amalgamated FINANCIAL CORP.

First Quarter 2022
Earnings Call Transcript

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CORPORATE PARTICIPANTS

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CONFERENCE CALL PARTICIPANTS

Alex Twerdahl, *Piper Sandler & Co.*

Chris O'Connell, *KBW*

Janet Lee, *JPMorgan*

PRESENTATION

Operator

Welcome to The Amalgamated Financial Corp. First Quarter 2022 Earnings Conference Call.

As a reminder, this conference call is being recorded.

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 First Quarter 2022 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 in the Investors section of our website for an extended period of time. Additionally, a slide deck to compliment 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 statements or information.

Investors should refer to Slide 2 and 3 of our earnings slide deck as well as our 2021 10-K filed on March 11, 2022, 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.

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 today.

This morning, I will provide an update on our strategic plan to generate sustained and profitable organic loan growth. Jason will then provide a more in-depth review of our first quarter financial results.

Our results are a clear indication of the fundamental earnings power of Amalgamated Bank as we execute on the four pillars of our growth-for-good strategy. Along these lines, there are four key performance measures that I'd like you to take away from this morning's call.

The first is net loan growth. Excluding pace assessments, we were up 4.8% compared to the linked quarter, reflecting a second consecutive quarter of growth due to the solid momentum of our core loan growth strategy, established in the second half of 2021. Including pace assessments, we grew the lending activity by 6.5%. Over the course of 2022, we anticipate loans will meaningfully drive net interest income and earnings.

Second, on the heels of successfully recruiting six new bankers in the fourth quarter of '21, we've continued our talent acquisition efforts in the first quarter of '22. Also recruiting six new established bankers, with relationships across our various focussed regions, enabling our ability to tap more broadly into our existing footprint for opportunistic loan origination and to gain market share. We also completed the restructure of the organization to align to our strategic imperatives.

Third, our deposit growth was considerable, exceeding our expectations, and increasing 9.7% to $7 billion from the linked quarter, as our political deposit franchise rose to $1.1 billion, while we held the cost of deposit steady at 9 basis points.

Fourth, our net interest income rose by 2.8%, demonstrating the inherent earnings power of our asset-sensitive balance sheet, paired with our industry-leading low-cost deposit franchise. As we achieved meaningful consecutive loan growth, we are confident that our team, our product platform, and our overall operations are well-suited to achieve a high single digit loan growth target we set in the fourth quarter call.

The high-quality banking talent we acquired during the quarter, which includes subject matter experts and CDFI, and climate finance, are incremental to our growth outlook. As I've previously discussed, we believe our existing footprint of New York, Boston, San Francisco, and Washington D.C. is right for both broadening and deepening—both in our—in taking lending expertise from one market to the other, as well as to expand beyond our traditional deposit-gathering model.

We saw this during the first quarter when our reconstructed CRE team successfully originated a sizable multi-family residential loan in Boston, with a runway for additional loan volume to build upon this achievement. The four pillars of our growth-for-good strategy have been and will continue to be the fulcrum for our strategic decisions.

So far, I've spoken mostly about our third pillar, which we call our offer. It is largely driven by growing our lending platform in order to grow franchise value and fund future expansion goals. We've also been hard at work at our other three pillars of mission, customer insights, and efficiency. Our mission is evident by both the key customer segments we work in, and also, the mission-aligned products we engage in.

Our customers, they're change makers, largely individuals, small businesses, or in six other key commercial segments; but what they all have in common is that they care about what their money does in the world. We are committed to environmental and social responsibility, and all of our customers care about our actions as much as they care about their own. During the quarter, we were the first bank in the United States to receive approval from science-based targets initiative of our net zero carbon target.

Recently, we announced that 31% of our 2021 lending-related activity went towards climate solutions. In the coming quarters, I will have more to share on our customer insights pillar and related digital platform development, as that experience is core to our ability to grow with the demands of our mission-based customer segments.

Before turning the call over to Jason, I'd like to just make one more comment, tethered to our fourth pillar of key effectiveness and efficiency. With the increased profitability we anticipate in 2021 and beyond, due to the rising interest rate, our efforts to improve our valuation and performance measures are a top priority, so you can expect continued focus on improving efficiency.

I'll now turn the call over to Jason.

Jason Darby

Thank you, Priscilla.

Net income for the first quarter of 2022 was $14.2 million, or $0.45 per diluted share, compared to $15.9 million, or $0.50 per diluted share for the fourth quarter of 2021, and $12.2 million, or $0.39 per diluted share for the first quarter of 2021.

The $1.7 million decrease for the first quarter of 2022 from the appreciating quarter was primarily driven by a $5.0 million decrease in non-interest income, which was due to the tax credits in solar equity investments, recognized in the prior quarter, partially offset by a $1.3 million increase in net interest income, a $1.3 million decrease in the provision for loan loss, and a $0.6 million decrease in non-interest expense.

Beginning on Slide 5, our solar tax equity investments are presented in a manner to clarify and explain the volatility associated with the GAAP accounting. As of the fourth quarter 2021, we have made three solar tax equity investments. Since these investments are mission-aligned, and offer highly retractive returns over time, we expect to make more solar investments in the future. The accounting treatment of these investments generally results in a near-immediate realization of investment tax benefits, and its subsequent accelerated depreciation of the value of the investment, which creates volatility in our GAAP and core earnings presentations, specifically within non-interest income.

We believe metrics excluding the impact of tax credits or accelerated depreciation is a meaningful way to evaluate our current and historical performance. Accordingly, we have begin presenting metrics excluding the tax credit or accelerated deprecation impact of our solar tax equity investments.

Exclusions related to solar tax equity investments were $0.1 million of tax credits recorded as equity-method non-interest income for the first quarter of 2022, $5.3 million of tax credits in the fourth quarter of

2021, and $3.8 million of accelerated depreciation recorded as equity-method non-interest contra income in the first quarter of 2021.

Core net income excluding the effects of tax credits and accelerated depreciation from our solar investments, a non-GAAP measure, for the first quarter of 2022 was $14.3 million, or $0.45 per diluted share, compared to $12.7 million, or $0.40 per diluted share for the fourth quarter of 2021, and $15.9 million, or $0.50 per diluted share for the first quarter of 2021.

Turning to Slide 7, deposits at March 31, 2022, were $7.0 billion, an increase of $617.2 million form the fourth quarter of 2021, and an increase of $1.3 billion as compared to March 31, 2021. Non-interest-bearing deposits represent 53% of average deposits, and 54% of ending deposits for the quarter ending March 31, 2022, contributing to an average cost of deposits of 9 basis points in the first quarter of 2022, unchanged from the previous quarter, and a decrease of 2 basis points from the prior year.

Deposits held by politically active customers were $1.1 billion as of March 31, 2022, an increase of $159.9 million, as compared to $989.6 million as of December 31, 2021. We expect political deposits to rise by another $400 million to $500 million over the second and third quarter, and then runoff approximately $600 million to $700 million in the fourth quarter, when the congressional elections conclude.

Turning to Slide 10, including net deferred cost at March 31, 2022, loans were $3.4 billion, an increase of $158 million compared to December 31, 2021. The increase in loans is primarily driven by a $79.5 million increase in residential loans, mainly from direct originations, and a $97.6 million increase in our consumer and other loans, primarily driven by solar loan originations from existing flow arrangements, offset by a combined $19.9 million decrease in the commercial portfolio, as payoffs exceeded originations. The volume of payoffs is a result of our continued focus on credit quality improvement in the commercial portfolio, with $20.3 million of payoffs from criticized loan, in addition to certain other pass-grade loans.

The yield on our total loans was 3.85%, compared to 4.01% in the fourth quarter of 2021, and 3.83% in the prior year. After adjusting for $1 million in interest repaid on a reinstated loan, the fourth quarter 2021 loan yield was 3.89%. The 4 basis point decline in the linked quarter's primarily related to recognized deferred fees on PPP loans in the fourth quarter. After adjusting for prepayment penalty fees, our loan yield was essentially flat as compared to the previous quarter.

On Slide 12, our net interest margin was 2.76% for the first quarter of 2022, a slight decrease form 2.77% in the fourth quarter of 2021, and a decrease of 9 basis points from 2.85% in the first quarter of 2021. Prepayment penalties earned as loan income added 3 basis points to our net interest margin in the first quarter of 2022, as compared to 2 basis points in the fourth quarter of 2021, and 4 basis points in the first quarter of 2021. We estimate that excess liquidity in the quarter from deposit growth supressed our NIM by 13 basis points.

Non-interest income for the first quarter of 2022 was $7.4 million, compared to $12.4 million in the linked quarter, and $4.0 million for the first quarter in 2021. Core non-interest income excluding the effect of tax credits and accelerated depreciation from our solar investments for the first quarter of 2022 was $7.4 million, compared to $7.0 million for the fourth quarter of 2021, and $7.8 million for the first quarter of 2021.

Non-interest expense for the first quarter of 2022 was $34,4 million, a decrease of $0.6 million from the fourth quarter of 2021, and an increase of $1.6 million from the first quarter of 2021. The decline from the preceding quarter includes $0.5 million of unwind cost related to the terminated ABOC deal.

We do not anticipate material one-off expenses in the second quarter of 2022. The increase from the first quarter of 2021 is primarily driven by a $2.2 million increase in data processing related to the modernization of our trust department and higher overall contractual fees, offset by decreases in professional fees.

Moving to Slide 16, non-performing assets totaled $61.1 million, or 0.80% of period-end total assets at March 31, 2022, an increase of $6.5 million compared with $54.6 million, or 0.77% of period-end total assets at December 31, 2021. The increase in non-performing assets at March 31, 2022, compared to December 31, 2021, was primarily driven by a multi-loan new troubled debt restructuring, totalling $10.5 million from same borrow relationship, offset by a $5.1 million decrease in residential non-accrual loans.

While non-performing assets increased, overall credit quality improved with criticized assets declining $51.6 million per 22.3%, to $179.3 million on a linked quarter basis, and by $155 million, or 46.4% on a year-over-year basis.

The allowance for loan losses increased $1.6 million to $37.5 million at March 31, 2022, from $35.9 million at December 31, 2021, primarily due to increases in loan balances. At March 31, 2022, we had $58.2 million of impaired loans for which a specific allowance of $4.6 million was made, compared to $53.2 million of impaired loans at December 31, 2021, for which a specific allowance of $5.1 million was made. The ratio of allowance to total loans was 1.08% at March 31, 2022, unchanged from December 31, 2021.

Provision for loan losses was an expense of $2.3 million for the first quarter of 2022, compared to an expense of $3.6 million in the fourth quarter of 2021, and a recovery of $3.3 million for the first quarter of 2021. The expense in the first quarter of 2022 is primarily driven by higher loan balances, and a $0.4 million charge-off related to a loan that was transferred to held-for-sale, partially offset by improved credit quality.

Moving along to Slides 17 and 18, our core return on average equity, and core return on average tangible common equity, excluding the impact of solar tax equity, were 10.4% and 10.7% respectively for the first quarter of 2022. We repurchased $2.8 million of common stock under our $40 million share repurchase program that we announced during the quarter and maintained our dividend at $0.08 per share. Importantly, we remain well capitalized to support our future ongoing growth initiatives.

Slide 19 shows a reconciliation of a change in tangible common equity and related tangible book value. As expected, the Federal Reserve commenced its cycle of interest rate increases with a 25-basis point increase at the March meeting. Further, the Committee messaged the increasing likelihood for more aggressive rate increases through the remainder of 2022, and likely into 2023. As a result of long-term interest rates rising significantly during the quarter, our tangible book value per share declined by 6.3%, primarily driven by a tax effected marl-to-mark adjustment to the fair value of our available for-sale securities portfolio.

While we were cognisant of our decline in tangible common equity, we are focussed on driving earnings through prudent deployment of our liquidity. We believe our strong on-balance sheet liquidity position, borrowing capacity, and low-cost deposit gathering ability well protects use from acquiring realization of these transitory market declines.

Importantly, fluctuations from mark-to-market adjustments have no impact on our Tier 1 capital position. As a reminder, the current rising rate environment provides a strong interest income benefit to Amalgamated, which I will discuss further in a moment.

Turing to Slide 20, as previously mentioned, we are focussed on our core loan growth strategy and deployment of liquidity to drive earnings power in the year ahead. We also have been resolute in building an asset-sensitive balance sheet structure to be well-positioned once the rising rate environment returned.

As the forward curve suggests substantial rate increases through the remainder of 2022, we are updating our Full Year 2022 guidance as follows. Excluding the effects of tax credits an accelerated depreciation from our solar investments, we estimate core pre-tax pre-provision earnings of $97 million to $105 million, which includes only the effect of the 25-basis point Fed increase in March of this year, for the remainder of 2022. Core pre-tax pre-provision earnings of $110 million to $120 million, which considers the effect of forward-rate curve for the remainder of 2022. Net interest income of $205 million to $215 million, which includes only the effect of the 25-basis point Fed increase in March of this year for the remainder of 2022, and net interest income of $220 million to $230 million, which considers the effect of the forward rate curve for the remainder of 2022. Generally speaking, we estimate a range of $4.0 million to $4.5 million increase in annual net interest income for each 25-basis point increase in short-term forward curve rates for the remainder of the year.

We are pleased with our first quarter results and are optimistic that our organic loan growth prospects paired with our reliable low-cost deposit franchise will deliver meaningful increases in earnings and shareholder value over the course of 2022. We look forward to updating you again at our second quarter call.

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 the line of Alex Twerdahl with Piper Sandler. Please proceed with your question.

Alex Twerdahl

Hi, good morning.

Jason Darby

Morning.

Priscilla Sims Brown

Morning, Alex.

Alex Twerdahl

First off, I was hoping you give us a little bit more clarity on the loan growth outlook and the targets you said, if you can maybe help us understand sort of what the complexion of the loan growth that you expect over the rest of the year. I think this quarter is a lot stronger in the consumer than at least I was anticipating, and if you think that we're going to get sort of loan growth across different segments, or if there's going to be a hand-off to commercial, as some of these lenders that you've hired come online later this year?

Jason Darby

Sure, Alex. I'm happy to take that question for you.

I think the prospects overall for our loan growth are pretty strong. It was a little bit of a mixed bag in the results for Q1 in the sense that the residential, and the consumer, mainly our solar driven business really was the key drivers, and it appears there wasn't a lot of growth that's coming out of the commercial segment; but I think the thing to think about there is, when we look at the commercial business, we actually had quite a bit of new commitment volume.

Our new CRE team, for example, they came on in January of the first quarter, they were at about $80 million of new commitments during the year—sorry, $70 million of new money for the year, and $60 million of refinances. We had a fair amount of payoffs that occurred, but what we've been able to do as we've got the origination volumes going though is be sort of strategic in evaluating some of our pass-grade credits for additional refinance.

We've been doing a little bit of balance sheet management over the course of this quarter, I expect that in the commercial space, I expect that'll continue into the second quarter as we sort of look at asset-quality as an equally important metric for us, in terms of our overall credit portfolio, but you can think of that portfolio as being able to churn in terms of asset quality, and then hopefully start to reach a growth pattern as we get a little bit further into the year. The things that we see in the pipeline look really strong.

I think that's one of the reasons why we we've also stayed a little bit off of expanding our loan growth targets, because we want to make sure that we're growing, I guess, cautiously but optimistically in terms of making sure that we have our pipeline, but also making sure we have good strong asset quality that's going to be sustained within the portfolio, and sort of adhering to new pricing and new underwriting standards.

Alex Twerdahl

Okay. Can you just remind me sort of the differences between the pace loans and the consumer solar loans?

Jason Darby

Yes, so they're relatively the same in terms of the final product. It ends up in an energy efficient improvement to a consumer residence in a normal state. On the PACE side, it's very much tethered to the tax position in terms of its repayment process and it's position relative to the senior debt on the mortgage. On the consumer side, it's a little bit more of kind of like I wouldn't say unsecured, but a regular kind of unsecured loan I guess is the best way to describe it, with the same type of kind of asset improvement to the actual underlying property.

Alex Twerdahl

Okay. Then just a follow-up question for me, Priscilla, you alluded to the efficiency ratio as being kind of a top priority. Do you have some expense initiatives in mind, or is that just kind of a promise that as you earn more, because rates are going higher, you're not going to spend all of it—spend all of the sort of the found money away?

Priscilla Sims Brown

Yes, that's the latter. It's the latter, Alex. We're going to stay disciplined. We certainly, as we said to you in prior quarters, intend to invest as we see the revenue coming through on the strat plan, but we wanted to signal to you that we are not looking at this as all found money as we get the benefit of the rate increases.

Alex Twerdahl

Okay. I think last time we spoke, the target for efficiency was around 65%, and if we get the forward curve follows through, that maybe can go a little bit lower than that, as sort of a longer-term target?

Priscilla Sims Brown

That's right, yes. We could get tailwinds that help to enable us to get to a better ratio than that.

Jason Darby

Alex. I was just going to say we came in at under 62% for the quarter, but I think when we think about the efficiency ratio, I think we're also thinking about just sort of the overall guidance we've given on total expenses, and I think we've been out there with I think $138.5 million for the year, and I would expect that we'd stay pretty close to that target, maybe increase slightly on the margin, but you can kind of think about it as a guardrail for what efficiency might look like in the rising rate scenario.

Priscilla Sims Brown

Yes, that's a good point. We were probably about $500,000 better in the quarter than we would expect on that run rate.

Alex Twerdahl

Great. Thanks for taking my questions.

Priscilla Sims Brown

Thank you.

Jason Darby

Thanks, Alex.

Operator

Thank you. Our next question comes from the line of Chris O'Connell with KBW. Please proceed with your question.

Chris O'Connell

Morning.

Priscilla Sims Brown

Good morning.

Jason Darby

Good morning.

Chris O'Connell

Was hoping to start off with the new banker hires that you added this quarter, and maybe what areas they're in, and then how you're thinking about expense growth for the year encompassed in kind of the PPNR outlook.

Priscilla Sims Brown

Do you want to take the expense growth one?

Jason Darby

Certainly, yes.

On the expense growth, Chris, I think we came in slightly under where we thought we'd be at… Where did we come in? About $34 million on a core basis. We've planned for about $34.5 million on a quarterly basis, and what I would expect is that we're going to catch up that difference from this quarter over the course of the year.

To Alex's question, previously, we're targeting $138.5 million for the entire year on an OpEx basis core. If there was a marginal uptick in that number as we make some additional investments and maybe some compliance infrastructure, or other things that we need to kind of support the growth of the business, that number might increase on the margin, but our view on increases over that $138.5 million would be really funded by profitability from the growth initiatives that we have underway right now. Hopefully that would be a net neutral in terms of incremental expense increase if we had it over that budgeted number.

Priscilla Sims Brown

Alex…

Chris O'Connell

Great, and then just on the lender hires?

Priscilla Sims Brown

Yes. The lenders are really pretty well across the board, Alex we're looking to, as we've talked about in the past, take expertise we have in one area and export it to others, and so we're leveraging people that may be sitting in New York or D.C. to supplement that work in other markets, but we're also hiring CDFI experts, for example, continuing to build on the CRE team, so really, really pretty well distributed.

Chris O'Connell

Great.

Jason Darby

Chris, maybe to just crystalize that, I think—right, Priscilla, the number was six bankers for this quarter?

Priscilla Sims Brown

Six last quarter.

Jason Darby

Yes. Then one was CDFI, one was climate related, the rest filling out the real estate portion of our business, now, that means we're net four, as we, we're doing a little bit of talent management as well, so the people that we brought on on that basis were at four incremental form the end of last quarter.

Chris O'Connell

Great. Then you mentioned some changes in the internal structure of the business to go along with your strategic goals. Is that banker incentives, or any expansion on kind of the details there?

Priscilla Sims Brown

Yes, so there're kind of two ways to look at that. One is we have just moved work structure around to bring our revenue generating areas together, and then to conversely bring our operations areas together, so in the past we'd had consumer and commercial completely separate. Today, we recognize that a lot of our consumer business will come through our commercial relationships, and so we've brought the revenue and customer facing parts of the consumer business together with the customer facing parts of the commercial business. Then in the back office, we've also done the same with our operations there. That's probably the biggest part of the change that we saw in the quarter.

We also are, as we've talked about with our pillars, we're focussed on this sort of customer centricity, and we've added a role associated with developing customer insights. That's really a transfer of consultant expense to permanent hire once we were able to test the work, and really think about how we want that to be focussed. We're doing the same with digital, bringing some resources together where appropriate, and also bringing in a leader there.

The biggest part is what I described to you, the consumer and the commercial coming together, both front and back, but there are some tweaks going on around the organization just to align, to create centers of expertise where we think we could benefit from an efficiency or an effectiveness perspective.

Chris O'Connell

Great. Appreciate the color. As far as the origination yields on the loans, where are they coming on in kind of the blended portfolio, and then what are the pace of origination yields coming on at now?

Jason Darby

Yes, so I'll grab that for you, Chris.

I think, on average, the loan yields are coming on in the low 4%'s right now. Our solar pools, which I was talking a little bit about before, those are more in the 5% range. Then in the pace world, they're coming on now in the mid-4% range. I think also what's important is a lot of the loan growth that we reported in this particular quarter, we really didn't book a lot of that until the latter half of March, so when you look at the yield on the portfolio for the quarter, which didn't really move very much from the previous quarter, it's really not baking in any of the effect of the loan growth that we had in this particular quarter.

We're also expecting loan yield on a reported basis to increase fairly dramatically as we move into the second quarter, and obviously that'll pull forward in our NIM as well.

Chris O'Connell

Great. Then, for the NII guide, what's the—you mentioned the 13 basis points of excess liquidity kind of hampering the margin this quarter. What's embedded in terms of excess liquidity deployment in the NII guide, and how are you seeing that come off over the course of the year in the guide?

Jason Darby

Yes. That's going to be a little bit of a moving target throughout the year, mainly because of the political deposits that are probably going to ramp up over the course of the next two quarters heading into the congressional elections in November, so I tend to think of it a little bit more as what we'll look like at the end of the year, as opposed to what we'll look like over the next couple of quarters. We're trying to manage to $100 million of cash, so in terms of how we think about our excess liquidity drag, anything above $100 million starts to become the capital drag and the NIM drag.

I think that said, the NII guidance though doesn't necessarily focus tremendously on the margin from a calculus point of view. It's much more focussed on the fact that we have the higher loan volumes coming on, the fact that the spreads on the deposits that we're bringing on are much greater and we have an ability to deploy that, either through hopefully our lending, or through our securities portfolio, and then just the fact that the 25 basis points that's already been implemented by the fed, that's already flowing through on our resets of our floating rate assets.

I don't know if I answered your question exactly the way you wanted, but that's kind of how we're bridging the difference from the previous guidance to current on NII.

Chris O'Connell

Great. For the NII guide, what are you guys assuming in terms of deposit betas going forward?

Jason Darby

Yes, we're actually fairly conservative on our deposit beta assumption. I'll get you the exact number, but I think we assumed a 20% deposit beta in our model, so clearly there's some room on the upside, I guess, if our deposit betas hold to what they've been in the past rising rate cycle. I think, as we spoke and before, deposit betas for us in the last rising rate cycle for the first hundred basis points on a total cost-to-funds basis was about 3%. We think when we model out at 20%, we're being very conservative in our full assumptions.

Chris O'Connell

Okay. Then for the—you mentioned the regulatory capital and the variance between that—that you're focussing more on that versus the TCE. Is there an absolute level of TCE that does start to become a concern at al for you guys? And how do you kind of balance that versus the regulatory capital in terms of the buy-back utilization going forward?

Jason Darby

That's a really good question.

An absolute level of TCE. I think where we are, sub-seven right now, we're keeping our eye very closely on it. I don't think we'd have an appetite to go much further below where we're at. At the same time, we want to be mindful of the fact that we have a tremendous amount of liquidity to be able to kind of hold these unrealized losses in a position of unrealized up until the point where eventually their value will turn when rates start to decline. I think a little bit more in terms of leverage, and I think the way we've modeled ourselves out, 7% or even slightly below 7%, which kind of gets us to where we thought we might be when we closed ABOC, is sort of our floor, if you will. It moves around a little bit, but that's generally the way I would think about it, and as we've communicated before, with this rising rate environment and some of the optionality that's due to the bank, part of our plan is to really return capital to get us back to a more comfortable kind of green zone, 7.5% level, by the end of the year. Hopefully that gives you a little bit of a sense for where we're trying to manage the balance sheet for this year.

Chris O'Connell

Yes, absolutely. Then for the single credit that went to NPL this quarter, the $10 million, any color you can provide there?

Jason Darby

Yes, it's a credit that we'd had our eyes on for a little while. It's been moving in that direction—well, it's a relationship, it's four different credits that are part of this relationship. It's a credit that we've been watching for a while. It's been moving through our pass-grade to substandard over the course of the past four quarters, and we just got to a point where we found a way to negotiate terms with the borrower to keep them in a position where they're able to pay, and able to keep their business viable, I guess, is the best way to describe it. Then that's ultimately where it ends up in terms of being an accruing performing TDR. That's where it kind of fits in our NPL stack. Not loving it, but that was sort of the background, that it's been a relationship we've worked on for a while, and ultimately that was the conclusion of how we got them back to paying status or to keep them in paying status, better way to describe it.

Chris O'Connell

Great. Then last question for me is just can you give us an update on kind of the progress of the ESG funds initiative and that rollout?

Priscilla Sims Brown

Do you want me to take that, Jason? I could…

Jason Darby

The Responsifunds ones? You want to take an opening shot and then I'll jump in?

Priscilla Sims Brown

Referring to the Responsifunds, and so yes that's continuing to roll out. The activity that we have seen for most of the quarter has been really around getting consultants up to speed on the product and answering many of their questions. That's going very well, and we're starting to see a bit of traction, but the pipeline looks decent on it.

We do expect that we will have activity around just expanding the number of people focussed internally on sales of that as we go forward now that the foundation has been laid with the consultants.

Jason Darby

Yes.

Chris O'Connell

Okay, great.

Jason Darby

Oh sorry, I was just—Chris, I would just add to that that we did have a nice uptick in the trust department income, and that really was not the result of any increase in Responsifunds, it's more on our base business. As Responsifunds moves along, like Priscilla's mentioned, we hope that that's going to be incremental to the revenue opportunity there.

Chris O'Connell

Great. Thanks for taking my question.

Priscilla Sims Brown

Great. Thank you, Chris.

Jason Darby

Thanks, Chris.

Operator

Thank you. Our next question comes form the line of Janet Lee with JPMorgan. Please proceed with your question.

Janet Lee

Hello.

Priscilla Sims Brown

Hi, Janet.

Jason Darby

Hi.

Janet Lee

Hi. I just want to clarify on your NII guidance assuming the forward curve. So, you've touched on it a little bit, but can you just tell us how much deposit growth and pace securities growth is assumed in this guidance? And I believe that 5% balance sheet growth guidance in the prior quarter was pulled from your slide. So, is there any change to that as well?

Jason Darby

Got it, so really no—yes, I'm sorry that we pulled that guidance. That was unintended. No. I think we're still planning on our balance sheet guidance as is with our 5% growth. It may be slightly higher, as we came in a little bit better than expected in this particular quarter, but we still are expecting the balance sheet to grow over Q2 and Q3, and then pull back down in Q4 as a result of kind of the political deposit sway, and therefore when we think about the end-of-the-year balance sheet, we're not seeing it as being tremendously different from what we had originally set at that 5% growth rate.

When we think about the forward guidance, we really haven't changed our assumptions on what we thought loan growth would be in total, so that would be still in that high single-digit range, although we feel really confident that that's a very hittable mark at this point. Then on the deposit side, again, we're not really expecting much more than what we talked about maybe in the previous quarter, somewhere in the net range of $300 million to $400 million, maybe $450 million increase in deposits, and on the pace side I think we are a little bit ahead of our plan with pace.

We had an opportunity to put on a $75 million residential pool early in the quarter that we really hadn't thought of when we were originally contemplating budget, and so we were able to take that opportunity; but going forward, I think we would stay very much on our pace target, and then I forget what the exact number is, but somewhere in the range of $150 million of total pace activity for the year.

Janet Lee

Okay, that's helpful. I think it might be a sensitive subject, but I think many of us here are looking for any additional color you can give around the ABOC deal that was withdrawn and what this means to you in terms of whether having to potentially increase expenses to meet with regulatory standards, so I would appreciate that if you could shed any light on these points, what happened, given there's still lots of question marks. Thanks.

Priscilla Sims Brown

Yes, Janet, there's just not much more that we can say about it. We think we were pretty straightforward. Your specific question about regulatory expense, well, we don't anticipate any additional expense outside of what's in our plan and what we would have anticipated doing anyway. And I guess the additional color I will give is that, look, you saw in the quarter a construction loan, and you know we don't do much in that area. For us it was about $9 million. That was a deal in Chicago that we did actually with ABOC post the withdrawal.

That was a—when I say we did with it, that's not exactly accurate. It was a participation where we obviously did our own underwriting, they did theirs, but it was a union customer that we both regard highly, a well-capitalized customer, cash secure, exactly the kind of deal that we would love to continue to be doing with ABOC. But this is what was one of the significant benefits if we had closed the transaction, and we are pleased that we're able to get it done even as two separate companies with our own individual process.

We would look to continue to find opportunities, whether that's with ABOC or others, and we think that that's going to continue, and we think our organic loan growth will continue. What we said to you in the quarter about ABOC is really still accurate and complete from our perspective, which is to say that we have demonstrated now over these two quarters that our organic progress is strong, and that when faced with the opportunity to continue building on our business organically, or to sort of wait through and go through a very long elongated process, distracting our employees, we chose the former. We did so because we really felt we had no choice in the immediate period, but we certainly would look to work with ABOC in the future if other opportunities come up.

Janet Lee

Okay, that's really helpful. If you were to contemplate—I know that your focus is now on driving organic growth, but if you were to contemplate any M&A deals in the long-term future, does that mean you have to spend more in order to satisfy whatever that the regulator was looking for?

Priscilla Sims Brown

Yes, yes. As I said, there are things, there are two things we think about with respect to additional deals. The first and foremost, most important one is, as was the case when this deal was originally presented, it fit really nicely we thought in our plan to both expand and deepened our relationships, and so we would look for that. We would look to build on the strat plan through any deal, and while we are focussed on organic growth for the time being, it's not a decision we make out of necessity only. We make this decision because there's so much opportunity in each of our markets, and I think we're demonstrating that.

Should we see something come across that looks attractive, I don't think we would want to get off of our trend right now. We just brought on a bunch of new bankers, we've got a lot of activity going, but if in the near to intermediate future we started to see something else coming along, we would not expect, as I said, that there would be an additional amount of expense above plan in order to satisfy regulators before we could see a deal happening.

Janet Lee

Okay, great. Just going back to deposit growth, will you also see some—so, besides the political deposits that in its own way, will you also see some deposit growth normally, Jason, given the Fed's QT on the non-interest-bearing deposit sides excluding the political, or do you expect Amalgamated to be sort of an outlier given your unique customer base?

Jason Darby

Yes, Janet, that's a great question. In fact, we were literally talking about that last night and the day before. As we think about kind of the forward view on deposits. We think, look, we're never immune to anything, right? I mean, customers are customers, and they make their choices, same as anyone else would, but we feel like our deposit franchise as its been built over the past seven or eight years in particular, and the types of bankers that we have that are running these deposit relationships, and the diversification of the deposits that we have, even this quarter alone, well, we had $160 million of political deposit growth, we had another $350 million of commercial and almost $100 million of consumer growth.

We feel we are unique in this space in that we're somewhat insulated from maybe some of the runoff risk that other banks similar to our size might have. We think that might be one of the real value plays that this bank can demonstrate over time, would be the stickiness of our deposits and the ability to sort of move through the rate environment cycle in a manner with lower volatility than others. I hope that answers your question.

Janet Lee

Yes, that's helpful. My last question is just a follow-up on the deposit beta. You said 3% last rising rate cycle. I actually calculate around like 1% if you look at the total period of rising rates in the prior cycle. And if you're assuming 20%, I know you're trying to be really conservative here, but how does you NII guidance would change if you assume like mid-single-digit deposit beta; or maybe if you don't have that handy like, how does that NII benefit per 25-basis point rate hike change if you assume a much lower beta as you did in the prior raising cycle?

Jason Darby

Yes, so thanks for asking that. I think I need to correct myself. I had said 20% on total, that was 20% on just our interest bearing, so the number's going to be substantially less when you mix in our DDA on total cost-to-funds for our estimate, so it's probably more in the range of about 10% in total in terms of the deposit beta. But that said, I think that's where we kind of come up with that $4.5 million to $4 million range when we factor in the rate sensitivity on the forward curve. I think if we got lower to, or if our deposit beta kind of looked a lot like, our historical deposit beta, you'd be at that $4.5 million range, possibly even a little bit better than that.

Janet Lee

Great. Thanks for taking my questions.

Jason Darby

You're welcome.

Operator

Thank you. Ladies and gentlemen, that concludes our question-and-answer session. I'll turn the floor back to Ms. Brown for any final comments.

Priscilla Sims Brown

Thank you, Melissa.

And thank you for those really great questions on both my behalf and Jason's and the team. They reflect that you understand, I think, that our balance sheet is well positioned to capture both the upside that we are anticipating with interest rates, but also protect us against the eventual flattening or decline in rates. We have a lending team that we're very excited about which is focussed on asset quality and originati on, and I think that's what a responsible investor would want to see.

We really appreciate your time today. We appreciate your continued interest. We really love the opportunity to discuss our optimism for the future of Amalgamated, and I know we'll be continuing some of these conversations in smaller conversations. We're just thrilled with the growth we've delivered in this quarter, and as our strategically designed team continues to build momentum, we will remain focussed on the mission-based niche lending space that we occupy to continue to make an impact on the customers and communities we serve. We're excited about the depth of our banking team and the development of the customer relationships to build Amalgamated into a full-service baking franchise.

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

Operator

Thank you. This concludes today's conference. You mad disconnect your lines at this time. Thank you for your participation and have a wonderful day.