FLUSHING FINANCIAL CORP
Form 10-K
March 15, 2012

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2011

Commission file number 001-33013

FLUSHING FINANCIAL CORPORATION
(Exact name of registrant as specified in its charter)

Delaware	11-3209278
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1979 Marcus Avenue, Suite E140, Lake Success, New York 11042
(Address of principal executive offices)

(718) 961-5400
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Common Stock $0.01 par value (and associated Preferred Stock Purchase Rights)	NASDAQ Global Select Market
(Title of each class)	(Name of exchange on which registered)

Securities registered pursuant to Section 12(g) of the Act: None.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in rule 405 of the Securities Act. Yes X No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes X No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. X Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). . X Yes ___ No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer___	Accelerated filer X
Non-accelerated filer____	Smaller reporting company __

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes X No

As of June 30, 2011, the last business day of the registrant's most recently completed second fiscal quarter, the aggregate market value of the voting stock held by non-affiliates of the registrant was $388,226,000. This figure is based on the closing price on that date on the NASDAQ Global Select Market for a share of the registrant's Common Stock, $0.01 par value, which was $13.00.

The number of shares of the registrant's Common Stock outstanding as of February 29, 2012 was 31,001,218 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Company's definitive Proxy Statement for the Annual Meeting of Stockholders to be held on May 15, 2012 are incorporated herein by reference in Part III.

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CAUTIONARY NOTE REGARDING FORWARD LOOKING STATEMENTS

Statements contained in this Annual Report on Form 10-K (this “Annual Report”) relating to plans, strategies, economic performance and trends, projections of results of specific activities or investments and other statements that are not descriptions of historical facts may be forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking information is inherently subject to risks and uncertainties, and actual results could differ materially from those currently anticipated due to a number of factors, which include, but are not limited to, factors discussed under the captions “Business — General — Allowance for Loan Losses” and “Business — General — Market Area and Competition” in Item 1 below, “Risk Factors” Item 1A below, in “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Overview” in Item 7 below, and elsewhere in this Annual Report and in other documents filed by the Company with the Securities and Exchange Commission from time to time. Forward-looking statements may be identified by terms such as “may,” “will,” “should,” “could,” “expects,” “plans,” “intends,” “anticipates,” “believes,” “estimates,” “predicts,” “fo or “continue” or similar terms or the negative of these terms. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. We have no obligation to update these forward-looking statements.

PART I

As used in this Annual Report on Form 10-K, the words “we,” “us,” “our” and the “Company” are used to refer to Flushing Financial Corporation and our consolidated subsidiaries, including Flushing Savings Bank, FSB (the “Savings Bank”) and Flushing Commercial Bank (the “Commercial Bank” and together with the Savings Bank, the “Banks”).

Item 1. Business.

GENERAL

Overview

We are a Delaware corporation organized in May 1994 at the direction of the Savings Bank. The Savings Bank was organized in 1929 as a New York State chartered mutual savings bank. In 1994, the Savings Bank converted to a federally chartered mutual savings bank and changed its name from Flushing Savings Bank to Flushing Savings Bank, FSB. The Savings Bank converted from a federally chartered mutual savings bank to a federally chartered stock savings bank on November 21, 1995, at which time Flushing Financial Corporation acquired all of the stock of the Savings Bank. The primary business of Flushing Financial Corporation at this time is the operation of its wholly owned subsidiary, the Savings Bank. The Savings Bank owns four subsidiaries: Flushing Commercial Bank, Flushing Preferred Funding Corporation, Flushing Service Corporation, and FSB Properties Inc. In November, 2006, the Savings Bank launched an internet branch, iGObanking.com®. The activities of Flushing Financial Corporation are primarily funded by dividends, if any, received from the Savings Bank, issuances of junior subordinated debt, and issuances of equity securities. Flushing Financial Corporation’s common stock is traded on the NASDAQ Global Select Market under the symbol “FFIC.”

Flushing Financial Corporation also owns Flushing Financial Capital Trust II, Flushing Financial Capital Trust III, and Flushing Financial Capital Trust IV (the “Trusts”), which are special purpose business trusts formed during 2007 to issue a total of $60.0 million of capital securities and $1.9 million of common securities (which are the only voting securities). Flushing Financial Corporation owns 100% of the common securities of the Trusts. The Trusts used the proceeds from the issuance of these securities to purchase junior subordinated debentures from Flushing Financial Corporation. The Trusts are not included in our consolidated financial statements as we would not absorb the losses of the Trusts if losses were to occur.

Unless otherwise disclosed, the information presented in this Annual Report reflects the financial condition and results of operations of Flushing Financial Corporation, the Savings Bank and the Savings Bank's subsidiaries on a consolidated basis (collectively, the "Company"). Management views the Company as operating a single unit – a community savings bank. Therefore, segment information is not provided. At December 31, 2011, the Company had total assets of $4.3 billion, deposits of $3.1 billion and stockholders' equity of $416.9 million.

Our principal business is attracting retail deposits from the general public and investing those deposits together with funds generated from ongoing operations and borrowings, primarily in (1) originations and purchases of multi-family residential properties and, to a lesser extent, one-to-four family (focusing on mixed-use properties, which are properties that contain both residential dwelling units and commercial units) and commercial real estate mortgage loans; (2) construction loans, primarily for residential properties; (3) Small Business Administration ("SBA") loans and other small business loans; (4) mortgage loan surrogates such as mortgage-backed securities; and (5) U.S. government securities, corporate fixed-income securities and other marketable securities. We also originate certain other consumer loans including overdraft lines of credit. At December 31, 2011, we had gross loans outstanding of $3,214.0 million (before the allowance for loan losses and net deferred costs), with gross mortgage loans totaling $2,939.0 million, or 91.4% of gross loans, and non-mortgage loans totaling $275.0 million, or 8.6% of gross loans. Mortgage loans are primarily multi-family, commercial and one-to-four family mixed-use properties, which combined totaled 82.9% of gross loans. Our revenues are derived principally from interest on our mortgage and other loans and mortgage-backed securities portfolio, and interest and dividends on other investments in our securities portfolio. Our primary sources of funds are deposits, Federal Home Loan Bank of New York ("FHLB-NY") borrowings, repurchase agreements, principal and interest payments on loans, mortgage-backed and other securities, proceeds from sales of securities and, to a lesser extent, proceeds from sales of loans. On July 21, 2011, as a result of the Dodd-Frank Wall Street Reform and Consumer Protection Act, the Savings Bank's primary regulator became the Office of the Comptroller of the Currency ("OCC") and Flushing Financial Corporation's primary regulator became the Federal Reserve Board of Governors ("Federal Reserve"),. Deposits are insured to the maximum allowable amount by the Federal Deposit Insurance Corporation ("FDIC"). Additionally, the Banks are members of the Federal Home Loan Bank ("FHLB") system.

Our operating results are significantly affected by national and local economic conditions, including the strength of the local economy. The national and local economies were generally considered to be in a recession from December 2007 through the middle of 2009. This resulted in increased unemployment and declining property values, although the property value declines in our market, the New York City metropolitan area, have not been as great as many other areas of the country. While the national and local economies have shown signs of improvement since the middle of 2010, unemployment has remained at elevated levels of 8.8% and 8.6% in December 2011 and 2010, respectively, for the New York City region, according to the New York State Department of Labor. These economic conditions can result in borrowers defaulting on their loans. This deterioration in the economy has resulted in the balance of our non-performing loans remaining at an elevated level. Non-performing loans totaled $117.4 million, $112.1 million and $83.4 million at December 31, 2011, 2010 and 2009, respectively. While non-performing loans have remained elevated, we have not yet experienced a significant increase in foreclosed properties due to an extended foreclosure process in our market. Net charge-offs of impaired loans have increased to $18.9 million for the year ended December 31, 2011 from $13.6 million and $10.2 million for the years ended December 31, 2010 and 2009, respectively. In response to the economic conditions in our market and the increase in non-performing loans, we began tightening our conservative underwriting standards in 2008 to reduce the risk associated with lending.

The following changes were made in our underwriting standards since 2008 to reduce the risk associated with lending on income producing real estate properties:

§ When borrowers requested a refinance of an existing mortgage loan when they had acquired the property or obtained their existing loan within two years of the request, we generally required evidence of improvements to the property that increased the property value to support the additional funds and generally restricted the loan-to-value ratio for the new loan to 65% of the appraised value.

§ The debt coverage ratio was increased and the loan-to-value ratio decreased for income producing properties with fewer than ten units. This required the borrower to have an additional investment in the property than previously required and provided additional protection should rental units become vacant.

§ Borrowers who owned multiple properties were required to provide detail on all their properties to allow us to evaluate their total cash flow requirements. Based on this review, we may decline the loan application, or require a lower loan-to-value ratio and a higher debt coverage ratio.

§ Income producing properties with existing rents that were at or above the current market rent for similar properties were required to have a higher debt coverage ratio to provide protection should rents decline.

§ Borrowers purchasing properties were required to demonstrate they had satisfactory liquidity and management ability to carry the property should vacancies occur or increase.

The following changes were made in our underwriting standards since 2008 to reduce the risk on one-to-four family residential property mortgage loans and home equity lines of credit:

§ We discontinued originating home equity lines of credit without verifying the borrower’s income. This was done in two stages. Beginning in May 2008, we began verifying the borrower’s income when the home equity line of credit exceeded $100,000. Beginning in October 2009, we verified the income of all borrowers applying for a home equity line of credit.

§ We discontinued offering one-to-four family residential property mortgage loans to self-employed individuals based on stated income and verifiable assets in June 2010.

The following changes were made in our underwriting standards since 2008 to reduce the risk associated with business lending:

§ All borrowers obtaining a business loan were required to submit a complete financial information package, regardless of the amount of the loan. Previously, borrowers for SBA Express loans and other loans under $150,000 had been exempt from this requirement.

§ Background checks on all borrowers and guarantors for business loans were expanded to identify and review information in more public records, including a search for judgments, liens, negative press articles, and affiliations with other entities.

§ The guarantee of related business entities providing cash flow to the borrowing entity became required for business loans.

§ The allowable percentage of inventory and accounts receivable pledged as collateral for a business loan was reduced.

§ We established specific risk acceptance criteria for private not for profit schools.

The economic conditions we have experienced since December 2007 have also resulted in a reduction in loan demand. Combining the reduced demand with our tightened underwriting standards, our loan originations and purchases for 2011 declined to $411.2 million from $757.1 million in 2007.

Our operating results are also affected by extensions, renewals, modifications and restructuring of loans in our loan portfolio. Our policy on extending, renewing, modifying or restructuring a loan, other than a loan that is classified as a troubled debt restructured (“TDR”), requires the loan to be fully underwritten in accordance with our policy for new loans. The borrower must be current to have a loan extended, renewed or restructured. Our policy for modifying a mortgage loan due to the borrower’s request for changes in the terms will depend on the change requested. The borrower must be current and have a good payment history to have a loan modified. If the borrower is seeking additional funds, the loan is fully underwritten in accordance with our policy for new loans. If the borrower is seeking a reduction in the interest rate due to a decline in interest rates in the market, we generally limit our review as follows: (1) for income producing properties and business loans, to a review of the operating results of the property/business and a satisfactory inspection of the property, and (2) for one-to-four residential properties, to a satisfactory inspection of the property. Our policy on restructuring a loan when the loan will be classified as a TDR requires the loan to be fully underwritten in accordance with Company policy. The borrower must demonstrate the ability to repay the loan under the new terms. When the restructuring results in a TDR, we may waive some requirements of Company policy provided the borrower has demonstrated the ability to meet the requirements of the restructured loan and repay the restructured loan. While our formal lending policies do not prohibit making additional loans to a borrower or any related interest of the borrower who is past due in principal or interest more than 90 days, it has been our practice not to make additional loans to a borrower or a related interest of the borrower if the borrower is past due more than 90 days as to principal or interest. During the most recent three fiscal years, we did not make any additional loans to a borrower or any related interest of the borrower who was past due in principal or interest more than 90 days. All extensions, renewals, restructurings and modifications must be approved by either the Board of Directors of the Savings Bank (the "Savings Bank Board of Directors") or its Loan Committee (the "Loan Committee").

Our operating results are also affected by losses on non-performing loans. Our policy requires a reappraisal by an independent third party when a loan becomes twelve months delinquent. We generally obtain a reappraisal by an independent third party for loans over 90 days delinquent when the outstanding loan balance is at least $1.0 million. We also obtain reappraisals when our internally prepared valuation of a property indicates there has been a decline in value below the outstanding balance of the loan, or when a property inspection has indicated significant deterioration in the condition of the property. These internal valuations are prepared when a loan becomes 90 days delinquent.

During 2006, the Savings Bank established a business banking unit. Our business plan includes a transition from a traditional thrift to a more "commercial-like" banking institution by focusing on the development of a full complement of commercial business deposit, loan and cash management products. As of December 31, 2011, the business banking unit had $251.9 million in loans outstanding and $68.7 million of customer deposits.

On November 27, 2006, the Savings Bank launched an internet branch, iGObanking.com®, which provides us access to consumers in markets outside our geographic locations. Accounts can be opened online at www.iGObanking.com or by mail. The internet branch does not currently accept loan applications. As of December 31, 2011, the internet branch had $470.6 million of customer deposits.

During 2007, the Savings Bank formed a wholly owned subsidiary, Flushing Commercial Bank, a New York State chartered commercial bank, for the limited purpose of providing banking services to public entities including counties, cities, towns, villages, school districts, libraries, fire districts and the various courts throughout the New York City metropolitan area. The Commercial Bank was formed in response to New York State law, which requires that municipal deposits and state funds must be deposited into a bank or trust company as defined in New York State law. The Savings Bank is not considered an eligible bank or trust company for this purpose. The Commercial Bank does not originate loans. As of December 31, 2011, Flushing Commercial Bank had $591.0 million of customer deposits.

On December 19, 2008, under the Troubled Asset Relief Program ("TARP"), we entered into a Letter Agreement (including the Securities Purchase Agreement – Standard Terms incorporated by reference therein, the "Purchase Agreement") with the United States Department of the Treasury (the "U.S. Treasury") pursuant to which we issued and sold to the U.S. Treasury (i) 70,000 shares of the our Fixed Rate Cumulative Perpetual Preferred Stock Series B having a liquidation preference of $1,000 per share (the "Series B Preferred Stock"), and (ii) a ten-year warrant (the "Warrant") to purchase up to 751,611 shares of the our common stock, par value $0.01 per share, at an initial price of $13.97 per share, for an aggregate purchase price of $70.0 million in cash. The Series B Preferred Stock qualified as Tier 1 Capital under the risk-based capital guidelines of the Office of Thrift Supervision ("OTS") ("Tier 1 Capital") and paid cumulative dividends at a rate of 5% per annum. Dividends were payable on the Series B Preferred Stock quarterly and were payable on February 15, May 15, August 15 and November 15 of each year. The Series B Preferred Stock had no maturity date and ranked senior to our common stock with respect to the payment of dividends and distributions and amounts payable upon liquidation and winding up of the Company. The Warrant would have expired ten years from the issuance date and was immediately exercisable and transferable. The Purchase Agreement contained limitations on the payment of dividends on and the repurchase of our common stock and certain preferred stock. The Purchase Agreement also required that, until such time as the U.S. Treasury ceased to own any securities acquired from us thereunder, we take all necessary action to ensure that benefit plans with respect to senior executive officers complied with Section 111(b) of the Emergency Economic Stabilization Act of 2008 ("EESA") as implemented by any guidance or regulation under Section 111(b) of EESA that has been issued and was in effect as of the date of issuance of the Series B Preferred Stock and the Warrant and not adopt any benefit plans with respect to, or which cover, senior executive officers that do not comply with EESA. Our senior executive officers consented to the foregoing. During 2009, we issued, in a public offering, 9.3 million common shares for total consideration, after expenses, of $101.5 million. This public offering was a Qualified Equity Offering as defined in the Warrant. As a result of this Qualified Equity Offering, the number of shares of common stock underlying the Warrant was reduced by one-half. On October 28, 2009, we redeemed the Series B Preferred Stock for $70.0 million plus all accrued and unpaid dividends. On December 30, 2009, we repurchased the Warrant for $0.9 million.

Market Area and Competition

We are a community oriented savings institution offering a wide variety of financial services to meet the needs of the communities we serve. The Savings Bank's main office is in Flushing, New York, located in the Borough of Queens, and the Commercial Bank's main office is in New Hyde Park, New York. At December 31, 2011, the Savings Bank operated out of 16 full-service offices, located in the New York City Boroughs of Queens, Brooklyn, and Manhattan, and in Nassau County, New York, and the Commercial Bank operated out of three offices, one in Brooklyn and two in Nassau County, New York, it shares with the Savings Bank. In January 2012, the Savings Bank opened its seventeenth full-service office, which is located in Brooklyn. We also operate an internet branch, iGObanking.com®. We maintain our executive offices in Lake Success in Nassau County, New York. Substantially all of our mortgage loans are secured by properties located in the New York City metropolitan area.

We face intense competition both in making loans and in attracting deposits. Competition for loans in our market is primarily based on the types of loans offered and the related terms for these loans, including fixed-rate versus adjustable-rate loans and the interest rate on the loan. For adjustable rate loans, competition is also based on the repricing period, the index to which the rate is referenced, and the spread over the index rate. Also, competition is influenced by the ability of a financial institution to respond to customer requests and to provide the borrower with a timely decision to approve or deny the loan application.

Our market area has a high density of financial institutions, many of which have greater financial resources, name recognition and market presence, and all of which are competitors to varying degrees. Particularly intense competition exists for deposits, as we compete with over 104 banks and thrifts in the counties in which we have branch locations. Our market share of deposits in these counties is approximately 0.5% of the total deposits of these competing financial institutions, and we are the 19th largest financial institution. In addition, we compete with credit unions, the stock market and mutual funds for customers' funds. Competition for deposits in our market and for national brokered deposits is primarily based on the types of deposits offered and rate paid on the deposits. Particularly intense competition also exists in all of the lending activities we emphasize. In addition to the financial institutions mentioned above, we compete against mortgage banks and insurance companies located both within our market and available on the internet. Competition for loans in our market is primarily based on the types of loans offered and the related terms for these loans, including fixed-rate versus adjustable-rate loans and the interest rate on the loan. For adjustable rate loans, competition is also based on the repricing period, the index to which the rate is referenced, and the spread over the index rate. Also, competition is influenced by the ability of a financial institution to respond to customer requests and to provide the borrower with a timely decision to approve or deny the loan application. The internet banking arena also has many larger financial institutions which have greater financial resources, name recognition and market presence. Our future earnings prospects will be affected by our ability to compete effectively with other financial institutions and to implement our business strategies. Our strategy for attracting deposits includes using various marketing techniques, delivering enhanced technology and customer friendly banking services, and focusing on the unique personal and small business banking needs of the multi-ethnic communities we serve. Our strategy for attracting new loans is primarily dependent on providing timely response to applicants and maintaining a network of quality brokers. See "Risk Factors – The Markets in Which We Operate Are Highly Competitive" included in Item 1A of this Annual Report.

For a discussion of our business strategies, see "Management's Discussion and Analysis of Financial Condition and Results of Operations — Overview — Management Strategy" included in Item 7 of this Annual Report.

Lending Activities

Loan Portfolio Composition. Our loan portfolio consists primarily of mortgage loans secured by multi-family residential, commercial real estate, one-to-four family mixed-use property, one-to-four family residential property, and construction loans. In addition, we also offer SBA loans, other small business loans and consumer loans. Substantially all of our mortgage loans are secured by properties located within our market area. At December 31, 2011, we had gross loans outstanding of $3,214.0 million (before the allowance for loan losses and net deferred costs).

Since 2009 we have focused our mortgage loan origination efforts on multi-family residential mortgage loans. In prior years we had focused our mortgage loan originations on multi-family residential, commercial real estate and one-to-four family mixed-use property mortgage loans. These loans generally have higher yields than one-to-four family residential properties, and include prepayment penalties that we collect if the loans pay in full prior to the contractual maturity. We expect to continue this emphasis on multi-family residential mortgage loans through marketing and by maintaining competitive interest rates and origination fees. Our marketing efforts include frequent contacts with mortgage brokers and other professionals who serve as referral sources. The reduced emphasis on commercial real estate, one-to-four family mixed-use property mortgage loans, and construction loans since 2009 was due to the increased level of risk in these types of loans in the current economic environment. We expect to continue this reduced emphasis on the origination of commercial real estate and one-to-four family mixed-use property mortgage loans, and construction loans, in the near term.

Fully underwritten one-to-four family residential mortgage loans generally are considered by the banking industry to have less risk than other types of loans. Multi-family residential, commercial real estate and one-to-four family mixed-use property mortgage loans generally have higher yields than one-to-four family residential property mortgage loans and shorter terms to maturity, but typically involve higher principal amounts and may expose the lender to a greater risk of credit loss than one-to-four family residential property mortgage loans. Our increased emphasis on multi-family residential mortgage loans since 2009, and on multi-family residential, commercial real estate and one-to-four family mixed-use property mortgage loans during years prior to 2009, has increased the overall level of credit risk inherent in our loan portfolio. The greater risk associated with multi-family residential, commercial real estate and one-to-four family mixed-use property mortgage loans could require us to increase our provisions for loan losses and to maintain an allowance for loan losses as a percentage of total loans in excess of the allowance we currently maintain. We continually review the composition of our mortgage loan portfolio to manage the risk in the portfolio. As a result of this ongoing review, we reduced our reliance on commercial real estate and one-to-four family mixed-use property mortgage loans during the most recent two years, and tightened our conservative underwriting standards to further reduce the risk associated with lending. See "General – Overview" in this Item 1 of this Annual Report. To date, we have not experienced significant losses in our multi-family residential, commercial real estate and one-to-four family mixed-use property mortgage loan portfolios.

Our mortgage loan portfolio consists of adjustable rate mortgage ("ARM") loans and fixed-rate mortgage loans. Interest rates we charge on loans are affected primarily by the demand for such loans, the supply of money available for lending purposes, the rate offered by our competitors and the creditworthiness of the borrower. Many of those factors are, in turn, affected by local and national economic conditions, and the fiscal, monetary and tax policies of the federal, state and local governments.

In general, consumers show a preference for ARM loans in periods of high interest rates and for fixed-rate loans when interest rates are low. In periods of declining interest rates, we may experience refinancing activity in ARM loans, as borrowers show a preference to lock-in the lower rates available on fixed-rate loans. In the case of ARM loans we originated, volume and adjustment periods are affected by the interest rates and other market factors as discussed above as well as consumer preferences. We have not in the past, nor do we currently, originate ARM loans that provide for negative amortization.

Prior to 2007, we had grown our construction loan portfolio. During 2007, we began to deemphasize construction loans, as originations of new construction loans declined. We have continued to deemphasize construction loans throughout the past four years as we further reduced originations and reduced the balance of our construction loan portfolio. We intend to continue to deemphasize construction loans in the near term. We obtain a first lien position on the underlying collateral, and generally obtain personal guarantees on construction loans. These loans generally have a term of two years or less. Construction loans involve a greater degree of risk than other loans because, among other things, the underwriting of such loans is based on an estimated value of the developed property, which can be difficult to ascertain in light of uncertainties inherent in such estimations. In addition, construction lending entails the risk that the project may not be completed due to cost overruns or changes in market conditions. The greater risk associated with construction loans could require us to increase our provision for loan losses, and to maintain an allowance for loan losses as a percentage of total loans in excess of the allowance we currently maintain. To date, we have not incurred significant losses in our construction loan portfolio.

The business banking unit was formed in 2006 to focus on loans to businesses located within our market area. These loans are generally personally guaranteed by the owners, and may be secured by the assets of the business, including real estate. The interest rate on these loans is generally an adjustable rate based on a published index. These loans, while providing us a higher rate of return, also present a higher level of risk. The greater risk associated with business loans could require us to increase our provision for loan losses, and to maintain an allowance for loan losses as a percentage of total loans in excess of the allowance we currently maintain. To date, we have not incurred significant losses in our business loan portfolio.

From time to time, we may purchase loans from mortgage bankers and other financial institutions when the loans complement our loan portfolio strategy. Loans purchased must meet our underwriting standards when they were originated.

Our lending activities are subject to federal and state laws and regulations. See "— Regulation."

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The following table sets forth the composition of our loan portfolio at the dates indicated.

	At December 31,								
	2011		2010		2009		2008		200
	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total	Amount	Percent of Total	Amount
	(Dollars in thousands)								
Mortgage Loans:									
Multi-family residential	$1,391,221	43.28 %	$1,252,176	38.41 %	$1,158,700	36.16 %	$999,185	33.80 %	$964,455
Commercial real estate	580,783	18.07	662,794	20.33	686,210	21.42	686,630	23.24	586,598
One-to-four family - mixed-use property	693,932	21.59	728,810	22.36	744,560	23.24	751,952	25.45	686,921
One-to-four family - residential (1)	220,431	6.86	241,376	7.40	249,920	7.81	238,711	8.09	161,666
Co-operative apartment (2)	5,505	0.17	6,215	0.19	6,553	0.20	6,566	0.22	7,070
Construction	47,140	1.47	75,519	2.32	97,270	3.04	103,626	3.51	119,745
Gross mortgage loans	2,939,012	91.44	2,966,890	91.01	2,943,213	91.87	2,786,670	94.31	2,526,455
Non-mortgage loans:									
Small Business Administration	14,039	0.44	17,511	0.54	17,496	0.55	19,671	0.67	18,922
Taxi medallion	54,328	1.69	88,264	2.71	61,424	1.92	12,979	0.44	68,250
Commercial business and other	206,614	6.43	187,161	5.74	181,240	5.66	135,249	4.58	81,041
Gross non-mortgage loans	274,981	8.56	292,936	8.99	260,160	8.13	167,899	5.69	168,213
Gross loans	3,213,993	100.00 %	3,259,826	100.00 %	3,203,373	100.00 %	2,954,569	100.00 %	2,694,668
Unearned loan fees and deferred costs, net	14,888		16,503		17,110		17,121		14,083
	(30,344)		(27,699)		(20,324)		(11,028)		(6,633

Less: Allowance for loan losses					
Loans, net	$3,198,537	$3,248,630	$3,200,159	$2,960,662	$2,702,118

(1) One-to-four family residential mortgage loans also include home equity and condominium loans. At December 31, 2011, gross home equity loans totaled $70.2 million and condominium loans totaled $28.5 million.

(2) Consists of loans secured by shares representing interests in individual co-operative units that are generally owner occupied.

The following table sets forth our loan originations (including the net effect of refinancing) and the changes in our portfolio of loans, including purchases, sales and principal reductions for the years indicated:

	For the years ended December 31,		
(In thousands)	2011	2010	2009
Mortgage Loans			
At beginning of year	$2,966,890	$2,943,213	$2,786,670
Mortgage loans originated:			
Multi-family residential	249,010	171,238	212,274
Commercial real estate	7,070	33,697	32,557
One-to-four family mixed-use property	23,754	29,415	33,053
One-to-four family residential	24,075	34,694	54,669
Co-operative apartment	-	407	534
Construction	1,723	10,493	18,263
Total mortgage loans originated	305,632	279,944	351,350
Mortgage loans purchased:			
Commercial real estate	-	-	2,917
Total mortgage loans purchased	-	-	2,917
Less:			
Principal reductions	284,327	229,951	183,712
Mortgage loan sales	24,832	8,755	6,233
Charge-offs	17,845	13,170	5,359
Mortgage loan foreclosures	6,506	4,391	2,420
At end of year	$2,939,012	$2,966,890	$2,943,213
Non-mortgage loans			
At beginning of year	$292,936	$260,160	$167,899
Loans originated:			
Small Business Administration	3,528	3,869	4,457
Taxi Medallion	11,779	59,551	20,702
Commercial business	66,352	52,505	76,161
Other	4,859	5,991	4,656
Total other loans originated	86,518	121,916	105,976
Non-mortgage loans purchased:			
Taxi Medallion	19,053	14,675	40,347
Less:			
Sales of Small Business Administration loans	4,104	-	2,005
Principal reductions	118,032	102,617	47,237

Charge-offs	1,390	1,198	4,820
At end of year	$274,981	$292,936	$260,160

Loan Maturity and Repricing. The following table shows the maturity of our total loan portfolio at December 31, 2011. Scheduled repayments are shown in the maturity category in which the payments become due.

(In thousands)	Mortgage loans						Non-mortgage loans			
	Multi-family residential	Commercial real estate	One-to-four family mixed-use property	One-to-four family residential	Co-operative apartment	Construction	Small Business Administration	Taxi Medallion	Commercial business and other	Total loans
Amounts due within one year	$120,814	$94,882	$31,696	$5,640	$310	$47,140	$4,294	$32,251	$59,338	$396,365
Amounts due after one year:										
One to two years	101,990	70,740	32,189	5,489	215	-	2,745	17,245	14,741	245,354
Two to three years	95,801	68,904	32,345	5,363	211	-	1,496	3,656	13,359	221,135
Three to five years	180,297	118,404	64,969	10,714	443	-	1,860	1,176	26,546	404,409
Over five years	892,319	227,853	532,733	193,225	4,326	-	3,644	-	92,630	1,946,730
Total due after one year	1,270,407	485,901	662,236	214,791	5,195	-	9,745	22,077	147,276	2,817,628
Total amounts due	$1,391,221	$580,783	$693,932	$220,431	$5,505	$47,140	$14,039	$54,328	$206,614	$3,213,993
Sensitivity of loans to changes in interest rates - loans due after one year:										
Fixed rate loans	$198,350	$56,428	$129,003	$60,920	$104	$-	$290	$20,048	$46,483	$511,626
Adjustable rate loans	1,072,057	429,473	533,233	153,871	5,091	-	9,455	2,029	100,793	2,306,002
Total loans due after one year	$1,270,407	$485,901	$662,236	$214,791	$5,195	$-	$9,745	$22,077	$147,276	$2,817,628

Multi-Family Residential Lending. Loans secured by multi-family residential properties were $1,391.2 million, or 43.28% of gross loans, at December 31, 2011. Our multi-family residential mortgage loans had an average principal balance of $566,000 at December 31, 2011, and the largest multi-family residential mortgage loan held in our portfolio had a principal balance of $14.5 million. We offer both fixed-rate and adjustable-rate multi-family residential mortgage loans, with maturities of up to 30 years.

In underwriting multi-family residential mortgage loans, we review the expected net operating income generated by the real estate collateral securing the loan, the age and condition of the collateral, the financial resources and income level of the borrower and the borrower's experience in owning or managing similar properties. We typically require debt service coverage of at least 125% of the monthly loan payment. During 2008, we increased the required debt service coverage ratio for multi-family residential loans with ten units or less. We generally originate these loans up to only 75% of the appraised value or the purchase price of the property, whichever is less. Any loan with a final loan-to-value ratio in excess of 75% must be approved by the Savings Bank Board of Directors or the Loan Committee as an exception to policy. We generally rely on the income generated by the property as the primary means by which the loan is repaid. However, personal guarantees may be obtained for additional security from these borrowers. We typically order an environmental report on our multi-family and commercial real estate loans.

Loans secured by multi-family residential property generally involve a greater degree of risk than residential mortgage loans and carry larger loan balances. The increased credit risk is the result of several factors, including the concentration of principal in a smaller number of loans and borrowers, the effects of general economic conditions on income producing properties and the increased difficulty in evaluating and monitoring these types of loans. Furthermore, the repayment of loans secured by multi-family residential property is typically dependent upon the successful operation of the related property, which is usually owned by a legal entity with the property being the entity's only asset. If the cash flow from the property is reduced, the borrower's ability to repay the loan may be impaired. If the borrower defaults, our only remedy may be to foreclose on the property, for which the market value may be less than the balance due on the related mortgage loan. Loans secured by multi-family residential property also may involve a greater degree of environmental risk. We seek to protect against this risk through obtaining an environmental report. See "—Asset Quality — Environmental Concerns Relating to Loans."

At December 31, 2011, $1,167.3 million, or 83.91%, of our multi-family mortgage loans consisted of ARM loans. We offer ARM loans with adjustment periods typically of five years and for terms of up to 30 years. Interest rates on ARM loans currently offered by us are adjusted at the beginning of each adjustment period based upon a fixed spread above the FHLB-NY corresponding Regular Advance Rate. From time to time, we may originate ARM loans at an initial rate lower than the index as a result of a discount on the spread for the initial adjustment period. Multi-family adjustable-rate mortgage loans generally are not subject to limitations on interest rate increases either on an adjustment period or aggregate basis over the life of the loan. We originated and purchased multi-family ARM loans totaling $218.8 million, $157.4 million and $183.8 million during 2011, 2010 and 2009, respectively.

At December 31, 2011, $223.9 million, or 16.09%, of our multi-family mortgage loans consisted of fixed rate loans. Our fixed-rate multi-family mortgage loans are generally originated for terms up to 15 years and are competitively priced based on market conditions and our cost of funds. We originated and purchased $30.2 million, $13.9 million and $28.5 million of fixed-rate multi-family mortgage loans in 2011, 2010 and 2009, respectively.

Commercial Real Estate Lending. Loans secured by commercial real estate were $580.8 million, or 18.07% of gross loans, at December 31, 2011. Our commercial real estate mortgage loans are secured by improved properties such as office buildings, hotels/motels, nursing homes, small business facilities, strip shopping centers, warehouses, and, to a lesser extent, religious facilities. At December 31, 2011, our commercial real estate mortgage loans had an average principal balance of $678,000, and the largest of such loans, which was secured by a multi-tenant shopping center, had a principal balance of $10.7 million. Commercial real estate mortgage loans are generally originated in a range of $100,000 to $6.0 million.

In underwriting commercial real estate mortgage loans, we employ the same underwriting standards and procedures as are employed in underwriting multi-family residential mortgage loans.

Commercial real estate mortgage loans generally carry larger loan balances than one-to-four family residential mortgage loans and involve a greater degree of credit risk for the same reasons applicable to multi-family loans.

At December 31, 2011, $496.6 million, or 85.51%, of our commercial mortgage loans consisted of ARM loans. We offer ARM loans with adjustment periods of one to five years and generally for terms of up to 15 years. Interest rates on ARM loans currently offered by us are adjusted at the beginning of each adjustment period based upon a fixed spread above the FHLB-NY corresponding Regular Advance Rate. From time to time, we may originate ARM loans at an initial rate lower than the index as a result of a discount on the spread for the initial adjustment period. Commercial adjustable-rate mortgage loans generally are not subject to limitations on interest rate increases either on an adjustment period or aggregate basis over the life of the loan. We originated and purchased commercial ARM loans totaling $2.1 million, $31.5 million and $76.0 million during 2011, 2010 and 2009, respectively.

At December 31, 2011, $84.1 million, or 14.49%, of our commercial mortgage loans consisted of fixed-rate loans. Our fixed-rate commercial mortgage loans are generally originated for terms up to 20 years and are competitively priced based on market conditions and our cost of funds. We originated and purchased $5.0 million, $2.2 million and $3.2 million of fixed-rate commercial mortgage loans in 2011, 2010 and 2009, respectively.

One-to-Four Family Mortgage Lending – Mixed-Use Properties. We offer mortgage loans secured by one-to-four family mixed-use properties. These properties contain up to four residential dwelling units and a commercial unit. We offer both fixed-rate and adjustable-rate one-to-four family mixed-use property mortgage loans with maturities of up to 30 years and a general maximum loan amount of $1,000,000. Loan originations primarily result from applications received from mortgage brokers and mortgage bankers, existing or past customers, and persons who respond to our marketing efforts and referrals. One-to-four family mixed-use property mortgage loans were $693.9 million, or 21.59% of gross loans, at December 31, 2011.

In underwriting one-to-four family mixed-use property mortgage loans, we employ the same underwriting standards as are employed in underwriting multi-family residential mortgage loans.

At December 31, 2011, $548.7 million, or 79.07%, of our one-to-four family mixed-use property mortgage loans consisted of ARM loans. We offer adjustable-rate one-to-four family mixed-use property mortgage loans with adjustment periods typically of five years and for terms of up to 30 years. Interest rates on ARM loans currently offered by the Savings Bank are adjusted at the beginning of each adjustment period based upon a fixed spread above the FHLB-NY corresponding Regular Advance Rate. From time to time, we may originate ARM loans at an initial rate lower than the index as a result of a discount on the spread for the initial adjustment period. One-to-four family mixed-use property adjustable-rate mortgage loans generally are not subject to limitations on interest rate increases either on an adjustment period or aggregate basis over the life of the loan. We originated and purchased one-to-four family mixed-use property ARM loans totaling $17.6 million during 2011 and $23.7 million during 2010 and 2009.

At December 31, 2011, $145.3 million, or 20.93%, of our one-to-four family mixed-use property mortgage loans consisted of fixed-rate loans. Our fixed-rate one-to-four family mixed-use property mortgage loans are originated for terms of up to 30 years and are competitively priced based on market conditions and the Banks' cost of funds. We originated and purchased $6.1 million, $5.8 million and $9.4 million of fixed-rate one-to-four family mixed-use property mortgage loans in 2011, 2010 and 2009, respectively.

One-to-Four Family Mortgage Lending – Residential Properties. We offer mortgage loans secured by one-to-four family residential properties, including townhouses and condominium units. For purposes of the description contained in this section, one-to-four family residential mortgage loans, co-operative apartment loans and home equity loans are collectively referred to herein as "residential mortgage loans." We offer both fixed-rate and adjustable-rate residential mortgage loans with maturities of up to 30 years and a general maximum loan amount of $1,000,000. Loan originations generally result from applications received from mortgage brokers and mortgage bankers, existing or past customers, and referrals. Residential mortgage loans were $225.9 million, or 7.03% of gross loans, at December 31, 2011.

We generally originate residential mortgage loans in amounts up to 80% of the appraised value or the sale price, whichever is less. We may make residential mortgage loans with loan-to-value ratios of up to 90% of the appraised value of the mortgaged property; however, private mortgage insurance is required whenever loan-to-value ratios exceed 80% of the appraised value of the property securing the loan.

In addition to income verified loans, we have in the past originated residential mortgage loans to self-employed individuals within our local community based on stated income and verifiable assets that allows us to assess repayment ability, provided that the borrower’s stated income is considered reasonable for the borrower’s type of business. The preponderance of stated income one-to-four family residential mortgage loans were made available to self-employed individuals within our local community for their primary residence. Our underwriting standards required that we verify the assets of the borrowers and the sources of their cash flows. The information reviewed for purchases included at least three months and refinances included at least one month of personal bank statements (checking and savings accounts), statements of investment accounts, business checking account statements (when applicable), and other information provided by the borrowers about their personal holdings. Our review of these bank statements allowed us to assess whether or not their stated income appeared reasonable in comparison to their cash flows, and if their income level supported their personal holdings. We also obtained and reviewed credit reports on these borrowers. An acceptable credit report was one of the key factors in approving this type of mortgage loan. We obtained appraisals from an independent third party for the property, and limited the amount we lent on the properties to 80% of the lesser of the property's appraised value or the purchase price. Home equity lines of credit were offered on one-to-four residential properties to homeowners based on various levels of income verification. We limited the amount available under a home equity line of credit to 80% of the lesser of the appraised value of the property and the purchase price. These loans involve a higher degree of risk as compared to our other fully underwritten residential mortgage loans as there is a greater opportunity for self-employed borrowers to falsify or overstate their level of income and ability to service indebtedness. This risk is mitigated by the requirements discussed above in our loan policy. In addition, since 2008, the underwriting standards for home equity loans were modified to discontinue originating home equity lines of credit without verifying the borrower's income. This was accomplished in two stages. Beginning in May 2008, we began verifying the borrower's income when the home equity line of credit exceeded $100,000. Beginning in October 2009, we verified the income of all borrowers applying for a home equity line of credit. We also discontinued offering one-to-four family residential property mortgage loans to self-employed individuals based on stated income and verifiable assets in June 2010. We originated $7.3 million and $14.6 million of one-to-four family residential mortgage loans to self-employed individuals based on stated income and verifiable assets during 2010 and 2009, respectively. We did not originate any one-to-four family residential mortgage loans to self-employed individuals based on stated income and verifiable assets during 2011. We also extended $6.9 million in home equity lines of credit during 2009, with various levels of income verification. We did not extend any home equity lines of credit during 2011 and 2010 with various levels of income verification. We had $25.9 million and $28.8 million outstanding of one-to four family residential mortgage loans originated to individuals based on stated income and verifiable assets at December 31, 2011 and 2010, respectively. We had $58.5 million and $60.1 million advanced on home equity lines of credit for which we did not verify the borrowers' income at December 31, 2011 and 2010, respectively.

At December 31, 2011, $161.8 million, or 71.62%, of our residential mortgage loans consisted of ARM loans. We offer ARM loans with adjustment periods of one, three, five, seven or ten years. Interest rates on ARM loans currently offered by us are adjusted at the beginning of each adjustment period based upon a fixed spread above the FHLB-NY corresponding Regular Advance Rate. From time to time, we may originate ARM loans at an initial rate lower than the index as a result of a discount on the spread for the initial adjustment period. ARM loans generally are subject to limitations on interest rate increases of 2% per adjustment period and an aggregate adjustment of 6% over the life of the loan. We originated and purchased adjustable rate residential mortgage loans totaling $21.5 million, $19.1 million and $33.0 million during 2011, 2010 and 2009, respectively.

The retention of ARM loans in our portfolio helps us reduce our exposure to interest rate risks. However, in an environment of rapidly increasing interest rates, it is possible for the interest rate increase to exceed the maximum aggregate adjustment on one-to-four family residential ARM loans and negatively affect the spread between our interest income and our cost of funds.

ARM loans generally involve credit risks different from those inherent in fixed-rate loans, primarily because if interest rates rise, the underlying payments of the borrower rise, thereby increasing the potential for default. However, this potential risk is lessened by our policy of originating one-to-four family residential ARM loans with annual and lifetime interest rate caps that limit the increase of a borrower's monthly payment.

At December 31, 2011, $64.1 million, or 28.38%, of our residential mortgage loans consisted of fixed-rate loans. Our fixed-rate residential mortgage loans typically are originated for terms of 15 and 30 years and are competitively priced based on market conditions and our cost of funds. We originated and purchased $2.6 million, $16.0 million and $1.2 million in 15-year fixed-rate residential mortgages in 2011, 2010 and 2009, respectively. We did not originate or purchase any 30-year fixed-rate mortgages in 2011, 2010 and 2009.

At December 31, 2011, home equity loans totaled $70.2 million, or 2.28%, of gross loans. Home equity loans are included in our portfolio of residential mortgage loans. These loans are offered as adjustable-rate “home equity lines of credit” on which interest only is due for an initial term of 10 years and thereafter principal and interest payments sufficient to liquidate the loan are required for the remaining term, not to exceed 30 years. These adjustable “home equity lines of credit” may include a “floor” and/or a “ceiling” on the interest rate that we charge for these loans. These loans also may be offered as fully amortizing closed-end fixed-rate loans for terms up to 15 years. The majority of home equity loans originated are owner occupied one-to-four family residential properties and condominium units. To a lesser extent, home equity loans are also originated on one-to-four residential properties held for investment and second homes. All home equity loans are subject to an 80% loan-to-value ratio computed on the basis of the aggregate of the first mortgage loan amount outstanding and the proposed home equity loan. They are generally granted in amounts from $25,000 to $300,000.

Construction Loans. At December 31, 2011, construction loans totaled $47.1 million, or 1.47%, of gross loans. Our construction loans primarily have been made to finance the construction of one-to-four family residential properties, multi-family residential properties and residential condominiums. We also, to a limited extent, finance the construction of commercial real estate. Our policies provide that construction loans may be made in amounts up to 70% of the estimated value of the developed property and only if we obtain a first lien position on the underlying real estate. However, we generally limit construction loans to 60% of the estimated value of the developed property. In addition, we generally require personal guarantees on all construction loans. Construction loans are generally made with terms of two years or less. Advances are made as construction progresses and inspection warrants, subject to continued title searches to ensure that we maintain a first lien position. We made advances on construction loans of $1.7 million, $10.5 million and $18.3 million during 2011, 2010 and 2009, respectively.

Construction loans involve a greater degree of risk than other loans because, among other things, the underwriting of such loans is based on an estimated value of the developed property, which can be difficult to ascertain in light of uncertainties inherent in such estimations. In addition, construction lending entails the risk that the project may not be completed due to cost overruns or changes in market conditions.

Small Business Administration Lending. At December 31, 2011, SBA loans totaled $14.0 million, representing 0.44%, of gross loans. These loans are extended to small businesses and are guaranteed by the SBA up to a maximum of 85% of the loan balance for loans with balances of $150,000 or less, and to a maximum of 75% of the loan balance for loans with balances greater than $150,000. Under The American Recovery and Reinvestment Act of 2009, the maximum loan guarantee to banks under the SBA 7a loan program was increased to 90% and the guarantee fee paid by the Savings Bank (up to 3.5% of guaranteed loan amount) has been waived. This program was extended to December 31, 2010 by the Small Business Jobs Act of 2010. We also provide term loans and lines of credit up to $350,000 under the SBA Express Program, on which the SBA provides a 50% guaranty. The maximum loan size under the SBA guarantee program was $2.0 million, with a maximum loan guarantee of $1.5 million. The Small Business Jobs Act of 2010 permanently increased the limits to a maximum loan size of $5.0 million, with a maximum loan guarantee of $3.75 million. All SBA loans are underwritten in accordance with SBA Standard Operating Procedures which requires collateral and the personal guarantee of the owners with more than 20% ownership from SBA borrowers. Typically, SBA loans are originated in the range of $25,000 to $2.0 million with terms ranging from one to seven years and up to 25 years for owner occupied commercial real estate mortgages. SBA loans are generally offered at adjustable rates tied to the prime rate (as published in the Wall Street Journal) with adjustment periods of one to three months. We generally sell the guaranteed portion of certain SBA term loans in the secondary market, realizing a gain at the time of sale, and retain the servicing rights on these loans, collecting a servicing fee of approximately 1%. We originated and purchased $3.5 million, $3.9 million and $4.5 million of SBA loans during 2011, 2010 and 2009, respectively.

Commercial Business and Other Lending. At December 31, 2011, commercial business and other loans totaled $260.9 million, or 8.12%, of gross loans. We originate other loans for business, personal, or household purposes. Business loans generally require the personal guarantees of the owners and are typically secured by the business assets of the borrower, including accounts receivable, inventory, equipment and real estate. Included in commercial business loans are loans made to New York City taxi medallion owners. These loans, which totaled $54.3 million at December 31, 2011, are secured through liens on the taxi medallions. We originate and purchase taxi medallion loans up to 80% of the value of the taxi medallion. We originated and purchased $102.0 million, $132.7 million and $141.9 million of commercial business loans during 2011, 2010 and 2009, respectively. Consumer loans generally consist of overdraft lines of credit. Generally, unsecured consumer loans are limited to amounts of $5,000 or less for terms of up to five years.

The underwriting standards employed by us for consumer and other loans include a determination of the applicant's payment history on other debts and assessment of the applicant's ability to meet payments on all of his or her obligations. In addition to the creditworthiness of the applicant, the underwriting process also includes a comparison of the value of the collateral, if any, to the proposed loan amount. Unsecured loans tend to have higher risk, and therefore command a higher interest rate.

Loan Extensions, Renewals, Modifications and Restructuring. Extensions, renewals, modifications or restructuring a loan, other than a loan that is classified as a TDR, requires the loan to be fully underwritten in accordance with our policy for new loans. The borrower must be current to have a loan extended, renewed or restructured. Our policy for modifying a mortgage loan due to the borrower's request for changes in the terms will depend on the changes requested. The borrower must be current and have a good payment history to have a loan modified. If the borrower is seeking additional funds, the loan is fully underwritten in accordance with our policy for new loans. If the borrower is seeking a reduction in the interest rate due to a decline in interest rates in the market, we generally limit our review as follows: (1) for income producing properties and business loans, to a review of the operating results of the property/business and a satisfactory inspection of the property, and (2) for one-to-four residential properties, to a satisfactory inspection of the property. Our policy on restructuring a loan when the loan will be classified as a TDR requires the loan to be fully underwritten in accordance with Company policy. The borrower must demonstrate the ability to repay the loan under the new terms. When the restructuring results in a TDR, we may waive some requirements of Company policy provided the borrower has demonstrated the ability to meet the requirements of the restructured loan and repay the restructured loan. While our formal lending policies do not prohibit making additional loans to a borrower or any related interest of the borrower who is past due in principal or interest more than 90 days, it has been our practice not to make additional loans to a borrower or a related interest of the borrower if the borrower is past due more than 90 days as to principal or interest. During the most recent three fiscal years, we did not make any additional loans to a borrower or any related interest of the borrower who was past due in principal or interest more than 90 days. All extensions, renewals, restructurings and modifications must be approved by either the Loan Committee or the Savings Bank Board of Directors.

Loan Approval Procedures and Authority. The Board of Directors of the Company (the "Board of Directors") approved lending policies establishes loan approval requirements for our various types of loan products. Our Residential Mortgage Lending Policy (which applies to all one-to-four family mortgage loans, including residential and mixed-use property) establishes authorized levels of approval. One-to-four family mortgage loans that do not exceed $750,000 require two signatures for approval, one of which must be from either the President, Executive Vice President or a Senior Vice President (collectively, "Authorized Officers") and the other from a Senior Underwriter, Manager, Underwriter or Junior Underwriter in the Residential Mortgage Loan Department (collectively, "Loan Officers"). For one-to-four family mortgage loans from $750,000 to $1.0 million, three signatures are required for approval, at least two of which must be from Authorized Officers, and the other one may be a Loan Officer. The Loan Committee, the Executive Committee or the full Board of Directors also must approve one-to-four family mortgage loans in excess of $1.0 million. Pursuant to our Commercial Real Estate Lending Policy, all loans secured by commercial real estate and multi-family residential properties must be approved by the President or the Executive Vice President upon the recommendation of the appropriate Senior Vice President. Such loans in excess of $2.5 million also require Loan Committee or Board approval. In accordance with our Business Credit Policy all business and SBA loans up to $1.0 million and commercial and industrial loans/professional mortgage loans up to $1.5 million must be approved by the Business Loan Committee and ratified by the Management Loan Committee. Business and SBA loans in excess of $1.0 million up to $2.0 million, and commercial and industrial loans/professional mortgage loans in excess of $1.5 million up to $2.5 million, must be approved by the Management Loan Committee and ratified by the Loan Committee. Commercial business and other loans require two signatures for approval, one of which must be from an Authorized Officer. Our Construction Loan Policy requires that the Loan Committee or the Savings Bank Board of Directors must approve all construction loans. Any loan, regardless of type, that deviates from our written credit policies must be approved by the Loan Committee or the Savings Bank Board of Directors.

For all loans originated by us, upon receipt of a completed loan application, a credit report is ordered and certain other financial information is obtained. An appraisal of the real estate intended to secure the proposed loan is required. An independent appraiser designated and approved by us currently performs such appraisals. Our staff appraiser reviews all appraisals for properties where the loan amount is $2,000,000 or greater. The Savings Bank Board of Directors annually approves the independent appraisers used by the Savings Bank and approves the Savings Bank's appraisal policy. It is our policy to require borrowers to obtain title insurance and hazard insurance on all real estate loans prior to closing. For certain borrowers, the Savings Bank may require escrow funds on a monthly basis together with each payment of principal and interest to a mortgage escrow account from which we make disbursements for items such as real estate taxes and, in some cases, hazard insurance premiums.

Loan Concentrations. The maximum amount of credit that the Savings Bank can extend to any single borrower or related group of borrowers generally is limited to 15% of the Savings Bank's unimpaired capital and surplus, or $61.6 million at December 31, 2011. Applicable laws and regulations permit an additional amount of credit to be extended, equal to 10% of unimpaired capital and surplus, if the loan is secured by readily marketable collateral, which generally does not include real estate. See "-Regulation." However, it is currently our policy not to extend such additional credit. At December 31, 2011, there were no loans in excess of the maximum dollar amount of loans to one borrower that the Savings Bank was authorized to make. At that date, the three largest concentrations of loans to one borrower consisted of loans secured by a combination of commercial real estate and multi-family income producing properties with an aggregate principal balance of $41.3 million, $39.2 million and $34.5 million for each of the three borrowers, respectively.

Loan Servicing. At December 31, 2011, we were servicing $6.5 million of mortgage loans and $16.9 million of SBA loans for others. Our policy is to retain the servicing rights to the mortgage and SBA loans that we sell in the secondary market. In order to increase revenue, management intends to continue this policy.

Asset Quality

Loan Collection. When a borrower fails to make a required payment on a loan, we take a number of steps to induce the borrower to cure the delinquency and restore the loan to current status. In the case of mortgage loans, personal contact is made with the borrower after the loan becomes 30 days delinquent. We take a proactive approach to managing delinquent loans, including conducting site examinations and encouraging borrowers to meet with one of our representatives. When deemed appropriate, short-term payment plans have been developed that enable borrowers to bring their loans current, generally within six to nine months. At times, when a borrower is experiencing financial difficulties, the Savings Bank may restructure a loan to enable a borrower to continue making payments when it is deemed to be in the best long-term interest of the Savings Bank. This restructure may include reducing the interest rate or amount of the monthly payment for a specified period of time, after which the interest rate and repayment terms revert to the original terms of the loan. The Savings Bank classifies these loans as "Troubled Debt Restructured". At December 31, 2011, we had $37.8 million of mortgage loans classified as Troubled Debt Restructured, with $20.6 million of these loans performing according to their restructured terms and $17.0 million not performing according to their restructured terms. We review delinquencies on a loan by loan basis, diligently exploring ways to help borrowers meet their obligations and return them back to current status, and we have increased staffing to handle delinquent loans by hiring people experienced in loan workouts.

When the borrower has indicated that they will be unable to bring the loan current, or due to other circumstances which, in our opinion, indicate the borrower will be unable to bring the loan current within a reasonable time, the loan is classified as non-performing. All loans classified as non-performing, which includes all loans past due 90 days or more, are classified as non-accrual unless there is, in our opinion, compelling evidence the borrower will bring the loan current in the immediate future. At December 31, 2011, there were two loans, which totaled $6.4 million, past due 90 days or more and still accruing interest.

Upon classifying a loan as non-performing, we review available information and conditions that relate to the status of the loan, including the estimated value of the loan's collateral and any legal considerations that may affect the borrower's ability to continue to make payments. Based upon the available information, we will consider the sale of the loan or retention of the loan. If the loan is retained, we may continue to work with the borrower to collect the amounts due or start foreclosure proceedings. If a foreclosure action is initiated and the loan is not brought current, paid in full, or refinanced before the foreclosure sale, the real property securing the loan is sold at foreclosure or by us as soon thereafter as practicable.

Once the decision to sell a loan is made, we determine what we would consider adequate consideration to be obtained when that loan is sold, based on the facts and circumstances related to that loan. Investors and brokers are then contacted to seek interest in purchasing the loan. We have been successful in finding buyers for some of our non-performing loans offered for sale that are willing to pay what we consider to be adequate consideration. Terms of the sale include cash due upon closing of the sale, no contingencies or recourse to us, servicing is released to the buyer and time is of the essence. These sales usually close within a reasonably short time period.

This strategy of selling non-performing loans has allowed us to optimize our return by quickly converting our non-performing loans to cash, which can then be reinvested in earning assets. This strategy also allows us to avoid lengthy and costly legal proceedings that may occur with non-performing loans. We sold 44 delinquent mortgage loans totaling $28.9 million, 20 delinquent mortgage loans totaling $8.8 million, and 17 delinquent mortgage loans totaling $6.3 million during the years ended December 31, 2011, 2010 and 2009, respectively. We recorded net charge-offs of $3.7 million, $0.7 million and $0.1 million to the allowance for loan losses for the non-performing loans that were sold during 2011, 2010 and 2009, respectively. We realized gross gains of $167,000, $21,000 and $4,000 on the sale of non-performing mortgage loans for the years ended December 31, 2011, 2010 and 2009, respectively. We realized gross losses of $3,000 on the sale of non-performing mortgage loans for the year ended December 31, 2010. We did not record any gross losses for the years ended December 31, 2011 and 2009. There can be no assurances that we will continue this strategy in future periods, or if continued, we will be able to find buyers to pay adequate consideration.

On mortgage loans or loan participations purchased by us for whom the seller retains the servicing rights, we receive monthly reports with which we monitor the loan portfolio. Based upon servicing agreements with the servicers of the loans, we rely upon the servicer to contact delinquent borrowers, collect delinquent amounts and initiate foreclosure proceedings, when necessary, all in accordance with applicable laws, regulations and the terms of the servicing agreements between us and our servicing agents. The servicers are required to submit monthly reports on their collection efforts on delinquent loans. At December 31, 2011, we held $95.1 million of loans that were serviced by others.

In the case of commercial business or other loans, we generally send the borrower a written notice of non-payment when the loan is first past due. In the event payment is not then received, additional letters and phone calls generally are made in order to encourage the borrower to meet with one of our representatives to discuss the delinquency. If the loan still is not brought current and it becomes necessary for us to take legal action, which typically occurs after a loan is delinquent 90 days or more, we may attempt to repossess personal or business property that secures an SBA loan, commercial business loan or consumer loan.

Troubled Debt Restructured . We have restructured certain problem loans for borrowers who are experiencing financial difficulties by either: reducing the interest rate until the next reset date, extending the amortization period thereby lowering the monthly payments, deferring a portion of the interest payment, or changing the loan to interest only payments for a limited time period. At times, certain problem loans have been restructured by combining more than one of these options. These restructurings have not included a reduction of principal balance. We believe that restructuring these loans in this manner will allow certain borrowers to become and remain current on their loans. These restructured loans are classified as troubled debt restructured (“TDR”). Loans which have been current for six consecutive months at the time they are restructured as TDR remain on accrual status. Loans which were delinquent at the time they are restructured as a TDR are placed on non-accrual status until they have made timely payments for six consecutive months.

The following table shows our recorded investment in loans classified as TDR that are performing according to their restructured terms at the periods indicated:

	At December 31,				
(Dollars in thousands)	2011	2010	2009	2008	2007
Multi-family residential	$9,412	$7,946	$478	$-	$-
Commercial real estate	2,499	5,815	1,441	-	-
One-to-four family mixed-use property	795	206	575	-	-
Construction	5,888	-	-	-	-
Commercial business and other	2,000	-	-	-	-
Total performing troubled debt restructered	$20,594	$13,967	$2,494	$-	$-

Loans that are restructured as TDR but are not performing in accordance with the restructured terms are excluded from the TDR table above, as they are placed on non-accrual status and reported as non-performing loans. At December 31, 2011 and 2010, there were six loans totaling $17.2 million and five loans totaling $3.3 million, respectively, which were restructured as TDR which were not performing in accordance with their restructured terms

Delinquent Loans and Non-performing Assets. We generally discontinue accruing interest on delinquent loans when a loan is 90 days past due or foreclosure proceedings have been commenced, whichever first occurs. At that time, previously accrued but uncollected interest is reversed from income. Loans in default 90 days or more as to their maturity date but not their payments, however, continue to accrue interest as long as the borrower continues to remit monthly payments.

The following table shows our non-performing assets at the dates indicated. During the years ended December 31, 2011, 2010 and 2009, the amounts of additional interest income that would have been recorded on non-accrual loans, had they been current, totaled $7.5 million, $7.4 million and $4.9 million, respectively. These amounts were not included in our interest income for the respective periods.

	At December 31,				
(Dollars in thousands)	2011	2010	2009	2008	2007
Loans 90 days or more past due and still accruing:					
Multi-family residential	$6,287	$103	$-	$-	$-
Commercial real estate	92	3,328	471	425	-
One-to-four family - residential	-	-	2,784	889	-
Construction	-	-	-	-	753
Commercial Business and other	-	6	-	-	-
Total	6,379	3,437	3,255	1,314	753
Non-accrual mortgage loans:					
Multi-family residential	19,946	35,633	27,483	12,011	2,477
Commercial real estate	19,895	22,806	18,153	7,251	90
One-to-four family mixed-use property	28,429	30,478	23,422	10,639	2,204
One-to-four family residential	12,766	10,695	4,959	1,121	-
Co-operative apartments	152	-	78	-	-
Construction	14,721	4,465	1,639	4,457	-
Total	95,909	104,077	75,734	35,479	4,771
Non-accrual non-mortgage loans:					
Small Business Administration	493	1,159	1,232	354	366
Commercial Business and other	14,660	3,419	3,151	2,825	3
Total	15,153	4,578	4,383	3,179	369
Total non-accrual loans	111,062	108,655	80,117	38,658	5,140
Total non-performing loans	117,441	112,092	83,372	39,972	5,893
Other non-performing assets:					
Real Estate Owned	3,179	1,588	2,262	125	-
Investment securities	2,562	5,134	5,134	607	-
Total	5,741	6,722	7,396	732	-
Total non-performing assets	$123,182	$118,814	$90,768	$40,704	$5,893
Non-performing loans to gross loans	3.65 %	3.44 %	2.60 %	1.35 %	0.22 %
Non-performing assets to total assets	2.87 %	2.75 %	2.19 %	1.03 %	0.18 %

The following table shows our delinquent loans that are less than 90 days past due and still accruing interest at the periods indicated:

	December 31, 2011		December 31, 2010	
	60 - 89 days	30 - 59 days	60 - 89 days	30 - 59 days
	(In thousands)			
Multi-family residential	$6,341	$20,083	$7,014	$30,799
Commercial real estate	1,797	10,712	2,181	17,167
One-to-four family - mixed-use property	3,027	20,480	6,376	19,596
One-to-four family - residential	1,769	4,699	1,046	4,959
Co-operative apartments	-	-	-	-
Construction loans	-	5,065	5,485	2,900
Small Business Administration	-	16	991	418
Taxi medallion	-	71	-	-
Commercial business and other	966	1,056	3	4,534
Total	$13,900	$62,182	$23,096	$80,373

Other Real Estate Owned. We aggressively market our Other Real Estate Owned (“OREO”) properties. At December 31, 2011, we owned seven properties with a combined fair value of $3.2 million. At December 31, 2010, we owned six properties with a fair value of $1.6 million. At December 31, 2009, we owned four properties with a fair value of $2.3 million.

Investment Securities. Non-performing investment securities included two pooled trust preferred securities at December 31, 2011 and 2010 with fair values of $2.6 million and $5.1 million, respectively. At December 31, 2009, non-performing investment securities included two pooled trust preferred securities with a fair value of $5.0 million and one issue of FHLMC preferred stock with a fair value of $0.1 million.

Environmental Concerns Relating to Loans. We currently obtain environmental reports in connection with the underwriting of commercial real estate loans, and typically obtain environmental reports in connection with the underwriting of multi-family loans. For all other loans, we obtain environmental reports only if the nature of the current or, to the extent known to us, prior use of the property securing the loan indicates a potential environmental risk. However, we may not be aware of such uses or risks in any particular case, and, accordingly, there is no assurance that real estate acquired by us in foreclosure is free from environmental contamination or that, if any such contamination or other violation exists, whether we will have any liability.

Classified Assets. Our policy is to review our assets, focusing primarily on the loan portfolio, OREO and the investment portfolios, to ensure that the credit quality is maintained at the highest levels. When weaknesses are identified, immediate action is taken to correct the problem through direct contact with the borrower or issuer. We then monitor these assets, and, in accordance with our policy and current regulatory guidelines, we designate them as “Special Mention,” which is considered a “Criticized Asset,” and “Substandard,” “Doubtful,” or “Loss” which are consider “Classified Assets,” as deemed necessary. We designate an asset as Substandard when a well-defined weakness is identified that jeopardizes the orderly liquidation of the debt. We designate an asset as Doubtful when it displays the inherent weakness of a Substandard asset with the added provision that collection of the debt in full, on the basis of existing facts, is highly improbable. We designate an asset as Loss if it is deemed the debtor is incapable of repayment. Loans that are classified as Loss are charged to the Allowance for Loan Losses. Assets that are non-accrual are designated as Substandard, Doubtful or Loss. We designate an asset as Special Mention if the asset does not warrant designation within one of the other categories, but does contain a potential weakness that deserves closer attention. Our total Criticized and Classified assets were $305.1 million at December 31, 2011, a decrease of

$18.5 million from $323.7 million at December 31, 2010.

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The following table sets forth the Banks' Criticized and Classified assets at December 31, 2011:

(In thousands)	Special Mention	Substandard	Doubtful	Loss	Total
Loans:					
Multi-family residential	$ 17,135	$ 41,393	$-	$-	$58,528
Commercial real estate	12,264	41,247	-	-	53,511
One-to-four family - mixed-use property	17,393	33,831	-	-	51,224
One-to-four family - residential	3,127	14,343	-	-	17,470
Co-operative apartments	203	153	-	-	356
Construction loans	2,570	28,555	-	-	31,125
Small Business Administration	666	256	214	-	1,136
Commercial business and other	13,585	17,613	1,169	-	32,367
Total loans	66,943	177,391	1,383	-	245,717
Investment Securities: (1)					
Pooled trust preferred securities	-	15,344	-	-	15,344
Private issue CMO	-	40,905	-	-	40,905
Total investment securities	-	56,249	-	-	56,249
Other Real Estate Owned	-	3,179	-	-	3,179
Total	$ 66,943	$ 236,819	$1,383	$-	$305,145

The following table sets forth the Banks' Criticized and Classified assets at December 31, 2010:

(In thousands)	Special Mention	Substandard	Doubtful	Loss	Total
Loans:					
Multi-family residential	$ 20,277	$ 51,626	$-	$-	$71,903
Commercial real estate	13,228	32,120	-	-	45,348
One-to-four family - mixed-use property	15,546	33,539	-	-	49,085
One-to-four family - residential	2,849	10,874	-	-	13,723
Co-operative apartments	-	-	-	-	-
Construction loans	5,945	30,589	-	-	36,534
Small Business Administration	558	1,432	-	-	1,990
Commercial business and other	14,302	13,628	1,238	-	29,168
Total loans	72,705	173,808	1,238	-	247,751
Investment Securities: (1)					
Pooled trust preferred securities	-	16,457	-	-	16,457
Mutual funds	-	4,082	-	-	4,082
Private issue CMO	-	53,790	-	-	53,790
Total investment securities	-	74,329	-	-	74,329
Other Real Estate Owned	-	1,588	-	-	1,588
Total	$ 72,705	$ 249,725	$1,238	$-	$323,668

(1)

Our investment securities are classified as securities available for sale and as such are carried at their fair value in our Consolidated Financial Statements. The securities above had a fair value of $41.1 million and $65.0 million at December 31, 2011 and 2010, respectively. Under current applicable regulatory guidelines, we are required to disclose the classified investment securities, as shown in the tables above, at their book values (amortized cost, or fair value for securities that are under the fair value option). Additionally, the requirement is only for the Banks' securities. Flushing Financial Corporation had two private issue trust preferred securities classified as Substandard at December 31, 2011 and 2010 with a combined market value of $0.8 million. In addition, Flushing Financial Corporation had one mutual fund security classified as Substandard with a market value of $1.6 million at December 31, 2010.

On a quarterly basis all mortgage loans that are classified as Substandard or Doubtful and collateral dependent loans categorized as Special Mention are internally reviewed for impairment, based on updated cash flows for income producing properties, or updated independent appraisals. The loan balances of collateral dependent loans reviewed for impairment are then compared to the loans updated fair value. The balance which exceeds fair value is generally charged-off against the allowance for loan losses. At December 31, 2011, the current loan-to-value ratio on our collateral dependent loans reviewed for impairment was 60.7%.

We classify investment securities as Substandard when the investment grade rating by one or more of the rating agencies is below investment grade. We have classified a total of 20 investment securities that are held at the Savings Bank as Substandard at December 31, 2011. Our classified investment securities at December 31, 2011 held by the Savings Bank include 16 private issue collateralized mortgage obligations ("CMOs") rated below investment grade by one or more of the rating agencies, three issues of pooled trust preferred securities and one private issue trust preferred security. The Investment Securities which are classified as Substandard at December 31, 2011 are securities that were rated investment grade when we purchased them. These securities have each been subsequently downgraded by at least one rating agency to below investment grade. Through December 31, 2011, two of the pooled trust preferred securities and eight private issue CMOs are not paying principal and interest as scheduled. The remaining investment securities continued to pay interest and principal as scheduled at December 31, 2011. We test each of these securities quarterly, through an independent third party, for impairment.

There were $1.6 million, $2.0 million and $5.9 million in credit related other-than-temporary impairment ("OTTI") charges recorded for the years ended December 31, 2011, 2010 and 2009, respectively. During 2011 we recorded OTTI charges of $1.6 million on five private issue collateralized mortgage obligations. During 2010 we recorded OTTI charges of $1.1 million on four private issue collateralized mortgage obligations and $1.0 million on one pooled trust preferred securities. During 2009 we recorded OTTI charges of $3.1 million on four private issue collateralized mortgage obligations and $2.8 million on two pooled trust preferred securities.

Allowance for Loan Losses

We have established and maintain on our books an allowance for loan losses that is designed to provide a reserve against estimated losses inherent in our overall loan portfolio. The allowance is established through a provision for loan losses based on management's evaluation of the risk inherent in the various components of the loan portfolio and other factors, including historical loan loss experience (which is updated quarterly), changes in the composition and volume of the portfolio, collection policies and experience, trends in the volume of non-accrual loans and local and national economic conditions. The determination of the amount of the allowance for loan losses includes estimates that are susceptible to significant changes due to changes in appraisal values of collateral, national and local economic conditions and other factors. We review our loan portfolio by separate categories with similar risk and collateral characteristics. Impaired loans are segregated and reviewed separately. All non-accrual loans are classified impaired. Impaired loans secured by collateral are reviewed based on the fair value of their collateral. For non-collateralized impaired loans, management estimates any recoveries that are anticipated for each loan. In connection with the determination of the allowance, the market value of collateral ordinarily is evaluated by our staff appraiser. On a quarterly basis, the estimated values of impaired mortgage loans are internally reviewed, based on updated cash flows for income producing properties, and at times an updated independent appraisal is obtained. The loan balances of collateral dependent impaired loans are then compared to the loans updated fair value. The balance which exceeds fair value is generally charged-off. When evaluating a loan for impairment, we do not rely on guarantees, and the amount of impairment, if any, is based on the fair value of the collateral. We do not carry loans at a value in excess of the fair value due to a guarantee from the borrower. Impaired mortgage loans that were written down resulted from quarterly reviews or updated appraisals that indicated the properties' estimated value had declined from when the loan was originated. Current year charge-offs, charge-off trends, new loan production, current balance by particular loan categories, and delinquent loans by particular loan categories are also taken into account in determining the appropriate amount of allowance. The Board of Directors reviews and approves the adequacy of the allowance for loan losses on a quarterly basis.

In assessing the adequacy of the allowance, we review our loan portfolio by separate categories which have similar risk and collateral characteristics, e.g., multi-family residential, commercial real estate, one-to-four family mixed-use property, one-to-four family residential, co-operative apartment, construction, SBA, commercial business, taxi medallion and consumer loans. General provisions are established against performing loans in our portfolio in amounts deemed prudent based on our qualitative analysis of the factors, including the historical loss experience, delinquency trends and local economic conditions. We incurred total net charge-offs of $18.9 million and $13.6 million during the years ended December 31, 2011 and 2010, respectively. The national and local economies were generally considered to be in a recession from December 2007 through the middle of 2009. This has resulted in increased unemployment and declining property values, although the property value declines in the New York City metropolitan area have not been as great as many other areas of the country. While the national and local economies have shown signs of improvement since the second half of 2009, unemployment has remained at elevated levels. This deterioration in the economy has resulted in the balance of our non-performing loans remaining at an elevated level. Non-performing loans totaled $117.4 million and $112.1 million at December 31, 2011 and 2010, respectively. The Savings Bank's underwriting standards generally require a loan-to-value ratio of no more than 75% at the time the loan is originated. At December 31, 2011, the average outstanding principal balance of our impaired mortgage loans was less than 61% of the estimated current value of the supporting collateral, after considering the charge-offs that have been recorded. We have not been affected by the defaults of sub-prime mortgages as we do not originate, or hold in portfolio, sub-prime mortgages. A provision for loan losses of $21.5 million, $21.0 million and $19.5 million was recorded for the years ended December 31, 2011, 2010 and 2009, respectively. Management has concluded, and the Board of Directors has concurred, that at December 31, 2011, the allowance was sufficient to absorb losses inherent in our loan portfolio.

Our determination as to the classification of our assets and the amount of our valuation allowance is subject to review by the OCC and the FDIC, which can require the establishment of additional general allowances or specific loss allowances or require charge-offs. Such authorities may require us to make additional provisions to the allowance based on their judgments about information available to them at the time of their examination. An OCC policy statement provides guidance for OCC examiners in determining whether the levels of general valuation allowances for savings institutions are adequate. The policy statement requires that if a savings institution's general valuation allowance policies and procedures are deemed to be inadequate, recommendations for correcting deficiencies, including any examiner concerns regarding the level of the allowance, should be noted in the report of examination. Additional supervisory action may also be taken based on the magnitude of the observed shortcomings in the allowance process, including the materiality of any error in the reported amount of the allowance.

Management believes that our current allowance for loan losses is adequate in light of current economic conditions, the composition of our loan portfolio, the level and type of delinquent loans, charge-offs recorded and other available information and the Board of Directors concurs in this belief. At December 31, 2011, the total allowance for loan losses was $30.3 million, representing 25.84% of non-performing loans and 24.63% of non-performing assets, compared to 24.71% of non-performing loans and 23.31% of non-performing assets at December 31, 2010. We continue to monitor and, as necessary, modify the level of our allowance for loan losses in order to maintain the allowance at a level which we consider adequate to provide for probable loan losses based on available information.

Many factors may require additions to the allowance for loan losses in future periods beyond those currently revealed. These factors include further adverse changes in economic conditions, changes in interest rates and changes in the financial capacity of individual borrowers (any of which may affect the ability of borrowers to make repayments on loans), changes in the real estate market within our lending area and the value of collateral, or a review and evaluation of our loan portfolio in the future. The determination of the amount of the allowance for loan losses includes estimates that are susceptible to significant changes due to changes in appraised values of collateral, national and local economic conditions, interest rates and other factors. In addition, our overall level of credit risk inherent in our loan portfolio can be affected by the loan portfolio's composition. At December 31, 2011, multi-family residential, commercial real estate, construction and one-to-four family mixed-use property mortgage loans, totaled 84.4% of our gross loans. The greater risk associated with these loans, as well as business loans, could require us to increase our provisions for loan losses and to maintain an allowance for loan losses as a percentage of total loans that is in excess of the allowance we currently maintain. Provisions for loan losses are charged against net income. See "—Lending Activities" and "—Asset Quality."

The following table sets forth changes in, and the balance of, our allowance for loan losses.

	At and for the years ended December 31,				
(Dollars in thousands)	2011	2010	2009	2008	2007
Balance at beginning of year	$27,699	$20,324	$11,028	$6,633	$7,057
Provision for loan losses	21,500	21,000	19,500	5,600	-
Loans charged-off:					
Multi-family residential	(6,807)	(5,790)	(2,327)	(496)	-
Commercial real estate	(5,172)	(2,685)	(728)	-	-
One-to-four family mixed-use property	(2,644)	(2,580)	(1,009)	-	-
One-to-four family residential	(2,226)	(236)	(284)	-	-
Co-operative apartment	-	-	-	-	-
Construction	(1,088)	(1,879)	(1,075)	-	-
SBA	(871)	(925)	(1,106)	(759)	(470)
Commercial business and other loans	(642)	(500)	(3,842)	(36)	(2)
Total loans charged-off	(19,450)	(14,595)	(10,371)	(1,291)	(472)
Recoveries:					
Mortgage loans	523	183	1	-	29
SBA, commercial business and other loans	72	787	166	86	19
Total recoveries	595	970	167	86	48
Net charge-offs	(18,855)	(13,625)	(10,204)	(1,205)	(424)
Balance at end of year	$30,344	$27,699	$20,324	$11,028	$6,633
Ratio of net charge-offs during the year to average loans outstanding during the year	0.59 %	0.42 %	0.33 %	0.04 %	0.02 %
Ratio of allowance for loan losses to gross loans at end of the year	0.94 %	0.85 %	0.63 %	0.37 %	0.25 %
Ratio of allowance for loan losses to non-performing loans at the end of the year	25.84 %	24.71 %	24.38 %	27.59 %	112.57 %
Ratio of allowance for loan losses to non-performing assets at the end of the year	24.63 %	23.31 %	22.39 %	27.09 %	112.57 %

The following table sets forth our allocation of the allowance for loan losses to the total amount of loans in each of the categories listed at the dates indicated. The numbers contained in the "Amount" column indicate the allowance for loan losses allocated for each particular loan category. The numbers contained in the column entitled "Percentage of Loans in Category to Total Loans" indicate the total amount of loans in each particular category as a percentage of our loan portfolio.

	At December 31, 2011		2010		2009		2008		2007	
Loan Category	Amount	Percent of Loans in Category to Total loans	Amount	Percent of Loans in Category to Total loans	Amount	Percent of Loans in Category to Total loans	Amount	Percent of Loans in Category to Total loans	Amount	Percent of Loans in Category to Total loans
					(Dollars in thousands)					
Mortgage loans:										
Multi-family residential	$11,267	43.28 %	$9,007	38.41 %	$6,581	36.17 %	$3,233	33.80 %	$1,644	35.79 %
Commercial real estate	5,209	18.07	4,905	20.33	4,395	21.42	1,360	23.24	933	21.77
One-to-four family mixed-use property	5,314	21.59	5,997	22.36	4,339	23.24	2,904	25.45	1,223	25.49
One-to-four family residential	1,649	6.86	938	7.40	844	7.80	393	8.09	251	6.01
Co-operative apartment	80	0.17	17	0.19	17	0.20	9	0.22	15	0.26
Construction	668	1.47	589	2.32	1,281	3.04	910	3.51	1,172	4.44
Gross mortgage loans	24,187	91.44	21,453	91.01	17,457	91.87	8,809	94.31	5,238	93.76
Non-mortgage loans:										
Small Business Administration	987	0.44	1,303	0.54	965	0.55	464	0.67	373	0.70
Taxi Medallion	41	1.69	639	2.71	583	1.92	91	0.44	391	2.53
Commercial business and other	5,129	6.43	4,304	5.74	1,319	5.66	1,664	4.58	631	3.01
Gross non-mortgage	6,157	8.56	6,246	8.99	2,867	8.13	2,219	5.69	1,395	6.24

loans										
Total loans	$30,344	100.00%	$27,699	100.00%	$20,324	100.00%	$11,028	100.00%	$6,633	100.00%

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Investment Activities

General. Our investment policy, which is approved by the Board of Directors, is designed primarily to manage the interest rate sensitivity of our overall assets and liabilities, to generate a favorable return without incurring undue interest rate and credit risk, to complement our lending activities and to provide and maintain liquidity. In establishing our investment strategies, we consider our business and growth strategies, the economic environment, our interest rate risk exposure, our interest rate sensitivity "gap" position, the types of securities to be held, and other factors. See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Overview—Management Strategy" in Item 7 of this Annual Report.

Federally chartered savings institutions have authority to invest in various types of assets, including U.S. government obligations, securities of various federal agencies, mortgage-backed and mortgage-related securities, certain certificates of deposit of insured banks and savings institutions, certain bankers acceptances, reverse repurchase agreements, loans of federal funds, and, subject to certain limits, corporate securities, commercial paper and mutual funds. We primarily invest in mortgage-backed securities, U. S. government obligations, and mutual funds that purchase these same instruments. We did not hold any issues of foreign sovereign debt at December 31, 2011 and 2010.

Our Investment Committee meets quarterly to monitor investment transactions and to establish investment strategy. The Board of Directors reviews the investment policy on an annual basis and investment activity on a monthly basis.

We classify our investment securities as available for sale. We carry some of our investments under the fair value option. Unrealized gains and losses for investments carried under the fair value option are included in our Consolidated Statements of Income. Unrealized gains and losses on the remaining investment portfolio, other than unrealized credit losses considered other than temporary, are excluded from earnings and included in Accumulated Other Comprehensive Income (a separate component of equity), net of taxes. At December 31, 2011, we had $812.5 million in securities available for sale, which represented 18.95% of total assets. These securities had an aggregate market value at December 31, 2011 that was approximately 1.9 times the amount of our equity at that date.

There were $1.6 million, $2.0 million and $5.9 million in credit related OTTI charges recorded for the years ended December 31, 2011, 2010 and 2009, respectively. During 2011 we recorded OTTI charges of $1.6 million on five private issue collateralized mortgage obligations. During 2010 we recorded OTTI charges of $1.1 million on four private issue collateralized mortgage obligations and $1.0 million on one pooled trust preferred securities. During 2009 we recorded OTTI charges of $3.1 million on four private issue collateralized mortgage obligations and $2.8 million on two pooled trust preferred securities. As a result of the magnitude of our holdings of securities available for sale, changes in interest rates could produce significant changes in the value of such securities and could produce significant fluctuations in our operating results and equity. See Notes 5 and 16 of Notes to Consolidated Financial Statements, included in Item 8 of this Annual Report.

The table below sets forth certain information regarding the amortized cost and market values of our securities portfolio, interest-earning deposits and federal funds sold, at the dates indicated. Securities available for sale are recorded at market value. See Notes 5 and 16 of Notes to Consolidated Financial Statements, included in Item 8 of this Annual Report.

	At December 31,					
	2011		2010		2009	
	Amortized Cost	Market Value	Amortized Cost	Market Value	Amortized Cost	Market Value
	(In thousands)					
Securities available for sale						
Bonds and other debt securities:						
U.S. government and agencies	$1,980	$ 2,039	$10,556	$ 10,459	$3,277	$ 3,389
Municipal securities	4,534	4,531	5,412	5,413	2,250	2,250
Corporate debentures	20,777	20,592	2,698	2,698	2,627	2,627
Total bonds and other debt securities	27,291	27,162	18,666	18,570	8,154	8,266
Mutual funds	21,369	21,369	10,625	10,625	6,860	6,860
Equity securities:						
Common stock	790	790	967	967	1,036	1,036
Preferred stock	21,233	15,921	22,346	19,950	22,805	19,199
Total equity securities	22,023	16,711	23,313	20,917	23,841	20,235
Mortgage-backed securities:						
FNMA	175,627	182,630	192,750	194,540	124,199	127,364
REMIC and CMO	460,824	473,639	456,210	453,465	388,891	380,325
FHLMC	22,556	23,387	19,561	20,117	29,201	29,909
GNMA	62,040	67,632	81,439	85,955	107,144	110,845
Total mortgage-backed securities	721,047	747,288	749,960	754,077	649,435	648,443
Total securities available for sale	791,730	812,530	802,564	804,189	688,290	683,804
Interest-earning deposits and Federal funds sold	48,944	48,944	41,836	41,836	23,542	23,542
Total	$840,674	$ 861,474	$844,400	$ 846,025	$711,832	$ 707,346

Mortgage-backed securities. At December 31, 2011, we had $747.3 million invested in mortgage-backed securities, of which $32.8 million was invested in adjustable-rate mortgage-backed securities. The mortgage loans underlying these adjustable-rate securities generally are subject to limitations on annual and lifetime interest rate increases. We anticipate that investments in mortgage-backed securities may continue to be used in the future to supplement mortgage-lending activities. Mortgage-backed securities are more liquid than individual mortgage loans and may be used more easily to collateralize our obligations, including collateralizing of the governmental deposits of our Commercial Bank. However, during 2009 and continuing throughout 2011, the market for private issued mortgage-backed securities was somewhat illiquid. In addition, the ratings assigned to our holdings of private issued mortgage-backed securities were reduced to below investment grade. As a result, we are not able to use private issued mortgage-backed securities to collateralize our obligations.

The following table sets forth our mortgage-backed securities purchases, sales and principal repayments for the years indicated:

	For the years ended December 31,		
	2011	2010	2009
	(In thousands)		
Balance at beginning of year	$754,077	$648,443	$674,764
Purchases of mortgage-backed securities	122,530	345,257	177,036
Amortization of unearned premium, net of accretion of unearned discount	(2,587)	(2,343)	(1,668)
Net change in unrealized gains (losses) on mortgage-backed securities available for sale	22,124	5,110	20,550
Net realized gains recorded on mortgage-backed securities carried at fair value	(636)	730	3,941
Net change in interest due on securities carried at fair value	(46)	(127)	(122)
Sales of mortgage-backed securities	-	(56,479)	(44,854)
Other-than-temporary impairment charges	(1,578)	(1,057)	(3,144)
In-kind distribution of a mutual fund in the form of mortgage-backed securities	-	-	11,494
Principal repayments received on mortgage-backed securities	(146,596)	(185,457)	(189,554)
Net increase (decrease) in mortgage-backed securities	(6,789)	105,634	(26,321)
Balance at end of year	$747,288	$754,077	$648,443

While mortgage-backed securities carry a reduced credit risk as compared to whole loans, such securities remain subject to the risk that a fluctuating interest rate environment, along with other factors such as the geographic distribution of the underlying mortgage loans, may alter the prepayment rate of such mortgage loans and so affect both the prepayment speed and value of such securities. We do not own any derivative instruments that are extremely sensitive to changes in interest rates.

The table below sets forth certain information regarding the amortized cost, fair value, annualized weighted average yields and maturities of our investment in debt and equity securities and interest-earning deposits at December 31, 2011. The stratification of balances is based on stated maturities. Equity securities are shown as immediately maturing, except for preferred stocks with stated redemption dates, which are shown in the period they are scheduled to be redeemed. Assumptions for repayments and prepayments are not reflected for mortgage-backed securities. We carry these investments at their estimated fair value in the consolidated financial statements.

	One year or Less		One to Five Years		Five to Ten Years		More than Ten Years			
	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield	Amortized Cost	Weighted Average Yield (Dollars in thousands)	Amortized Cost	Weighted Average Yield	Average Remaining Years to Maturity	A
Securities available for sale										
Bonds and other debt securities:										
U.S. government and agencies	$-		$1,980	4.15	$-	-	$-	- %	1.16	$
Municipal securities	4,534	0.70	-	-	-	-	-	-	0.39	
Corporate debentures	2,612	5.46	9,076	0.96	9,089	0.90	-	-	4.61	
Total bonds and other debt securities	7,146	2.44	11,056	1.53	9,089	0.90	-	-	3.66	
Mutual funds	21,369	2.97	-	-	-	-	-	-	N/A	
Equity securities:										
Common stock	-	-	-	-	-	-	790	16.36	N/A	
Preferred stock	5,000	0.25	-	-	-	-	16,233	4.15	N/A	
Total equity securities	5,000	0.25	-	-	-	-	17,023	4.72	N/A	
Mortgage-backed securities:										
FNMA	-	-	396	5.99	32,148	3.67	143,083	4.23	17.21	
REMIC and CMO	-	-	-	-	34,853	4.52	425,971	4.45	22.57	
FHLMC	-	-	147	6.05	334	6.08	22,075	4.55	16.62	
GNMA	-	-	-	-	-	-	62,040	5.31	26.78	
Total mortgage-backed securities	-	-	543	6.01	67,335	4.12	653,169	4.49	21.44	
Interest-earning deposits	48,944	0.25	-	-	-	-	-	-	N/A	
Total	$82,459	1.14%	$11,599	1.74%	$76,424	3.74%	$670,192	4.49 %	20.79	$

Sources of Funds

General. Deposits, FHLB-NY borrowings, repurchase agreements, principal and interest payments on loans, mortgage-backed and other securities, and proceeds from sales of loans and securities are our primary sources of funds for lending, investing and other general purposes.

Deposits. We offer a variety of deposit accounts having a range of interest rates and terms. Our deposits primarily consist of savings accounts, money market accounts, demand accounts, NOW accounts and certificates of deposit. We have a relatively stable retail deposit base drawn from our market area through our 16 full-service offices. We seek to retain existing depositor relationships by offering quality service and competitive interest rates, while keeping deposit growth within reasonable limits. It is management's intention to balance its goal to maintain competitive interest rates on deposits while seeking to manage its cost of funds to finance its strategies. In January 2012, we opened our seventeenth full-service office.

In addition to our full-service offices we have an internet branch "iGObanking.com®", which currently offers savings accounts, money market accounts, checking accounts, and certificates of deposit. This allows us to compete on a national scale without the geographical constraints of physical locations. Since the number of U.S. households with accounts at Web-only banks has grown, our strategy was to join the market place by creating a branch that offers clients the simplicity and flexibility of a virtual online bank, which is a division of a stable, traditional bank that was established in 1929. At December 31, 2011 and 2010, total deposits for the internet branch were $470.6 million and $479.4 million, respectively.

The Savings Bank also has a wholly-owned subsidiary, Flushing Commercial Bank, a New York State chartered commercial bank, for the limited purpose of providing banking services to public entities including counties, cities, towns, villages, school districts, libraries, fire districts, and the various courts throughout the New York City metropolitan area. The Commercial Bank offers a full range of deposit products to these entities similar to the products currently being offered by the Savings Bank. At December 31, 2011 and 2010, total deposits for the Commercial Bank were $591.0 million and $570.5 million, respectively.

Our core deposits, consisting of savings accounts, NOW accounts, money market accounts, and non-interest bearing demand accounts, are typically more stable and lower costing than other sources of funding. However, the flow of deposits into a particular type of account is influenced significantly by general economic conditions, changes in prevailing money market and other interest rates, and competition. We saw a decrease in our Due to deposits during 2011 of $46.8 million compared to increases in 2010 and 2009. During the year ended December 31, 2011, the cost of due to Due to depositors' decreased 30 basis points to 1.59% from 1.89% for the year ended December 31, 2010. This decrease in the cost of deposits is primarily attributable to the Banks' reducing the rates it pays on its deposit products. While we are unable to predict the direction of future interest rate changes, if interest rates rise during 2012, the result could be an increase in our cost of deposits, which could reduce our net interest margin. Similarly, if interest rates remain at their current level or decline in 2012, we could see a decline in our cost of deposits, which could increase our net interest margin.

Included in deposits are certificates of deposit with balances of $100,000 or more totaling $565.7 million, $474.9 million and $323.7 million at December 31, 2011, 2010 and 2009, respectively.

We utilize brokered certificates of deposit as an additional funding source and to assist in the management of our interest rate risk. We have obtained brokered certificates of deposit when the interest rate on these deposits is below the prevailing interest rate for non-brokered certificates of deposit with similar maturities in our market, or when obtaining them allowed us to extend the maturities of our deposits at favorable rates compared to borrowing funds with similar maturities, when we are seeking to extend the maturities of our funding to assist in the management of our interest rate risk. Brokered certificates of deposit provide a large deposit for us at a lower operating cost as compared to non-brokered certificates of deposit since we only have one account to maintain versus several accounts with multiple interest and maturity checks. The Depository Trust Company is used as the clearing house, maintaining each deposit under the name of CEDE & Co. These deposits are transferable just like a stock or bond investment and the customer can open the account with only a phone call, just like buying a stock or bond. Unlike non-brokered certificates of deposit, where the deposit amount can be withdrawn with a penalty for any reason, including increasing interest rates, a brokered certificate of deposit can only be withdrawn in the event of the death, or court declared mental incompetence, of the depositor. This allows us to better manage the maturity of our deposits and our interest rate risk. We also have in the past utilized brokers to obtain money market account deposits. The rate we pay on brokered money market accounts is the same or below the rate we pay on non-brokered money market accounts, and the rate is agreed to in a contract between the Savings Bank and the broker. These accounts are similar to brokered certificates of deposit accounts in that we only maintain one account for the total deposit per broker, with the broker maintaining the detailed records of each depositor.

We also offer access to $50 million per customer in FDIC insurance coverage through a Certificate of Deposit Account Registry Service ("CDARS®"). CDARS® is a deposit placement service. This network arranges for placement of funds into certificate of deposit accounts issued by other member banks of the network in increments of less than $250,000 to ensure that both principal and interest are eligible for full FDIC deposit insurance. This allows us to accept deposits in excess of $250,000 from a depositor, and place the deposits through the network to other member banks to provide full FDIC deposit insurance coverage. We may receive deposits from other member banks in exchange for the deposits we place into the network. We may also obtain deposits from other network member banks without placing deposits into the network. We will obtain deposits in this manner primarily as a short-term funding source. We also can place deposits with other member banks without receiving deposits from other member banks. Depositors are allowed to withdraw funds, with a penalty, from these accounts at one or more of the member banks that hold the deposits.

Brokered deposits and funds obtained through the CDARS® network are classified as brokered deposits for financial reporting purposes. At December 31, 2011, we had $444.8 million classified as brokered deposits. The brokered certificates of deposit include $15.7 million obtained through the CDARS® network. We did not hold any brokered money market accounts at December 31, 2011.

The following table sets forth the distribution of our deposit accounts at the dates indicated and the weighted average nominal interest rates on each category of deposits presented.

	At December 31,							
	2011			2010			2009	
	Amount	Percent of Total Deposits	Weighted Average Nominal Rate	Amount	Percent of Total Deposits	Weighted Average Nominal Rate	Amount	Percent of Total Deposits
	(Dollars in thousands)							
Savings accounts	$349,630	11.11	0.32%	$388,512	12.17 %	0.53%	$426,821	15.85 %
NOW accounts	919,029	29.21	0.67	786,015	24.63	0.84	503,159	18.68
Demand accounts	118,507	3.77	-	96,198	3.02	-	91,376	3.39
Mortgagors' escrow deposits	29,786	0.95	0.21	27,315	0.86	0.21	26,791	0.99
Total	1,416,952	45.04	0.52	1,298,040	40.68	0.67	1,048,147	38.91
Money market accounts (7)	200,183	6.36	0.33	371,998	11.66	0.56	414,457	15.40
Certificate of deposit accounts with original maturities of:								
Less than 6 Months (2)	14,643	0.47	0.17	21,245	0.67	0.37	9,670	0.36
6 to less than 12 Months (3)	22,849	0.73	0.20	38,959	1.22	0.59	54,855	2.04
12 to less than 30 Months (4)	647,872	20.58	1.79	620,737	19.46	1.92	511,728	19.00
30 to less than 48 Months (5)	91,702	2.91	2.21	88,659	2.78	2.36	17,479	0.65
48 to less than 72 Months (6)	685,432	21.79	2.81	714,948	22.40	3.09	596,262	22.14
72 Months or more	66,612	2.12	3.71	36,024	1.13	4.68	40,517	1.50
Total certificate of deposit accounts	1,529,110	48.60	2.31	1,520,572	47.66	2.50	1,230,511	45.69
Total deposits (1)	$3,146,245	100.00%	1.38%	$3,190,610	100.00%	1.53%	$2,693,115	100.00%

(1) Included in the above balances are IRA and Keogh deposits totaling $168.8 million, $178.2 million and $169.3 million at December 31, 2011, 2010 and 2009, respectively.

(2) Includes brokered deposits of $10.9 million, $15.7 million and $4.8 million at December 31, 2011, 2010 and 2009, respectively.

(3) Includes brokered deposits of $0.5 million and $.7million at December 31, 2010 and 2009, respectively.

(4) Includes brokered deposits of $4.2 million, $28.9 million and $90.7 million at December 31, 2011, 2010 and 2009, respectively.

(5) Includes brokered deposits of $188.5 million, $187.3 million and $139.9 million at December 31, 2011, 2010 and 2009, respectively.

(6) Includes brokered deposits of $241.2 million, $246.0 million and $159.6 million at December 31, 2011, 2010 and 2009, respectively.

(7) Includes brokered deposits of $35.1 million and $35.0 million at December 31, 2010 and 2009, respectively.

The following table presents by various rate categories, the amount of time deposit accounts outstanding at the dates indicated, and the years to maturity of the certificate accounts outstanding at December 31, 2011.

		At December 31,			At December 31, 2011			
		2011	2010	2009	Within One Year	One to Three Years	Thereafter	Total
					(In thousands)			
Interest rate:								
1.99% or less	(1)	$535,441	$411,507	$276,894	$351,034	$ 115,738	$68,669	$535,441
2.00% to 2.99%	(2)	549,589	575,103	186,821	269,451	180,657	99,481	549,589
3.00% to 3.99%	(3)	401,650	414,464	408,580	31,815	186,910	182,925	401,650
4.00% to 4.99%	(4)	19,764	52,371	210,420	9,315	10,423	26	19,764
5.00% to 5.99%	(5)	22,666	67,127	147,796	995	18,500	3,171	22,666
Total		$1,529,110	$1,520,572	$1,230,511	$662,610	$ 512,228	$354,272	$1,529,110

(1) Includes brokered deposits of $104.0 million, $86.6.million and $18.6 million at December 31, 2011, 2010 and 2009, respectively.
(2) Includes brokered deposits of $161.2 million, $156.9 million and $93.0 million at December 31, 2011, 2010 and 2009, respectively.
(3) Includes brokered deposits of $177.8 million, $185.0 million and $178.0 million at December 31, 2011, 2010 and 2009, respectively.
(4) Includes brokered deposits of $10.1 million and $21.9 million at December 31, 2010 and 2009 respectively.
(5) Includes brokered deposits of $1.7 million, $39.9 million and $84.2 million at December 31, 2011, 2010 and 2009, respectively

The following table presents by remaining maturity categories the amount of certificate of deposit accounts with balances of $100,000 or more at December 31, 2011 and their annualized weighted average interest rates.

	Amount	Weighted Average Rate
	(Dollars in thousands)	
Maturity Period:		
Three months or less	$66,396	1.38 %
Over three through six months	51,008	1.93
Over six through 12 months	246,364	2.02
Over 12 months	201,897	2.77
Total	$565,665	2.20 %

The above table does not include brokered deposits of $444.8 million with a weighted average rate of 2.45%.

The following table presents the deposit activity, including mortgagors' escrow deposits, for the periods indicated.

	For the year ended December 31, 2011	2010	2009
	(In thousands)		
Net deposits (withdrawls)	$(93,983)	$443,020	$156,696
Amortization of premiums, net	1,187	820	677
Interest on deposits	48,431	53,655	66,778

Net increase (decrease) in deposits	$(44,365)	$497,495	$224,151

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The following table sets forth the distribution of our average deposit accounts for the years indicated, the percentage of total deposit portfolio, and the average interest cost of each deposit category presented. Average balances for all years shown are derived from daily balances.

	At December 31, 2011			2010			2009		
	Average Balance	Percent of Total Deposits	Average Cost	Average Balance	Percent of Total Deposits	Average Cost	Average Balance	Percent of Total Deposits	Average Cost
	(Dollars in thousands)								
Savings accounts	$369,206	11.59	0.57 %	$413,657	13.94 %	0.81 %	$422,399	15.84 %	1.31 %
NOW accounts	838,648	26.33	0.79	683,390	23.04	1.10	373,854	14.02	1.58
Demand accounts	107,278	3.37	-	88,238	2.97	-	76,559	2.86	-
Mortgagors' escrow deposits	39,430	1.24	0.12	38,245	1.29	0.14	35,879	1.35	0.18
Total	1,354,562	42.53	0.65	1,223,530	41.24	0.89	908,691	34.07	1.27
Money market accounts	278,692	8.75	0.47	394,536	13.30	0.94	334,703	12.55	1.58
Certificate of deposit accounts	1,552,020	48.72	2.47	1,348,439	45.46	2.90	1,423,746	53.38	3.51
Total deposits	$3,185,274	100.00 %	1.52 %	$2,966,505	100.00 %	1.81 %	$2,667,140	100.00 %	2.50 %

Borrowings. Although deposits are our primary source of funds, we also use borrowings as an alternative and cost effective source of funds for lending, investing and other general purposes. The Banks are members of, and are eligible to obtain advances from, the FHLB-NY. Such advances generally are secured by a blanket lien against the Banks' mortgage portfolio and the Banks' investment in the stock of the FHLB-NY. In addition, the Banks may pledge mortgage-backed securities to obtain advances from the FHLB-NY. See "— Regulation — Federal Home Loan Bank System." The maximum amount that the FHLB-NY will advance for purposes other than for meeting withdrawals fluctuates from time to time in accordance with the policies of the FHLB-NY. The Banks may also enter into repurchase agreements with broker-dealers and the FHLB-NY. These agreements are recorded as financing transactions and the obligations to repurchase are reflected as a liability in our consolidated financial statements. In addition, we issued junior subordinated debentures with a total par of $61.9 million in June and July 2007. These junior subordinated debentures are carried at fair value in the Consolidated Statement of Financial Condition. The average cost of borrowings was 4.08%, 4.41% and 4.65% for the years ended December 31, 2011, 2010 and 2009, respectively. The average balances of borrowings were $693.4 million, $864.2 million and $1,043.2 million for the same years, respectively.

The following table sets forth certain information regarding our borrowings at or for the periods ended on the dates indicated.

	At or for the years ended December 31,		
	2011	2010	2009
	(Dollars in thousands)		
Securities Sold with the Agreement to Repurchase			
Average balance outstanding	$ 171,092	$ 174,750	$ 204,192
Maximum amount outstanding at any month end during the period	185,300	186,900	222,439
Balance outstanding at the end of period	185,300	166,000	186,900
Weighted average interest rate during the period	4.07 %	4.30 %	4.33 %
Weighted average interest rate at end of period	3.77	4.35	4.19
FHLB-NY Advances			
Average balance outstanding	$ 491,017	$ 656,244	$ 804,545
Maximum amount outstanding at any month end during the period	562,576	772,115	854,457
Balance outstanding at the end of period	473,528	510,457	838,835
Weighted average interest rate during the period	3.45 %	4.00 %	4.39 %
Weighted average interest rate at end of period	2.67	3.93	3.84
Other Borrowings			
Average balance outstanding	$ 31,299	$ 33,179	$ 34,465
Maximum amount outstanding at any month end during the period	36,177	34,823	38,417
Balance outstanding at the end of period	26,311	32,226	34,510
Weighted average interest rate during the period	13.82 %	13.04 %	12.56 %
Weighted average interest rate at end of period	16.96	13.89	12.63
Total Borrowings			
Average balance outstanding	$ 693,408	$ 864,173	$ 1,043,202
Maximum amount outstanding at any month end during the period	777,373	993,838	1,110,043
Balance outstanding at the end of period	685,139	708,683	1,060,245
Weighted average interest rate during the period	4.08 %	4.41 %	4.65 %
Weighted average interest rate at end of period	3.51	4.47	4.18

Subsidiary Activities

At December 31, 2011, Flushing Financial Corporation had four wholly owned subsidiaries: the Savings Bank and the Trusts. In addition, the Savings Bank had four wholly owned subsidiaries: the Commercial Bank, FSB Properties, Inc. ("Properties"), Flushing Preferred Funding Corporation ("FPFC"), and Flushing Service Corporation.

(a) The Commercial Bank, a New York State chartered commercial bank, was formed in response to a New York State Finance Law which requires that municipal deposits and state funds be deposited into a bank or trust company designated by the New York State Comptroller. It was formed for the limited purpose of providing banking services to public entities including counties, cities, towns, villages, school districts, libraries, fire districts and the various courts throughout the New York City metropolitan area.

(b) Properties, which is incorporated in the State of New York, was formed in 1976 under the Savings Bank's New York State leeway investment authority. The original purpose of Properties was to engage in joint venture real estate equity investments. The Savings Bank discontinued these activities in 1986. The last joint venture in which Properties was a partner was dissolved in 1989. The last remaining property acquired by the dissolution of these joint ventures was disposed of in 1998. Properties is currently used to hold title to real estate owned that is obtained via foreclosure.

(c) FPFC, which is incorporated in the State of Delaware, was formed in 1997 as a real estate investment trust for the purpose of acquiring, holding and managing real estate mortgage assets. FPFC also provides an additional vehicle for access by the Company to the capital markets for future opportunities.

(d) Flushing Service Corporation, which is incorporated in the State of New York, was formed in 1998 to market insurance products and mutual funds.

Personnel

At December 31, 2011, we had 364 full-time employees and 30 part-time employees. None of our employees are represented by a collective bargaining unit, and we consider our relationship with our employees to be good. At the present time, Flushing Financial Corporation only employs certain officers of the Banks. These employees do not receive any extra compensation as officers of Flushing Financial Corporation.

Omnibus Incentive Plan

The 2005 Omnibus Incentive Plan ("Omnibus Plan") became effective on May 17, 2005 after adoption by the Board of Directors and approval by the stockholders. The Omnibus Plan authorizes the Compensation Committee to grant a variety of equity compensation awards as well as long-term and annual cash incentive awards, all of which can be structured so as to comply with Section 162(m) of the Internal Revenue Code. As of December 31, 2011, there are 725,997 shares available under the full value award plan and 1,380 shares under the non-full value plan. We have applied the shares previously authorized by stockholders under the 1996 Stock Option Incentive Plan and the 1996 Restricted Stock Incentive Plan for use under the non-full value and full value plans, respectively, for future awards under the Omnibus Plan. All grants and awards under the 1996 Stock Option Incentive Plan and 1996 Restricted Stock Incentive Plan prior to the effective date of the Omnibus Plan remained outstanding as issued. We will continue to maintain separate pools of available shares for full value as opposed to non-full value awards, except that shares can be moved from the non-full value pool to the full value pool on a 3-for-1 basis. In May 2011, the Company's stockholders approved an additional 625,000 shares for the full value pool. The exercise price per share of a stock option grant may not be less than the fair market value of the common stock of the Company on the date of grant, and may not be repriced without the approval of the Company's stockholders. Options, stock appreciation rights, restricted stock, restricted stock units and other stock based awards granted under the Omnibus Plan are generally subject to a minimum vesting period of three years.

For additional information concerning this plan, see "Note 10 of Notes to Consolidated Financial Statements" in Item 8 of this Annual Report.

FEDERAL, STATE AND LOCAL TAXATION

The following discussion of tax matters is intended only as a summary and does not purport to be a comprehensive description of the tax rules applicable to the Company.

Federal Taxation

General. We report our income using a calendar year and the accrual method of accounting. We are subject to the federal tax laws and regulations which apply to corporations generally, and, since the enactment of the Small Business Job Protection Act of 1996 (the "Act"), those laws and regulations governing the Savings Bank's deductions for bad debts, described below.

Bad Debt Reserves. Prior to the enactment of the Act, which was signed into law on August 20, 1996, savings institutions which met certain definitional tests primarily relating to their assets and the nature of their business ("qualifying thrifts"), such as the Savings Bank, were allowed deductions for bad debts under methods more favorable than those granted to other taxpayers. Qualifying thrifts could compute deductions for bad debts using either the specific charge off method of Section 166 of the Internal Revenue Code (the "Code") or the reserve method of Section 593 of the Code. Section 1616(a) of the Act repealed the Section 593 reserve method of accounting for bad debts by qualifying thrifts, effective for taxable years beginning after 1995. Qualifying thrifts that are treated as large banks, such as the Savings Bank, are required to use the specific charge off method, pursuant to which the amount of any debt may be deducted only as it actually becomes wholly or partially worthless.

Distributions. To the extent that the Savings Bank makes "non-dividend distributions" to stockholders that are considered to result in distributions from its pre-1988 reserves or the supplemental reserve for losses on loans ("excess distributions"), then an amount based on the amount distributed will be included in the Savings Bank's taxable income. Non-dividend distributions include distributions in excess of the Savings Bank's current and post-1951 accumulated earnings and profits, as calculated for federal income tax purposes, distributions in redemption of stock and distributions in partial or complete liquidation. The amount of additional taxable income resulting from an excess distribution is an amount that when reduced by the tax attributable to the income is equal to the amount of the excess distribution. Thus, slightly more than one and one-half times the amount of the excess distribution made would be includable in gross income for federal income tax purposes, assuming a 35% federal corporate income tax rate. See "Regulation — Restrictions on Dividends and Capital Distributions" for limits on the payment of dividends by the Savings Bank. The Savings Bank does not intend to pay dividends or make non-dividend distributions described above that would result in a recapture of any portion of its pre-1988 bad debt reserves.

Corporate Alternative Minimum Tax. The Code imposes an alternative minimum tax on corporations equal to the excess, if any, of 20% of alternative minimum taxable income ("AMTI") over a corporation's regular federal income tax liability. AMTI is equal to taxable income with certain adjustments. Generally, only 90% of AMTI can be offset by net operating loss carrybacks and carryforwards.

State and Local Taxation

New York State and New York City Taxation. We are subject to the New York State Franchise Tax on Banking Corporations in an annual amount equal to the greater of (1) 7.1% of "entire net income" allocable to New York State during the taxable year or (2) the applicable alternative minimum tax. The alternative minimum tax is generally the greater of (a) 0.01% of the value of assets allocable to New York State with certain modifications, (b) 3% of "alternative entire net income" allocable to New York State or (c) $250. Entire net income is similar to federal taxable income, subject to certain modifications, including that net operating losses arising during any taxable year prior to January 1, 2001 cannot be carried back or carried forward, and net operating losses arising during any taxable year beginning on or after January 1, 2001 cannot be carried back. Alternative entire net income is equal to entire net income without certain deductions that are allowable in the calculation of entire net income. We are also subject to a similarly calculated New York City tax of 9% on income allocated to New York City. For New York City tax purposes, entire net income is similar to federal taxable income, subject to certain modifications, including that net operating losses arising during any taxable year prior to January 1, 2009 cannot be carried back or carried forward, and net operating losses arising during any taxable year beginning on or after January 1, 2009 cannot be carried back and similar alternative taxes. In addition, we are subject to a tax surcharge at a rate of 17% of the New York State Franchise Tax that is attributable to business activity carried on within the Metropolitan Commuter Transportation District.

Notwithstanding the repeal of the federal income tax provisions permitting bad debt deductions under the reserve method, New York State had enacted legislation maintaining the preferential treatment of additional loss reserves for qualifying real property and non-qualifying loans of qualifying thrifts for both New York State and New York City tax purposes. Calculation of the amount of additions to reserves for qualifying real property loans was limited to the larger of the amount derived by the percentage of taxable income method or the experience method. For these purposes, the applicable percentage to calculate the bad debt deduction under the percentage of taxable income method was 32% of taxable income, reduced by additions to reserves for non-qualifying loans, except that the amount of the addition to the reserve could not exceed the amount necessary to increase the balance of the reserve for losses on qualifying real property loans at the close of the taxable year to 6% of the balance of the qualifying real property loans outstanding at the end of the taxable year. Under the experience method, the maximum addition to a loan reserve generally equaled the amount necessary to increase the balance of the bad debt reserve at the close of the taxable year to the greater of (1) the amount that bears the same ratio to loans outstanding at the close of the taxable year as the total net bad debts sustained during the current and five preceding taxable years bears to the sum of the loans outstanding at the close of those six years, or (2) the balance of the bad debt reserve at the close of the "base year," or, if the amount of loans outstanding has declined since the base year, the amount which bears the same ratio to the amount of loans outstanding at the close of the taxable year as the balance of the reserve at the close of the base year. For these purposes, the "base year" was the last taxable year beginning before 1988. The amount of additions to reserves for non-qualifying loans was computed under the experience method. In no event could the additions to reserves for qualifying real property loans be greater than the larger of the amount determined under the experience method or the amount which, when added to the additions to reserves for non-qualifying loans, equal the amount by which 12% of the total deposits or withdrawable accounts of depositors of the Savings Bank at the close of the taxable year exceeded the sum of the Savings Bank's surplus, undivided profits and reserves at the beginning of such year.

In September 2010, the New York State legislature changed New York State and City tax law for thrifts, such as the Savings Bank, by eliminating the percentage of taxable income method for determining bad debt deductions for taxable years beginning on or after January 1, 2010. This change in the New York State and City tax law for thrifts did not require the recapture of tax bad debt reserves previously established, and eliminated the requirement to recapture tax bad debt reserves if a thrift failed to meet the definition of a thrift institution under New York State and City tax law.

The Savings Bank had historically reported in its New York State and City income tax returns a deduction for bad debts based on the amount allowed under the percentage of taxable income method. This amount had historically exceeded actual bad debts incurred by the Savings Bank. Since the Savings Bank has consistently stated its intention to convert to a more “commercial like” bank, which would have previously required the Savings Bank to recapture this excess bad debt reserve if it failed to meet the definition of a thrift under the New York State and City tax law, the Savings Bank had, in prior periods, recorded the tax liability related to the possible recapture of the excess tax bad debt reserve. As a result of the legislation passed by the New York State legislature, this tax liability will no longer be required to be recaptured. As a result, the Savings Bank reversed approximately $5.5 million of net tax liabilities through income during the year ended December 31, 2010.

Delaware State Taxation. As a Delaware holding company not earning income in Delaware, we are exempt from Delaware corporate income tax but are required to file an annual report with and pay an annual franchise tax to the State of Delaware.

REGULATION

General

On July 21, 2011, as a result of the Dodd-Frank Wall Street Reform and Consumer Protection Act, the Savings Bank’s primary regulator became the OCC, and as such, is subject to OCC regulations, examinations, supervision and reporting requirements. Flushing Financial Corporation’s primary regulator became the Federal Reserve Federal Reserve, and as such, is subject to Federal Reserve regulations, examinations, supervision and reporting requirements. Both regulatory authorities, among other things, have the authority to restrict or prohibit activities that it determines may pose a serious risk to the Savings Bank or Flushing Financial Corporation. As a publicly owned company, we are required to file certain reports with the Securities and Exchange Commission (“SEC”) under federal securities laws. The Banks are members of the FHLB System. The Savings Bank is subject to extensive regulation by the OCC, as its chartering agency, and the FDIC, as the insurer of the Savings Bank’s deposits. The Savings Bank is also subject to certain regulations promulgated by the other federal agencies. The Savings Bank must file reports with the OCC and the FDIC concerning its activities and financial condition, in addition to obtaining regulatory approvals prior to entering into certain transactions such as mergers with or acquisitions of other savings institutions. The Savings Bank is subject to periodic examinations by the OCC and the FDIC to examine whether the Savings Bank is in compliance with various regulatory requirements. The Commercial Bank is subject to extensive regulations promulgated by the FDIC and the New York State Department of Financial Services, similar to those imposed on the Savings Bank. This regulation and supervision establishes a comprehensive framework of activities in which an institution is permitted to engage and is intended primarily to ensure the safe and sound operation of the Banks for the protection of the insurance fund and depositors. The regulatory structure also gives the regulatory authorities extensive discretion in connection with their supervisory and enforcement activities and examination policies, including policies with respect to the classification of assets and the establishment of an adequate allowance for possible loan losses for regulatory purposes. Any change in such regulation, whether by the OCC, Federal Reserve, FDIC, other federal agencies, the New York State Department of Financial Services, or the United States Congress, could have a material adverse impact on us and our operations.

The activities of federal savings institutions are governed primarily by the Home Owners’ Loan Act, as amended (“HOLA”) and, in certain respects, the Federal Deposit Insurance Act (“FDIA”). Most regulatory functions relating to deposit insurance and to the administration of conservatorships and receiverships of insured institutions are exercised by the FDIC. The Federal Deposit Insurance Corporation Improvement Act of 1991 (“FDICIA”), among other things, requires that federal banking regulators intervene promptly when a depository institution experiences financial difficulties, mandated the establishment of a risk-based deposit insurance assessment system, and required imposition of numerous additional safety and soundness operational standards and restrictions. FDICIA and the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (“FIRREA”) each contain provisions affecting numerous aspects of the operations and regulations of federal savings banks, and these laws empower the OCC and the FDIC, among other agencies, to promulgate regulations implementing their provisions.

Set forth below is a brief description of certain laws and regulations which relate to the regulation of the Banks and the Company. The description does not purport to be a comprehensive description of applicable laws, rules and regulations and is qualified in its entirety by reference to applicable laws, rules and regulations.

Holding Company Regulation

Flushing Financial Corporation is a unitary savings and loan holding company within the meaning of the HOLA. As such, we are required to register with the Federal Reserve and are subject to Federal Reserve regulations, examinations, supervision and reporting requirements. In addition, the Federal Reserve has enforcement authority over us and any non-savings institution subsidiaries we may form or acquire. Among other things, this authority permits the Federal Reserve to restrict or prohibit activities that it determines may pose a serious risk to the Banks. See "—Restrictions on Dividends and Capital Distributions."

HOLA prohibits a savings and loan holding company, directly or indirectly, or through one or more subsidiaries, from (1) acquiring another savings institution or holding company thereof, without prior written approval of its regulator ; (2) acquiring or retaining, with certain exceptions, more than 5% of a non-subsidiary savings institution, a non-subsidiary holding company, or a non-subsidiary company engaged in activities other than those permitted by HOLA; or (3) acquiring or retaining control of a depository institution that is not federally insured. In evaluating applications by holding companies to acquire savings institutions, the Federal Reserve will consider the financial and managerial resources and future prospects of the company and institution involved, the effect of the acquisition on the risk to the insurance funds, the convenience and needs of the community, and the impact of any competitive factors that may be involved.

As a unitary savings and loan holding company, Flushing Financial Corporation currently is not restricted as to the types of business activities in which it may engage, provided that the Savings Bank continues to meet the qualified thrift lender (“QTL”) test. See “—Qualified Thrift Lender Test.” Upon any non-supervisory acquisition by the Company of another savings association or savings bank, Flushing Financial Corporation would become a multiple savings and loan holding company (if the acquired institution is held as a separate subsidiary) and would be subject to extensive limitations on the types of business activities in which it could engage. HOLA limits the activities of a multiple savings and loan holding company and its non-insured institution subsidiaries primarily to activities permissible for bank holding companies under Section 4(c)(8) of the Bank Holding Company Act, subject to the prior approval of its regulator, and activities authorized by regulation.

The Federal Reserve is prohibited from approving any acquisition that would result in a multiple savings and loan holding company controlling savings institutions in more than one state, subject to two exceptions: (1) emergency acquisitions authorized by the FDIC and (2) the acquisition of a savings institution in another state if the laws of the state of the target savings institution specifically permit such acquisitions. Under New York law, reciprocal interstate acquisitions are authorized for savings and loan holding companies and savings institutions. Certain states do not authorize interstate acquisitions under any circumstances; however, federal law authorizing acquisitions in supervisory cases preempts such state law.

Federal law generally provides that no “person” acting directly or indirectly or through or in concert with one or more other persons, may acquire “control,” as that term is defined in Federal Reserve regulations, of a federally insured savings institution without giving at least 60 days’ written notice to the Federal Reserve and providing the Federal Reserve an opportunity to disapprove the proposed acquisition. Such acquisitions of control may be disapproved if it is determined, among other things, that (1) the acquisition would substantially lessen competition; (2) the financial condition of the acquiring person might jeopardize the financial stability of the savings institution or prejudice the interests of its depositors; or (3) the competency, experience or integrity of the acquiring person or the proposed management personnel indicates that it would not be in the interest of the depositors or the public to permit the acquisition of control by such person.

Investment Powers

The Savings Bank is subject to comprehensive regulation governing its investments and activities. Among other things, the Savings Bank may invest in (1) residential mortgage loans, mortgage-backed securities, education loans and credit card loans in an unlimited amount, (2) non-residential real estate loans up to 400% of total capital, (3) commercial business loans up to 20% of total assets (however, amounts over 10% of total assets must be used only for small business loans) and (4) in general, consumer loans and highly rated commercial paper and corporate debt securities in the aggregate up to 35% of total assets. In addition, the Savings Bank may invest up to 3% of its total assets in service corporations, an unlimited percentage of its assets in operating subsidiaries (which may only engage in activities permissible for the Savings Bank itself) and under certain conditions may invest in finance subsidiaries. Other than investments in service corporations, operating subsidiaries, finance subsidiaries and certain government-sponsored enterprises, such as FHLMC and FNMA, the Savings Bank generally is not permitted to make equity investments. See "— General — Investment Activities." A service corporation in which the Savings Bank may invest is permitted to engage in activities that a federal savings bank may conduct directly, other than taking deposits, as well as certain activities pre-approved by the OCC, which include providing certain support services for the institution; originating, investing in, selling, purchasing, servicing or otherwise dealing with specified types of loans and participations (principally loans that the parent institution could make); specified real estate activities, including limited real estate development; securities brokerage services; certain insurance brokerage activities; and other specified investments and services.

Real Estate Lending Standards

FDICIA requires each federal banking agency to adopt uniform regulations prescribing standards for extensions of credit which are either (1) secured by real estate, or (2) made for the purpose of financing the construction of improvements on real estate. In prescribing these standards, the banking agencies must consider the risk posed to the deposit insurance funds by real estate loans, the need for safe and sound operation of insured depository institutions and the availability of credit. The OCC and the other federal banking agencies adopted uniform regulations, effective March 19, 1993. The OCC regulation requires each savings association to establish and maintain written internal real estate lending standards consistent with safe and sound banking practices and appropriate to the size of the institution and the nature and scope of its real estate lending activities. The policy must also be consistent with accompanying OCC guidelines, which include maximum loan-to-value ratios for the following types of real estate loans: raw land (65%), land development (75%), nonresidential construction (80%), improved property (85%) and one-to-four family residential construction (85%). Owner-occupied one-to-four family mortgage loans and home equity loans do not have maximum loan-to-value ratio limits, but owner-occupied one-to-four family mortgage loans with a loan-to-value ratio at origination of 90% or greater are to be backed by private mortgage insurance or readily marketable collateral. Institutions are also permitted to make a limited amount of loans that do not conform to the proposed loan-to-value limitations so long as such exceptions are appropriately reviewed and justified. The guidelines also list a number of lending situations in which exceptions to the loan-to-value standard are justified.

Loans-to-One Borrower Limits

The Savings Bank generally is subject to the same loans-to-one borrower limits that apply to national banks. With certain exceptions, total loans and extensions of credit outstanding at one time to one borrower (including certain related entities of the borrower) may not exceed, for loans not fully secured, 15% of the Savings Bank's unimpaired capital and unimpaired surplus, plus, for loans fully secured by readily marketable collateral, an additional 10% of the Savings Bank's unimpaired capital and unimpaired surplus. At December 31, 2011, the largest amount the Savings Bank could lend to one borrower was approximately $61.6 million, and at that date, the Savings Bank's largest aggregate amount of loans-to-one borrower was $41.3 million, all of which were performing according to their terms. The Commercial Bank does not originate loans. See "— General — Lending Activities."

Insurance of Accounts

On July 21, 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Reform Act") was signed into law. The Reform Act permanently increased deposit insurance coverage to $250,000 per depositor. The Reform Act also provided for unlimited FDIC insurance for non interest-bearing transaction accounts effective December 31, 2010 through December 31, 2012. In the past several years, prior to the passage of the Reform Act, the level of deposit coverage per depositor went through a number of revisions. The Emergency Economic Stabilization Act of 2008 ("EESA") increased this coverage, effective October 3, 2008, for all accounts in an amount up to $250,000 through December 31, 2009. On May 20, 2009, the Helping Families Save Their Homes Act was signed into law. Included in this legislation was a provision that extended the temporary increase in the standard maximum insured deposit amount to $250,000 per depositor through December 31, 2013. The legislation provided that the insured deposit coverage limit would return to $100,000 on January 1, 2014. In addition, the FDIC had implemented a Transaction Account Guarantee Program ("TAGP") under which, effective October 14, 2008 and through December 31, 2009, transaction accounts that earned interest at a rate of no more than 0.50% were insured for 100% of their balance. The TAGP was provided at no cost to banks through November 12, 2008. Banks had the option to opt out of this program no later than November 12, 2008. Banks which did not opt out of the TAGP paid additional deposit insurance at an annual rate of 0.10% for balances in covered deposit accounts in excess of $250,000. Both the Savings Bank and the Commercial Bank opted to remain in the TAGP. On August 26, 2009, the FDIC adopted a final rule extending the TAGP through June 30, 2010. The extension increased the rate institutions paid to 15 basis points, 20 basis points or 25 basis points, depending on the risk category assigned to the institution under the FDIC's risk-based premium system. Any institution participating in the TAGP could elect to opt out on or before November 2, 2009. The Banks did not opt out and continued to participate in the TAGP.

The Reform Act also changed the way deposit assessments are calculated, from a risk-based assessment base, to average total consolidated assets of the bank minus average tangible equity of the bank, first effective for the assessment of the second quarter of 2011. The assessment rate was changed so to provide approximately the same amount collected under the new assessment method as was collected under the risk-based assessment method. In the past several years, prior to the passage of the Reform Act, the calculation of deposit assessments went through a number of revisions. The FDIC utilized a risk-based deposit insurance assessment system. Through December 31, 2006, under this system, the FDIC assigned each institution to one of three capital categories — "well capitalized," "adequately capitalized" and "undercapitalized" — which are defined in the same manner as the regulations establishing the prompt corrective action system under Section 38 of FDIA, as discussed below. These three categories were then divided into three subcategories which reflect varying levels of supervisory concern. The matrix so created resulted in nine assessment risk classifications. Effective January 1, 2007, the FDIC revised their risk-based deposit insurance assessment system, and placed institutions into four risk categories based upon supervisory and capital evaluations. Risk Category 1 is further subdivided based upon supervisory ratings and other risk measures to differentiate risk. Due to the insurance fund falling below its required reserve ratio of 1.15% during 2008, effective January 1, 2009, the FDIC increased rates uniformly by seven basis points for the first quarter of 2009 to replenish the insurance fund within five years. The FDIC subsequently adopted additional changes to its risk categories effective April 1, 2009, and extended the period to replenish the insurance fund to seven years. Effective April 1, 2009, the FDIC continued to utilize four risk categories, but to determine initial base assessment rates, the FDIC: (1) introduced a new financial ratio into the financial ratios method applicable to most Risk Category I institutions to include brokered deposits above a threshold that are used to fund rapid asset growth; (2) for a large Risk Category I institution with long-term debt issuer ratings, combined weighted average CAMELS component ratings, the debt issuer ratings, and the financial ratios method assessment rate; and (3) uses a new uniform amount and pricing multipliers for each method. The FDIC also introduced three adjustments that could be made to an institution's initial base assessment rate: (1) a decrease for long-term unsecured debt, and, for small institutions, a portion of Tier 1 Capital; (2) an increase for secured liabilities above a threshold amount; and (3) for non-Risk Category I institutions, an increase for brokered deposits above a threshold amount. At December 31, 2008, the Banks' annual assessment rate was 0.05%. This assessment rate for the first quarter of 2009 was increased to a range of 0.12% to 0.14%. This base assessment beginning in the second quarter of 2009 was in a range of 0.12% to 0.16%, The Savings Bank also saw a further increase in its deposit insurance premium beginning in the second quarter of 2009 since it had seen an increase in its secured liabilities above the threshold level defined by the FDIC. The FDIC also imposed a 20 basis point emergency special assessment that was collected on September 30, 2009 based on deposit balances as of June 30, 2009. The rule also provided that, after June 30, 2009, if the reserve ratio of the DIF is estimated to fall to a level that the Board of the FDIC believes would adversely affect public confidence or to a level which shall be close to zero or negative at the end of a calendar quarter, an emergency special assessment of up to 10 basis points may be imposed by a vote of the Board of the FDIC on all insured depository institutions for the corresponding assessment period. Additionally, on September 29, 2009, the Board of Directors of the FDIC proposed to require institutions to prepay their estimated quarterly risk-based assessments for the fourth quarter of 2009 and for all of 2010, 2011 and 2012, which was collected on December 31, 2009. The Banks prepaid a total of $16.9 million in risk-based assessments. Prior to the enactment of the Reform Act, the FDIC Board also voted to adopt a uniform three-basis point increase in assessment rates effective on January 1, 2011, and to extend the restoration period from seven to eight years. The Banks' assessment rate in effect from time to time will depend upon the risk category to which each is assigned. In addition, the FDIC is authorized to increase federal deposit insurance assessment rates to the extent necessary to protect the fund under current law. Any increase in deposit insurance assessment rates, as a result of a change in the category or subcategory to which the Banks are assigned or the exercise of the FDIC's authority to increase assessment rates generally, could have an adverse effect on the earnings of the Banks.

All of the Banks' deposits are presently insured, to the maximum extent allowed, by the FDIC under the Deposit Insurance Fund ("DIF"). Previously, the majority of the Savings Bank's deposits were insured by the Bank Insurance Fund ("BIF"), and the remainder by the Savings Association Insurance Fund ("SAIF"). As insurer, the FDIC is authorized to conduct examinations of, and to require reporting by, insured institutions. It also may prohibit any insured institution from engaging in any activity the FDIC determines by regulation or order to pose a serious threat to the insurance fund. The FDIC also has the authority to initiate enforcement actions where the primary regulator has failed or declined to take such action after receiving a request to do so from the FDIC.

Under the FDIA, insurance of deposits may be terminated by the FDIC upon a finding that the institution has engaged in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC. We do not know of any practice, condition or violation that might lead to termination of deposit insurance.

On September 30, 1996, as part of an omnibus appropriations bill, the Deposit Insurance Funds Act of 1996 (the "Funds Act") was enacted. The Funds Act required BIF institutions, beginning January 1, 1997, to pay a portion of the interest due on the Finance Corporation ("FICO") bonds issued in connection with the savings and loan association crisis in the late 1980s, and required BIF institutions to pay their full pro rata share of the FICO payments starting the earlier of January 1, 2000 or the date at which no savings institution continues to exist. We were required, as of January 1, 2000, to pay our full pro rata share of the FICO payments. The FICO assessment rate is subject to change. The Banks' paid $311,000, $298,000 and $271,000 for their share of the interest due on FICO bonds in 2011, 2010 and 2009, respectively, which was included in FDIC insurance expense.

Qualified Thrift Lender Test

Thrift institutions regulated by the OCC are required to meet a QTL test to avoid certain restrictions on their operations. FDICIA and applicable OCC regulations require such institutions to maintain at least 65% of their portfolio assets (total assets less intangibles, properties used to conduct the institution's business and liquid assets not exceeding 20% of total assets) in "qualified thrift investments" on a monthly average basis in nine of every 12 months. Qualified thrift investments constitute primarily residential mortgage loans and related investments, including certain mortgage-backed and mortgage-related securities. A savings institution that fails the QTL test must either convert to a bank charter or, in general, it will be prohibited from: (1) making an investment or engaging in any new activity not permissible for a national bank, (2) paying dividends not permissible under national bank regulations and (3) establishing any new branch office in a location not permissible for a national bank in the institution's home state. One year following the institution's failure to meet the QTL test, any holding company parent of the institution must register and be subject to supervision as a bank holding company. In addition, beginning three years after the institution failed the QTL test, the institution would be prohibited from retaining any investment or engaging in any activity not permissible for a national bank. At December 31, 2011 the Savings Bank had maintained more than 65% of its "portfolio assets" in qualified thrift investments in at least nine of the preceding 12 months. Accordingly, on that date, the Savings Bank had met the QTL test.

Under the Economic Growth and Paperwork Reduction Act of 1996 ("Regulatory Paperwork Reduction Act"), Congress modified and expanded investment authority under the QTL test. The Regulatory Paperwork Reduction Act amendments permit federal thrifts to invest in, sell, or otherwise deal in education and credit card loans without limitation and raised from 10% to 20% of total assets the aggregate amount of commercial, corporate, business, or agricultural loans or investments that may be made by a thrift, subject to a requirement that amounts in excess of 10% of total assets be used only for small business loans. In addition, the Regulatory Paperwork Reduction Act defines "qualified thrift investment" to include, without limit, education, small business, and credit card loans; and removes the 10% limit on personal, family, or household loans for purposes of the QTL test. The legislation also provides that a thrift meets the QTL test if it qualifies as a domestic building and loan association.

Transactions with Affiliates

Transactions between the Savings Bank and any related party or "affiliate" are governed by Sections 23A and 23B of the Federal Reserve Act. An affiliate is generally any company or entity which controls, is controlled by or is under common control with the Savings Bank, including Flushing Financial Corporation, the Commercial Bank, the Trusts, the Savings Bank's subsidiaries, and any other qualifying subsidiary of the Savings Bank or Flushing Financial Corporation that may be formed or acquired in the future. Generally, Sections 23A and 23B: (1) limit the extent to which the Savings Bank or its subsidiaries may engage in "covered transactions" with any one affiliate to an amount equal to 10% of the Savings Bank's capital stock and surplus, and impose an aggregate limit on all such transactions with all affiliates to an amount equal to 20% of such capital stock and surplus, and (2) require that all such transactions be on terms substantially the same, or at least as favorable, to the Savings Bank or subsidiary as those provided to a non-affiliate. The term "covered transaction" includes the making of loans, purchase of assets, issuance of a guarantee and other similar types of transactions. Each loan or extension of credit to an affiliate by the Savings Bank must be secured by collateral with a market value ranging from 100% to 130% (depending on the type of collateral) of the amount of credit extended. In addition, the Savings Bank may not: (1) loan or otherwise extend credit to an affiliate, except to any affiliate which engages only in activities which are permissible for bank holding companies under Section 4(c) of the Bank Company Act, or (2) purchase or invest in any stocks, bonds, debentures, notes or similar obligations of any affiliates, except subsidiaries of the Savings Bank.

In addition, the Savings Bank is subject to Regulation O promulgated under Sections 22(g) and 22(h) of the Federal Reserve Act. Regulation O requires that loans by the Savings Bank to a director, executive officer or to a holder of more than 10% of the Common Stock, and to certain affiliated interests of any such insider, may not, in the aggregate, exceed the Savings Bank's loans-to-one borrower limit. Loans to insiders and their related interests must also be made on terms substantially the same as offered, and follow credit underwriting procedures that are not less stringent than those applied, in comparable transactions to other persons. Prior Board approval is required for certain loans. In addition, the aggregate amount of extensions of credit by the Savings Bank to all insiders cannot exceed the institution's unimpaired capital and unimpaired surplus. These laws place additional restrictions on loans to executive officers of the Savings Bank. The Savings Bank is in compliance with these regulations.

Restrictions on Dividends and Capital Distributions

The Savings Bank is subject to regulatory limitations on capital distributions, which include cash dividends, stock redemptions or repurchases, cash-out mergers, interest payments on certain convertible debt and some other distributions charged to the Savings Bank's capital account. In general, the applicable regulation permits specified levels of capital distributions by a savings institution that meets at least its minimum capital requirements, so long as the Federal Reserve is provided with at least 30 days' advance notice and has no objection to the distribution.

Under Federal Reserve capital distribution regulations, an institution is not required to file an application with, or to provide a notice to, the Federal Reserve if neither the institution nor the proposed capital distribution meets any of the criteria for any such application or notice as provided below. An institution will be required to file an application with the Federal Reserve if the institution is not eligible for expedited treatment by the Federal Reserve; if the total amount of all its capital distributions for the applicable calendar year exceeds the net income for that year to date plus the retained net income (net income less capital distributions) for the preceding two years; if it would not be at least adequately capitalized following the distribution; or if its proposed capital distribution would violate a prohibition contained in any applicable statute, regulation, or agreement between the association and the Federal Reserve. By contrast, only notice to the Federal Reserve is required for an institution that is not required to file an application as provided in the preceding sentence, if it would not be well capitalized following the distribution; if the association's proposed capital distribution would reduce the amount of or retire any part of its common or preferred stock or retire any part of debt instruments such as notes or debentures included in capital under Federal Reserve regulations; or if the association is a subsidiary of a savings and loan holding company. The Savings Bank is a subsidiary of a savings and loan holding company and, therefore, is subject to the 30-day advance notice requirement. As of December 31, 2011, the Savings Bank had $73.0 million in retained earnings available to distribute to the Holding Company in the form of cash dividends.

Federal Home Loan Bank System

In connection with converting to a federal charter, the Savings Bank became a member of the FHLB-NY, which is one of 12 regional FHLB governed and regulated by the Federal Housing Finance Board. The Commercial Bank is also a member of the FHLB-NY. Each FHLB serves as a source of liquidity for its members within its assigned region. It is funded primarily from proceeds derived from the sale of consolidated obligations of the FHLB System. It makes loans to members (i.e., advances) in accordance with policies and procedures established by its Board of Directors.

As members, the Banks are mandated to purchase and maintain membership stock in the FHLB-NY based on their respective asset sizes. In addition, for all borrowing activity, the Banks are required to purchase or redeem shares of FHLB-NY non-marketable capital stock at par. Pursuant to this requirement, at December 31, 2011, the Savings Bank was required to maintain $30.2 million of FHLB-NY stock, and the Commercial Bank was required to maintain $36,600 of FHLB-NY stock. The Banks were in compliance with these requirements at that time.

Assessments

Savings institutions are required by OCC regulations to pay assessments to the OCC to fund the operations of the OCC. The general assessment, paid on a semi-annual basis, as determined from time to time by the Director of the OCC, is computed upon the savings institution's total assets, including consolidated subsidiaries, as reported in the institution's latest quarterly financial report. Based on the average balance of the Savings Bank's total assets for the year ended December 31, 2011, the Savings Bank's assessments were $0.7 million for that period. The Commercial Bank is a New York State chartered commercial bank, and as such is required by the New York State Department of Financial Services to pay an annual assessment. For the year ended December 31, 2011, the Commercial Bank paid an assessment of $56,000.

Branching

OCC regulations permit federally chartered savings institutions to branch nationwide to the extent allowed by federal statute. This permits federal savings associations to geographically diversify their loan portfolios and lines of business.

The OCC authority preempts any state law purporting to regulate branching by federal savings institutions.

Community Reinvestment

Under the Community Reinvestment Act ("CRA"), as implemented by OCC regulations, the Savings Bank has an obligation, consistent with its safe and sound operation, to help meet the credit needs of its entire community, including low and moderate income neighborhoods located in the community. The CRA does not establish specific lending requirements or programs for financial institutions, nor does it limit an institution's discretion to develop the types of products and services that it believes are best suited to its particular community, consistent with the CRA. The CRA requires the OCC, in connection with its examination of a savings institution, to assess the institution's record of meeting the credit needs of its community and to take such record into account in its evaluation of certain applications by the institution. The methodology used by the OCC for determining an institution's compliance with the CRA focuses on three tests: (a) a lending test, to evaluate the institution's record of making loans in its service areas; (b) an investment test, to evaluate the institution's record of investing in community development projects, affordable housing, and programs benefiting low or moderate income individuals and businesses; and (c) a service test, to evaluate the range of the institution's services and the delivery of services through its branches, ATMs, and other offices. The Savings Bank received a CRA rating of "Satisfactory" in its most recent completed CRA examination, which was completed as of August 3, 2009. Institutions that receive less than a satisfactory rating may face difficulties in securing approval for new activities or acquisitions. The CRA requires all institutions to make public disclosures of their CRA ratings. As a special purpose commercial bank, the Commercial Bank is not required to comply with the CRA.

Brokered Deposits

The FDIC has promulgated regulations implementing the FDICIA limitations on brokered deposits. Under the regulations, well-capitalized institutions are not subject to brokered deposit limitations, while adequately capitalized institutions are able to accept, renew or roll over brokered deposits only with a waiver from the FDIC and subject to restrictions on the interest rate that can be paid on such deposits. Undercapitalized institutions are not permitted to accept brokered deposits and may not solicit deposits by offering an effective yield that exceeds by more than 75 basis points the prevailing effective yields on insured deposits of comparable maturity in the institution's normal market area or in the market area in which such deposits are being solicited. Pursuant to the regulation, the Savings Bank, as a well-capitalized institution, may accept brokered deposits. At December 31, 2011, the Savings Bank had $444.8 million in brokered deposit accounts.

Capital Requirements

General. The Savings Bank is required to maintain minimum levels of regulatory capital. The OCC is authorized to impose capital requirements in excess of these standards on a case-by-case basis.

Any institution that fails any of its applicable capital requirements is subject to possible enforcement actions by the OCC or the FDIC. Such actions could include a capital directive, a cease and desist order, civil money penalties, the establishment of restrictions on the institution's operations and the appointment of a conservator or receiver. The OCC' capital regulation provides that such actions, through enforcement proceedings or otherwise, could require one or more of a variety of corrective actions. See "—Prompt Corrective Action."

The OCC capital regulations create three capital requirements: leverage (core) capital, Tier 1 risk-based capital and total risk-based capital. At December 31, 2011, the Savings Bank's capital levels exceeded applicable OCC capital requirements. The three OCC capital requirements are described below.

Leverage and Core Capital Requirement. The current OCC requirement for leverage and core capital (commonly referred to as core capital) is 5% of adjusted total assets to be considered well capitalized. Core capital includes common stockholders' equity (including retained income), non-cumulative perpetual preferred stock and related surplus. At December 31, 2011, the Savings Bank's core capital ratio was 9.63%.

OCC regulations limit the amount of servicing assets, together with purchased credit card receivables, includable in core capital to 100% of such capital, subject to limitations on fair value. At December 31, 2011, the Savings Bank had $0.1 million in capitalized servicing rights and no purchased credit card receivables.

Tier 1 Risk-Based Requirement. The Tier 1 risk-based capital standard adopted by the OCC requires savings institutions to maintain a minimum ratio of 6% of core capital to risk-weighted assets to be considered well capitalized. In determining the risk-based capital ratios, total assets, including certain off-balance sheet items, are multiplied by a risk weight based on the risks inherent in the type of assets. The risk weights assigned by the OCC for significant categories of assets are (1) 0% for cash and securities issued by the federal government or unconditionally backed by the full faith and credit of the federal government; (2) 20% for securities (other than equity securities) issued by federal government sponsored agencies and mortgage-backed securities issued by, or fully guaranteed as to principal and interest by, the FNMA or the FHLMC, except for those classes with residual characteristics or stripped mortgage-related securities; (3) 50% for prudently underwritten permanent one-to-four family first lien mortgage loans and certain qualifying multi-family mortgage loans not more than 90 days delinquent and having a loan-to-value ratio of not more than 80% at origination unless insured to such ratio by an insurer approved by the FNMA or the FHLMC; and (4) 100% for all other loans and investments, including consumer loans, home equity loans, commercial loans, and one-to-four family residential real estate loans more than 90 days delinquent, and all repossessed assets or assets more than 90 days past due. At December 31, 2011, the Savings Bank's Tier 1 risk-based capital ratio was 14.26%.

Total Risk-Based Requirement. The Total risk-based capital standard adopted by the OCC requires savings institutions to maintain a minimum ratio of 10% of total capital to risk-weighted assets (as described above) to be considered well capitalized. Total capital consists of core capital, defined above, and supplementary capital, but excludes the effect of recognizing deferred taxes based upon future income after one year. Supplementary capital consists of certain capital instruments that do not qualify as core capital, and general valuation loan and lease loss allowances up to a maximum of 1.25% of risk-weighted assets. Supplementary capital may be used to satisfy the risk-based requirement only in an amount equal to the amount of core capital. At December 31, 2011, the Savings Bank's total risk-based capital ratio was 15.32%.

The Commercial Bank is required to maintain minimum levels of regulatory capital, which are similar to those of the Savings Bank. At December 31, 2011, the Commercial Bank exceeded the regulatory capital requirements to be considered well capitalized, with leverage and core, tier 1 risk-based, and total risk-based capital ratios of 9.91%, 63.39%, and 63.39%, respectively.

Federal Reserve System

The Federal Reserve Board requires all depository institutions to maintain reserves against their transaction accounts (primarily NOW and checking accounts) and non-personal time deposits. At December 31, 2011, the Banks were in compliance with these requirements.

The balances maintained to meet the reserve requirements imposed by the Federal Reserve Board may be used to satisfy liquidity requirements imposed by the OCC. Because required reserves must be maintained in the form of vault cash or an account at a Federal Reserve Bank directly or through another bank, the effect of this reserve requirement is to reduce an institution's earning assets. The Federal Reserve Bank pays interest on deposits maintained at its bank at a rate that approximates the overnight federal funds rate. The amount of funds necessary to satisfy this requirement has not had a material effect on the Banks' operations.

As a creditor and financial institution, the Savings Bank is also subject to additional regulations promulgated by the Federal Reserve Board, including, without limitation, regulations implementing requirements of the Truth in Savings Act, the Expedited Funds Availability Act, the Equal Credit Opportunity Act and the Truth in Lending Act.

Financial Reporting

The Savings Bank is required to submit independently audited annual reports to the FDIC and the OCC. These publicly available reports must include (a) annual financial statements prepared in accordance with accounting principles generally accepted in the United States and such other disclosures as required by the FDIC or the OCC and (b) a report, signed by the Savings Bank's Chief Executive Officer and Chief Financial Officer which contains statements about the adequacy of internal controls and compliance with designated laws and regulations, and an opinion by independent auditors related thereto. The Commercial Bank is required to submit independently audited annual reports to the FDIC and New York State Banking Department. The Banks are each required to monitor the foregoing activities through independent audit committees.