer session. At this time I'd like to turn the conference call back to Bill Crawford, CEO, for any closing remarks.

Bill Crawford – Chief Executive Officer
Alright guys. Well, the key takeaway I think is we have a three-year plan we've built out and we've modeled it very carefully. We expect to grow NIM, to grow return on assets, and deliver stronger earnings per share and close the valuation gap between where we are and where peers are from a valuation perspective. We appreciate you interest in the company, and we hope you guys have a great day.

Operator
Ladies and gentlemen, that does conclude today's conference call. We thank you for attending. You may now disconnect your lines.