United Financial Bancorp, Inc.

Q4 2017 Earnings Call

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CORPORATE PARTICIPANTS

Marliese Shaw - *EVP and IR Officer*

Bill Crawford - *CEO and President*

Eric Newell - *CFO*

PRESENTATION

Operator
Good day and welcome to the United Financial Bancorp Fourth Quarter 2017 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 one on your touchtone phone. To withdraw your question, please press star then two. Please note this event is being recorded.

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

Marliese Shaw
Thank you, Laura 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 accorded by that advisement.

And now, I would like to turn the call over to Bill Crawford, our CEO and President.

Bill Crawford
Thank you, Marliese. I'd like to thank all of you for joining us on today's call.

Today, I'll share some high level thoughts on where we've been and where we're going. Eric Newell, our CFO, will walk you through our noisy fourth quarter earnings report.

Over the last seven years, United Financial Bancorp, Inc. has generated 19% revenue growth and 14% earnings per share growth in terms of compound annual growth rates each year. The company's grown from $1.7 billion in assets to $7.1 billion in assets. After reporting flat earnings from 2015 to 2016, United returned to double-digit non-GAAP earnings growth from 2016 to 2017 when excluding the impact of tax reform and a few other one-time charges. These increased returns were made possible in large part due to United's focus on the company's four key objectives found on page 8 of our earnings deck.

Over the last ten quarters, we've averaged about 10% dividend plus tangible book value growth. In 2017, we generated 9% loan growth, 10% deposit growth and 10% non-interest bearing growth. Excluding tax reform and one-time charges in the fourth quarter of 2017, United's non-GAAP expense growth rate in '17 was 8%, revenue growth was 9%, which led to 16% earnings per share growth.

Management has prepared an earnings forecast for 2018 and 2019, modeled using existing interest rates. This forecast is found on page 17 of our investor deck. We expect to continue growing earnings per share at high single digit to low double digits throughout 2018 and 2019. Our forecast generally shows strong results in the back half of both years and more modest growth in the first half of these years.

We expect to grow tangible book value plus dividends similar to our last ten quarters. The reason we're sharing both our 2018 and 2019 forecast with you is because we remain focused on achieving our

1.00% return on average asset goals in the second part of 2019.

Since we announced our strategic merger in 2013, the 2/10 spread has declined to about 55 basis points from 266 basis points, which has certainly been a revenue headwind. The key risk to our earnings forecast in 2018 and 2019 are continued flattening yield curve, deterioration in funding costs and/or slowing loan growth.

We enjoy a favorable cost structure by way of non-interest expense to average assets ratio. We also have consistently sound asset quality, liquidity and capital levels. By growing C&I lending, checking deposit acquisition, some consumer lending and tangible book value plus dividends at double digit rates, we continue to build franchise value as the third largest publicly traded bank headquartered in Connecticut.

So, how will we drive incremental revenue and profit growth in 2018 and 2019? For the most part, it's through continued execution with our existing business lines. Our United Bank Lending Center and related new loan and deposit account opening technology is new and will help us grow business banking and consumer loans and deposits and accelerate checking growth.

In 2018 we're forecasting incremental investments in business bankers, commercial bankers, mortgage bankers and investment advisory professionals as well as a few branches. We have strong momentum within our current banking teams as evidenced by 9% loan growth and 10% non-interest bearing growth in 2017. We expect to drive strong organic revenue growth in '18 and '19 and we expect to slow expense growth in 2019 as we drive for our 1.00% return on average assets in second half of '19, as I mentioned earlier.

We remain focused on strong asset quality, capital liquidity, and interest rate sensitivity management while responsibly growing earnings per share and tangible book value.

I'll now turn the call over to Eric Newell, our CFO.

Eric Newell
Thank you, Bill, and good morning.

The fourth quarter was dominated by the new tax legislation being signed into law by the President and causing our company to remeasure its deferred tax asset on the balance sheet. Given our robust stance toward tax planning, the remeasurement and resulting impact did not impact our book value in a meaningful way. We took many steps throughout 2017 as well as last minute steps in the fourth quarter to limit that impact.

United included several non-recurring items in the fourth quarter, and I wanted to provide some additional detail. First, the fourth quarter net income impacts related to the tax law enactment are comprised of the $1.4 million remeasurement of our deferred tax asset and a $1.5 million impairment in a limited partnership line from legacy United tax credits purchased in our 2013 merger that were impacted by a lower statutory tax rate due to impact on the resulting cash flows. Furthermore, we took advantage of the noise on the tax line and surrendered $33 million of underperforming bank owned life insurance policies that had the associated tax from the transaction on the tax line.

The BOLI funds were redeployed shortly after the New Year at significantly higher yields which will have a benefit to our BOLI income in future periods, and that is included in our total fee income forecast. Excluding the BOLI surrender, the cumulative impact to our GAAP earnings from the enactment of the new tax legislation was $2.8 million. We're happy that through our tax planning efforts, we're able to show tangible book value growth in the quarter as we were able to minimize the write-off in a meaningful way and protect book value.

United reported other non-recurring items not related to taxes. Everything that we did for non-recurring items in the quarter will improve revenue or reduce expense in future periods. During the fourth quarter, the company recognized a loss on a piece of property acquired from legacy United in the merger and also recognized a lease liability related to the subleasing efforts in our Glastonbury properties, totaling $937,000 pretax between the two events. The company is forecasted to recognize a final lease impairment in the first quarter of 2018 of $269,000, once that final Glastonbury property is fully abandoned.

Excluding non-recurring items, the company's non-GAAP earnings were $0.28 per diluted share in the fourth quarter. NIM declined by 2 basis points, which was driven by the increase in our cost of funds, prepayment income for the real estate that occurred in the third quarter that did not repeat in the fourth quarter, as well as some prepayments we recognized with the USDA loans that caused the company to recognize an associated premium that was recognized in our commercial business line.

When you remove the effects of prepayment income from both the third and the fourth quarters, we actually show a 1 basis point improvement linked period due to the $1.3 million reduction of annualized prepayment income between the two periods. Further, my expectation going into the quarter was that our average balances would be about 3% higher than where we landed. If you look at the ending and average balance growth of loans in the fourth quarter, average loans grew 57% of what we showed for ending loan growth in the fourth quarter.

Our go forward strategy remains to be neutral to interest rate changes, especially with the flat yield curve. We continue to make new loan originations at the short end of the yield curve which may sometimes be immediately dilutive to net interest margin but becomes accretive with future rate increases as well as as it fits in our balance sheet strategy for a rising rate environment.

I would remind you that our pricing discipline and strategies we utilized are to drive relationships with our customers and meet their needs and create franchise value. We do not seek to be a leader in our market for deposit pricing, but we keep a keen eye on what our competition is doing in terms of pricing specials and we will react and respond in ways that we believe protect and create franchise value.

Next, I would like to speak to our forecast slide. Building on Bill's comments on the third quarter earnings call, we've built out a forecast for both 2018 and 2019. This forecast shows United achieving a 1.00% return on assets on a run rate basis in the back half of 2019, assuming current interest rates and the shape of the yield curve, high single-digit to double-digit EPS growth in both 2018 and 2019 with investments being made in 2018 that will be accretive and drive operating leverage in 2019.

You will note that we're reflecting an elevated level of expense growth in the 2018 forecast, most of which relates to investments we are making in production capacity to more fully develop our existing business lines to continue growing assets desirable to support our yield and return on capital goals.

The expense growth is more than supported by revenue. In the event that the actual revenue reported is materially different than forecasted, the expense growth will not materialize as planned either.

Our growth initiatives in 2018 will allow for the company to achieve a more significant positive operating leverage in 2019. This results in a more constrained level of expense growth, yet continues to support the revenue growth in 2019.

Growth initiatives driving expenses in 2018 include the previously mentioned United Bank Lending Center or UBLC. The UBLC initiative has incremental investments of people and information systems to build out the business process that will allow United to be responsive to this market segment. It also includes de novo branch initiatives, particularly the downtown Hartford location which is expected to be opened in the second quarter of 2018, and whose staff is fully on board and training, as well as a couple of other de novo branches in our pipeline that we are not ready to discuss specifically at this time.

We plan to add production staff to assist in some of our C&I lending products, as well as invest in our loan production capacity and mortgage banking, which will allow the company to preserve and build on its mortgage revenue line in 2018 and 2019, while creating more positive operating leverages or leverage on the fixed investments already made to support the mortgage banking and back office. This forecast includes the full expense impact of the United's Hartford headquarters move which is reflecting expense growth that will be further muted as we bring on more sublease revenue throughout the year.

As we've previously discussed, the company has been making investments in our information technology team over the last six to eight quarters, and while I do not expect to see more meaningful expense growth, it is still impacting our expense line as we experience the full year impact in 2018 of investments that were made throughout 2017.

Our NIM is generally flat throughout the forecast period. First, we do not model changes to interest rates into our budget; and second, the tax equivalent net interest margin is slightly impacted from the change in the statutory tax rate, which is offsetting the benefit from the FOMC rate hike that occurred in December that will price into 44% of our loans that are priced off LIBOR or prime indices.

Our expected tax rate is forecast to be about 10% for both 2018 and 2019. The effective tax rate reflects prior tax credit investments, tax efficient assets such as education loans and municipal bonds, utilization of lower tax jurisdictions in our consolidated organization as well as expected future tax credit investing.

The level of alternative energy tax credits in our forecast will be down notably from prior periods. The limited partnership expense is included in the fee income forecast, and we don't disclose that separately at this time.

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

QUESTION-AND-ANSWER SESSION

Operator
Thank you. We will now begin the question-and-answer session. To ask a question, you may press star then one 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 star then two. At this time we will pause momentarily to assemble our roster. And our first question will come from Mark Fitzgibbon of Sandler O'Neill.

Mark Fitzgibbon
Hey, guys. Good morning. First question I have for you, it looks like most of the linked quarter increase in expenses was in the occupancy and salaries lines. Aside from the headquarters relocation, what were the other major drivers of that uptick in expenses?

Eric Newell
Well, there are a lot of it, in occupancy line, it's due to timing. We did take down additional 30,000 square feet in Hartford relative to what we had in Glastonbury. And for most of the quarter, we were actually carrying the rent expense of both Hartford and Glastonbury. We did successfully rent our 45 Glastonbury headquarters late in the quarter, and we expect to be fully subleased up in 2018. So that was on the expense line. In terms of salary build, I think we were fairly constrained in adding people throughout 2017. I think you could see that our salaries and benefits line was pretty stable throughout the year. And so you're seeing some impact of us finally making some investments there.

Mark Fitzgibbon
Okay. Was headcount up a lot in the fourth quarter?

Eric Newell
Headcount was up. I think it was a mix. I don't have the mix in front of me or the specific number that it was up, but I think it was a mix between production and back office.

Mark Fitzgibbon
Okay. And then, secondly, I'm curious, how much of your LP investments are solar related and does the new sort of tariffs on solar panels affect this business at all?

Eric Newell
I don't have the mix between solar and non-solar on the limited partnership line. That is the line that there is a change in the carrying value of any of our investments—it goes specifically to that line. I have been watching recently the news on the tariff. Frankly, I haven't had a chance to talk to our folks or consultants on that to see if that's meaningful to our future tax investing.

Mark Fitzgibbon
Okay. And then, I know you don't break it out specifically, but is the plan for 2018 to make fewer LP investments?

Eric Newell
Correct, yes.

Mark Fitzgibbon
Okay. And then lastly, loans continue to grow at a nice clip, somewhat faster than deposits. And I guess your loan to deposit ratio is just a touch over a 100% now. Can you talk a little bit about your deposit growth strategies? I know you're going to detail in the future your de novo plans. But, how many de novos theoretically could you handle, say over the next year or two? Thank you.

Bill Crawford
Yes. Mark, it's Bill. We're putting in basically new technology on account opening that we think is going to be very helpful. We're very excited about our Hartford branch which is going to open. As you know we're the only bank headquartered in Hartford. And while the city has had a little financial trouble, there are very strong businesses around here, and we've been well received. So, we look forward to that. We continue to grow checking very nicely in retail, in our commercial banking area. So, we're pleased with that.

There are a couple other de novos we'll look at as we get towards the end of the year. And we just have to have some incremental de novo branches to keep moving our deposit growth. But, I'm really excited about United Bank Lending Center as well. That's going to help us be far more efficient and effective and a better customer experience in our business banking, in our consumer area. And business banking has been an area where we really haven't grown as fast as we wanted to. So, we think that's going to provide a lot of lift.

Bottom line, we see good momentum in our existing business and we also have some new initiatives to drive relationship in core checking. And I would say this quarter was one of the first quarters where we had loan growth higher than deposit growth. But, if you look at us over last four quarters, loans are up about 9%, deposits up 10%, checking growth up around 10%. So, we are staying balanced and not just overly relying on wholesale or anything like that.

Eric Newell
The one thing I would add on our de novo strategy, particularly with Hartford and the other couple that we're looking at is presence is very important to small business and business banking, particularly that now that we feel we're going to have a better business process in place with the UBLC through 2018 where we can respond to that market. We feel that presence is something that is important. So, while retail will certainly be a part of that strategy, I wouldn't say retail deposits are driving our de novo strategy.

Mark Fitzgibbon
Thank you.

Operator
And the next question will come from Collyn Gilbert of KBW.

Collyn Gilbert
Thanks. Good morning, gentlemen. Just to follow up on the deposit question, what are you all assuming in kind of deposit cost trends as you add on these de novos and again try to keep pace with the loan growth?

Eric Newell
Well, I think with our business banking and small business initiatives, we're definitely going to be able to respond in a way that we think will drive transaction and non-interest deposit growth because we're going to either require that or it'll be packaged together. So, we think that will be lower cost to us. But certainly, when you're looking at a de novo branch, if you are only purely doing a retail play and you are new to the market, you're certainly going to have something that you're probably going to have to—you have to steal somebody from across the street and one of your value props there is price.

I think initially, there could be incremental cost of funds in those particular branches, but at the same time, we don't want—do a retail play. So, we hope that over a period of time, a short period of time, I'm not talking years here, that we can reduce that cost by building a relationship through our UNFA, through our Series 6 and Series 7 folks to get a bigger share of that customer's wallet, whether they're retail or business banking or small business, as well as through our UBLC business process and packaging of products, we not only get the loan but we also get a transaction or a deposit relationship which obviously is lower cost to us.

Bill Crawford
And Collyn, I'll follow up on that. It's Bill. When you look at the cost of deposits in our business banking, commercial banking, it's much lower incrementally than what you see in consumer. And that's why we are so excited about the UBLC because it's going to give us the ability to really grow that faster, and that's where we need to grow it. If you went out and tried to compete exclusively on growing retail deposits, that would be a costly proposition.

Collyn Gilbert
Okay. That's helpful. And then, Eric, I may have missed it, but on the LP line, the impairment that you took this quarter, does that lower the negative fee line in 2018?

Eric Newell
No. So, some of our non-solar tax credits, their carrying values are based off the present value of cash flows. So, if you look at say, for example, affordable housing partnership that those cash flows are driven by the statutory tax rate. So, with the statutory tax rate being lower, the cash flows are lower. So, we had to impair the carrying value through that line. And that was a bulk of what legacy United or what we acquired in 2013, a bulk of what those investments were, were those types of investments.

Collyn Gilbert
Okay. So, we should maintain that—I guess, you guys have been running at like an 800, that line item, around 800,000 or so. That's the right number for 2018 quarterly on a loss basis?

Eric Newell
Well, we don't provide specific quarterly view on that because we include it in the total fee income line. But, I would say that the level of investments that we're going to make this year and next year for that 10% effective tax rate would be lower than what we've done previously. So, there could be a favorable—could be a favorable impact on that PTPP line.

Collyn Gilbert
So, just couple of things on the guidance, I feel like—which is why I'm asking the fees. It seems like the fee income guidance seems a bit aggressive. And then, also, two, if we think about your ROA target of 1.00% by the back half of '19, I guess that would imply like an annualized run rate of earnings of about $1.55, which is higher I think, if the math is right, is higher than single-digit EPS growth rates. So, just trying to connect the dots here a little bit on these what seem like lofty targets and how you guys are thinking about fees, number one, and how you are going to get there, and then just reconciling maybe that ROA target for me. Thanks.

Eric Newell
With the fee income, I think we are making investments in the production capacity in our mortgage unit. You will see that our gain on sale I think for a full year 2017 was down about 15% or 16% from 2016 and our production was down I believe 7% for the full year over 2016, which actually from the production side of things, I think we outperformed what we initially expected. But, we want to defend that a little bit. So, we are looking to invest in some mortgage capacity, which will drive mortgage banking in future periods.

We are continuing to see some very favorable growth in our wealth management unit in terms of their contribution to fee income. We continue to see some improvements with our deposit fee income. And I believe that our expectation is to, if you look at the total mortgage and the loan level hedge revenue to I think the ten-quarter average which is a little higher than our four-quarter average, I think we're looking to try to increase that relationship, which will drive our fee income growth, which I believe, I mean a lot of this is back of the envelop by memory, but I think our fee income growth was year-over-year expected to be mid to high single digits. So, there's nothing fundamentally different or strategically different in our fee income line for driving that. It's just a lot of execution and trying to build some production capacity to drive that fee income revenue.

Collyn Gilbert
Okay.

Eric Newell
You had a second question.

Collyn Gilbert
Yes, just on the—and I know, a couple more questions on the guidance part, but just on the ROA, just trying to reconcile that 1.00% target I think implies like a $1.55 EPS run rate, and it just seems like that is higher than—to get there just with your single-digit EPS growth. I'm just trying to add it up, it doesn't seem like it adds up.

Eric Newell
Well, I would say that—I think that comment was high single digit to low double digit EPS growth. So, I'm not trying to say over two years. So, I'm trying to give some bookends in the forecast without giving you specifics, so I could see how you might come up with a number that might be different than what we're coming up with. Obviously, I have an EPS number for 2019, but I don't necessarily want to give it, give guidance on it.

Collyn Gilbert
Okay. So, maybe if I run low double digit rate, which I haven't done, maybe that gets me closer there. Okay, I'll take a look at that. And then just another on the guidance. So, the provision, the provisioning assumption is less than what you had previously guided to and less than what you had been running. I mean this quarter was lower. But just how are you thinking about, at this point in the cycle, like, what's defending that lower provision?

Eric Newell
Well, I think the management team of the credit administration area as well as on our origination side have been in place for almost five years together. I mean Mark has been here much longer than that, Kucia. And we've certainly shown that our asset quality is very stable and in fact is improving a little bit, which is not terribly surprising given the cycle. So, we do expect that to continue.

We haven't strategically changed in a meaningful way the types of assets that we're originating or our underwriting standards. We continue to use our risk-adjusted return on capital models, which takes into account credit risk. And we've had a fairly stable level of charge-offs. Our budget is pretty much in line with what we've experienced for the year in terms of net charge-offs. So, when you put all that together, I think fundamentally, our provisioning model doesn't call for a significant build-up of coverage to loans.

Also, one of the things that I tend to look at myself is our loan loss coverage to non-performing. And I believe that ratio continues to improve every quarter for the last four or five quarters. I think we're in excess of 140% or close to 140% there. So, that makes me feel good as well. Certainly in our SEC disclosure we've talked about our management's review of CECL, and we expect to have some type of view on CECL and the impact on our balance sheet later this—our income statement later this year. So, right now, based on the prevailing guidance or GAAP guidance we have, we feel comfortable with where we're at.

Collyn Gilbert
Okay, that's helpful. And just one last question and then I'll hop out. You said in your initial comments that if the revenue—I think you said this, Bill, that if the revenue targets are not there that you'll pull back on the expense investments or be mindful of that relationship. How do you see that working? Is that something that like you can modify within like a couple quarter period? It just seems like these are some longer term investments that you need to maybe put in the front end. So, I'm just trying to

understand how quickly you can adjust, if needed, if you're not going to see maybe some of the fee or the loan growth targets there that you've laid out.

Bill Crawford
The variable is incentive compensation primarily, and then also we're pacing these investments. So, we make some investment and we see how the returns are going. We're trying to show you two years. So, we're able to really kind of pace and manage this. This is not a project where we're going and lifting out big teams and things like that. It's kind of incremental.

Collyn Gilbert
Okay. That's helpful. Thanks, guys. Go ahead.

Eric Newell
I would add, obviously, we're speaking to you quarterly. So, we'll continually update these, this forecast for just 2018 and 2019, because we want to show that we're making progress towards our run rate 1.00% ROA goal in the back half of 2019.

Collyn Gilbert
Okay, that's super helpful. Thank you.

Operator
Again, if you would like to ask a question, please press star then one at this time. And our next question will come from Matthew Breese of Piper Jaffray.

Matthew Breese
Good morning, everybody. Just thinking about the guidance, I know you've outlined loan growth guidance, but was just curious on your expectations for the securities portfolio through 2018 and 2019.

Eric Newell
On a notional basis, I would keep it flat. So, on a relative basis, it will continue to fall as a percentage of earning assets.

Matthew Breese
Okay. And then, given some of the tax reform and the impacts on the margin and then the first quarter also has a lower day count, just curious, how to think about where that margin will shake out in the first quarter and how to think about, if you can, said another way, maybe your expectations for net interest income growth for the first quarter, just to set the baseline right.

Eric Newell
So, obviously, we spend a lot of time looking at this, because of the tax equivalent presentation of the margin in our reporting. It looks like, if you take the full year—on our NIM presentation in the press release, if you take the full year tax equivalent adjustment and make that relative to total earning assets, it looks like about 12 basis points for 2017. And right now, our expectation for 2018 based on our production and budget, we think that impact would be about half, so 6 basis points. So, then you would think to yourself, okay, the tax equivalent NIM with nothing else changes would be 6 basis points lower in the first quarter than it was in the fourth quarter; however, we had a rate move with the FOMC in December. And 44% of our loans are tied to prime and LIBOR, and the adjustment date for most of those loans did not happen in December. In fact, LIBOR, most of our loans adjust on the tenth of the month. So, they're starting to come in, in January.

When you look at that phenomenon, that the FOMC raised rates, then you generally see benefit on the— and we have—on the earning asset side on that initial quarter. It just happens to be that when you take the phenomenon of the FOMC rate move and the tax equivalent adjustment, they kind of cancel each other out. So, longwinded way of saying, Matt, I don't think that you're going to see a remarkably different tax equivalent NIM in the first quarter of '18 versus the fourth quarter of '17.

Matthew Breese
Right. And then, your actual margin, so the difference between your FTE NIM and your actual margin should shrink, right, showing some underlying expansion, is that the way to think about it?

Eric Newell
Say that again, Matt.

Matthew Breese
So, the 12 basis points turns into 6, right? And so, your reported margin versus just NII divided by or NII annualized divided by average earning assets, that actual margin calculation should trend upwards in the first quarter. I think that's—I think we're getting to the same place.

Eric Newell
I have to say I'm not following you because that—the tax equivalent NIM isn't what you would be using to calculate net interest income dollars. You need to look at the—it's the yields. So, if you look at the yields that we're presenting, those have the effect of the tax equivalent fee in them. And so, essentially, what's happening is that the tax equivalent fee is going against us because the statutory tax rate change. But, we also have the benefit of that rate move that is not really showing in or isn't showing in the earning assets in a meaningful way in the fourth quarter. So, the two kind of offset each other.

Matthew Breese
Okay, understood. And then, maybe just turning to deposit competition, just wanted to get a sense, I know your market is more competitive than elsewhere, for what it takes in areas you are competitive in to bring new money in the doors, as far as rate goes. And then non-interest bearing deposit growth this quarter was really strong. I wanted to get a sense for as a percentage of deposits where that could shake out over the next couple of years. It sounds like we can continue to grow that line.

Eric Newell
Yes. I'll take the non-interest bearing first. I think that's been a real success for us. We've had two very thrifty banks come together in 2013 in terms of the funding composition. And so, over the last, particularly in the last year but probably in the last year and a half, two years, we've really changed behaviors in our branches, in our team members in our branches, whether that's compensation or training to drive our relationship, deeper relationships that have those transaction accounts, and you're seeing that come out in the numbers.

I also think that our marrying the wealth management in a more meaningful way within our retail branches is also helpful because sometimes you might lead with a wealth management product, but as that customer builds a rapport with the branch, they bring more of their transaction volume to us. So, I think that we're going to continue to see growth in the transaction accounts, similar to what we've been putting up. I think that if you compare our deposit composition to our peers in this market, we still have some work to do. And I think that we continue to feel like we have the products and the staff and the training to do that.

Bill Crawford
Matt, the key point in our market is why we're so excited about UBLC is looking at the business

banking, the commercial, the relationship type deposits, you can grow those at a much more favorable rate than you can pure retail where it gets to price pretty quick after the checking account. And so that's why we are really focused on growing the business banking, commercial and relationship-type deposits. And that's why these couple de novo branches we are looking at, that is very much the focus there. Because as you know, you can go on and see what money market specials go for, CD money market specials. As Eric referenced, we are two legacy thrifts. So, we're still in that game. We have to play that game. But, the real answer is how much faster can we grow checking than 10%, and that's what we're focused on with our UBLC.

Eric Newell
And your first question, Matt, I think one of the things that I like to do, and I sit on our retail pricing committee that meets weekly. One of the things I like to do is I like to look at where United Bank rates are relative to our competition, relative to Federal Home Loan Bank and then relative to Federal Home Loan Bank plus three months forward curve. And so I get very keyed in on where we are relative to that FHLB curve and some of our competition. And so, depending on the tenor, some of the competition is maybe 10 or 20 basis points below the Federal Home Loan Bank curve, which is actually very aggressive. Normally, you would see something closer to, call it 70 to even 90 basis points below the Federal Home Loan Bank curve. So, the fact that they are going almost right up to the curve is almost indicative of broker deposit pricing. So, it's very aggressive.

So, I am not really telling you exactly what rates are working because a lot of it comes down to balance sheet strategy, and where we feel there is relative value, the curve is fairly flat. And so, taking a little incremental, small, incremental duration extension on our liability side makes sense sometimes from an interest rate risk standpoint, and you are not really paying that much more for it because of the flat curve.

Matthew Breese
Right, understood. Okay, great. I appreciate it. Thank you.

CONCLUSION

Operator
And this concludes our question-and-answer session. I would like to turn the conference back over to Bill Crawford for any closing remarks.

Bill Crawford
Sure. Well, I hope the takeaway today is we are very focused on getting to our 1.00% ROA, like we talked about, but we want to get there in a responsible and a sustainable way, and we remain focused on our four key objectives, which you find in our investor deck. So, thank you for joining us on today's call, and we will look forward to seeing you soon. Thanks.

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