First Defiance Financial Corp

First Quarter 2015 Earnings

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CORPORATE PARTICIPANTS

Don Hileman – *President, CEO*
Kevin Thompson – *Executive Vice President, CFO*
Tera Murphy – *Assistant Vice President*

PRESENTATION

Operator
Good morning and welcome to the First Defiance first quarter 2015 earnings conference call. All participants will be in listen only mode. Should you need assistance, please signal a conference specialist by pressing the star (*) key followed by zero (0). After today's presentation, there will be an opportunity to ask questions. To ask a question, you may press star (*) then one (1) on your touchtone phone; to withdraw your question, please press star (*) then two (2). Please note this event is being recorded. I would now like to turn the conference over to Tera Murphy, Assistant Vice President. Please go ahead.

Tera Murphy
Thank you. Good morning, everyone, and thank you for joining us for today's 2015 first quarter earnings conference call. This call is being webcast and the audio replay will be available at the First Defiance website at fdef.com. Providing commentary this morning will be Don Hileman, President and CEO of First Defiance; and Kevin Thompson, Executive Vice President and Chief Financial Officer. Following their prepared comments on the Company's strategy and performance, they will be available to take your questions.

Before we begin, I would like to remind you that during the conference call today, including during the question and answer period, you may hear forward-looking statements related to future financial results and business operations for First Defiance Financial Corp. Actual results may differ materially from current management forecasts and projections as a result of factors over which the Company has no control. Information on these risk factors and additional information on forward-looking statements are included in the news release and in the company's reports on file with the Securities and Exchange Commission.

And now, I'll turn the call over to Mr. Hileman for his comments.

Don Hileman
Thank you, Tera. Good morning and welcome to the First Defiance Financial Corporation first quarter conference call. Last night, we issued our 2015 first quarter earnings release and now we'd like to discuss that release and give you a look into the remainder of 2015. At the conclusion of our remarks, we will answer any questions you might have. Joining me on the call this morning to give more detail on the financial performance for the quarter is our CFO, Kevin Thompson.

We are very heartened with our first quarter performance, reflecting improvements in several key areas. First quarter 2015 net income on a GAAP basis was $6.6 million, or $0.69 per diluted common share, compared with $5.2 million and $0.51 per diluted common share in the first quarter of 2014. Our overall performance this quarter was very strong, creating momentum going into the second quarter. We experienced solid year-over-year and linked quarter loan growth. Loan growth this quarter was at 9% annualized level, which is the strongest we have seen in quite a while.

Our ability to grow our loan portfolio is a key piece of our strategic plan. We are seeing contributions from across our footprint and expect stronger contributions going forward from our Columbus, Ohio, loan production office and the Fort Wayne, Indiana, market. Overall, we are seeing more optimism from our clients concerning economic stability. This is leading to an increased economic activity and more opportunities for us to serve our clients' needs.

The competitive market continues to be very aggressive as loan institutions are looking for loan growth. In some cases, we are seeing very aggressive rates and loosening of terms and conditions. We are very pleased with our margin improvement this quarter, which reflects our disciplined pricing. Loan portfolio growth contributed to improving earning asset mix, increasing our net interest income.

Growth in both our net interest income and our non-interest income revenues on a quarterly basis reflects contributions from our core business strategies. We are also pleased with our strong net interest income growth this quarter of 8% over the first quarter of 2014. We expect the interest rate environment to be relatively stable at current levels in the short-term, but anticipate an increase in market rates either in the latter part of this year or early in 2016. We continue to measure our interest rate risk position and we are managing toward a neutral position.

Growth on our deposit side of the balance sheet slowed this quarter and we also saw a shift from non-interest bearing accounts into interest bearing accounts. On a linked quarter basis, we were able to increase our margin to 3.88% from 3.76% and an increase over 3.61% in the first quarter of 2014. We are very satisfied with this quarterly improvement. Non-interest income, driven primarily by mortgage banking and contingent insurance income, show growth both on a GAAP and core operating basis over the fourth quarter of 2014.

We experienced an increase in insurance revenues on both the full year-over-year and linked quarter basis. Interest income was also up on both a year-over-year and linked quarter basis. We did see a slowdown in the growth of service fees on a linked quarter basis, but still showed strong improvement from a year ago.

We were pleased to see our reversal of a trend in mortgage loan production on a comparative basis with the first quarter of 2015, which showed an 85% increase over the first quarter of '14, and in loans originated, and up slightly from the fourth quarter of 2014. Total non-interest expense decreased slightly from the fourth quarter of 2014 and increased on the year-over-year basis. The credit quality metrics showed continued overall improvement this quarter from a year ago.

Non-performing assets declined $7.7 million, or 23% year-over-year. Non-performing loans decreased approximately $8 million, or 30% year-over-year to $18.7 million. Approximately 71% of the non-performing loans continue to make payments. We are very pleased with the reduction in non-accrual loans and will focus on further reductions that will be reflected by an improving non-performing asset ratio. We are pleased with the decline from the year ago in the level of 30 to 89 day delinquencies to 0.14% of loans for the first quarter of 2015, compared to 0.21% of loans for the fourth quarter of 2014. Overall, we are seeing improving asset quality trends across the board. We will continue to focus on reducing the non-performing and classified levels in the future.

Regarding our capital management plans, we purchased outstanding warrants issued to the Treasury to purchase 550,595 shares of the Company's stock during the quarter. The Company paid approximately $12 million to repurchase the warrant. Our stock buyback program continued in the first quarter with the repurchasing of 37,857 shares. Our buyback activity was impacted by the decision to repurchase the warrants.

We are also delighted to announce a second quarter dividend of $0.20 per share, representing a 14% increase over the previous dividend, and an annual dividend yield of approximately

2.46%. Our ongoing strong performance and capital level support this utilization of capital. I will now ask Kevin Thompson to provide additional financial details for the quarter before I conclude with an overview. Kevin?

Kevin Thompson
Thank you, Don. Good morning to everyone. As Don indicated, earnings for the first quarter were $6.6 million, or $0.69 per diluted share. This compares quite favorably to the $5.2 million, or $0.51, in the first quarter of 2014, which was reduced by a merger termination cost of $511,000.00 after tax, or $0.05 per diluted share. However, even excluding last year's one-time charge, earnings would be up $0.13 per diluted share, year-over-year.

Needless to say, the first quarter performance was very strong and included solid performance on many fronts. The quarter reflected continued expansion in net interest income, across the board increases a non-interest income, especially mortgage banking, significant credit quality improvement and controlled core operating expenses.

Turning to the details and starting with the income statement, our net interest income was $18.2 million for the first quarter of 2015, up slightly from $18.1 million in the linked quarter, which had two more accrual days, and up $1.4 million from the $16.8 million in the first quarter last year. For the first quarter of 2015, our margin was 3.88%, up 12 basis points from 3.76% last quarter and up 27 basis points from 3.61% in the first quarter last year. A majority of the increase versus the prior year was the result of strong loan growth, reducing excess liquidity and improving the earning asset mix and yield.

The first quarter also included net interest recoveries on non-performing loans of about $264,000.00, which added about 5 or 6 extra basis points to our margin for the quarter. All included, our yield on earning assets increased 24 basis points from the first quarter last year and 11 basis points on a linked quarter basis. Our cost of interest bearing liabilities was down 3 basis points from a year ago and remained flat on a linked quarter basis.

Total new loans originated in the first quarter were put on at a weighted average of 4.4%, an increase from new loan yields of 4.34% in the fourth quarter of 2014. Our loan portfolio yield in the first quarter of 2015 increased by 4 basis points to 4.42% on a linked quarter basis, which includes the impact of the recovered interest, as well. Our earning asset mix now reflects much improvement from a year ago and we expect to maintain a strong mix going forward.

Total non-interest income was $8.3 million in the first quarter of 2015, up about a million dollars from both the linked quarter and the first quarter of 2014. The improvement from the first quarter last year was primarily due to higher mortgage banking revenues, although, we had improvement from a year ago in all major components of fee income.

Service fee income was $2.5 million in the first quarter of 2015, a decrease from the $2.8 million in the linked quarter, but up from the $2.3 million in the first quarter of 2014. Insurance revenue was $3.1 million in the first quarter of 2015, up from $2.2 million in the linked quarter and up from $3 million in the first quarter of 2014.

The first quarter is generally when we receive our contingent insurance commissions, which totaled $967,000.00 this year, versus $878,000.00 a year ago. Also, our trust income, while a smaller revenue component, continues to show a significant growth from a year ago, totaling $357,000.00 in the first quarter, up 28% from $278,000.00 in the first quarter last year. Regarding the improvement in mortgage banking revenues, lower rates during the quarter versus prior periods led to higher volumes in both purchase and refinance activity.

Mortgage banking originations were $52.7 million in the first quarter of 2015, up from $48.3 million on a linked quarter basis and up from $28.6 million in the first quarter of 2014, a time when mortgage volumes were at their lowest point for us. Overall mortgage banking income for the first quarter of 2015 was $1.8 million, compared to $1.3 million on a linked quarter basis and $1.2 million in the first quarter of 2014.

Gain on sale income rose to $1.3 million in the first quarter of 2015, compared to $734,000.00 on a linked quarter basis and $641,000.00 in the first quarter last year. In addition, the first quarter included only a small valuation adjustment to mortgage servicing rights, a positive adjustment of $26,000.00. This is similar to the linked quarter, which included a positive valuation adjustment of $11,000.00, while the first quarter of 2014, the adjustment was a negative $7,000.00.

At March 31, 2015, First Defiance had $1.3 billion in loans serviced for others. The mortgage servicing rights associated with those loans had a fair value of $8.9 million, or 70 basis points of the outstanding loan balance of service. Total impairment reserves, which are available for recapture in future periods, totaled $885,000.00 at quarter end. As for non-interest expense, first quarter expenses totaled $16.9 million, down slightly from $17 million in the linked quarter and up when compared to $16.7 million for the first quarter of 2014.

Compensation and benefits expense in the first quarter was up $450,000.00 from last year, primarily due to higher incentives and merit increases, partially offset by lower medical insurance cost. Other non-interest expense was $3.6 million in the first quarter of 2015, which included $522,000.00 of fixed asset and OREO write-downs, compared to $4.1 million in the first quarter last year, which included $786,000.00 of cost for the termination of a merger agreement.

Regarding provision expense, the first quarter of 2015 totaled $120,000.00, down from $162,000.00 last quarter and up slightly from $103,000.00 in the first quarter last year. The first quarter 2015 included net recoveries of 10 basis points of average loans, which compares with 1 basis point of recoveries last quarter and 7 basis points of net charge offs in the first quarter last year. Our allowance for loan loss increased to $25.3 million at March 31, 2015, from $24.8 million at year end and $24.8 million at March 31, 2014.

Credit quality improvements achieved during the past year led to an allowance percentage at first quarter end of 1.50%, which was even with the prior quarter, but down from 1.58% a year ago, while the allowance-to-loan ratio has decreased the allowance coverage, non-performing loans is increased. The allowance now represents 135% of our non-performing loans, up from 93% at March 31, 2014. We expect continued improvement in our credit quality, which should benefit our performance going forward.

As for the asset quality numbers, we saw a decrease in the non-performing loans in the first quarter of 2015 to $18.7 million, down from $24.1 million on a linked quarter basis and down from $26.8 million at March 31, 2014. However, our OREO balance increased on a linked quarter basis to $6.4 million from $6.2 million last quarter and $6 million a year ago.

Overall, non-performing assets ended the quarter at $25.1 million, or 1.14% of total assets, down from 1.52% of total assets at March 31, 2014. Total classified loans also declined to $34.3 million at March 31, 2015, compared with $47.3 million on a linked quarter basis and well below the $51.3 million at March 31, 2014.

Moving to the balance sheet, total assets were $2.2 billion at March 31, 2015, up $22.4 million from last quarter end and $37.7 million from last year. Cash and equivalents, including the higher liquidity mentioned earlier, decreased to $81.5 million from $211.2 million at March 31, 2014. Securities increased $39 million from a year ago to $248.7 million. Gross loan balances increased $120.6 million, or 7.7%, year-over-year, and this past quarter loans increased $37.7 million. We have had a healthy start to the year and we see steady strong loan demand as we began the second quarter.

Total deposits increased about $12 million from a year ago and about the same on a linked quarter basis. Non-interest bearing deposits increased to $371 million at March 31, 2015, from $338.4 million at March 31, 2014. We are pleased with our growth, with our solid low cost deposit funding, but expect deposit growth could be more of a challenge in the forecasted economic and interest rate environment.

Looking at our capital position, total period end stockholders equity finished March 31, 2015, at $273.1 million, down from $274.9 million at March 31, 2014. Over the past year, we have repurchased 506,000 shares for $14.6 million and this past quarter, we also repurchased the warrant issued to the US Treasury under the TARP Capital Purchase Program for just under $12 million. Our capital position remains strong with period end shareholders equity to assets of 12.41% at March 31, 2015, compared to 12.75% at March 31, 2014. The bank’s total risk based capital ratio is strong at approximately 14.5%.

Regarding our stock repurchase program, we repurchased about 38,000 shares during the quarter and have now repurchased a total of about 173,000, up to 469,000 shares authorized last October. The effect of these repurchases and the warrant repurchase were not fully realized in the first quarter's average diluted shares. For reference, we calculate our total diluted shares at quarter end March 31 to be 9,334,000 shares and that was a further reduction of 277,000 from the first quarter's average.

Also, announced in our release last night was the declaration of our quarterly dividend of $0.20 per share. We are very pleased to provide additional value to our shareholders. That completes my financial review and I'll turn the call back over to Don.

Don Hileman
Thank you, Kevin. I'm thrilled with start to 2015 and the progress we've made to position First Defiance for the rest of the year. The benefits of our initiatives in pricing and account bundling changes are expected to build. We continue to focus on several key areas we believe important to improve financial performance and drive greater shareholder value. These include core balance sheet growth with a focus on loan growth, overall revenue growth, expense control and improved asset quality. We feel we're making steady progress in all these areas.

The first quarter expense level included several items that we do not expect to reoccur and anticipate moving to a lower level in the second quarter. We do believe improvements in loan demand, aided by further improvements in the economic environment, will continue in 2015. We also expect more activity from our Columbus, Ohio, loan production office with the addition of lenders allowing us to capitalize on stronger opportunities.

The size of our current pipeline reflects increasing confidence in our ability to grow outstandings. The lending environment remains very competitive, but we feel we can grow our business without making significant concessions in rate and other terms. Our average loan yield increased 4 basis points on a linked quarter basis. It will be challenging to uphold growth in the loan yield until market rates move higher. We will stay focused on disciplined pricing and building strong relationships with our clients.

We're seeing solid progress in our business banking initiative and more activity is expected from this segment in the coming year. Our business bankers in each of our markets are 100% dedicated to this opportunity and increased production volumes are anticipated each and every quarter. We continue to look to enhance our electronic and mobile capabilities, giving our customers more choices in how they bank with us. The launch of online account creation this quarter was our latest enhancement to our electronic capabilities. The digital delivery environment is changing at a very rapid pace and we are committed to keeping pace.

Growth in our insurance and wealth management revenues was also reflected in our quarterly results and we will remain in our plan for revenue growth in the future. While organic growth is our primary focus, we are constantly looking for strategic acquisition opportunities in those areas. We are very inspired by our recent performance and look to constantly drive the initiatives that we believe will help us obtain our goal of being a consistently high performing community bank.

We remain confident in our strategy and in the people working hard to execute our plans and evaluating new initiatives that enhance our overall strategy. We feel very good about our first quarter performance and look forward to the rest of 2015. We are committed to all of our customers and shareholders and appreciate the trust you have placed in us as we work to make First Defiance a high performing community bank.

Thank you for your interest in First Defiance and we thank you for joining us this morning. We will now be happy to take any of your questions.

QUESTIONS AND ANSWERS

Operator
Thank you. At this time, if you would like to ask a question, you may press star (*) then one (1) on your touchtone phone. If you are using a speakerphone, please pick up your handset before pressing the keys. To withdraw your question, please press star (*) then two (2). At this time, we will pause momentarily to assemble our roster.

And our first question will come from Damon DelMonte of KBW.

Damon DelMonte
Hey, good morning, guys, how are you?

Don Hileman
Hey, good morning, Damon.

Damon DelMonte
So, my first question is, I think, Kevin, you mentioned that, you know, the year outlook for loan growth, you're seeing steady, strong loan demand. How would you guys quantify that on an annualized basis? Are you confident that you can get growth at, you know, upper single digit, possibly low double digit annualized or do you still think it's somewhere in that mid to maybe lower/upper range?

Kevin Thompson
Yeah, I think the latter more than the former. I don't think I'm ready to go double digit yet, Damon, but it has been at a pretty steady pace as we enter the second quarter and, you know, basically, consistent with what we saw in the first quarter.

Damon DelMonte
Okay, so probably at mid-to-upper single digit, okay, that's helpful. Also, I think you mentioned that the buyback was kind of out of focus this quarter because of the warrant repurchase. You know, with shares trading close to 150% of tangible book value, is that still an attractive level for you guys to be active in the market?

Don Hileman
I think it is still but we're getting close to where we would have our internal cap on that buyback activity. So we would expect probably less activity going forward at these levels, Damon.

Damon DelMonte
Okay, all right that's helpful and then, also I think, Don, I think you had mentioned that there might be some items that you benefited from this quarter that wouldn't be repeatable in the coming quarters. I know one of them Kevin mentioned was the, in the margin, you had some commercial loan related income that benefited in the margin, were there any other items in either fee income or expenses that we would look to exclude from a modeling perspective?

Kevin Thompson
Well, obviously, the contingent insurance commissions, which you know, happen in the first quarter every year and they don't repeat on a quarterly basis. Otherwise, I don't know that there was anything singularly that would stand out. You know, on the expense side, we don't expect the write-downs to recur, so that would probably come out. But it was a very strong quarter across the board, mortgage volumes were strong, gains were wide.

You know, whether all those factors can continue quite at those levels remains to be seen, but we, again, are feeling very good as we enter the second quarter. Asset quality, again, evolved, we had very healthy recoveries in the first quarter. I don't know that we'll repeat those numbers, but we expect asset quality continue to move very favorably, but, you know, maybe not with that recovery level.

Damon DelMonte
Got you. Okay, that's helpful, thank you very much.

Don Hileman
Thanks, Damon.

Operator
And the next question will come from Christopher Marinac of FIG Partners.

Christopher Marinac
Thanks, good morning. I was wondering if you could give us a little more color on the mortgage business and just in terms of kind of how that may unfold the next couple of quarters. Do you have any activity that you may have had in second and third that kind of came in the first quarter that skews this result?

Don Hileman
There's probably a little of that, not a lot. We are still seeing pretty good demand here in the second quarter and a lot of activity. So I think, you know, a year ago, that was probably our low point for quite a while. So I think, on a comparative basis, we're going to get a little closer but, you know, we had very strong activity in the first quarter, even with that, you know, rough winter and so we expect a pretty good second quarter.

That's going to be, also, when we look out further, contingent on what happens with rates and, you know, if they stay in this range for the rest of the year, we expect to have pretty good performance in mortgage banking as the market starts to improve and there's some pent up demand and we anticipate benefiting from that. But, you know, rates will be a big driver on that.

Christopher Marinac
Got you, great. Okay, then, I guess next question, separate from that is, is this what your reserve policy, if you were not having recoveries, how would the provision simply just kind of linearly change for the end losses you're having on a net basis and is there a minimal level of reserve building that you want for the kind of growth you're seeing on the loan portfolio?

Don Hileman
I think the math would probably be close to what you just described on the charge offs. We have been, like we've said, benefited from the recoveries. I don't know if we have a set number, I think, as we continue to see improvement with asset quality, then that puts, you know, us in a better position that the reserve requirements aren't going to be as heavy going forward. We'd clearly like to have a loan provision that supports our loan growth, as well.

So, I'm not prepared to actually give you a number on what that reserve expectation would be, but I think we feel we're well reserved and probably on the high side today and it will moderate, based on loan growth.

Kevin Thompson
I would add that, you know, when we look at our numbers, particularly like versus peers, we know that our non-performers have been higher than peers, we have been making steady progress and real good progress this past quarter and our reserve has been higher than peers, on average. So as we continue forward and we see our numbers on the problem loans reduced, you know, I would expect that some point we're going to see our allowance reduced closer to peers, as well.

Christopher Marinac
Okay, that's great, thanks for that and just a quick final question, just has to loan to deposit ratio and your, also, early comments about the mix of earning assets. Do you see further evolution for each of those, both the mix as well as loan to deposits, can you push those even further?

Kevin Thompson
I would say there's a little bit of room but, you know, we're very comfortable with our current balance sheet about where it is. You know, could the loan to deposit ratio move up a little bit? Sure. And you know, in this environment, we think deposit growth is probably going to be a little tougher than loan growth, so we probably will see that edge up some, but we're not looking at dramatic change from where we are.

Christopher Marinac
Okay, great, thanks for taking all my questions.

Kevin Thompson
Sure.

Don Hileman
Thanks.

Operator
And the next question is from Daniel Cardenas of Raymond James.

Daniel Cardenas
Good morning, everybody.

Kevin Thompson
Good morning, Dan.

Don Hileman
Good morning, Dan.

Daniel Cardenas
Could you give me a little bit of color as to what the level of paydowns and payoffs were in this quarter? I mean, obviously, not much of an impact on the overall loan growth, but are you seeing paydowns subside here?

Don Hileman
Yeah, comparative to last year we are, you know, our pay downs were approximately $40 million in the quarter.

Daniel Cardenas
Okay, and then the competitiveness, I mean, you said very competitive environment. Is that just kind of across the board or are you seeing maybe some of the larger banks step up a little bit in the first quarter?

Don Hileman
I'd say on select deals it's across the board, but in general, it'd be the larger banks, Dan, that are showing more tendency to loosen terms and conditions, as well as rates. But we're pleased with how, where we were, I mean, this is been pretty much the whole quarter and we're pleased where we came out in that arena in the first quarter.

Daniel Cardenas
Right and then as you look at the quarter, I mean, was the growth kind of evenly distributed throughout the quarter or was it more heavily weighted to any one particular month?

Don Hileman
I think it was pretty even. I can't recall any one month that was

Kevin Thompson
It was pretty even.

Don Hileman
Yeah, pretty even, actually, I was just trying to go back and fairly even within all of our markets.

We are seeing some growth, obviously, in Columbus where that's a new market for us and that's doing well, but that wasn't the only area to have growth for us. It's been across the board.

Daniel Cardenas
And do you have the footings for Fort Wayne and for Columbus? The loan footings?

Don Hileman
We don't have those exact numbers but I think, and we're very pleased with where we started. I think it's more the opportunity, is what I was referencing there, too, that those are very strong growth markets and comparative to some of our other legacy offices and we feel there is a great deal of opportunity there, we've added some more lenders in both those areas and feel that's where we get a little bit more comfortable with some of the loan growth expectations we have because of their contribution.

Daniel Cardenas
Excellent and then so, looking at the margin, you said 5 to 6 basis points of interest recovery were in that number this quarter?

Kevin Thompson
Right.

Daniel Cardenas
Though core margin may be closer to 3.82 for this quarter?

Kevin Thompson
Yeah, 3.82, 3.83, right mid, you know, kind of splitting the difference there, actually, which, again, was a still a healthy increase from the linked quarter end a year ago.

Daniel Cardenas
Do you think you can sustain that margin coming into Q2 and beyond?

Kevin Thompson
Well, I would say that, again, the benefits that we've had from improving the earning asset mix and there's maybe a little bit more to play out there, but that has largely been reflected in the current margin. So I think, while that has been done, I think, again, we think we can maintain the margin and grow from here, that would be our outlook.

Daniel Cardenas
And do you have any interest rate hikes budgeted into the margin for the rest of this year?

Kevin Thompson
We're expecting something by the end of the year, but probably later as opposed to sooner. So, from an annual standpoint, probably not a significant effect.

Daniel Cardenas
Okay, so minimal impact, all right and I take it not a lot of room left on the funding side to reduce those costs.

Kevin Thompson
You know, we've always been saying that and every quarter it's dropped down, but I do think, I really do think this time we're kind of at the bottom.

Don Hileman
Yeah.

Daniel Cardenas
All right, excellent. Well, good quarter, guys. Thank you so much.

Kevin Thompson
Good, thank you.

Don Hileman
Thanks a lot, Dan, appreciate it.

Operator
And next we have a question from Eric Grubelich.

Eric Grubelich
Hi, good morning.

Don Hileman
Morning, Eric, how are you?

Kevin Thompson
Hi, how are you?

Eric Grubelich
Don, a quick question for you, just on the loan growth, you, you know, sounded reasonably optimistic, I think, based on your answer to Damon's question about the mid-to-high single digit growth. Is that going to be, again, more on a real estate side, the true commercial has been kind of flat for, you know, a number of quarters now or do you see any upside there?

Don Hileman
You know, I think the pattern will probably hold. You know, we, most of our growth will come with the commercial real estate side of it versus the pure CNI.

Eric Grubelich
Okay and with respect to the growth that you have this quarter in terms of the sizes of the loans or the projects, is it kind of like what you've been doing for the last couple of years or has there been a change in terms of appetite to take on bigger loan customers?

Don Hileman
No, it's been very consistent with the size that we've had and, actually, I think as we continue to see success in that, our appetite for real large customers is getting a little less.

Eric Grubelich
Okay, okay, good to know, that’s perfect, thanks a lot, Don.

Don Hileman
All right, thank you, good to talk to you.

Operator
Again, if you would like to ask a question, please press star (*) then one (1) at this time.

And showing no additional questions, I would like to turn the conference back over to management for any closing remarks.

CONCLUSION

Tera Murphy
This now concludes our 2015 first quarter earnings conference call. Thank you all for joining us this morning and thank you for your interest in First Defiance Financial. Have a great day.

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