Second Quarter 2021 Earnings Call Transcript

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C O R P O R A T E   P A R T I C I P A N T S

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Priscilla Sims Brown, *President and Chief Executive Officer*

C O N F E R E N C E   C A L   P A R T I C I P A N T S

Alex Twerdahl, *Piper Sandler*

Janet Lee, *J.P. Morgan*

Brian Morton, *Barclays*

William Wallace, *Raymond James*

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P R E S E N T A T I O N

Operator

Good morning, ladies and gentlemen, and welcome to the Amalgamated Financial Corporation Second Quarter 2021 Earnings Conference Call.

I would now like to turn the call over to Mr. Jason Darby, Chief Financial Officer, please go ahead sir.

Jason Darby

Thank you, Operator, and good morning everyone.

We appreciate your participation in our second quarter 2021 earnings call. With me today is Priscilla Sims Brown, President and Chief Executive Officer.

As a reminder, a telephonic replay of this call will be available on the investors section of our website for an extended period of time. Additionally, the slide deck to complement today's discussion is also available on the investors 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 Slides 2 and 3 of our earnings slide deck as well as our 2020 10-K filed on March 15, 2021, 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 the U.S. GAAP. A reconciliation of these non-GAAP measures to the most comparable GAAP measures can be found in our earnings release, as well as on our website.

Let me now turn the call over to Priscilla.

Priscilla Sims Brown

Thank you, Jason, and good morning, everyone. We appreciate your time and interest.

I would first like to thank Jason and his experienced team who have been invaluable in bringing me up to speed since I joined Amalgamated in early June. My initial excitement in joining the Company has only been heightened by witnessing the team's dedication to our mission and our commitment to excellence.

I'd also like to take a moment to acknowledge the terrific foundational work performed by Keith, and the previous management team in assembling a strong and deep senior leadership team improving the credit profile of the loan portfolio, reducing the expense structure, broadening our deposit gathering capabilities, and expanding into mission aligned products which continue to be an important growth driver for the Company; an example would be residential and now Commercial PACE Assessments.

This strong foundation can be seen in our second quarter results where our deposit franchise grew 13% annualized to $5.9 billion on a linked quarter basis, while maintaining one of the industry's lower cost of funds at 10 basis points. Our political franchise remain strong and stable and experienced steady growth following last year's election rising almost $100 million to $791.3 million as compared to the first quarter.

Our underwriting and credit management has positioned the Company to not only weather the recent dislocation from the pandemic, but also to position us to explore a range of mission aligned options. As we focus on organic growth, which I will touch a bit more on in a moment.

A continued challenge to our growth has been the tepid demand for loans that we in the industry has faced, combined with a low interest rate environment that is flush with liquidity. This has resulted in an elevated level of prepayments, which in turn has pressured both our loan portfolio and our earnings through the first six months of this year.

While we are seeing a slowing of prepayments combined with continued strength in both residential and Commercial PACE Assessments, we are cautious on loan growth through the second half of 2021. As a result, we are revising our full year pre-tax pre-provision earnings guidance this morning, which Jason will discuss in more detail after my commentary.

We believe, however, that we are in a good position from which to build as we think about the next chapter in Amalgamated's 100 year history. I have observed that we have a strong brand amongst those who know as well. Our clients who are game changers and social responsibility are fiercely loyal to us. We intend to build on that loyalty by leaning into our mission as American socially responsible bank. Growth at Amalgamated is a key priority, and I've been working diligently with our leadership team to comprehensively evaluate the way we do business, and determine opportunities that will deliver sustained and profitable long-term growth as we strive to maximize the franchise value of this Company.

Over my more than 30 year career in the U.S. and abroad, I've held a variety of roles in the insurance, banking and financial services sectors, and I am thrilled with the opportunity to lead Amalgamated building on the Company's history and its commitment to social and environmental responsibility. Having been in my position for two months, I would like to share six key observations with you, as the leadership team and I put together a plan to optimize the many opportunities that we have in front of us.

First, I'm impressed with Amalgamated, as the Company was first to embrace the concept of banking for good, never wavering from their century long mission of empowering organizations and individuals to advance positive social change. What has changed is the economic and social landscape over the last two years, as companies and organizations are increasingly seeking socially responsible ways to run their businesses, while increasing their franchise value.

This is a story that is resonating with an increasing number of firms that are seeking a bank that shares not only their financial goals, but also wants to partner with them to support their mission and values. Amalgamated's mission is one that needs to be better told in a world that is increasingly receptive to hearing it.

Second, we really need to expand and grow the Amalgamated brand, as it will help us gain share and drive business. I believe companies are going to be increasingly evaluated by who they do business with, including their banking partners, which uniquely positions Amalgamated to succeed. As part of this, we are planning to effectively build our brand in the market, as well as utilize technology to improve our marketing to attract new customers.

Third, we have a terrific team of bankers who have created relationships and established themselves as experts in their segments, and I believe there are opportunities to further expand our platform. As I've met some of our key customers, I've learned that our brand resonates with those who do business with us. We can service them more from a lending perspective as well as deliver new avenues and products. I see more opportunities to properly expand our lending platform with products which fit our core mission, and which will deliver strong risk adjusted returns. PACE assessments are a good example where we can redeploy liquidity and earn attractive returns while at the same time funding projects that improve the environment.

Fourth, I've been impressed with the Company's underwriting and credit management practices. As we explore opportunities to grow the bank, we will maintain our underwriting discipline and ensure that we continue to earn appropriate risk adjusted returns on any new business that we enter. Credit quality will always be at the core of any growth strategy we pursue.

Fifth, we will continue to evaluate geographic expansion through both organic opportunities, like our Commercial Banking Office in Boston, and through M&A, like our successful acquisition of New Resource Bank in San Francisco.

Lastly, we will remain prudent stewards of capital and recognize the value of our shares. To that end, we have been actively buying back shares, having repurchase approximately 154,000 shares for $2.5 million of common stock under our $10 million share repurchase authorization during the second quarter. As you can see, I'm excited with the many opportunities that we have to profitably grow the bank and expand our platform. To achieve this, we will need to make investments into people, products, services and technology.

I will continue to rely on metrics and goals to ensure that the investments we make, meet our return hurdles and expand the franchise value of the Company, as well as ultimately translates to improve growth and profitability while remaining steadfastly true to the environmental and social governance that we've set as America's socially responsible bank.

To conclude, I would like to thank our Board of Directors for giving me the opportunity to lead Amalgamated and our senior management team who have worked diligently to help assist me in this exciting transition. Amalgamated is a much needed institution with a unique societal and environmental mission, and I'm very excited for the bank's future. We will continue to evaluate and determine how to optimize our brand and the ways in which we do business, including deepening our high value client relationships, expanding our customer base, accelerating organic loan growth and exploring M&A opportunities. I am looking forward to providing more details on our plan in our third quarter call.

Now, I'd like to turn the call over to Jason who will review our second quarter results in greater detail.

Jason Darby

Thank you, Priscilla.

Net income for the second quarter of 2021 was $10.4 million or $0.33 per diluted share, compared to $12.2 million or $0.39 per diluted share for the first quarter of 2021, and $10.4 million or $0.33 per diluted share for the second quarter of 2020. The $1.8 million decrease for the second quarter of 2021 compared to the previous quarter, was primarily due to a $1.7 million provision for loan loss expense, compared to a $3.3 million release of provision for loan losses in the preceding quarter, partially offset by a $1.4 million decrease in non-interest expense and a $1.3 million increase in non-interest income.

Coordinate income a non-GAAP measure for the second quarter of 2021 was $10.2 million, or $0.32 per diluted share. Coordinate income for the second quarter of 2021 excluded $300,000 of non-interest income gains on the sale of securities.

Turning to Slide 7 deposits at June 30, 2021 were $5.9 billion, an increase of $190 million or 13.3% annualized as compared to $5.7 billion as of March 31, 2021. Non-interest bearing deposits represent 51% of average deposits and 50% of ending deposits for the quarter ended June 30, 2021, contributing to an average cost of deposits of 10 basis points in the second quarter of 2021, a one basis point decrease from the previous quarter.

As can be seen on Slide 8 deposits held by politically active customers, such as campaigns, PACs, advocacy based organizations, and state and national party committees were $791.3 million as of June 30, 2021, an increase of $99.6 million as compared to $691.7 million as of March 31, 2021.

Turning to Slide 10, our total loans at June 30, 2021 were $3.1 billion, a decrease of $85.4 million as compared to March 31, 2021. The decline in loans was primarily driven by a $52.1 million decrease in residential loans, and a $46.2 million decrease in commercial real estate and multifamily loans due to refinancing activity by our existing customers.

Our balance of PACE Assessments, which is reported in the held to maturity securities portfolio, increased by $94.2 million in the second quarter to $545.8 million as compared to the first quarter of 2021. The yield on our total loans was 3.82% compared to 3.83% in the first quarter of 2021. After adjusting for prepayment penalty fees, our loan yield was up one basis point in the second quarter as compared to the previous quarter.

On Slide 12, net interest margin was 2.75% for the second quarter of 2021, a decrease of 10 basis points from 2.85% in the first quarter of 2021 and a decrease of 35 basis points from 3.10% in the second quarter of 2020. The accretion of the loan mark from the loans we acquired and our new resource bank acquisition contributed two basis points to our net interest margin in second quarter of 2021, compared to two and three basis points in the first quarter 2021 and second quarter of 2020 respectively.

Prepayment penalties earned through loan income contributed three basis points to our net interest margin in the second quarter of 2021 compared to four basis points in the first quarter of 2021 and two basis points in the second quarter of 2020. We estimate that our excess liquidity this quarter from balance sheet growth has suppressed our NIM by 19 basis points.

Turning to non-interest income, it was $5.3 million for the second quarter of 2021 compared to $4 million in the linked quarter, and $8.7 million for the second quarter in 2020. The sequential increase of $1.3 million was primarily due to the expected decrease in equity method investment losses related to investments in solar initiatives partially offset by a decrease of $500,000 in trust department fees attributed to the low rate environment and pressure on fixed income bonds. The decrease of $3.4 million as compared to the year

ago quarter was primarily due to a loss of $1.6 million related to equity investments and solar initiatives in the second quarter of 2021 compared to a $1.3 million gain in the second quarter of 2020.

We've primarily recognized the benefit of the tax credits in 2020. The initial year of the equity investments and expect minimal losses in equity method investments during the remainder of 2021. These impacts do not include any benefits of new solar equity investments that we may make in the future.

Non-interest expense for the second quarter of 2021 was $31.4 million, a decrease of $1.4 million from the first quarter of 2021 and an increase of $300,000 from the second quarter of 2020 as outlined on Slide 14. The decrease of $1.4 million in the previous quarter was primarily due to a $1.1 million charge for severance related to the modernization of our trust department in the first quarter of 2021, and a decrease in professional service expense.

Turning to Slide 16, non-performing assets totaled $71 million, or 1.08% of period and total assets at June 30, 2021, a decrease of $10 million compared with $81 million, or 1.27% of period and total assets at March 31, 2021. The decrease in non-performing assets was primarily driven by the payoff of $11.2 million of non-accruing construction loans, and a decrease of $2.4 million of loans 90 days past due and accruing.

Provision for loan losses totaled an expense of $1.7 million for the second quarter of 2021, compared to a recovery of $3.3 million in the first quarter 2021, and an expense of $8.2 million for the second quarter of 2020 respectively. The expense in the second quarter of 2021 was primarily driven by an increase in specific reserves for C&I loans, countered modestly by net balance reductions.

Moving along to Slide 17, our GAAP and core return on tangible average common equity were 7.6 and 7.7% respectively for the second quarter of 2021. Importantly, we remain well capitalized to support our future growth initiatives.

Turning to Slide 19, and as Priscilla commented, we revised our outlook for 2021. This revision assumes core pre-tax pre-provision earnings of $66 to $72 million, which excludes the impact of solar tax equity, income or losses, and net interest income $168 to $174 million, which includes prepayment penalty income.

Our revision recognizes the headwinds we have faced in our loan portfolio over the past six months. We're encouraged by the potential for general economic expansion as we head into the second half of the year, and we're excited about our prospects as we continue to strengthen our standing as America's socially responsible bank.

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

Operator

At this time, we will be conducting a question-and-answer session.

Our first question is from Alex Twerdahl with Piper Sandler. Please proceed with your question?

Alex Twerdahl

Hey, good morning, everybody.

Jason Darby

Good morning, Alex.

Priscilla Sims Brown

Good morning.

Alex Twerdahl

Nice to talk to you guys. First off, Priscilla, I wanted to—I recognize you're not going roll out your strategy for Amalgamated bank until I think you said the third quarter earnings call which is fair to give you a little bit of time to kind of get everything in line, but you talked a little bit about optimizing sustainable and profitable growth, and I wanted to hone in a little bit on the profitable piece of that. I was hoping maybe you could kind of discuss a little bit in your eyes how important the profitability piece is in the Amalgamated story?

Priscilla Sims Brown

That's a great question, and I'm going to I'm going to actually make an assumption here, so stop me if it's wrong, but I think part of your question is profitability of greater interest as compared to sort of the social responsibility or ESG focus that you have, and I don't know if that's where you were really going, but we do get that question a bit. So, I want to just say that we actually think that it's really nice to have a model that allows for both. In fact, we don't think one does well without the other. So, in other words, we are uniquely qualified, we think in the six segments that we participate in to talk about growing through this socially responsible model, and if you're not growing, then the model doesn't work, and if you are competing on a different basis in other areas, if you're not focused then you don't get the profitability. So, yes, profitability is key. We're highly, highly focused on the next year and what that looks like from a growth perspective. We think there are lots of untapped potential within the six segments we currently participate in and within the product suite that we currently have, and we also think there's really good opportunity to expand our client base, and also to look at additional products where we're uniquely qualified to assess the risk.

Alex Twerdahl

Thank you, for that. And then just switching gears a little bit to the guidance that you guys are giving, as I look at the guidance for NII, it seems like for the next for, I guess, for the back half the year it implies that NII should be flat or actually maybe even a little bit higher than the second quarter. Can you talk a little bit about what's driving that NII growth for the remainder of the year?

Jason Darby

So, I think the NII growth is modest at best, but the pipeline, for us, we're fairly encouraged. Right. I think there's a couple of things Alex. Number one, kind of being without, CEO or in transition for the past six months prior to Priscilla's arrival caused a little bit of stalling momentum. But it's been refreshing since Priscilla's arrived to sort of see the reinvigoration of the business, and some of the things that we've been able to see starting to flow through our lending approval process right. So, in terms of growth, and what's going to drive that, it's a volume game. You know, we like the prospects of our pipeline, we feel like there is reasonable opportunity during the second half of the year to feel optimistic that we're going to be on a little bit of an upward trajectory in terms of loan growth. Then I think, kind of going forward with C-PACE and other areas of our business that we feel like we're experts in and leading in starting to really get an understanding of how to perform in that market, there's a great deal of opportunity to put on assets that have coupons that will generate for us there probably be an excess of maybe some of the more traditional style lending that that the bank had previously been engaged in.

Alex Twerdahl

That's great. Can you just remind us under the flow agreements on the pay stuff, what's left for this year?

Jason Darby

Yes, yes, so we have on the PFG—sorry on the flow sorry, for R-PACE I was thinking of, we have about $60 million left to go. We put on another 36 gross for this quarter and in R-PACE from our flow arrangement. That netted down a little bit because we had the semi-annual payments from the tax assessments that came through during the quarter. But we feel pretty comfortable with our flow and being able to hit our $150 million target. We're working with our partner to actually provide additional expansion of that agreement and additional capacity, although there's not much more to report at the moment, but feel very good about maintaining our $150 million target for the year, at roughly a $30 million to $35 million clip heading into Q3 and Q4.

Then to sort of supplement that, and we don't talk—we haven't talked too much about this, but you know, the Commercial PACE segment of our business and started to show some real opportunistic signs. We had about $80 million of bookings through our Commercial PACE Program that would be on top of Alex the flow arrangement that we have in R-PACE. So, in that particular area of our business, I think things look pretty bright and comfortable, if you will. As you know, we tend to view the PACE section of our business as complimentary, if not a different lending channel. So, we kind of view that as a net positive overall for our lending story as well.

Alex Twerdahl

Great. So, let me just to clarify to get this straight, there's about $60 million left on the PFG Flow Agreement, and then separately, there's a commercial pace piece that's growing, it's $80 million so far that's already on the balance sheet, and that could continue to grow for the remainder of this year into next year?

Jason Darby

That's correct. So, when we think about our pipeline, C-PACE, we call it Commercial PACE is making up more and more interesting chunk of that, and those deals function a lot more like lending sell projects, but that's absolutely correct, and how to think about your prospects in the PACE environment.

Alex Twerdahl

Okay, is the C-PACE is that through a flow arrangement as well, or is that being originated and underwritten all in house?

Jason Darby

Yes, it's not through a flow arrangement. We do have partners that bring us deal opportunities, so you know, we do work with referral sources, but not under a contractual flow arrangement. The underwriting process is very similar to a credit style underwriting, but at the same time, the nature of the PACE assessment for commercial relative to retail is similar. It's all based on the property tax, the property tax liens, and the relative business incentive that comes from having an energy efficient upgrades your commercial project.

Alex Twerdahl

Okay, great. Then just final question on that point, the C-PACE, is that held to maturity security, or is that that in the loan portfolio?

Jason Darby

It'll be treated the same way as a bonded assessment, so through held to maturity securities.

Alex Twerdahl

Fantastic, thanks for taking my questions.

Jason Darby

You're welcome. Thank you, Alex.

Operator

Our next question is from Janet Lee with J.P Morgan, please procced with your question?

Janet Lee

Hello everyone. So, first to start off on your guidance. I just want to clarify a few points. So, on the core pre tax pre provision income of $66 to $72 million, is the change in your guidance just primarily from the reduced outlook or NII—on NII given the excess liquidity, or is there any expense outlook that's also coming into play? Second, on your net interest income guidance for 2021, what level of cash are you assuming your cash position comes down from your $550 million or any kind of assumptions that you're making it?

Jason Darby

Yes. So, to answer the first part of the question, there's no change to the to the expense outlook, it's really a volume game relative to the loan portfolio. The revised guidance, at the low end is really assuming a flat loan book from this point in time. We do expect to stay within our target range of $30 to $32 million on operating expenses. On that basis, that that's where the low end of the revised guidance would come from.

In terms of being at the higher end of the range we've built in very modest assumptions for net loan growth, probably call it in the low to mid-single digits, and we feel that that creates a pretty good target for us or the relative range of $66 to $72 million.

To the question on cash volume, it's tricky right because, the deposits are a pretty strong part of our of our business proposition and balance sheet thesis, but at the same time, the excess liquidity drag is obviously noticeable, we think that trading out of the cash portfolio into loans, and maybe some of the shorter term duration securities is probably the best way to go in terms of redeploying the cash. You know, if when we model it out, it's not a substantial drop, I would still expect us to be carrying in excess of $100 million in cash, as we get to the end of the year on an average basis, but that's really where we were trying to move the repositioning of the funding sources is from the cash base to the obviously the earning portion of loans.

Janet Lee

Got it. Just to clarify, also, apologies if you've already talked about this, but when you say you're more cautious about—you're still cautious about loan growth, despite prepay slowing down from here in the second half of 2021 but then you're more optimistic about potential loan growth in the back of as well, are you saying on a net basis, you expect to see loan growth in the second half? Or, is that just from like the gross loss excluding the prepay on it?

Jason Darby

Yes, I think cautiously - well, let's just parse the words for a moment. So, the cautious nature of this is, it's hard to ignore the relative decline that we've had in our loan book over the past six months or so relative to the prepayment activity, and maybe the lack of origination, so we don't want to get further ahead of ourselves then would be prudent just looking at sort of the historical results. But what we are optimistic about is really what our pipeline looks like, and if you pair that up with the sort of general expectation for economic expansion in Q3 and Q4, along with now having our CEO firmly seated and providing guidance and direction on what we want to be able to do, and what the what our pipeline should be trying to get pulled

through, it creates a lot more optimism going forward that we on a net basis could grow a little bit through the loan portfolio. That's kind of the way we're thinking about it.

Janet Lee

Okay, that's very helpful. Just on the De Novo Expansion, I know that Priscilla is going to talk about in more detail in the third quarter, but where are we on the Boston De Novo Expansion, and also on the LA? I believe that the LA De Novo Expansion was put on hold, given the pandemic situation? Where are we now and what's your plan around that?

Priscilla Sims Brown

We're very optimistic about the business in Boston. We have a team on the ground and everyone's officially going back into the office in September, but they've been very active. In terms of Los Angeles, and actually any other of the several large markets that we have been looking at, we're really focused on those which will contribute to the lending strategy most of all, and there are several good markets across the country that we're looking at. LA is just one of them.

Janet Lee

Got it. If I can just squeeze in one last question. So, you talked about M&A, is this something that you're going to be actively looking? Can you talk about maybe some of the M&A earn back tangible book value dilution press threshold that you're going to be sticking to if you were to pursue one?

Priscilla Sims Brown

Why don't I just start by saying that yes, we are certainly often looking at and considering opportunities there, and they will be opportunities that fit within the strategy, and so many of the things that we've been talking about you heard about before I arrived, and we will be continuing to talk about which is around lending, around building both efficiency and effectiveness and our current strategy places where we have unique expertise and things that we can develop that and certainly geographical expansion like you referenced earlier. Do you want to add to that?

Jason Darby

Yes, sure Priscilla, and Janet I'll add to that, that in the in the capital and sort of the tangible book value spectrum, we're certainly going to looking for deals that are that are smartly priced. Obviously, we're going to look for meaningful levels of accretion, we'll also look for manageable dilutive impacts with appropriate payback. When I think about dilutive impact, we're certainly recognizing our stock prices trading, a bit lower than then tangible book at the moment, but we do have a decent capital position to fund through cash, and we also with the establishment of our holding company earlier in the first quarter has given us some access to public debt markets and other ways to raise capital where we think we could, we can do a smart deal that would have an acceptable dilutive effect with a proper payback period. That's all part of the analysis that we're going through as we look at potential candidates, and anybody that fits what Priscilla just talked about, we're certainly taking a look at and being prudent about it.

Janet Lee

Okay, thank you so much for all the color, and I look forward to working with you all. Thanks.

Jason Darby

Thanks. Great.

Priscilla Sims Brown

Thanks for the questions, Janet.

Operator

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

Brian Morton

Good morning, and congratulations to both of you.

Priscilla Sims Brown

Thank you.

Jason Darby

Thank you.

Brian Morton

I just want to start on expenses it seems your core expenses have been relatively well controlled last couple of quarters. But still you kind of saying the efficiency ratio as creeped up a bit. Are there any plans for additional expense reductions in the near term? Or alternatively, are there any areas where you see the need for additional investment?

Jason Darby

So, maybe I'll jump in on the on the core efficiency portion of that, and then Priscilla can take the additional investments.

So, our core efficiency ratio, it's crept up, it's a little bit of a function of the topline revenue shrinkage that we've had been rolling through our through our net interest income. So, that's partially a driver. I think also the solar tax equity deals that we did, the effect of those flow through our core efficiency ratio also. So, in this quarter alone, there was a $1.6 million charge that flows through relative to tax credits that were recognized in the previous year. So, it's an expected event, but it does create noise within our core efficiency ratio. If you were to back out the impact of the solar tax equity for Q2, you improve your core efficiency ratio by about two percentage points. So, that is a little bit helpful.

You know, outside of that, I think we're not trying to cut to the bone to be able to manage our business. I think our $30 to $32 million target range on expenses, at least for the next two quarters, as we, to try to drive our business throughout the remainder of the year is a good target to consider. If we grow the top line, that naturally will shrink our ratio down to a little bit more of a pure acceptable level at this time. Then Priscilla, do you want to chime in a little bit on investing?

Priscilla Sims Brown

We've talked a little bit about expansion. We've talked a little bit about diving deeper into our core segments. We've talked some about branding, and just wanted to say that I think those are activities, which we believe can be done within the current expense envelope in the short-term. Now, as we further develop the strategy, we'll have more to say on that, and we'll see how that looks. But, my emphasis would be on trying to grow into those additional expenses to expand in the future, and certainly that would be our hope and priority. But, we'll have more to say on that as we complete the strategic work that's underway.

Brian Morton

Great, thanks. Then you had a good start to the recent $10 million share repurchase authorization. Is this kind of the pace that you would expect to maintain in the near term?

Priscilla Sims Brown

Yes, I think that's fair that we would look to continue at around this pace to complete the authorization.

Jason Darby

Yes, I think we have $7.5 million remaining. We're being prudent about that, and to Priscilla's point, I would expect roughly the same quarterly pace absent any significant change that we would make. As of right now, I'm not seeing that, so I would expect a very similar type of pace.

Brian Morton

Excellent, and on the loan portfolio, I kind of noticed, it seems that the consumer and other has been gaining some traction, even though it's off a small base. Are there any particular products or segments that are driving that, and any potential to build on this momentum?

Jason Darby

Yes, that's a great observation. You know, it's really our consumer solar. As we've gotten deeper and deeper into that space, especially as we've moved away from balance sheeting, residential one to four style properties, we've definitely moved into deeper arrangements with providers for asset purchases relative to consumer solar. We put on about $20 million of that on a net basis for the quarter, and you know, we're expecting to do more.

Brian Morton

Great, thanks. Then I guess for my last question, I'm just wondering if you could provide a little more color on the increase in the allowance due to the specific reserves within the C&I portfolio? Are you seeing anything that would give you rise to additional concerns?

Jason Darby

Yes, that's a great question. Really, the answer to that is no, in terms of what we see right now, for additional concerns. The specific reserves build up really is related to two C&I loans at work that are usual suspects for us, they're part of our legacy leverage lending portfolio. The reserve build up is really just based on continued discussions with the borrowers and receiving updated projections. So, in our space, and given kind of our history with these borrowers and also in our leverage lending portfolio, we felt it prudent to build up a little bit more to support any potential losses that might occur with these particular borrowers. We are in contact with them, and it's a continuous process as we work with them.

Also back to the consumer solar part of the part of the build was also to up our provision to relative to potential losses on these consumer solar pools. We want to get a little bit more aggressive, we're putting those on. Loss rates are becoming a little bit more clear to us as we gain some seasonality in the portfolios. So we built up a little bit at that level as well.

But I think it's also important to remember that the bank, meaning our bank, we have not yet adopted CECL, so we might be coming also from a little bit of a lower point relative to our peers in terms of reserves. I always look at sort of where we are in total A Triple L to loans ratio, and even with our build, we kind of

come in at 1.2 for the quarter, which I think puts us kind of right in the middle of the pack relative to total allowance size.

Brian Morton

Okay, well, thank you very much. That's all the questions I have right now.

Jason Darby

Thank you.

Priscilla Sims Brown

Thank you.

Operator

Our next question is from William Wallace with Raymond James. Please proceed with your question.

William Wallace

Hi, thanks. Good to meet you both. If I could—I also had some questions on the specific reserve builds. Is this the same two CNI loans that we've been talking about off and on for the past six quarters or so?

Jason Darby

I believe so, they're usual suspects. I can't recall if we talked about specific names, but they are usual suspects, yes.

William Wallace

Can you can you update us on the outstanding principal balance, and where the specific reserves are on these loans as it stands today?

Jason Darby

Yes, so one loan is $8.6 million, the other is $2.3 million, so they totally roughly $11 million. We're reserved now up to one-third on each of those principal values at this time.

William Wallace

And are these both carried in the non-accrual?

Jason Darby

They are non-accrual. Yes, absolutely, non-accrual.

William Wallace

Okay. Are they paying?

Jason Darby

They are working with us. There is cash flow coming, but it's not at a point where I feel comfortable even indicating that they'd be moving off of a non-accrual status.

William Wallace

Okay, and to that point, Priscilla, you talked about, I believe the underwriting culture or something as one of the observations that you have, and (inaudible) observed that the NPA's are over 2%, which is well above the industry. Is there any opportunity that you see to maybe be more aggressive in addressing the existing, you know, stress on the loan portfolio to kind of right size it before we move forward from a growth focused perspective?

Priscilla Sims Brown

You know, I think I might phrase it slightly differently. I think there's certainly opportunity to lean more into the areas where we have expertise, and can probably see things that others might not in some of these deals, and that's why you see C-PACE coming through and solar coming through, and you might see more of that. So, I do you think there's real opportunity. I think the team would agree with that. I think you'll start to see more of that as we move forward.

Jason Darby

Yes, and Wally if I may add to that, I think we are spending quite a bit of time taking a hard look at some of our non-performers and what we can do in that space. We were able to even in the quarter alone, we were able to move one of our commercial Oreo properties off the books. We had about a $400,000 loss on that that rolled through the non-interest income portion of our income statement this quarter. But, we felt it was prudent management to try to move non-performers off the balance sheet and clear as much as we can. We also saw, a nice payoff and one of our other construction and lending loans that that help reduce some of that non-performing asset ratio down to I guess closer to a more pure related average.

Then there's opportunity, certainly in our residential and consumer portfolio to move some of the legacy problem assets off our books, and we're going to take a look at that relative to capital in the coming quarters.

I think it's important to note that as I look at some of the problem assets that remain on our books, a lot of that really either ties back to our legacy lending—leverage lending portfolio that we, we spent a lot of time on earlier in 2017 and 2018 selling out of and these are some of the remainders there, and then we still have some of the remaining problem assets from some of the earlier purchase pools back there on the kind of the countrywide origination days that we're actively trying to look to get rid of. So, that's to me our big drag in what holds our numbers up high on the NPA's, and we're certainly cognizant of that and taking a look at trying to improve that ratio.

William Wallace

Okay, thank you. I think it could also be a drag on the valuation. You mentioned that you built up reserves on I think some of the consumer solar loan pools now that you're getting some better loss experience. What's the reserve that you're carrying against those pools now, and what is the average yield on these loans?

Jason Darby

Yes, so we're carrying about a 1% of portfolio reserve on those, and yields are anywhere—they're different portfolios, but anywhere from 2.75 to 3.50% is kind of the bring on for that.

William Wallace

I know these shorts duration, I mean, (inaudible) they're appropriately priced for potential 1% loss rates?

Jason Darby

They're their short term duration, which is why there's a significant amount of churn in those in terms of their payoff. You know, and maintaining the flow is sort of important, but on the pricing side of things, I'd have to get back to you on what the relative return is to the reserve that we're carrying.

William Wallace

Okay. Then you mentioned the weighing decisions around what to do with credit, with keeping capital in mind, and so it kind of seems like there's three choices that you have. One is buyback stock, one is M&A, and then one is maybe aggressively address any legacy credit issues. So, at an 8% TCE and an 8% leverage ratio, it doesn't seem like you have a lot of excess capital. So, I'd love to know the capital constraints that you guys are operating within internally. In other words, what level would you be willing to take capital to if it were to be, say, an M&A opportunity, and then how do you—how are you going to make the choice to dilute tangible book value when you could buy back your stock risk free with no dilution of tangible book value based on today's price. I just would love to know kind of how you're making the matrix of these decisions as you think about strategies moving forward?

Jason Darby

So, you want to jump in. Okay. So, I think you hit the entire dartboard of how we're thinking about capital. I think when we kind of come to the buyback portion of it, I think that $10 million that we put in place already is sort of an indication of our intent and desire to return capital and prove the relative book value or return on the shares. You're right, in the sense that we're at eight or slightly below eight right now, which makes options a little bit limited. But, we've got, call it 7.50% as sort of our green zone, right, and so I don't think there would be a tremendous amount of consternation to move down the leverage ladder if it meant being able to support an opportunity that would drive predictable returns, right. So, I think that's the way we try to evaluate it. I wish I had a better answer for you at the moment. But anywhere where we're going to deploy capital, which would move us off of that 8% ratio and probably keep us within that 7.50% ratio, we're looking at what the return is in terms of a payback period, how that would move our kind of outward facing metrics regarding tangible common equity or return (inaudible), sorry, or return on average assets, and that's how we generally evaluate it. The universe is somewhat small when you when you kind of think of it that way. But we do think that there's smart opportunities, and whether that's going to be cleaning up non-performing assets on our books or funding an acquisition that would help us in some sort of expansion type of activity, that kind of remains to be seen. These are all things we're going to be talking about during the second half of this year.

William Wallace

Okay, all right thank you for that. Then just one last question. Priscilla, this is for you, and it's big picture. I appreciate the observations that that you gave. The first one is interesting to me, because I agree but I don't know how to frame it. So, I'm curious if you can maybe frame what you mean when you say that you think there's an opportunity to better tell the story of Amalgamated. Can you can you expand on that a little bit and just kind of—just expand on what that means to you?

Priscilla Sims Brown

Sure, sure. Yes, thank you for asking. I'll try to keep this short, but in short, I think there are really kind of two interested groups to think about. One is our current customers. There we not only enjoy, obviously, name awareness, but we have really high favorability, meaning that our current customers are quite committed to Amalgamated and that's seen in the fact that they're not as focused so much on returns as they are on being aligned. So, that's that that's a great group. It includes corporate and commercial

customers who are core to us, and they typically live and work in our key cities, and they typically fall into the six commercial segments that you've probably heard a lot about, and you see them on our website, plus sort of individual change makers. They care about things like climate and sustainability and rights of immigrants and workers, and all the things that we talk about.

So, our first job is to really deepen our relationship with those customers. So, we're now synthesizing and analyzing customer data and feedback, and we're fine-tuning just our understanding of their needs and their concerns. They came to us because of these shared interest, so we have the opportunity to really as I say deepen our relationship there and solve more needs for them, including socially responsible lending and asset management. So, you've heard us talk a lot about C-PACE. You may be aware that first quarter of next year we're launching our, what we call responsive funds, which are essentially socially responsible funds. We think there'll be a great deal of interest. We're in sort of the pre-launch phase, and we're seeing that there's great interest among core customers.

Then you've got these group of individuals and commercial entities that are not today our customers, don't know us very well, but still share some of these interests and passions. These are people who are like our customers, and that they could be early adopters and game changers in the space. We also think there's an emerging group, so more and more people are becoming interested in in this space. So, these customers have or prospects have similar characteristics as our base, and we think we again, we're uniquely qualified and focused on them.

What we will be doing there is just leveraging external data where we will identify them and then build and grow our presence, just meeting them where they are, and in fact often where we are, whether that's in social, whether that's experiential, or in other ways. What I think is exciting about this is that, we're able to tell our stories to more companies that look like our current customers, and it's not a monumental lift. So, we don't think there's a significant investment to get closer to these customers in the short run. As I said, we'll evaluate future brand build outs over time as we build out the strategy.

William Wallace

Thank you very much. I appreciate that insight.

Jason Darby

Will I'm sorry, I just want to—I apologize for giving a little bit of misinformation on the consumer solar. Yields are closer to 4.5% on those portfolios.

William Wallace

Okay, thank you. That sounds better.

Jason Darby

As I said, I was like, that's wrong. Sorry.

Priscilla Sims Brown

Thanks, Wally.

William Wallace

Thank you.

Operator

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

Chris O'Connell

Hi.

Priscilla Sims Brown

Good morning Chris.

Chris O'Connell

Morning, hi Priscilla. So, I guess you just want to start with the trust revenues. You know, we knew that was going to come down at some point and just this is kind of a good baseline run rate level for going forward. Then maybe also with regards to the ESG ResponsiFunds that launching next quarter, what—if you can just give a little bit more color on the initiative and what kind of new revenue opportunity it could provide over time?

Jason Darby

Yes, absolutely. So, I think that the trust revenue, it's reaching a baseline rate. We're optimistic that it's upward from here. I think it was heavily impacted by the low rate environment, given that a majority of the current funds are placed in bond products, so not incredibly concerned that there's (inaudible) like to go in terms of revenue dropping. I also think that in that overall business, we spent a lot of time optimizing it for profitability as well. You know, as we've shifted the administration to an outsourced model, which paid for that last quarter, and really kind of setting up our customer agreements to be more standardized so that there's not as much administration that's required to manage individual relationships.

I think more importantly is the point that you just picked up on, is the pivot of that overall business to the new introduction of the ResponsiFunds that Priscilla was talking about, those funds are now up and ready. I think they're going to be going live in the early first part of 2022. We've hired a dedicated sales person to lead the effort in terms of not only generating business flow from external customers, but also in a cross-sell basis from our existing commercial relationships to create opportunities for them to deploy their funds. We're in for about $45 million of orders right now, and that's growing as we get further and further out there with the communication of the funds existence right now.

So, more to come really on that one, that's sort of a TBD, but it's exciting to see that these funds are now you know, basically ready to go and customers have an ESG opportunity or alternative to invest in with the bank—or I'm sorry, with our with our trust business that can really align with what they feel is most important to them and their mission and values.

Chris O'Connell

Great, that's helpful. Then I know that we'll probably get much more specific detail, kind of the third quarter update. But if you could expand upon it, I think there's a couple of bullets, and you know, a couple of comments in the opening remarks about expansion into new lending segments, and just maybe, what's being considered or where you guys are looking at, or where you know think you can excel there?

Jason Darby

So, I think in lending segment side of things, you know, Priscilla mentioned the segments that we were already operating in, and I think there's an opportunity for us to deepen into particular segments. So, two of them that come to mind right away is really the commercial pace segment of our business operation, and

then also sustainability or energy efficient lending on a straight commercial basis. We have bankers that are extremely knowledgeable in this space, and part of the goal here is really to get them very focused on pursuing opportunities in those segments, as supposed to maybe kind of pursuing a broader array of opportunities. So, in that sense, I think that's where we're going to start to meaningfully shift into segment development, and I think from there there's a couple of things. Number one, really improving the interactive experience that customers and commercial prospects have with us. That sort of platform interaction. It can be account openings, transactions, whatever that's going to be, basically making investments there, and then I think the other piece of that is introducing them to what else Amalgamated has to offer. You know, in a lot of cases, we see customers that have deposit relationships right now with us that there aren't either aware or don't understand the investment alternatives that we have to offer. So, I think those are opportunities to sort of bridge a segment and cross sell product.

Priscilla Sims Brown

You know, the only thing I would add to that, because it's well said that we plan to move deeper into segments where we feel we have expertise. The only thing I'd say in addition to that is that we also see an opportunity to improve the customer experience, and we think that that will result in customers being interested in products across the spectrum. Just to remind people of the segments that we've been talking about, there are really six of them and I know some of you are familiar with them. But we've got this whole sustainability and energy efficiency segment, which has obviously done very well for us. We've got political organizations who even despite this being after a major election, political organizations are growing in deposits with us. We think there's opportunities there.

There's social enterprises, there's nonprofits, there's labor, and there's philanthropies. In each one of these, there is a sort of a unique story to tell, but each one is a segment where we have right now some growth, we've got some real experts in each of these segments, people who were talking to them every day, in some cases come from these segments, and we just think there's a real opportunity there to just have deeper and more conversations. We also think that the segments are interested given all this going on in the world, the segments are interested in perhaps thinking even where they're flushed with liquidity, they may be thinking about the opportunity to keep that sort of cash on the books, and then be thinking about how to leverage either real estate or other parts of their portfolio to lend in order to be best prepared and protected during this period.

Chris O'Connell

Got it, thank you. Then if I heard right earlier, it sounded like the goal under ideal circumstances is to get kind of cash down to the $100 million level or so towards the end of the year, at least optimally, or that it will be—it'll still be above $100 million kind of regardless. There's pretty wide gap between that and where the cash balances are now at period end. Assuming that the political deposit growth engine kind of continues to grow on pace for the next couple of quarters, and given the comments around the PACE initiatives, it seems like there's still going to be a good amount of movement into the securities book, is that fair?

Jason Darby

Yes, I think that's still fair, and you probably see that on our numbers. We've been fairly aggressive to pulling as much in excess funding as we can into ensuring assets to the security portfolio or retail agreements, and we think there are some opportunities in some of the repo markets to take a little bit more of interest and put some cash to work there. You know, we've been a little bit more aggressive in the non-agency space, trying to pick up a little bit more interest there, kind of also making sure that we manage duration, not get overextended in that space. So, to the extent that we're able to, we reserve a portion of that cash to fund the C-PACE growth, which you can see can be blocking, come in fairly decent chunks, and then obviously, the remainder of that would hopefully fuel some type of net loan growth through our more traditional lending channels.

But back to the end piece, you know, our target, when we, when we model out the drag on NIM, our target is $100 million of cash. You know, do I feel like we're going to be there by the end of Q4? I mean, that's why I kind of said, I think it's in excess. But, ultimately, that's where we'd love to be, and we need to communicate close attention to the deposit flow that comes as a result of our political but also our just general commercial business deposit generating business.

Chris O'Connell

Got it, and outside of the PACE, as far as the rest of the securities book that you guys are putting on now, what are generally like the blended yields of what you're putting on?

Jason Darby

Yes, so I think when you when you when you strip out PACE, the portfolio's probably about 1.57% yield in total. As we bring on non-agencies, they're all top of the capital stack assets with floating rates. So, you're looking at probably 1.0 to 1.20% is where those assets are coming on. You know, we're moving a little bit more sub debt onto the books and maybe a touch more on corporate bonds, which has some higher yields, but I think that's generally the range of impact to the securities portfolio right now, absent pay securities.

Chris O'Connell

Okay, great. That's all I had. Thank you.

Priscilla Sims Brown

Thank you.

Jason Darby

Thank you.

Operator

We have reached the end of the question-and-answer session.

I'll now turn the call over to Priscilla Sims Brown for closing remarks.

Priscilla Sims Brown

Thank you, Shomali, and thank you all for your interest today. These are great questions and all really insightful in terms of where we are going and thinking about the business and where you are. So, appreciate that confirmation.

Again, I want to thank the Management team. I think a great foundation has been laid over the last couple of years, and in particular, in recent months. I think this team has really kept their head down and really tried to work through what could have been a very difficult time, both externally in the environment, and certainly in the interim without a long term CEO. Now I think we just have a wonderful foundation to move forward on. I'm really excited about the people we have on the team. I'm very excited about the opportunities in front of us. I've had a lot of conversations with customers in the last few weeks, and I'm hearing enthusiasm and real interest, and when we start to talk about new ideas and expanding relationships with existing customers, the reception we're getting is just been great. So, having now a real commitment to doing more of these kinds of conversations, traveling quite a bit, happy to see people coming back into the

office and the ability to talk to people face to face, and it seems that there's a real energy around where do we go from here.

So, I look forward to coming back to you next quarter and talking about the strategy more specifically. In the interim, happy to take your calls and meet all of you as your time and schedules permit.

Thank you, again for your time and look forward to continuing the dialogue.

Operator

This concludes today's conference, and you may disconnect your line at this time. Thank you for your participation.