United Financial Bancorp, Inc.

Q3 2016 Earnings Call

October 19, 2016 at 10:00 a.m. Eastern

CORPORATE PARTICIPANTS

Bill Crawford – Chief Executive Officer

Eric Newell – Chief Financial Officer

David Paulson – Executive Vice President, Head of Wholesale Banking

Marliese Shaw – Executive Vice President of Investor Relations

PRESENTATION

Operator
Good morning, everyone, and welcome to the United Financial Bancorp, Inc. Q3 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 an opportunity to ask questions. To ask a question, you may press start then one on your keypad. To withdraw your question, please press star then two. Please note that this event is being recorded.

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

Marliese Shaw
Thank you, William. Good morning, everyone. Welcome to our third quarter conference call. Before we begin, we would like to remind you to read our Safe Harbor advisement on forward-looking statements on our earnings announcement. Forward-looking statements, by their nature, are subject to risks and uncertainties. Certain factors could cause actual results to differ materially from expected results. Our comments today are intended to qualify for the Safe Harbor afforded by that advisement.

And now I would like to introduce Bill Crawford, our Chief Executive Officer.

Bill Crawford
Thank you, Marliese, and thanks to all of you for joining us on today's call. United Financial Bancorp continues to make progress in the third quarter of 2016 toward our four key objectives which you will find on page 5 of our investor deck. Executing on these four key objectives will help us build a better bank and improve shareholder value.

In the third quarter of 2016 we saw a significantly improved linked quarter performance in net interest income, noninterest income, noninterest expense, and asset quality. And our effective tax rate came in below target, which Eric Newell, our CFO will explain in his comments. All of these factors contributed to our record quarterly earnings of $0.28 per diluted share in the third quarter of 2016. In addition, we reduced our loan to deposit ratio, reduced borrowings, and increased deposits. Average interest earning assets were up slightly, average loan yields increased, and total funding cost was flat.

Comparing the third quarter of 2016 to the third quarter of 2015, United's results reflect flat adjusted operating noninterest expenses and 11%, or $5 million, of operating revenue growth. Our gap in operating earnings per share are now equal. During this time period, loans increased by 12% and deposits have grown by 10%. United increased tangible book value per share to $10.60, from $10.39. That's linked quarter growth of 2% or 8% annualized, after paying our $0.12 per share dividend to our shareholders. The dividend provided a 3.56% annualized yield to our investors for the quarter.

United's third quarter of 2016 return on assets, or ROA, was 88 basis points, and the company earned an 11% return on tangible common equity, supported by a 2% annualized noninterest expense to average assets ratio and a 59.5% efficiency ratio. Asset quality improvement is reflected in the nonperforming assets, the total asset ratio, or NPAs, declining to 55 basis points and net charge-offs declining to 5 basis points. Our retail banking team increased checking units sold by 41% compared to the third quarter of 2015.

With regard to lending, point-to-point loan growth was flat compared to the linked quarter, but average

earning assets were up slightly. Our commercial, consumer and mortgage banking teams have improved their average relationship risk adjusted return on capital, or RAROC. What this means is we're earning an improved risk adjusted return equity with lending relationships. We think improved loan relationship pricing and low cost core deposits acquisition is very important to improving long term profitability and preserving strong capital and liquidity ratios. Expect to see loan and deposit growth in the mid-to-high single digits in 2017 and align with organic capital generation.

While the operating and interest rate environment remains very challenging for banks, the United Bank team is focused on exceeding customer expectations, improving financial performance, and building long term shareholder value.

I'll now turn the call over to our CFO, Eric Newell, for more detail on the quarter's results, and then we'll take questions.

Eric Newell
Thanks, Bill. Good morning. Operating net income totaled $14.1 million in the third quarter of 2016, which is a notable increase over the second quarter operating net income of $10 million. Gap in operating earnings per share of $0.28 per diluted share in the third quarter is a dramatic improvement over the linked quarter, as well as an improvement from the comparable period in 2015.

Our four key objectives are taking hold and beginning to generate more progress in the company's financial results. First, loan growth in the quarter was muted but this was by design. Note that residential loans declined by $42 million in the linked quarter and by nearly $62 million from the comparable 2015 quarter. As we seek opportunities to remix our loan portfolio into higher yielding assets and allocate capital resources to assets which will maintain and grow the company's ROE, the result is a decreased allocation of capital to residential loans on our balance sheet. We remain committed to this business line, despite our desire to sell the majority of its production.

Pricing strategies have been shifted to ensure that conforming loan product is the bulk of the company's production in this area, which provides a greater opportunity to sell to our secondary market investors. While investor commercial real estate loans increased by 2% during the quarter, successes in C&I loan originations also continued, the results of which will become more prevalent in future reporting periods.

The returns on capital, or ROEs, of the investor commercial real estate loans being originated are accretive to the commercial line of business, as well as the aspirational ROE of the company. In order to achieve the company's targeted ROE; we must remain disciplined in the market with regards to both pricing and credit structure. As a result, we have walked away from over $0.5 billion of loan origination opportunity this year that was well structured but did not meet the company's pricing requirements. This pricing constraint will maintain investor commercial real estate at the current level and that segment of the portfolio may even decline as the percentage of total loans as we grow other, more beneficial sleeves in our loan portfolio that are not as sensitive to the flat yield curve.

Both home equity and other consumer loan balances reflect improved growth rates from the linked quarter and the comparable quarter in 2015. The yield on interest earning assets improved 4 basis points to 3.67%, from 3.64% in the linked quarter. This is attributed to a mixture as I discussed just now and also due to the fact that 40% of our loan portfolio is tied to prime and LIBOR indexes, in addition to exposure to LIBOR in the investment portfolio. This exposure was built throughout 2014 and '15 to improve the asset liability mix and to become more neutral to changes to interest rates.

While we felt some benefit this quarter in asset yields, the cost of funds was flat. In the fourth quarter I

expect a modest increase to the cost of funds when shorter term wholesale funding turns and re-prices at higher short-term rates.

We've been beating the drum on the competitive nature of deposit pricing in our markets for some time now, and it's becoming more aggressive. We see pricing for new money balances and money market accounts at 2% and CD specials between 1.25% and 1.5% for 14- to 23-month money. This pricing is 25 to 35 basis points richer than comparable federal home loan bank advance rates. Our ability to grow low-cost core transaction accounts is critical to maintaining our NIM in the face of the pricing competition we see, and we do not expect that to abate any time soon.

As Bill mentioned, we're seeing some early indications of successes in our retail banking channel on account openings and our commercial bankers are having conversations everyday with our existing clients and leading discussions with new clients, conferring about deposits. I'm confident that you'll see more progress and low cost core deposit growth on both the commercial and retail front.

Provision expense was slightly higher this quarter than the linked period, despite no loan growth. This increase is driven by purchase accounting. A notable amount of loans moved from the purchase portfolio to the covered portfolio, which requires allowance coverage. We're comfortable with our allowance level. It covers more than 100% of our nonperforming loans, and it is a stable level for the covered portfolio. Asset quality metrics remain very favorable and there is no evidence of developing weaknesses in any of our portfolios.

Notable progress was recognized during the quarter with regard to the fourth key objective, which is achieving greater noninterest revenue from core banking fees. Core fee income, as opposed to interest rate, effective mortgage banking and derivative income, has an expectation of being more consistent and predictable. Fee income was a bright spot for United this quarter. Over the last two quarters, management has communicated to analysts and investors that the second half of 2016 would reflect improved dynamics in service charges and fee income. The company experienced a significant increase in service charges and fee income on a linked quarter basis and the level is relatively flat in comparison to the third quarter of 2015. However, the composition and drivers of that segment of income were dramatically improved year-over-year.

Loan level hedge income, the interest rate swaps income, was a major driver in the third quarter of 2015, representing $2.4 million of the nearly $6 million in service charges and fees in that quarter. In this past quarter, loan level hedge income was 29% of the 2015 level. Accordingly, the third quarter of 2016 reflected improved core banking fee income and account analysis fee revenue from our commercial clients, as well as dramatic improvement in wealth management revenue. Wealth management revenues, which are seasonably high in the third quarter, was 129% improved over the comparable 2015 period.

Expense management and maintaining an attractive cost structure, one of the company's key objectives, is a core competency for the company and the quarter's results demonstrated improvement in expense metrics for this quarter as well. Noninterest expenses to average assets were 2% for the quarter, a goal the company has aspired to since the merger in 2014. The headwinds in achieving this goal were notable. The company has made large investments in shared service areas to better support our customer-facing team members so they may provide optimal customer experience as well as remain in good stead with prudential regulators.

On a side note, the company completed its safety and soundness in information technology examinations in the third quarter. Through this transition, the company optimized ten branches, consolidated and closed loan production offices, and took actions to align the human capital

organization to support our business and customers effectively. In order to support our growth initiatives, the company has been investing in the information technology team. This investment will allow for better project management of technology focused initiatives and for delivery of modeled revenue and efficiency objectives quickly. The investments the company is making in IT began in the second quarter this year and will level out in the first quarter of 2017.

The company's year-to-date tax rate is 8.1%, which is below the prior forecast of 15%. There are many inputs into the calculation of an effective tax rate, the biggest of which is the level of calendar year pretax income that is expected. We expected that number to be higher in 2016 than what has actually occurred. So when we sized our tax credit investments that we made this year, it was on the assumption to target the forecasted effective tax rate of 15%, but because of lower spread income than what we initially expected at the start of the year, our effective tax rate is lower. We have not made additional tax credit investments to achieve this lower tax rate.

Lastly, our forecast table in the press release deck indicates expectations for the fourth quarter. Stability is what we expect. We do not foresee anything dramatically different in the fourth quarter than in the most recent quarter. Fee income may come back a bit due to the seasonality in our wealth management business, but we will remain at an improved level from what we reported in the first half of 2016 for total noninterest income. I do not expect that we will be able to report incremental improvement on our NIE line, as 2% of average assets is a floor there.

I'll not be providing a specific forecast for 2017 until our January earnings call, but again, stability is what we expect. I believe we can achieve a stable net interest margin from the currently reported level. Purchase marks are not expected to contribute meaningfully to the margin in 2017. Mid-to-high single digit loan growth and expense control will remain in place. There will be some natural increases in the company's expense base with noninterest expense to average asset ratio increasing modestly in the first half of the year, but as average assets grow, that ratio should migrate back down to 2%. And finally, as I stated in the beginning of 2016, I expect the effective tax rate to be around 15% for the foreseeable future.

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

QUESTIONS AND ANSWERS

Operator
We will now begin the question-and-answer session. To ask a question, you may press star then one on your telephone key pad. If you are using a speaker phone, please pick up your handset before pressing the keys. To withdraw your question, please press star then two. At this time we will pause for a moment to assemble our roster.

And our first questioner today is Mark Fitzgibbon from Sandler O'Neill. Please go ahead.

Mark Fitzgibbon
Hello, guys. Good morning.

Bill Crawford
Hello, Mark.

Mark Fitzgibbon
Bill, you mentioned in your opening comments that you're sort of driving toward your ROE target.

Could you share with us what that is and how long you think it might take to get there?

Bill Crawford
Mark, I think what I described was the ROE that we actually achieved. So we achieved an 11% return on tangible common equity. A far as setting targets in the future, we'll cover that on our first quarter earnings call in 2017, once we're completely through our budgeting process.

Mark Fitzgibbon
Okay. And then, Eric, I know you mentioned that you were going to give some more guidance on the tax rate on next quarter's call, but is it likely that you'll make more tax credit investments in 2017?

Eric Newell
We'll take actions to do what we need to kind of be around that 15% effective tax rate in 2017, which could include making more investments. Yes.

Mark Fitzgibbon
Okay. So if we were sort of modelling out the net loss on LP investments, do you think it would be something similar to the level that we saw this year?

Eric Newell
How about this? I think I tried to give more of a forecast on total noninterest income run rate, versus actually getting into the specifics on the loss on the limited partnerships. So I would look on page 7. We have the forecast for the fourth quarter and that range of $28 million to $32 million. So I would kind of get anchored on that number.

Mark Fitzgibbon
Okay. And then lastly, could you help us think through how much more shrinkage we're likely to see on the resi mortgage portfolio?

Eric Newell
Sure. I think that this year, what you're seeing is probably indicative of what you'll see next year. And the reason for that, it's very measured because that portfolio is used for collateral for our federal home loan bank advances. So we're taking a very measured approach in how we're bringing that portfolio down and we aspirationally want to kind of just compare to our peers when it comes to residential for total loans. And I think at this point we're higher than many of our peers. But that's a many year process. I mean, you're probably looking at three to four years, and we're in the first year there.

Mark Fitzgibbon
Thank you.

Bill Crawford
Thanks Mark.

Operator
Again, if you would like to ask a question, please press star then one. Our next questioner today is Collyn Gilbert from KBW. Please go ahead.

Collyn Gilbert
Thanks. Good morning, gentlemen. Just tying in to that comment, Eric, on the resi mortgage and the slow, gradual process. Could you just give a little bit more color around how you're thinking about the evolution of this loan growth and kind of how the composition of it unfolds into next year? I guess,

thinking mid-single digit is a pretty good growth rate, given a slow-down in resi, maybe a more cautious growth rate on some of the CRE buckets. And again, maybe there was accelerated pay-downs that occurred in the C&I book this quarter that saw the drop, but just wanting to try to understand a little bit more on how you see this growth sort of path evolving.

Eric Newell
I think, first and foremost, C&I and owner occupied CRE will be a focus. I'll remind everyone on the call that we've made significant investments there in teams, going back to 2014. Those folks are all C&I bankers, and it takes a lot of time for them to kind of be running at a full-run rate. I think we're starting to see that now. So those folks have been on the ground and been with us for, now we're going on to 24 months. So I think you're going to see a much more meaningful contribution to C&I growth. But be mindful of the fact that it's smaller loan sizes and more complicated relationships to transition from their existing bank to us. So that's the reason why it takes time.

Home equity is an area of focus for us, and consumer is also another area for us because of growth for us in 2017. And the reason for our focus on all of those asset classes in the loan portfolio is because much of it is adjustable and it's not as sensitive to that two-ten spread. So, investor CRE is not an area of growth for us, but that doesn't mean that we're not originating it. I think if you look at our loan portfolio, we have $1 billion of cash flow every year. So we're mindful of the pricing sensitivity in the investor CRE, and that's why we've kind of deemphasized it this year, just because there's a lot of competition for those assets and they're just not meeting our ROEs.

Collyn Gilbert
Okay. Okay, that's helpful. And then, just shifting to the reserve outlook. So what was, you did have a big pay-down in the non-covered loans. Just sort of speak to what was going on there and then, also too, maybe how you're thinking about reserve build kind of maybe a little bit over the long term and just sort of the sufficiency of the reserve as it stands today.

Eric Newell
Yes. So it wasn't a pay-down. It's an internal accounting policy. But there are certain actions that happen to loans or portfolios that would make us take something from the purchase portfolio that has no allowance, and move it into the covered portfolio which does have an allowance. There are just certain things that happened that met our internal policy requirements to say, okay, we're going to put it into our covered portfolio. And that's the reason for the change.

In terms of the guidance on the provision, we've been providing a range of average assets, an annualized provision to—actually loans. I apologize. So the forecast was provision to average gross loans. The range that we've been providing for a while now is between 27 and 30 basis points. As we have a lower level of non-covered loans, I would expect that we would be on the lower end of that range versus the higher end. That 30 basis points was in an effort to not only provide for the loan growth that we have at the top of the house, but also the shift of the purchase portfolio to the covered portfolio.

In terms of adequacy, I think we're well covered. We're over 100%. I think we're over 100% for the first time since the merger on our NPAs. The allowance to covered loans we're at, I believe its 1.03%, which is very comparable to what we've been showing for the last five quarters. And then if you look at just the overall allowance to total loans, which would include some of the purchase loans, but that's comparable measure to all of our peers, we're certainly improving there, starting at, I think we had 58 or 59 basis points. Now we have an eight handle on it, and you'll see that that measure will eventually get closer to 1% just like most of our peers.

Collyn Gilbert
Okay. Okay, that's helpful. And just the portion that you guys shifted this quarter, what portion of the provision was tied to making this shift from the non-covered to covered?

Eric Newell
It's difficult to tell you exactly, of the total provision, how much was driven by the change from the purchase to the covered. And the reason it's difficult is because there's the whole allowance methodology that we're using and there's different pools of assets that were coming over, and so there are different provision or allocations, depending on the type of asset and the situation. So I would say that I continue to stand by the 27 to 30 basis point guidance.

Collyn Gilbert
Okay. Okay, that's helpful. Got it. And then just one final question. Obviously the cash balance increased this quarter, I presume from some of the deposit inflows on the muni side. Do you not anticipate some sort of NIM? I don't know when timing of those deposits came in, but maybe some NIM benefit happening in the fourth quarter then, because of sort of the mix shift out of the cash into loans? And is that factored into your NIM guidance?

Eric Newell
The cash is considered in the NIM guidance being flat. Yes.

Collyn Gilbert
Okay. Okay. Great. All right, I'll leave it there. Thanks, guys.

Bill Crawford
Thanks, Collyn.

Operator
Again, if you would like to ask a question, please press star then one. Our next questioner today is Matthew Breese from Piper Jaffray. Please go ahead.

Matthew Breese
Good morning, everybody.

Bill Crawford
Matt.

Matthew Breese
Just curious, on the commercial account analysis review, what was that, what did that result in, and was any of the impact relative to fee income one time?

Bill Crawford
Matt, it's Bill Crawford. What I would say is we've been focused on generating more core banking fees through products and services and how we work with our bankers, so I don't believe there's one-time stuff there. I mean, we think that the stuff will be recurring.

Eric Newell
Yes, I mean, just to add to Bill's comment. If you look at the fee income, Matt, from the comparable quarter in 2015, loan level hedging fee income was I think $2.4 million of the $6 million, roughly. And in this quarter, loan level hedge fee income was 29% of that. So you can see that one item, which is more volatile and less predictable, is not contributing anywhere near what it was contributing in 2015.

And so when you look at this fee revenue, it's repeatable and it's more stable than what we were seeing in previous years.

In terms of what caused that increase, as we've been talking about in the first half this year, we had identified that when we comp'd ourselves to our peers, in terms of deposit fees to deposits, we were an unfavorable outlier. And so we took actions and we studied for six to nine months where we stood and where our competition stood, and we said that we were going to make some changes to improve that ratio. I think you're starting to see are the early fruits of that.

Matthew Breese
Okay. And then, you noted that there's been some increased deposit competition. Just curious, what segment of the banking market—large cap, midcap, community banks—where's it coming from and how much impact has it had on your own deposit pricing so far?

Eric Newell
I think it's broad-based. Being a New England bank, I'm sure this isn't lost on anyone listening, but it's very competitive up here. We're very over banked and we have, I believe last time I looked New England had the least favorable loan-to-deposit ratios in the nation. So when folks are growing and they want to grow deposits, sometimes they have to pay up for it. So I would say broad-based and it certainly impacts us.

Brandon Lorey and I, who oversees retail, we have a lot of discussions about our strategy there and really working to preserve the deposits that we do have, as well as developing tools, and methods, and incentive programs to help our customer-facing folks have discussions with their customers and clients to help them understand the value proposition and why they should be banking with United. And it's not always rates. Rate certainly helps, but there's a deeper value proposition that goes beyond that, and that includes products and other solutions.

Matthew Breese
Right.

Bill Crawford
Matt, another success for us, strategically, is we slowed down loan growth. We could dial in a number and get a certain loan growth that we wanted, but it really comes down to how do we fund efficiently? And so we've actually been funding more efficiently at lower loan growth and working on relationship pricing. And that's how, in part, how we're driving a better net interest margin.

Matthew Breese
Okay. Now thinking and tying that into some of your other commentary which was, broadly speaking, more stability in 2017 and adding on to that guidance of mid-to-high single digit loan growth, my gut would be that deposit pricing is going to creep up a little bit, your own deposit pricing might creep up a little bit, and that the margin would suffer a little bit, but I wanted to run that by you and hear what you had to say. Is margin pressure in '17 going to continue?

Bill Crawford
Well, how about this? I think we're trying to give a fairly wide range between single digit, mid-single digit, and high-single digit, and we'll look at the market at that time. The thing we're really trying to do is align loan growth with low-cost core deposit growth and organic capital. So if the market is giving us the condition where we're tearing up our NIM, then we would go with the lower end of that range. If we can find ways to fund efficiently as we continue to get better at growing low-cost core deposits and we generate stronger earnings, then we might be at the higher end of that range. The reason we're giving

you a range is it's going to depend on what the market's giving us.

Eric Newell
And I also would add that while our cost of funds may increase next year, you're also going to see an increase in the earning asset yield because of the shift that we're making in the composition of our loan portfolio, hence why I think I indicated in '17, in my prepared comments, in '17, I think we're going to have a fairly stable operating NIM from where we are.

Matthew Breese
And then, if you had to talk about the loan-to-deposit ratio and where that might shake out over the next 12 months, where do you think that could go?

Eric Newell
I think we'll stay in the range that we're at. You know, 100% is comfortable for me.

Matthew Breese
Got it. That's all I had. Thank you for taking my questions.

Bill Crawford
Thanks, Matt.

Operator
Our next questioner today is Dave Bishop from Fig Partners. Please go ahead.

Dave Bishop
Hello. Good morning, gentlemen. Just wanted to follow up, maybe shift the focus a little bit more on the loan side. Eric, you spoke just now about the deposit pricing competition. Are you seeing any sort of firming or improvement in risk adjusted pricing, at least on the loan side, some of the segments you're focusing on?

Eric Newell
On the investor CRE, I would say we've been really working with our customer-facing folks and the bankers to help them understand what we're looking for. And so I believe that that has borne some successes in improving the ROEs of the investor CRE. Like I said in my prepared commentary, there was $0.5 billion of paper that was well structured, but we walked away from it because it didn't meet our pricing requirements there, in that sleeve. I'll probably let Dave talk about C&I, in terms of pricing there.

David Paulson
At the end of the day, there is very difficult competition out there, especially on the C&I side because that comes with a more commensurate investment or contribution of deposits. But as Bill referenced earlier, and Eric talked about what we've walked away, we have been very, very thoughtful about using our pricing models and deciding what we want to obtain from a target. The targets that we're setting on business that's acceptable to us is set at a much higher level than it was historically. So while we may be doing less in terms of units, in terms of the number of transactions, we're actually making materially more return on those transactions. And that's just been sort of a guiding focus in terms of bringing the loan velocity down a little bit but making more money on each transaction. So it's really been disciplined around how do we get those ROEs, when we can, and when it makes sense.

David Bishop
Just curious in terms of just the nature of loan demand out there within your regional footprint there. Just curious in terms of has it accelerated, been relatively stable, declined over the course of the past

three months?

Eric Newell
I'll let Dave.

David Paulson
We have a pretty significant footprint throughout New England, so what you have to do is look at more transactions to be successful. The demand is there. It's softer than we would like and when you book a transaction, especially on the C&I space, we're seeing industry wide—and we're subject to that same industry phenomenon—lower utilization on lines of credit. So it's a relationship business that you have to be out there working really, really hard to get the few transactions that are worth doing and don't chase the ones that aren't worth doing to the bottom of the pool. So, demand is tough because there's fewer good opportunities out there, which means you have to be looking at a lot of opportunities, and we're doing that.

David Bishop
Great. Thank you.

Operator
Our next question today is a follow-up from Collyn Gilbert with KBW. Please go ahead.

Collyn Gilbert
Thanks. Eric, I just wanted to follow up on two things. One is, as you were talking about a mix shift benefit coming in '17 with kind of the remix of the loan book into more adjustable rate product, are you assuming a rate hike into that comment? Because I guess I would just think that some of the longer term resi mortgages that are running off are carrying probably a higher yield than what you'd be putting on the books. So while, yes, the quality obviously is better and you get the funding benefit and all that, but I'm just trying to think of the asset yield composition and if you're thinking that there's going to be a rate hike in that assumption.

Eric Newell
No, we do not assume any rate hikes in that assumption.

Collyn Gilbert
Okay. So the yield on some of the C&I product, even though it's adjustable rate, is going to be better than what is rolling off?

Eric Newell
It's not going to all be. I did say adjustable rate and there's certainly a factor in there, but there's also some fixed rates that would sit there. And if you do look at some of what's running off in the residential portfolio, what we're originating at and what was running off was actually fairly similar, believe it or not, because that portfolio, we've been selling anything we can since I believe 2012, 2013. So the duration of that portfolio is pretty short, shorter than what you might expect. So I think when you look at how we're trying to move into more C&I and more home equity, or consumer, you're looking at more favorable yields there, relative to what you might get in an investor CRE deal at this point.

Collyn Gilbert
Okay. Okay, that's helpful. And then I just wanted to clarify on the fee income side, the derivative swap income, you were saying this quarter was 29% of the level it was in the year-ago quarter. Is that right? So 29% of that $2.4 million? So this quarter it was just under $700,000? Is that right?

Eric Newell
Correct.

Collyn Gilbert
Okay. And do you have what it was in 2Q ’16?

Eric Newell
It was flat.

Collyn Gilbert
Okay. Flat to that 700, roughly?

Eric Newell
Yes.

Collyn Gilbert
Okay. Got it. Super. Thank you.

CONCLUSION

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

Bill Crawford
Okay. Well, thanks for being on the call today. And, as always, I want to thank my United Bank teammates just for their relentless focus on taking care of customers and our communities. And we hope you all have a good day, and we’ll talk soon. Thanks.

Operator
The conference has now concluded. Thank you all for attending today’s presentation. You may now disconnect your lines.