Fourth Quarter 2020 Earnings Call Transcript

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Steven Alexopoulos, *J.P. Morgan*

Brian Morton, *Barclays*

Chris O'Connell, *KBW*

PRESENTATION

Operator

Good morning, ladies and gentlemen. Welcome to the Amalgamated Bank Fourth Quarter and Full Year 2020 Earnings Conference Call.

During today's presentation, all parties will be in a listen-only mode. Following the presentation, the conference will be open for questions with instructions to follow at that time. As a reminder, this conference call is being recorded.

I would now like to turn the call over to Drew LeBenne, Chief Financial Officer. Please go ahead.

Drew LaBenne

Thank you, Operator, and good morning, everyone.

We appreciate your participation in our Fourth Quarter and Full Year 2020 Earnings Call. With me today is Keith Mestrich, President and Chief Executive Officer.

As a reminder, the telephonic replay of this call will be available on the Investors section of our website for an extended period of time. Additionally, a slide deck to complement today's discussion is also available on the Investor section of our website.

Before we begin, let me remind everyone that this call may contain certain statements that constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. We caution investors that actual results may differ from the expectations indicated or implied by any such forward-looking information or statements. Investors should refer to Slide 2 of our earnings slide deck, as well as our 2019 10-K filed on March 13, 2020, and our other periodic filings that we file from time to time with the FDIC for a list of risk factors that could cause actual results to differ materially from those indicated or implied by such statements.

Additionally, during today's call, we will discuss certain non-GAAP measures which we believe are useful in evaluating our performance. The presentation of this additional information should not be considered in isolation or as a substitute for results prepared in accordance with U.S. GAAP. A reconciliation of these non-GAAP measures to the most comparable GAAP measure can be found in our earnings release, as well as on our website.

At this point, I'll turn the call over to Keith.

Keith Mestrich

Thank you, Drew, and good morning, everyone.

We appreciate your time and attention today. This morning I will discuss our current operations, followed by the high-level results of the fourth quarter, before turning the call back over to Drew to discuss our financial results in more detail.

Today is the last time I'll be speaking with you as the CEO of Amalgamated, and I'd like to thank our employees, customers, shareholders, and research analysts for all of your support. This has been an amazing journey and I'm so proud of what we have accomplished.

Today the bank is in a strong position, highlighted by a talented management team, an exceptional group of employees who are committed to our customers and the bank, a conservative credit culture which has served us well through the crisis, and a well-earned reputation as America's socially responsible bank, which continues to differentiate Amalgamated from the market and positions the bank for success in the coming years.

These attributes can be seen in our fourth quarter and full year 2020 results, and there are five key highlights that I would like to focus on today.

First, the pandemic created unprecedented challenges for all of us over the past year, and our team executed flawlessly to ensure we could transition our employees to a work from home environment while seamlessly maintaining our operations. We executed very well under extremely difficult circumstances, which is a true credit to our entire team, who I would like to thank for their tireless efforts.

Second, the steps that we have taken to improve the credit profile of our loan portfolio in the years leading up to the crisis positioned the bank to weather the challenging and uncertain economic environment that we currently face. Through the fourth quarter, our loan deferrals declined to 1% of our portfolio from 8% in the third quarter. As we will discuss, we took further actions in the quarter, which positions our portfolio and the bank for continued improvement through the year ahead.

Third, our deposit franchise continues to be a source of strength and a competitive advantage for the bank. In fact, we expanded our position this election cycle, as well as our share in our core markets with significant new account wins in Boston and DC. I'm very pleased to see the new business momentum that our team has generated.

Fourth, loan growth has been challenging given the pay downs that we have experienced in our residential and commercial real estate portfolios. That said, we are well positioned in green lending, given the investments that we have made which can be seen in the growth of our PACE portfolio over the last year. Our balance sheet is also well positioned if the yield curve were to steepen in the year ahead.

Lastly, we continue to execute on our growth initiatives as we work to grow the franchise value of Amalgamated. Our long-term positioning as a socially responsible company and a solid ESG investment is more relevant today than when I stepped into this position eight years ago. This reputation and our corporate values are driving our success in our newly opened Boston office and positions the bank for further geographic expansion as the pandemic is brought under control. We have also improved our ESG ratings from all the major ratings agencies this year and it has opened the door to new ESG product offerings in our trust business. As you can see, we are investing for the future and are excited with the many growth opportunities in front of us.

Turning to the quarter, our success in managing this unprecedented environment can be seen in our results as net income increased 10.5% to $13.8 million compared to $12.5 million in the third quarter. This equates to earnings of $0.44 per share in the fourth quarter, compared to $0.40 per share in the linked quarter.

Our deposit franchise continues to deliver and it is very encouraging to see how far we have come through this most recent election cycle. At quarters' end, our political deposit balance was $603 million which compares the 2018 Election Cycle trough of $182 million. While we do expect to see some continued runoff in political deposits in the first quarter of 2021, you can see that our unique deposit franchise is resonating with our clients and further evidence of the competitive brand recognition Amalgamated holds in this significant market segment, aided by the success of our bankers.

Looking ahead to 2021, the team will be focused on building back up our deposits with a strong pipeline of opportunities ahead. The focus of the Company will be to leverage our boots on the ground in Boston by adding new partnerships and markets where we historically have not had a presence. While the pandemic has been a headwind, our Boston team has had terrific success, winning significant new relationships which have been outside of the political sector. We've also seen strong non-political success out of our DC office which is very encouraging. Our teams are winning deposit relationships which are in the tens of millions of dollars that further validate Amalgamated strong reputation in the market.

Our cost of funds held relatively steady at 13 basis points in the fourth quarter, down 1 basis point from the third quarter of 2020, and down 23 basis points from the year-ago quarter.

As I noted in my opening, loan growth continues to be challenging, as total loans declined by $107.1 million, primarily due to residential and CRE prepayments; however, I'm very pleased with the growth in Pace assessments of $53.6 million due to purchases from Pace Funding Group of 58.1% annualized increase from a balance of $367.4 million at the end of the third quarter of 2020. Additionally, since quarters' end, we signed an agreement for an additional $150 million in Pace assessments which positions as well as we look to the year ahead.

Our noninterest expense for the quarter was $32.7 million, a decrease of $5.2 million from the linked quarter, primarily as a result of a $6.5 million decrease in occupancy and depreciation expense related to our six New York City branch closures. This was offset by an increase of $1.8 million in professional fees related to the bank holding company, our Management transition and other projects.

As I said, I believe the bank is in good position to deliver on our growth initiatives, which will evidence themselves in the year ahead. The expansion of our geographic reach into Boston is an area where we have made significant progress. As a reminder, we announced our expansion into Boston pre-pandemic and began building our franchise in the midst of COVID. We expected the ramp up to be slow. We could not be more pleased with progress that our team has made. Amalgamated continues to be the banking partner for individuals and companies who share our strong values and mission and our brand has resonated in Boston as we have won significant new deposit relationships through the fourth quarter.

Our Boston office now has over $30 million in deposits across political, non-profit, labor, and other mission-aligned organizations. Today, we believe there is a $90 billion commercial deposit opportunity in the U.S. with mission-aligned institutions and will look to further expand our geographic reach when the pandemic is brought under control.

Another growth initiative that we're excited about is our trust business, where we've been working on a suite of ESG products that we expect to launch in the first quarter. We are optimistic that these products will resonate with our customers and the market as a whole given the focus on sustainability in the country today. These products not only carry higher fees than our current suite of investment products, but will provide us with a product set that we are confident will resonate with the foundation, endowment and family office communities, allowing us to expand our trust business similar to the way we expanded our commercial banking footprint beyond our historic base with unions and their associated Taft Hartley funds.

Additionally, our shareholders approved the creation of Amalgamated Financial Corporation earlier this month, which is a holding company that will allow us to fully take advantage of our status as a B Corporation, gain access to additional means of raising capital, and provide us with an opportunity to expand our offerings to our customers into non-bank financial services.

Turning to capital allocation, we continue to invest in the bank to drive growth where we have many high return investment opportunities, several of which I've just touched on. Beyond growth, we are also focused on providing a steady stream of capital to our shareholders through our dividend, which our Board evaluates on a quarterly basis.

To conclude, I could not be more proud of what we have accomplished. The bank is in a strong financial position, having weathered an unprecedented environment and is positioned for success in the years ahead. We have made strong strides growing our franchise, built upon our reputation as America’s socially responsible bank at a time when this has become more important than ever, and have created many exciting avenues for growth.

The Board is making strong progress in their search for a new CEO and they are very pleased with the quality of candidates they have met. Importantly, the search is now in its final stages and I'm very proud of the institution that the new CEO will be inheriting. I will remain a special adviser to the Board to ensure a smooth transition, and I look forward to working with the team that I am so very proud of in this new role.

I want to thank the Board again for the opportunity to lead this great institution and to the teams that I've worked with on a daily basis. Today I feel an enormous sense of accomplishment, as should all of you. Thank you all for your hard work and your companionship. On a personal note, I'd like to thank my friend Drew for both his partnership and his friendship. The success that we have achieved would not have been possible without you, Drew. Thank you very much, my friend.

Drew LaBenne

Thank you, Keith, and thank you for the opportunity to be a part of this incredible journey. On behalf of the entire bank, you are going to be missed greatly. Thank you.

Turning to our financial results on Slide 6, as Keith mentioned in the fourth quarter, deposits decreased $682.3 million as expected, primarily due to the election cycle, to $5.3 billion from the third quarter of 2020, while average deposits for the quarter were $5.6 billion. Average non-interest bearing deposits decreased $244.8 million from the prior quarter, primarily due to seasonality related to the election cycle and now represent 53% of average deposits at year-end. Our deposit cost of funds remain relatively stable at 13 basis points for the quarter, a decrease of 1 basis point from the third quarter of 2020.

Deposits from politically active customers, such as campaigns, PACs, and state and national party committees decreased $609 million from $1.2 billion dollars at September 30, 2020, ending the year at $603 million as outlined on Slide 7. This election cycle greatly exceeded our expectations as we had strong success expanding our market share during this past year. Amalgamated continues to be a valued partner as we supported the business needs of the majority of Democratic candidates this cycle, which bodes well as we look to 2022.

As seen on Slide 10, our year-end 2020 total loans held relatively steady at $3.4 billion as compared to December 31, 2019. As Keith mentioned, loan growth in the fourth quarter was impacted by early pay offs of Residential and CRE loans, as well as our diligent efforts to manage the credit profile of our portfolio.

A bright spot in the fourth quarter was the growth of Pace assessments to $421 million. In addition, we signed another $150 million Pace purchase agreement with Pace Funding Group, which will allow us to continue this growth in 2021.

The yield on average earning assets was 3.18% for the fourth quarter, a decrease of 63 basis points as compared to the same period in 2019, driven by lower market rates on loans and securities. The yield on our total loans was 4.04% compared to 3.97% in the third quarter of 2020. After adjusting for prepayment penalty fees, our loan yield was down 3 basis points in the fourth quarter as compared to the previous quarter.

Turning to Slide 13, our net interest margin was 3.06% for the quarter, an increase of 18 basis points from the third quarter and a year-over-year decrease of 37 basis points. As expected, cash on the balance sheet decreased and helped to increase margin from the previous quarter. Prepayment penalties also positively impacted margin as they added 13 points to our net interest margin in the fourth quarter of 2020 compared to 7 and 2 basis points in the third quarter of 2020 and the fourth quarter of 2019 respectively.

The accretion of the loan mark and the loans we acquired in our new Resource Bank acquisition contributed 2 basis points to our net interest margin in the third and fourth quarters of 2020 compared to 5 basis points in the fourth quarter of 2019. Net interest income for the fourth quarter of 2020 was $45.7 million which compares to $45.2 million in the linked quarter and an approximately $3.4 million increase as compared to $42.3 million in the same quarter of 2019. For the year, net interest income was $180 million which compares to $166.6 million in the prior year.

Now on to non-interest income. Non-interest income for the fourth quarter of 2020 was $10.0 million, decreasing from $12.8 million in the third quarter of 2020 and a $2.3 million increase compared with the fourth quarter of 2019. The sequential quarter decrease was primarily due to a decrease of $2.5 million in tax credits on equity investments in solar projects. The quarterly increase as compared to the year ago period was primarily due to $1.8 million in tax credits on equity investments and solar projects in the fourth quarter of 2020. Non-interest income for the full year was $40.6 million, an increase of $11.4 million compared to 2019.

In 2021 we will see the reversal of those tax equity gains taken in 2020 and $5.6 million is expected to reverse. This does not include any benefit from future deals that we may book. In addition, the real estate fund that has been winding down in the trust business stopped charging fees at the end of 2020 and the $400,000 per quarter in fees will no longer be occurring in 2021.

For the fourth quarter, non-interest expense was $32.7 million, a decrease of $5.2 million from the third quarter of 2020, and an $800,000 decrease from the year-ago period. The decrease of $5.2 million from the previous quarter was primarily due to a $6.5 million decrease in occupancy and depreciation expense related to the closing of six branches in New York City, partially offset by an increase of $1.8 million in professional fees related to the formation of a bank holding company, the transition of our CEO, and other strategic initiatives.

For the full year of 2020, our non-interest expense was $133.9 million, an increase of $6.1 million or 4.7% from $127.8 million for the year ended December 31, 2019. The increase was primarily due to a $5.3 million increase in occupancy and depreciation expense related to branch closures and a $1.5 million increase in other expenses due to FDIC insurance rebates in 2019 that ceased in 2020.

Our progress on loan deferrals has been quite positive over the last quarter. We ended 2020 with $41 million or 1.2% of loans on principle and interest deferrals. For loans that have exited payment deferrals or have gone past six months of deferrals, only $21 million of those loans have failed to resume payments, primarily in residential, and we have included those loans in our non-accrual assets. The remaining $408 million have been moved into the appropriate credit risk rating based on their situation, with $179 million being pass rated, $163 million being special mention, and $65 million being substandard and accruing. While this leads to an increase in criticized and classified loans, we view this as a strong showing of credit performance that only $21 million have not resumed payments, most of which are not required to pay at this time due to New York State laws passed during the pandemic.

As can be seen on Slide 17, our nonperforming assets totaled $82.2 million or 1.38% of period-end total assets at December 31, 2020, an increase of $15.5 million compared with $66.7 million, or 1.25% at December 31, 2019. The increase in nonperforming assets was primarily driven by the addition of $14 million of non-accruing residential first lien mortgages, primarily due to COVID-19 pandemic. We have seen very few new requests for deferrals and are pleased with the trends in credit thus far. Obviously this crisis is not over and we remain vigilant in managing credit and working with our borrowers to resolve any issues as they may arise.

We recorded a $4.6 million provision for loan losses in the fourth quarter of 2020, which compares to an expense of $83,000 in the fourth quarter of 2019. The provision expense in the fourth quarter of 2020 was primarily driven by an $11 million charge off related to an indirect C&I loan, of which $8.3 million was reserved for in previous quarters and for specific reserves of multifamily loans of $2.0 million.

Looking back at 2020 from a credit perspective, the year was clearly challenging. That said, the steps we took to address the credit profile of our portfolio in the years leading up to the pandemic, combined with the disciplined credit culture that we have instilled, position the bank to weather what could have been an even more difficult environment. I'm pleased with our ability to manage credit and I'm optimistic that the actions we have taken through the fourth quarter position us well as we look to the year ahead.

Skipping to Slide 18, our GAAP to core return on tangible average common equity were 10.3% and 10.7% respectively for the fourth quarter of 2020. The core return compares to 13.4% for the third quarter of 2020, and 10.7% for the comparable period in 2019. The modest decrease in core return on tangible common equity in the linked quarter was primarily due to the previously discussed factors. Lastly, we remain well capitalized to support future growth.

To conclude, I'd like to reiterate Keith’s sentiments towards the fourth quarter and full year results. We are very pleased and proud of all the work from—the team has accomplished, both pre-pandemic, setting the Company up to navigate unforeseen events and the successes accomplished throughout the pandemic.
Thought it would be interesting to look back at our performance compared to our original 2020 guidance, which is on Slide 20. Even though we pulled the guidance in the midst of the pandemic, despite all the obstacles the bank had to overcome, we still hit on all the key points of guidance during the year, which is a real testament to the hard work of our colleagues in the bank.

Turning to Slide 21, we have outlined our expectations for 2021. This guidance assumes the year-end 2020 yield curve with no change in the Fed funds target for 2021.

Core pretax pre-provision earnings of $72 million to $88 million which excludes the impact of solar tax equity reversals, targeting 10% balance sheet growth overall for the year. Core expenses are expected to run higher in the first and second quarters due to strategic initiatives, and then lower in the second half of 2021.

Thank you again for your time today. We look forward to updating everyone on our first quarter results in April.

With that, I'd like to ask the Operator to open up the line for any questions. Operator?

Operator

Thank you. If you would like to ask a question, please press star, one on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press star, two if you would like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the star keys.

Our first question is from Steven Alexopoulos with J.P. Morgan, please proceed.

Steven Alexopoulos

Hi, good morning, everyone.

Drew LaBenne

Hey, Steve.

Steven Alexopoulos

I wanted to start, maybe Keith, I know you're still working through the CEO transition, but maybe you could help us. When should we learn of the new CEO and are a mix of inside and outside candidates being can better?

Keith Mestrich

Yes, let me give you a little bit more color than in my opening remarks. I'm really impressed with the rigor of the process that the Board has gone through, talked to a lot of both internal and external candidates, are really in the final stages of making a selection on a candidate. I've just been myself personally really impressed with the caliber of the candidates, both because they have uniquely been aligned with both the mission and the business strategy of the bank and bring really strong credentials from financial services world to the table and it's just been a luxury of riches in terms of the quality of candidates that have come forward.

I can't pinpoint an exact date, but I would anticipate an announcement in the next couple of weeks would be most likely. You never know what hang up might come up but I think that's the trajectory we're on here. The other thing I would comment is we've also spent—my last day at the bank is tomorrow and we spent a lot of time really making sure that the transition here is very, very seamless and smooth. Lynn Fox, our Chair, will be hopping in as the interim CEO for the few weeks between my tenure and the new person's tenure or whatever that time period is.

Lynn and I have known each other for a very, very long time and have a great working relationship and that will continue. She's been joining our Management committee meetings and really working with the team. We've really thought through the transition. I really anticipate that this will be quite seamless.

Steven Alexopoulos

That's very helpful color. My other question, probably for Drew, so if you look at the Pace investments, they really kicked up in the fourth quarter. Can you give some color, what drove so much more flow? I know you said you signed another $150 million deal for 2021 so how should we think about full year 2021 opportunity?

Drew LaBenne

Yes, absolutely. It did very much pick up and part of that is that during the pandemic—I think we've seen this phenomenon across the number of different areas—the home improvement demand has been very strong and so some of that, there's a bit of a lag in the process between signing up for a Pace assessment and actually closing and funding it onto our balance sheet. You're seeing a lot of the push from the summer and the fall coming through on our balance sheet here at the end of the year, which is great.

As far as the $150 million going forward, the first $150 million which we've now achieved happened faster than I thought it would have, I think, and faster than Pace Funding Group had projected it. I suspect we'll see a little bit of slowdown in that. I don't want to use the word—I guess for lack of a better term, in the pace of those in in 2021. I really didn't mean that pun, but it wouldn't surprise me to do the whole $150 million in 2021, but it also wouldn't surprise me if some smaller portion of it slips into 2022.

Steven Alexopoulos

Okay, so if you guys were $157 million for 2020, that's probably a realistic rough target, again, for 2021, about the same level? Is that the right way to think about it?

Drew LaBenne

Yes, I think so. I think it's a good estimate at this point.

Steven Alexopoulos

Okay, and with those investments and securities, right, loans were pretty flat in 2020. Can you talk about the opportunity to drive loan growth in 2021, particularly when you're talking about 10% balance sheet growth? Thanks.

Drew LaBenne

Absolutely. The 10% balance sheet growth is definitely more driven by our forecast of deposits than loans at this point. Your forecast on loans is low single digits right now, but I think there's a lot of variability in that number going forward. I think the greatest challenge we're going to face this year in 2021 is going to be loan prepayments and loan originations, and it's something we're very focused on. Once the new CEO is on board, I'm sure that person will be very focused on it as well, but the need to find new origination channels where some of our ones pre-pandemic, particularly multifamily and CRE, have slowed down substantially, we're going to need to do more there. But I think in the next, just to give a little color on Q1 here, there are definitely going to be higher level of prepayments in Q1 as well. We're expecting that and we're planning around it.

Steven Alexopoulos

Okay, that's helpful. Before I sign off, I want to echo Drew's comments, Keith, it's been a real pleasure working with you. The transformation of Amalgamated has been remarkable under your lead. Best of luck. Thanks taking my questions.

Keith Mestrich

Thanks, Steve, appreciate it.

Operator

As a reminder, it is star, one on your telephone keypad if you would like to ask a question.

Our next question is from Brian Morton with Barclays, please proceed.

Brian Morton

Good morning, everyone.

Keith Mestrich

Hi Brian.

Brian Morton

First question, I just wanted maybe a little bit more color on the non-accrual residential mortgage loans. How is the cash flowing? What are the expectations for when they'll return to payment, and where they are marked on a loan to value basis?

Drew LaBenne

Sure, let's start with that first. On the loan to value basis, so this is going to be current outstanding principle to original appraisal. They are just below 16% LTV across all those non-accruals, and actually, that—I'm sorry, that also includes the ones that are still in their second deferral and not yet on non-accrual, but the amount will be similar, so these are these are very well protected loans. They are on non-accrual because the customer needed more than six months of deferral and that's the point at which we've decided to move loans to non-accrual.

When they come back it's going to be customer by customer. But for all these individuals, we are verifying that they're going through hardship and there are some people who are struggling right now and it really isn't—I'll tell you, it's—when you look across it, it's not lower income borrowers versus higher income borrowers. It is across the spectrum as people have been affected in different ways by the pandemic.

I think currently the New York legislation extends out to approximately May in terms of when we are required to grant customers payment deferrals. Doesn't mean that they won't move to non-accrual on our books, but they don't need to pay per for the legislation. Then after that we're going to work with these borrowers and figure out the best solution and do everything we can to keep them in their homes.

Brian Morton

Thanks. Given the good—the strong loan to values on these and probably value has moved up, any thoughts on selling these loans or exiting some of these portfolios?

Drew LaBenne

No, not right now. Maybe later that could become a solution, but we don't—at this point, we don't really see any loss content in the vast majority of these residential loans. They just might be on our books for a while as non-accruals that we're going to need to work through, but there's no urgency from our standpoint to go out and dispose of the portfolio. We have some experience from those legacy countrywide portfolios in how to handle these situations. We'll leverage that to work through this with presumably pretty good outcome.

Brian Morton

Okay, great, and then just want to move to capital. You're standing at a 13.11% on the CET ratio and it's more than adequate. I'm not sure, for the Pace loans, the growth of $150 million, I don't know how much—what's the risk rating on those loans? Then beyond that, what are your priorities for capital deployment as you go into 2021? Are you thinking about restarting the share repurchases?

Drew LaBenne

Yes, so capital, just to maybe answer those in different orders. The Pace assessments are carried at a 50% risk weighting right now, same as a residential loan that we originate, so they're definitely lower in spectrum of utilizing risk capital. With the TCE where it is, we obviously have a lot of room to convert into liquid assets such as securities and cash into loans, and then utilize that capital without any concern whatsoever. It's more just making sure we find and underwrite the right loans that we want to have on the balance sheet from a mission and a risk stand point.

Our leverage ratio, just about 8% now. It's right about the middle of the range where we want to be, and certainly not a constraint but we are mindful of where we're at on that right now, and we're going to need, as we said in the guidance, we expect the balance sheet to keep growing and keep bringing in deposits. We are going to want to make sure we have the right amount of capital available to continue growth.

Dividend. We plan to continue to pay a dividend and we have our Board meetings usually right after these calls so we'll discuss our usual topics of dividends and buybacks and see where we go from there. But no change to our current plans right now beyond that.

Keith, anything you want to add?

Keith Mestrich

No, I think you hit it on the head, Drew. I think it's an ongoing conversation between senior management and the Board all the time and I think when we started down this pandemic situation, we knew that if it—as it got towards the end, if we're getting towards the end, we see light at the end of the tunnel, we said a good opportunity to be well positioned from a capital perspective at the end of it and that's where, I think, we are and it gives the Board and new leadership, I think, ample opportunity to think about lots of options.

Drew LaBenne

Brian, one thing, just before I turn it back over to you, Keith, the one thing I'll add is that we have no debt and we have no preferred equity out there right now so those are other levers that we may consider using if there was any type of acquisition opportunity that looked attractive to us going forward. I think there's a lot of levers in the capital and debt stack available to us besides just common equity, if we were to look at doing something from a strategic perspective.

Brian Morton

Excellent, thanks. That's about all the questions I have and I just wanted to wish Keith best of luck in your next endeavors. Thank you.

Keith Mestrich

Thanks, Brian.

Operator

Our next question is from Chris O'Connell with KBW, please proceed.

Chris O'Connell

Good morning, gentlemen. I guess I just want to start off with the balance sheet growth. I mean, you guys seem pretty confident in the 10% balance sheet growth driven by the deposit side, but in the past haven't been totally positive on the political deposit guidance. Do you have a better read into that right now, that's driving the 10% balance sheet growth outlook?

Keith Mestrich

Sure. We've already seen our—well, a couple of comments on the political deposits and then a few comments about things outside of the political realm. We were quite pleased with where political deposit troughed at the end of the 2020 election cycle. I think if you go back to some of our early projections, we thought that would originally trough around $300 million and it ended up around $600 million. Really, really a good jump point from that standpoint going off. We've already seen, in the first months of the 2022 election cycle, we've already seen an increase of political deposits, as you can see from the presentation, of around $50 million, so good growth. One can never predict exactly what's going to happen in a fundraising cycle, and you've certainly seen some things where some corporate PACs and others have been holding off on political contributions; that won't last for an entire cycle. With a 50-50 senate and a competitive House of Representatives, I think it's highly anticipatory that there will be a very very vibrant fundraising season, political fundraising season in 2022. I think that augurs quite well.

But really, I think more importantly for the story going forward is our growth in deposits really was much more than just political growth in deposits. We focused on that because it's unique to Amalgamated but across all of our sectors, whether it's our labor union customers or our social justice organization customers or our philanthropic customers, we have seen tremendous new opportunities in all four of our geographic markets and the pipeline has remained robust even with our commercial banking teams working remotely and I just don't see that ending. We've always talked about one of the values for this franchise being the long runway of potential customers and that just continues, particularly on the deposit treasury management side and that just continues to come to fruition.

Chris O'Connell

Got it, makes sense. As you guys are looking at the ESG fund that you started in the first quarter here, and then with the real estate fund rolling off on the fees there, how do you see the trust fees setting out in the first quarter of 2021 and maybe progressing through the year?

Keith Mestrich

Look, we're going to launch a sleeve of new ESG funds probably next month, certainly this quarter, that will provide a variety of new options available to people to make some both fixed income and equity options as they think about making ESG investments, which would be a little bit unique in the marketplace. As you know, though, Chris, certainly the sales cycle for investment management products is not the quickest kind of thing that there is and it'll take a little time to not only get out on the road and sell all these products, but then trust committees and investment committees and other things will have to meet to make that ultimate decision.

I think it'll take a little while to ramp up on some of the new fee income. Certainly, I think you'll see some movement on fees just given what has happened to the markets thus far in 2021, that will help our fee position, especially if it holds throughout the quarter. Then, as Drew said, with our ultra construction real estate fund closing, all but closed down, really down to its last couple of properties, we did make the decision to stop charging investors in those funds fees and that should be about $100,000 a quarter in terms of lost fee revenue on a year-over-year basis.

Drew LaBenne

Four hundred thousand dollars, Keith.

Keith Mestrich

Four hundred thousand dollars. Pardon.

Chris O'Connell

Yes, so I'm sorry, just on a year-over-year basis, I guess, what do you—I guess just boiling that down, where is the baseline level coming into the first quarter on that one?

Drew LaBenne

I think we're going to be a little lower from where you see us in Q4 because of the trust fees coming out and a little bit of pickup in asset size. If all goes according to plan, the Invesco benefits should start feathering in over the later quarters in terms of performance, and I think the timing on that is obviously an envoy and the level of that is obviously somewhat uncertain, just given its new products that we're launching, but long term, pretty excited about the addition of that strategy.

Chris O'Connell

Got it, makes sense. As far as the loan sale gain line, some really good numbers in the back half of this year in 2020. How do you see that progressing in 2021?

Drew LaBenne

I think the Q4 number, $1.3 million, that was a phenomenal number. Probably not going to hit that level very often so I wouldn't take that and run it forward, but I think $0.5 million to $1 million is probably about where we're targeting. Q1 might be a little light on the lower end of that range just because we did so much in Q4, but as a go-forward for the full year, that's our best estimate right now. Obviously, if rates move up substantially, things like that, that could impact the volume coming through the mortgage market, but doesn't seem to be a huge risk at this juncture.

Chris O'Connell

Yes, got it, makes sense. Then, appreciate the guidance on the operating expenses with the first half of the year trending higher and then getting some progression lower in the second half of the year. Do you guys have a sense of where the first half of the year, I guess, is going to be starting off, just given some of the movement you had with the efficiency initiatives in the back half of this year?

Drew LaBenne

Yes, I mean, there's always some seasonality in Q1 as well, right? You have the payroll tax issues. You have the audit finishing off, and everything that goes with that, etc. If we think of our—I don't know if I want to give you a number, Chris, but it's probably closer to where we're at this quarter, for the next quarter or two, and then should come down to where we've been, closer to where we've been previously in the later half.

Chris O'Connell

Got it, that makes sense. Okay, great. Then finally, I guess, just looking at the tax rate, given some of the initiatives that you guys put into place, where do you guys see that coming in for going—on a go-forward basis?

Drew LaBenne

I don't see a lot of change to the effective tax rate right now. The solar tax equity is—which is a tax strategy but the GAAP accounting puts it through non-interest income so I'm going to just put that to the side for a second. I don't see a lot of change right now, but the big unknown is obviously what's going to happen with the federal tax rate and what are the state and local municipalities going to do. New York is talking about a tax hike in the city and the state so we're just going have to watch that and see where it goes. We've been doing things from a tax strategy standpoint that maybe aren't totally obvious in the effective tax rate in the GAAP. There's the solar tax equity, obviously, but we've also added to our plans at the end of the year. We've done a little bit in the municipal space where we've seen very, very strong deals which would benefit with—if there's any type of tax hike. I think our best estimate for now is what you're seeing in the numbers today.

Chris O'Connell

Okay, great, that's all I had. Thank you and congratulations, Keith, on the next steps and great job here at Amalgamated.

Keith Mestrich

Thanks, Chris.

Operator

Thank you. This does conclude our question-and-answer session. I would like to turn the conference back over to Mr. Keith Mestrich to final comments.

Keith Mestrich

Thanks, Sherry, appreciate it. I just want to thank everybody for joining today and for all the investors, and really want to say a special thanks to all of the research analysts, to Steve and Alex and Janet, the other Alex and Wally and Chris, and Brian. It's been a real pleasure getting to know all of you and work with all of you since our IPO in 2018 and I've learned a lot from you and when we have got to spend some time together on the non deal roadshows and other things that we did, it was a joy spending time together so I just appreciate, really, the time that we had together and I really did appreciate getting to know all of you so much.

I just want to do a final special shout out to our IR team, Jamie Lillis, Shannon Devine and Peter Caruso, who really have helped get all of our earnings calls together and I'm just deeply grateful for all the work that you have done and contributed to our Company.

Thank you, everybody. Stay safe, and we'll be in touch in the future. Bye-bye.

Operator

This concludes today's conference. You may disconnect your lines at this time. Have a wonderful day.