amalgamated FINANCIAL CORP.

First Quarter 2021 Earnings Call Transcript

April 22, 2021

CORPORATE PARTICIPANTS

Drew LaBenne, *Senior Executive Vice President, Chief Financial Officer*

Lynne Fox, *Board Chair and Interim President and Chief Executive Officer*

Jason Darby, *Executive Vice President, Chief Accounting Officer*

CONFERENCE CALL PARTICIPANTS

Chris O'Connell, *KBW*

PRESENTATION

Operator

Good morning, ladies and gentlemen. Welcome to the Amalgamated Financial Corp. First Quarter 2021 Earnings Conference Call.

I would now like to turn the conference over to Mr. Drew LaBenne, Chief Financial Officer. Please go ahead, sir.

Drew LaBenne

Thank you, Operator, and good morning, everyone. We appreciate your participation in our first quarter 2021 earnings call.

With me today is Lynne Fox, Board Chair and Interim President and Chief Executive Officer, and Jason Darby, Chief Accounting Officer, who will become the Interim CFO as of Monday. 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, a 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 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 Lynne.

Lynne Fox

Thank you, Drew, and good morning, everyone. We appreciate your time and attention today.

First, I would like to thank Drew for his many contributions over the past six years, as he has been part of the team that has driven a strategic turnaround of the bank's operations and laid the foundation that positions Amalgamated for the future. Drew, while we're sad to see you go, we wish you great success in your new endeavor. We're looking forward to see what you accomplish next. As Chair of the Board of Amalgamated, I certainly recognize the uncertainty that our shareholders and employees must feel, given the departure of Drew and Keith, and given they have been the public face of Amalgamated to investors since the IPO.

That said, I'm very grateful for the senior leadership team that we have assembled over the past six years and their teams, which gives me great confidence that the Bank's operations will continue to run at a very high level. Jason Darby is an excellent example of the depth and breadth of our senior team. Since joining Amalgamated in 2015, he’s consistently demonstrated extraordinary leadership, impressive financial acumen and a deep knowledge of every facet of Amalgamated. Jason has been instrumental in helping Drew build our financial department, and I'm very pleased that he has accepted the position of Interim Chief Financial Officer.

I'm extremely proud of our entire Management team who have maintained a strong focus on ensuring the business continues to perform, which our financials clearly demonstrate. Jason is in great company with Martin Murrell and Sam Brown who manage our consumer and commercial business for the Company, and both of whom have been instrumental in growing Amalgamated to where it is today and improving the efficiency of our operations. Martin, who is our Chief Operating Officer joined Amalgamated from American Express five years ago where he headed the strategic planning group's international office in London. Prior to American Express, he was at Capital One, where he pioneered their first direct bank offering.

Sam, who is our Executive Vice President and Director of Commercial Banking joined the Company six years ago after serving as Director of the White House Business Counsel. As President Obama's liaison to the private sector, Sam worked on economic policies to help America's working families and businesses succeed. The contributions of Sam and his entire team to Amalgamated can be seen through the strong continued growth of our deposit franchise and transformation of our lending strategy.

As we talk about the great footing the Bank is on today, I'm both encouraged and grateful for the team and all that they have done to position Amalgamated’s next CEO for continued success. The incoming CEO will inherit a great institution, one that we are all very proud to be a part of. As you know, a special committee of the Board has been working with the Ellig Group, a very well-known and established search firm to help us identify our next CEO. This process has been robust and comprehensive, and we have vetted numerous candidates, all of which were highly qualified.

Amalgamated is a very special institution and finding the Company's next CEO is of paramount important to both the Board and the Bank, in particular, a CEO that blends together financial expertise with mission-driven leadership experience. This was a process that required time and utmost due diligence. While I cannot yet name who our next CEO is at this time, I’m pleased to announce that we are in the process of finalizing an employment agreement with a terrific executive who myself and the entire Board is thrilled to have joined the bank. I felt that because we are close to the final stages and making this earnings announcement, it was important to provide you with an update. However, this is the extent that I am able to comment on, as things are not yet finalized. We're very excited about where we are and look forward to updating you more formally when the time is right.

The future is certainly bright for our Company as we embark upon the next chapter in our journey with Amalgamated's next CEO and further expand upon our socially responsible initiatives. Today, more than ever, our long term positioning as a socially responsible Company and a solid ESG investment is more relevant than ever. Our reputation and our corporate values bind us together as an institution and drive our successes. One example of this during the first quarter is our public endorsement of HR40, which sets up a commission to explore reparations for African Americans. We were the first major bank to endorse HR40 and believe this is a first step in moving our country forward in building an equitable economy that creates opportunity for all individuals to try.

Additionally, we have helped to orchestrate a commitment by financial institutions at the White House Climate Summit this week to double down on their commitment to net zero finance emissions. These are great examples of how the Bank's mission has been deeply ingrained in our culture, our work and here to stay as we move forward. This is also a terrific example of how we can drive positive change while also growing the value of the bank. To that end, we are excited to announce that we've hired a new Head of Sales for our ESG suite of products that we're rolling out in our trust department. This is a terrific opportunity for Amalgamated and another example of how we are investing in our future while also doing good in the world.

Before I turn the call back over to Drew, I briefly want to touch on our share buyback, which we reauthorized last week after the formation of the holding Company. The Board continues to be thoughtful and balanced in our capital allocation strategy, with capital for our strong organic growth remaining our top priority. This decision to authorize this buyback program provides additional flexibility to create value for our shareholders when we see our shares trading well below what we believe to be their intrinsic value, and we also plan to use it to help offset dilution from current and future equity grants.

So, with that, I'll turn the call back over to Drew.

Drew LaBenne

Thank you, Lynne, and thank you for the opportunity to serve as Amalgamated CFO for the last six years.

I look back on all that has been accomplished and I'm proud of what we have achieved together as a team. Since joining in 2015, we have reinstilled a conservative credit culture, reduced the risk profile of our loan portfolio, returned the Company to profitability and chartered a path of growth for the Company. Our achievements can clearly be seen in our navigation of the challenges that were presented as a result of the pandemic over the last year. We have weathered the storm well and the credit quality of our loan portfolio is strong. Importantly, the actions that we took during 2020 position the bank to begin releasing reserves and is a further testament to the conservative credit culture that has been built.

For the first quarter, we released $3.3 million of reserves, which compares to provision expense of $4.6 million in the fourth quarter of 2020 and $8.6 million for the first quarter of 2020. Recovery in the first quarter of 2021 was primarily driven by a release of allowance for loan losses due to lower loan balances, upgrade of a construction loan to a pass rating and improvement in other economic and portfolio factors. The outlook on credit continues to improve. We currently have only $8.5 million of loans that are on deferral and accruing interest. These loans appear to be the last cohort to go through the deferral process.

In addition, based upon recent information, we expect to upgrade and/or pay off several loans in the second quarter. To that point, yesterday, we received a full payoff of the $8.6 million construction loan that is contained in our nonaccrual loan table. We continue to carefully watch the recovery in New York City and continue to see progress from many borrowers, but we do anticipate some borrowers will continue to struggle for some period of time.

Looking beyond credit performance, the initiatives that we have put into place to grow the franchise value of the Company remain intact. The expansion of our geographic reach into Boston has been a success, and we have grown deposits to $34 million despite opening this location at the beginning of the pandemic. This validates not only the market acceptance of our value-based approach to banking, but also the opportunity to further expand. Today, there is a $90 billion commercial deposit opportunity in the U.S. with mission-aligned institutions and the opportunity to further expand our geographic reach presents Amalgamated with the significant opportunity to grow.

Additionally, our Trust business is also an exciting growth engine for Amalgamated. As Lynne mentioned, we have recruited a very talented executive to head our ESG sales efforts to help drive the growth of our ESG suite of products that we rolled out this past quarter. This is a terrific opportunity for Amalgamated and another example of how we are investing in our future while also doing good in the world.

To conclude, I leave knowing Amalgamated is in a very strong financial position with a bright future ahead. I have complete confidence in Jason and his team and I am very excited that he will succeed me as Interim CFO. I know Jason well, having first worked with him at Capital One in 2007 and over the last 15 years as our working relationship continued. Personally now is the right time for me to move on to my next career challenge, and I leave you in excellent hands.

With that, I will turn the call over to Jason.

Jason Darby

Thank you, Drew. I really appreciate the opportunity to have worked with you and look forward to getting to know everyone on the call today better as I take on this new role.

Turning to our financial results on Slide 6, and as Lynne mentioned, deposits in the first quarter increased $381.4 million to $5.7 billion from the fourth quarter of 2020, while average deposits for the quarter were $5.6 billion. Average noninterest bearing deposits decreased $160.5 million from the prior quarter, primarily due to seasonality related to the election cycle and now represent 50% of average deposits at quarter's end. Our deposit cost of funds remained relatively stable at 11 basis points for the quarter, a decrease of two basis points from the fourth quarter of 2020. The yield on average earning assets was 2.96% for the first quarter, a decrease of 81 basis points as compared to the same period in 2020, driven by lower market rates on loans and securities.

The yield on our total loans was 3.83% compared to 4.04% in the fourth quarter of 2020. After adjusting for prepayment penalty fees, our loan yield was down six basis points in the first quarter as compared to the previous quarter.

Total net loans as of March 31, 2021 were $3.2 billion, a decrease of $224.5 million compared to December 31, 2020. The decline in loans was primarily driven by $100.8 million decrease in residential loans and $73.4 million decrease in commercial real estate and multifamily loans given heavy refinancing by our existing customers. Importantly, we have made the decision to sell our 30 year mortgage originations given the current interest rate environment, which we believe is a prudent decision.

Looking forward, we have seen a slowdown in our refinancing in our residential portfolio and are optimistic that we will also see prepayment slowdown in our CRE and multifamily portfolios as we move through the second quarter. As a result, our loan portfolio should begin to stabilize through the year before returning to growth as we exit 2021. Our balance of PACE assessments, which is reported in the held to maturity securities portfolio increased by $30.6 million in the first quarter to $452 million, and we plan to continue adding these assets in the future.

Turning to Slide 11, our net interest margin was 2.85% for the quarter, a decrease of 21 basis points from the fourth quarter and a year-over-year decrease of 61 basis points. Prepayment penalties positively impacted margin as they added 4 basis points to our net interest margin in the first quarter of 2021 compared to 13 and 6 basis points in the fourth and first quarter of 2020, respectively. The accretion of the loan mark from the loans we acquired in our New Resource Bank acquisition contributed two basis points to our net interest margin in the first quarter of 2021 compared to two and four basis points in the fourth and first quarter of 2020. Net interest income for the first quarter of 2021 was $41.8 million, which compared to $45.7 million in the linked quarter and an approximately $2.8 million decrease as compared to $44.7 million in the same quarter of 2020.

Now on to noninterest income. Noninterest income for the first quarter of 2021 was $4.0 million, decreasing from $10.0 million in the linked quarter and $9.1 million in the first quarter of 2020. The sequential quarter decrease was primarily due to an anticipated decrease of $5.7 million in tax credits on equity investments in solar projects. The quarterly decrease as compared to the year ago period was primarily due to a loss of $3.8 million in tax credits on equity investments in solar projects in the first quarter of 2021 versus no activity in the prior period quarter. For the first quarter, noninterest expense was $32.8 million, an increase of $100,000 from the fourth quarter of 2020 and $500,000 increase from the year ago period. The increase from the sequential quarter was primarily due to $1.1 million charge for severance related to the modernization of our Trust Department, partially offset by decreases in advertising and professional service expenses.

As can be seen on Slide 15, our nonperforming assets totaled $81.0 million or 1.27% of period end total assets at March 31, 2021, a decrease of $1.2 million compared with $82.2 million or 1.38% at December 31, 2020. The decrease in nonperforming assets was primarily driven by a decrease of $4.5 million of nonaccruing construction and multifamily loans partially offset by an increase of $2.7 million of those loans moved into other real estate owned. We continue to see very few requests for deferrals and as Drew mentioned are very pleased with our credit trends. We know the COVID pandemic is still very much here and we remain vigilant in managing credit and working with our borrowers to resolve any issues that may arise.

Moving along to Slide 16, our GAAP and core return on tangible average common equity were 9.1% and 10.1%, respectively, for the first quarter of 2021. The core return compares to 10.7% for the fourth quarter of 2020 and 7.7% for the year ago quarter. The modest decrease in core return on tangible equity in the linked quarter was primarily due to the previously discussed factors. Lastly, as Drew mentioned, we remain well capitalized to support future growth.

To conclude, we're extremely pleased with our performance during the fourth quarter and are optimistic about the outlook for the remainder of the year. Given that we are still early in the months of 2021, we are not making adjustments to our 2021 outlook. We plan to provide an update on our 2021 guidance on the second quarter call as appropriate. Thank you again for your time today. We look forward to updating everyone on our second quarter results in July.

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

Operator

Thank you.

Our first question comes from Chris O'Connell with KBW. Please proceed.

Chris O'Connell

Hi, good morning, everyone, and Drew, it was great to work with you the past few years and good luck on the next chapter.

Drew LaBenne

Yes, thanks Chris, it's been great and I really enjoyed working with you and the team as well.

Chris O'Connell

Absolutely. So, I just wanted to start off on the balance sheet, obviously, really strong deposit growth and a really large increase in cash quarter-over-quarter. Could you just walk us through the target there for 10% balance sheet, which is going to be deposit-driven? So, just the management of the excess liquidity and how much cash you expect to put to work here into the securities book and what kind of rates you're getting on those investments?

Drew LaBenne

Yes, so the cash build was obviously pretty large and we had a large amount of prepayments as we just said as well both from residential, and we had two of our largest loans pay off in the quarter. So. I think the speed of prepayments has definitely slowed down for us. I think, across the industry, which will help the loan originations and security purchases to eat into that cash balance going forward. So, I think the growth will be a combination of loan growth over the remainder of this year and putting that cash to work in the securities portfolio. We are obviously still not excited about putting a lot of duration on the securities portfolio, in particular, with rates where they're at right now.

So, we're going to be selective in how we do that, and we've built up quite a bit of floating rate assets in the securities portfolio. I think we'll probably look to maintain a modest level of duration growth in that portfolio, at least in the near term as we watch the rate environment.

Chris O'Connell

Got it. Do you have what the rate was on what you guys were putting on in the securities book during the quarter?

Drew LaBenne

If you exclude PACE, it's probably in the low 1% range in terms of what's coming on there, sometimes even less for floating rate securities.

Chris O'Connell

Okay, got it. Then can you just give us the outlook on the PACE growth, outlook on the PACE growth for the year and maybe what rate those are coming on at?

Jason Darby

So, Chris I'm happy to jump in and answer that. So, I think for PACE we're maintaining our plan for about $150 million of asset purchases throughout the year. We completed about $30 million, $30.6 million of that in Q1. We have availability under our existing flow deals to accommodate the targets that we have for the remainder of the year. So, we feel like that's a commitment that we're going to be able to reach.

In terms of how they come on the books, the residential PACE, they're coming on at probably just below 4% at this point in time. Again, just to reiterate, we think that the $150 million target is one that we're going to attain.

Drew LaBenne

Yes. In addition, I'd say the other opportunity in PACE, which we don't speak about or we haven't spoken about that much in the past is commercial PACE, which is an attractive asset class as well for us. So, I think we'll look to do—we are looking to do more commercial PACE deals than we've done in the past in the future quarters as well.

Chris O'Connell

Great, and as far as the loan comments in the prepared remarks, Jason, it sounds like that the loan growth is going to be flat, maybe even down a little in 2Q and kind of overall kind of on average flattish for the next couple of quarters with growth probably not coming until 4Q '21 or 1Q '22 on a net basis. Is that accurate or…?

Jason Darby

I think that's a fair assessment. Obviously, we've got our eyes on loan growth and we've been building up a pretty strong pipeline. I think our pipeline right now is about $600 million. Part of that is PACE commitments on flow, but we think there's opportunities for us to really improve in the loan growth space. But I think you're right. As the year progresses and the economic outlook starts to get realized in terms of what's being predicted, we feel like that's probably where the growth opportunities are going to be and we're sort of looking forward to that.

Chris O'Connell

Great, that's helpful. Then can you just remind us how big those two largest loan relationships were that paid down during the first quarter?

Drew LaBenne

Yes. One of them was—the largest loan was a little over $70 million. I think for probably very important to note for a loan that large, it was extremely well collateralized. So, that was a mission aligned—I shouldn't say was, it is a mission aligned relationship, where the line paid down. We may or may not see some increase in utilization of that line going forward but it's really for this group to use it for mission aligned activities in the U.S. and in different communities.

Chris O'Connell

Okay, got it. So, nothing of that nature on the horizon for the second quarter here?

Drew LaBenne

I wouldn't want to commit to that, no. I mean, it's always possible but we're not planning on a big draw down of that line.

Chris O'Connell

Got you. Okay, got it. Tying the cash together here and the investments in the securities and the PACE, and what seems like limited loan growth in the near term at least, how are you guys feeling about the margin directionally going forward?

Jason Darby

So, we think quite a bit about the margin, and obviously, the compressed rate environment has impacted it. Also I think there's consequence to our—basically our strong and low cost deposit franchise making us asset sensitive. So, the lower rates negatively impact our NIM accordingly. But, when I think about the

NIM right now, there is the excess liquidity that's creating a drag. We started thinking of that as about 14 basis points of drag and had that be deployed into higher yielding assets. We'd be somewhere probably in the 3% NIM range, which we feel would be pretty good in the current environment.

So, really the thought processes here is really on that excess liquidity, and in doing so is that striking the right balance between prudent credit underwriting and loan growth opportunities. But, I think as I was just talking about before, pretty optimistic about what the future looks like just given the economic outlook and our pipeline. I think there's some strong opportunities to put some mission aligned assets on the books. Really, we're probably going to grow the NIM mainly out of trading, out of the cash and the securities, like we talked about before.

I think lastly would be, just from an overall perspective, as the short term rates start to rise, I think the Bank is really well positioned for margin improvement over the next few quarters.

Drew LaBenne

I'll just throw in this reminder, as my thought, because it's the last time I'll get to say it is we don't know when short term rates are going to rise, but eventually, we think they will. But it's worth reminding all our long term investors, we had 4% deposit beta in the last rising rate environment, which I think was probably industry leading and pretty darn close. So, while the rate environment is pretty tough for all banks right now, especially asset sensitive banks, I think long term, the outlook for the bank, especially in a rising rate environment, is really strong.

Chris O’Connell

Got it. You know, don’t emphasize this point too hard, but just curious on the next quarter starting part, or the near term implications before this cash, the timing of how this cash gets put to work here. I know the noninterest bearing average deposits will be up next quarter as well, which helps. But from the cash for the quarter on average was about $380 million, and you guys kind of ended the quarter closer to $500 million. Do you think you can put enough of that cash to work into the securities book this quarter where it will be not up too much, or do you expect it to be up on a quarter-over-quarter basis into 2Q '21?

Drew LaBenne

You mean the average or the ending?

Chris O’Connell

The average.

Drew LaBenne

The average. I won't be here. I'll let Jason decide if he wants to commit to that. I mean, what I would say is there's been a lot of effort at the bank to make some hires in the lending space. There has been some redirection of resources to focus more on lending. So, I think all efforts are moving towards that. There are still going to be prepayments that happened. It's great that it's slowing down from Q1 to Q2, but we're still going to see some.

So, I think we're going to put our best efforts forward to use that cash and maintain or improve NIM, but I wouldn't call that a guarantee, certainly. I think we'll see how much progress we make during the quarter. I think our focus, Chris, has always been more on NII than on NIM itself. So, I think our goal there continues to be to generate as much net interest income as we can in a very conservative—using our very conservative credit culture to make sure that credit costs remain controlled, balanced.

Chris O’Connell

Understood, got it. Two quick cleanup questions and then I'll hop out. It looks like doubtful loans increased by around $3 million or so. Was there a specific driver of that, that you guys can speak to and how well it's reserved for and the kind of likelihood of the near term outcome here?

Drew LaBenne

Yes, sure. That is one multifamily loan, the $3.173 million you see there, and that's the multifamily loan that we took, a $2 million charge off on this quarter as well. So, there are still, I think, it's maybe $250,000, $300,000 in specific reserves on that loan. So, which means we think there will be a few more charges on it before we come to a resolution, but that's always up in the air. This is really the only multifamily property that we've had kind of significant issues coming out of COVID with, and it's more having to do with the structural nature of the property itself than anything else.

Chris O’Connell

Got it, okay. Then I heard your comments, Lynne, in the prepared remarks. If you could just update us on your thought on the share repurchases and how you're thinking about them in terms of the pricing around tangible book value and where capital levels are, that would be great?

Lynne Fox

Yes sure, and nice to meet you Chris. So, we recognize that our shares don't reflect the opportunity that lies ahead. So we reauthorized our share repurchase plan after the formation of our Bank Holding Company. This was to provide additional flexibility to create value for our shareholders when we see our shares trading well below what we believe to be their intrinsic value. We also plan to use it to help offset dilution from current and future equity grants. So, that really was our thinking behind that.

Chris O’Connell

Got it. Is there anything that would make you kind of not want to be aggressive near term based on where the market is at right now?

Lynne Fox

Well, the Board reviews it quarterly and evaluates the plan based on the most recent information. So that's kind of how we do it.

Chris O’Connell

Not the plan, using it.

Lynne Fox

You mean other than our—other than our…

Chris O’Connell

Is there any reason why you wouldn’t be aggressive in executing share repurchases near term?

Lynne Fox

Well, we have not traditionally been aggressive and I don't see any change in that.

Chris O'Connell

Okay, got it. Thanks, all right. Thank you.

Lynne Fox

Sure.

Operator

There are no further questions in queue at this time. I would like to turn the call back over to Lynne Fox for closing comments.

Lynne Fox

Thank you very much, and thank you to all of you on the call. We appreciate you joining today.

This is an exciting time at Amalgamated as our unique business strategy continues to generate strong results and the Company continues to be well positioned for growth as we move through the year ahead. As I addressed previously, we're very close to announcing our next CEO, and I couldn't be more excited to embark on this next chapter of our journey with all of you. So, thank you again for your time.

Operator

Thank you, ladies and gentlemen. This does conclude today's teleconference. You may disconnect your lines at this time, and thank you for your participation, and have a great day.