amalgamated bank

First Quarter 2020 Earnings Call Transcript

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CORPORATE PARTICIPANTS

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CONFERENCE CALL PARTICIPANTS

Steven Alexopoulos, *JPMorgan*

Chris O'Connell, *KBW*

PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to Amalgamated Bank's First Quarter 2020 Earnings Conference Call.

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

I would now like to turn the conference over to Mr. Andrew 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 2020 earnings call. With me today is Keith Mestrich, President and Chief Executive Officer. As a reminder, a telephonic replay of this call will be available on the Investor section of our website for an extended period of time. Additionally, a slide deck to complement today's discussion is also available on the Investor section of our website.

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

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

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

Keith Mestrich

Thank you, Drew, and good morning, everyone. We appreciate your time and attention today. On today's call, I will start with an overview of our operations, given the rapid spread of COVID-19 and its impact on New York City, before reviewing our results and accomplishments in the first quarter. I will then turn the call over to Drew to discuss our first quarter financial results in more detail.

I'd like to start by thanking our employees for their extraordinary efforts during this challenging time. They have worked tirelessly to ensure that the bank's operations have run smoothly and our support to our customers and communities remains uninterrupted. The safety of our employees and customers is our top priority.

I want to share with you all a brief story of how we found ourselves at the door to the COVID crisis. I had been attending a bank conference in Switzerland in February as the pandemic was beginning to flare uncontrollably in Italy where I was also scheduled to travel for meetings. Needless to say, I cancelled my trip to Rome and headed back to New York as my proximity to the pandemic opened my eyes to the risk that it held, not only for the U.S., but New York City in particular. This was truly a case of being in the wrong place at the right time, and I knew that our Crisis Management Team needed to put our pandemic plan into place as I believed the shut-in of New York was imminent.

Our Crisis Team implemented plans to move to almost 100% of our employees to a work-from-home environment by the middle of March, and we have quickly adapted to this new normal. Our managers are checking with their direct reports daily to ensure that our operations continue to run smoothly. I am very pleased to report that our staff is seamlessly handling transactions and making new loans. I'm very proud of their efforts, and we have not missed a beat.

Since our founding almost 100 years ago, we have had a commitment to the greater good which has shaped the business model and our values. We believe that a financial institution's mission should include using its resources, money and influence to help move its customers, its community, and society forward. While we find ourselves in an unprecedented environment, our mission and values are unchanged and they continue to guide our senior leadership team in the decisions that we make as we navigate these unchartered waters. First and foremost, we remain committed to our employees, having repositioned branch staff to other areas of the bank's operations that have seen an increase in activity. We are committed to the physical, emotional and financial health of our teams, and have no plans to lay off our employees during this uncertain time.

We also remain committed to our communities and those in need. I am amazed and thankful for the efforts of those that are battling this crisis on the frontlines and am very pleased that we were able to create the Frontline Workers Fund which offers direct assistance to nurses and healthcare workers, grocery workers, cleaning service workers, food service workers, laundry workers in our hospitals, and retail workers, to name just a few. We also launched the Families and Workers Fund in partnership with a consortium of foundations whose goal is to provide financial resources to vulnerable working families across the country. This fund has an initial commitment of $7.1 million and the goal is to raise $20 million in order to provide flexible funding to organizations striving to prevent workers and families from sinking deeper into levels of poverty during the initial months of this pandemic.

All of this would not be possible without the strategic transformation that Amalgamated has undergone in the last six years. When I was appointed CEO in 2014, our team undertook a broad plan designed to unlock the profit potential of the bank, which included recruiting talented executives from across the banking industry, growing our customer base, instilling a disciplined expense culture, and improving the quality of both our assets and sources of funding.

This has led to stable, low-cost deposit base. We have also closed unprofitable business lines and significantly reduced our brand's footprint. Most importantly, we have instilled a disciplined credit culture which has resulted in strong credit performance of our loan portfolio. As part of our comprehensive credit risk management process we made the decision to run off our indirect C&I portfolio and significantly de-risk our balance sheet over the last two years, which I am very grateful for, given the current market backdrop.

Today the bank is on firm financial footing with a strong capital base and a well underwritten loan portfolio, as can been seen in our first quarter results and which provides confidence in our ability to weather the storm. For the first quarter, we reported first, pretax, pre-provision income of $21.5 million, which compares to $16.5 million in the 2019 fourth quarter. We drew average deposits by $400 million, or 36% annualized, as compared to the fourth quarter of 2019. Our costs to deposits was 33 basis points, down from 36 basis points in Q4. Non-interest-bearing deposits were 48% of ending deposits.

Our net interest margin expanded three basis points to 3.46% from the 2019 fourth quarter. Importantly, our efficiency ratio improved to 59.97%, and we remain well-capitalized with a common equity tier-1 ratio of 12.74%.

As Drew will discuss in more detail, we recorded a provision expense of $8.6 million, primarily driven by $3.4 million in our indirect C&I portfolio, and $3 million in qualitative factors, both largely due to the impact of COVID-19. We are watching our loan portfolio carefully, and are proactively working with our borrowers in more challenged industries on payment deferrals to help them through this time period. While we expect provision to go higher, we remain confident in our strong credit culture and believe we are well-capitalized to handle an even more severe recession.

It's important to emphasize that our core customers, our unions and nonprofits, are not primarily credit customers. These customers in their relationships with us are primarily on the deposit side of the bank. Additionally, though we are based and headquartered in New York City, our credit exposure is more broad-based geographically.

We have also been aggressively reducing expenses to ensure we remain well-positioned to handle an extended downturn while not sacrificing the underlying fabric of our business. Our focus has been on reducing some deposit expense, initiating a hiring freeze beginning in April, cutting back on nonessential projects, shifting resources internally, most specifically at the branch level, improving call center operations, and cancelling unnecessary services. We expect these steps to help mitigate the impact of lower interest and equity market values on our revenue. We have an experienced team in place that is executing the necessary adjustments while not taking out process that will affect the operational capabilities or competitive position of our business on a go-forward basis. Looking forward, we understand that the future is uncertain, and we are opportunistically managing our non-interest expense to maintain our financial flexibility and ensure long-term success for the bank.

One growth initiative that we have moved forward with is the opening of our commercial bank and office in Boston. I'm very pleased to announce that we have hired Mark Walsh to head the office and oversee a team. Mark has over 13 years' experience as a leader in the nonprofit and political sectors in the Boston area, and brings a wealth of local knowledge to the bank. Given the pandemic and shelter-in-place orders that continue to exist, we expect the ramp of our Boston office to be more gradual, but we are already starting to see new client acquisition, and will delay the opening of our Los Angeles office until the environment begins to normalize.

Turning to our capital allocation priorities, we have suspended our share buyback given the uncertain economic environment and we will evaluate our dividend with our Board of Directors each quarter. That said, we announced yesterday a second quarter dividend of $0.08 cents per share. Additionally, we are watching the economy closely and aggressively managing our business to adapt to this new environment. While M&A has been a growth driver for the bank, we will remain on the sidelines until we have more clarity on the recovery. Given our positioning and capital, we would look to take advantage of opportunities that present themselves as the recovery takes hold and the economy begins to normalize.

I'm also very proud of our mission-aligned initiatives and accomplishments that we have achieved thus far in 2020. Of note, we launched our Corporate Social Responsibility Report on April 13th which provides a comprehensive overview of our CSR policies, strategies and initiatives. Our CSR Report provides a wonderful overview of all the good that Amalgamated is doing in the world, and we continue to build on our reputation as America's socially responsible bank every day. I am also pleased to see that our initiatives and efforts are being recognized as M&CI raised our ESG Score from Triple B to Single A, and we improved our Certified B Corporation score to 115 from 87.

To conclude, I am very pleased with our first quarter results and the positioning of our loan portfolio as the country works together to defeat the spread of COVID-19. We remain well-capitalized to successfully weather this storm and take advantage of opportunities that we believe will exist when the economy begins to normalize. In line with our mission, we continue to put our people, clients and customers first, and will work with them through this period of uncertainty. I would like to thank all of our employees again who have worked tirelessly over the last eight weeks to make our mission possible, and together we will see this through.

I'd now like to turn the call over to Drew for a more detailed review of our financial results.

Drew LaBenne

Thank you, Keith.

I will begin by reviewing our first quarter results before turning the line back to the Operator to open for questions.

Turning to Slide 7. In the fourth quarter, ending deposits increased $435.6 million, or 37.5% annualized, to $5.1 billion from the fourth quarter of 2019, while average deposits for the quarter were $4.8 billion.

Average noninterest-bearing deposits increased $276.5 million from the prior quarter, primarily due to seasonality related to the election cycle, and now represent 48% of average deposits at quarter end. Our costs of deposits decreased to 33 basis points, down 3 basis points compared to 36 basis points at year's end. As Keith mentioned, we expect the cost of deposits to continue decreasing as a result of repricing in reaction to the Fed cutting rates to near-zero.

Deposits from politically active customers such as campaigns, PACs and state and national party committees, increased $196.2 million from $578.6 million at December 31, 2019, ending the first quarter at $774.8 million as outlined on Slide 8. The election environment continues to be a source of growth for our deposit franchise. The focus for this year will be the presidential race. We have, and continue to be, a partner supporting the business needs of the majority of Democratic candidates.

It is worth noting that in April we continue to see influx of deposits, and balances have increased another $247 million since the end of the first quarter, of which $47 million were from political deposits. As a result of the deposit growth, the bank just crossed the $6 billion mark in total assets.

As seen on Slide 11, we delivered loan growth of $76.2 million, or 8.9% annualized, as compared to December 31, 2019, and ended the quarter with $3.5 billion of total loans. This long growth was driven primarily by an increase in C&I loans of $58 million, of which $24 million was the purchase of government-guaranteed loans, an increase in residential loans of $50 million and consumer loans of $26 million. The growth was offset by a $53 million decrease in commercial real estate and multi-family loans due to payoffs where we chose not to match the terms of other lenders to retain the loans.

As a reminder, our balance of PACE assessments is now reported in the Held to Maturity Securities Portfolio which is inclusive of approximately $255 million in purchased PACE assessments. Our new investment in PACE Funding Group will allow the bank to continue adding PACE assessments in the future, though the trend may be slower than originally anticipated due to the ongoing pandemic.

As part of the CARES Act, the bank has implemented a payment deferral program for consumer and commercial customers. The standard agreements allows for three months of deferrals of principal and interest. These loans are not reported as delinquent on our financial statements and are not down-graded solely due to the payment deferral program. In total, we have set up approximately 9% of our loans on a deferral program, which is shown on Slide 14. We expect that number to grow over the coming weeks, particularly for commercial clients who are still going through the process.

On Slide 15, we have highlighted our Residential Loan Portfolio by origination source. All portfolios have strong loan-to-value coverage, and it is worth noting this is compared to the original appraisal on the property, but not adjusted for HPI increases over time. These requests in the Residential Portfolio were heavy in the first part of April, but have since slowed down.

Moving to Slide 16, we are showing the Portfolios in C&I and CRE where we expect to see COVID-19 impacts. In the C&I Portfolio, we have $112 million, or 3.2% of total loans, that are in industries that are more susceptible to impacts. Of the total C&I Portfolio, approximately 30 million have received payment deferrals.

In multifamily and commercial real estate, we’ve had many inquiries from property owners on payment deferral options. As of April 24, $155 million of balances have received payment deferrals. Unlike the Residential Portfolio, the requests from commercial clients have been slower, and we expect this number will continue to increase throughout the second quarter.

Our Investment Securities Portfolio has also seen impacts on the mark-to market for the available-for-sale securities during the first quarter. In the last few weeks of March, the fixed income markets for non-agency securities was particularly volatile and the fair value of the Available-for-Sale Securities Portfolio decreased by $25 million compared to year-end 2019, which was an improvement from the lows of mid-March.

Since the end of Q1, values have continued to improve, but there may be more volatility in the future.

Turning to Slide 18. Our net interest margin was 3.46% for the quarter, an increase of 3 basis points from the fourth quarter, and a year-over-year decrease of 19 basis points. The increase in NIM compared to the linked quarter was primarily due to the lower cost of interest-bearing liabilities, as the cost of interest-bearing deposits dropped by 5 basis points and borrowing costs were essentially zero due to deposit growth. First quarter NIM includes 4 basis points of accretion of the low mark from the new resource bank acquisition, and 6 basis points from prepayment penalties on loans as compared to 5 and 2 basis points, respectively, in the fourth quarter of 2019. On a go-forward basis, we expect NIM to decline in the second quarter as we start to see the impacts of the most recent Fed cuts to zero which will be partially offset by deposit cost reductions. In addition, the inflow of deposits has been more heavily deployed in the floating rate agency securities or held in cash in the second quarter, and that will also pressure net interest margin.

Net interest income for the first quarter of 2020 was $44.7 million, which compares to $42.3 million in the linked quarter, and an approximately $3.9 million increase as compared to $40.8 million in the same quarter of 2019.

Now on to noninterest income. Noninterest income for the first quarter of 2020 was $9.1 million, increasing from $7.8 million in the fourth quarter of 2019, and a $1.7 million increase compared with the first quarter of 2019. The main factor for the growth in the quarter was the sale of our Tremont Branch for a gain of $1.4 million which has been excluded from core net income.

Keith mentioned the initiatives to reduce noninterest expense on a go-forward basis. For the first quarter of 2020, our noninterest expense decreased to $32.3 million, compared to $33.5 million at the end of the fourth quarter. This quarter's expense included $1.4 million of non-core expense, primarily related to branch closures which will not recur next quarter.

On a core basis, our expenses were $30.8 million which reflects our ongoing expense discipline. As Keith mentioned earlier, we are focusing on expense management as part of our pandemic response initiatives and we expect to run expenses below $32 million per quarter for the remainder of the year.

Skipping ahead to Slide 21, the credit quality of our portfolio has held steady throughout the first quarter as nonperforming assets totaled $65.6 million, or 1.14% of period end. Total assets at March 31, 2020, compared to 1.25% as of December 31, 2019, a decrease of $1.1 million from the linked quarter, and an increase of $9.1 million as compared to March 31, 2019. Criticized and classified loans increased by approximately $16 million in the first quarter compared to the linked quarter driven primarily by the downgrade of one construction loan on the West Coast of $7.9 million and an increase in C&I in retail.

The provision for loan losses in the first quarter of 2020 totaled an expense of $8.6 million which compares to an expense of $83,000 in the fourth quarter of 2019. Provision expense in the first quarter was primarily driven by an increase in specific reserves of $3.4 million on two loans in the Indirect C&I Portfolio which were impacted by COVID-19 issues and the addition of $3 million to the qualitative reserves. The indirect C&I loans were previously TDRs and were not eligible for the payment deferral treatment afforded by the CARES Act. We do expect to have an elevated level of provision in the second quarter as we continue to update qualitative factors based on information available in the second quarter as we continue to update qualitative factors based on information available in the second quarter. Charge-offs on currently delinquent consumer loans may also be elevated in the second quarter as those loans are not deemed to be impacted by COVID-19 and are not eligible for deferral.

Skipping to Slide 21, our GAAP and core return on tangible common equity were 7.6% and 7.7% for the first quarter of 2020 respectively. The core return compares to 10.7% the fourth quarter of 2019 and 10.2% for the comparable period in 2019. The decrease in core return on tangible common equity in the linked quarter was primarily due to the previously discussed provision taken, belated COVID-19. Lastly, we remain well capitalized to support future growth.

To conclude, we are pleased with our first quarter 2020 results given all the events that have occurred. Given the fluid environment today, and the uncertainty that exists, we have decided to suspend our current full-year outlook until the economy begins to recover and normalize from today's events.

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. At this time, we will conduct a question-and-answer session. If you would like to ask a question, please press star, one on your telephone keypad. A confirmation tone will indicate your line is in the question queue. At any time you would like to remove your question, please press star, two. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the star keys. Once again, that's star, one to ask a question at this time.

One moment while we poll for our first question.

Our first question comes from Steven Alexopoulos with JPMorgan. Please proceed with your question.

Steven Alexopoulos

Hey, good morning, everybody.

Drew LaBenne

Hey.

Keith Mestrich

Good morning, Steve.

Steve Alexopoulos

I wanted to start on the provision, and regarding the commentary, do you expect an increase in the Q2 reserve tied to payment deferrals? You guys are not on CECL. You're still into the incurred loss model. In that regime, what do you need to see so change further to drive an increase in the reserves? Is it just new deferrals coming in?

Drew LaBenne

Steve, the—keep in mind we—and this is specifically the qualitative reserve that I was talking about and we're about to talk about here just to be clear.

At 3-31, we did not have a lot of deferral. We had, actually, no deferral activity and we were starting to have inquiries come in at that point and starting to get our process into place. When we set the qualitative factors at 3-31, the only thing we really had to work off of was the downgrade of the economic factors which we took from pretty much the lowest levels to the highest level, right? We did kind of the maximum qualitative impact on economic factors, and we used the same standard nine factors that I think many other banks use.

The factor that we'll probably—that we will be looking at this time in Q2 is the trends of—normally it would be the trends of past-dues in the portfolio, but the trends of deferrals, past-dues, et cetera, in the portfolio which, again, I think will move from pretty low levels to, depending on the portfolio, somewhere between medium and high. But if we went from the lowest level to the highest level, that would, again, be a $3 million impacting qualitative. That's a Q2 event. It's not a Q1 event, unfortunately.

Steven Alexopoulos

Okay, got you. Other banks are saying that they're seeing a material drop-off in new deferrals though. I mean, in terms of the PACE, have you seen any abatement in terms of the PACE of requests, or are those still increasing?

Drew LaBenne

No. As I was just saying on the call, residential has basically slowed—actually in the last few days, we've had no deferral requests at all come through—or new deferral requests. That part of the portfolio has pretty much stopped. Now, we're coming up to a new set of payments, so I don't know what that's going to mean, right? I don't think anyone knows what that's going to mean. For the next round it might mean absolutely nothing. It might mean that we see some incremental deferrals come in. But I think the majority of it has probably already happened.

On the multifamily commercial real estate, I think general commercial real estate NCNI has reacted pretty quickly. I think multifamily—a lot of April payments were made. I think they were probably waiting to—the landlord centers are probably waiting to see the May payments. We may see some more deferrals come in through that. It would not surprise us at all to see more deferrals come in, particularly in multifamily.

The other thing I'll add is that the processing on the commercial side, at least for us, is slower because on the consumer side, the residential side, we ask the customer to describe their hardship, but we don't require any proof because to do so would be difficult and unreliable. On the commercial side, we actually ask the borrowers to document for us their decrease in cashflows before we grant the deferral. The process takes a little longer to work through.

Steven Alexopoulos

Okay, that's helpful. On Slide 16, the COVID-19 exposed sectors, I'm curious, what worries you most in terms of what you're calling out? It may be in the CRE book. How much of that is retail?

Drew LaBenne

In terms—well, overall, what worries me is probably more of a—it is a lot to worry about, Steve, so let me just pick the one that probably worries me and I know Keith the most, because we talked about it, is—our portfolios that are based on real estate, whether it's residential or multifamily/commercial, I think have very strong loan to values, and implicit in that underwriting is that we will be able to control the property over time, if needed, to work out the credit. I think given how widespread the impact of this pandemic has been, it's quite possible that the rules change in terms of foreclosure, how fast properties or tenants turn over, and that could mean that the normal time to work out a credit across the industry changes.

I'm not saying it will, but that is, I think, what kind of worries me maybe more than I would normally be worried about it, if that makes sense.

Steven Alexopoulos

Okay.

Keith Mestrich

Yes. I totally agree with Drew on that. I mean, look, within hotels and restaurants obviously every bank that has those on their portfolio is going to be concerned about those individual names. It's not a huge percentage of the portfolio, so while I don't love it, it's not the big worry. I think Drew is exactly right. It's what we can't predict, particularly with the New-York-City-centric multifamily portfolio and other things, is when the pressure will really become—come on landlords, right? What will the impact of stimulus payments and potentially new stimulus payments to individuals, people starting to receive enhanced unemployment benefits, are they able to continue to make their rent and mortgage payments? What will be the other countervailing political pressure that will be on the ability for anybody to be able to deal with the property that they have and work it out in a normal way? It is a big, big unknown to us, and while I think we built a portfolio that in normal periods of economic stress, should be well-positioned to do well, the severity of this and the unknown—as you look a month out into the future here, were there to be expended double digit unemployment pressures, it's just the biggest worry I think that we have at the bank.

Steven Alexopoulos

Yes, yes, again. Okay. Then, thank you. Just finally, Drew, with deposit growth running so strong, it sounds like the pace of demand is slow given the pandemic, maybe the loan growth, too. How do you see in—what do you see for investing this cash, and what kind of yield should we expect? Thanks.

Drew LaBenne

Yes. It's all happened very quickly, and clearly we haven't been able to thoughtfully and carefully deploy it out, so we've—in the near term we've purchased a lot of floating rate agency securities. We do have a very strong residential pipeline from Q1 that we're working through. I think for Q2, and I think PACE assessments that come on the books in Q2 as well, will be pretty strong. Q2, I think, we're okay, but we're going to end up with a lot of cash and a lot of floating rate agencies on the books.

Now, keep in mind, we're also expecting to have the political deposits start to run off maybe a little bit—I don't know that—at the end of Q2 we'll see that, but I think we're going to want to stay more liquid in the near term just to be in a great position to be able to offset that upcoming runoff and not have to—not necessarily have to go into borrowings, although we may choose to do that as well and just continue to grow the balance sheet.

But our first and foremost thought here, and I think probably most banks are in the same boat, is be extremely careful with deploying cash and capital into credit right now. Make sure we understand what we're getting into as best we can in the new environment that we're all dealing with.

Steven Alexopoulos

Okay. Great. Thanks for all the color.

Drew LaBenne

Yes.

Keith Mestrich

Thanks, Steve.

Operator

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

Chris O'Connell

Morning.

Drew LaBenne

Good morning, Chris.

Chris O'Connell

I was hoping you guys could dive into a little bit the PPP Program you have going on, and just how it is logistically working in terms of providing your customers with the referral.

Keith Mestrich

Yes. Yes. I'd be happy to, Chris. We are not a SBA Certified Lender and, as you know, we're not a bank, that's particularly geared up to do small business loans. It's never been one of our focus. We don't really have the capacity to be able to handle the origination requests and the loan servicing requests to handle a small business portfolio. Over the past several years we've had a renewal relationship with one of the country's largest non-bank SBA lenders. That has worked very well for us in normal times. We made a decision early on, probably not anticipating how, like a lot of banks, what the demand would look like to do referrals for mostly small, non-profit organizations who are eligible for the PPP loan. They're not normally eligible for SBA loans but were for the PPP Program.

We got about 850 referrals into that program. We referred them on to our partner to be able to handle those loans. Our bankers have helped people through the processes, and continue to fill out their applications. But our partner has really handled the underwriting and the origination of those loan requests.

Chris O'Connell

Got it. Do you know what the dollar amount is on the amount that you referred?

Keith Mestrich

I do, but Chris, I'm going to have to get you that more accurately because I don't have that at my fingertips. Drew, do you know right off the top of your head?

Drew LaBenne

How many are funded?

Keith Mestrich

What the total loan request volume was.

Drew LaBenne

In units, I mean, it was over 800. I think in dollar amounts it was probably—yes, I don't know the number actually. I don't want to say.

Keith Mestrich

We'll get you the number.

Drew LaBenne

Yes.

Drew LaBenne

The other place where we are going to participate in PPP, which is really the only way that we have the ability to do so, is from the newtek platform. We do plan to purchase some of their sales of the PPP loans which—it actually—the duration of those loans matches very well with the political runoff cycle that we're anticipating. That's a risk-free, short-term use of cash that we should be able to do to—it's kind of our way of helping the PPP Program work.

Chris O'Connell

Got it. Got it. If we could shift to the balance sheet, in particular, loans. I think you mentioned in the press release that there is some loan purchases this quarter. If you could just go through maybe the amount and what type of loans those were. Then just overall, your outlook on loan growth for the rest of the year, given just the big shift in the environment from last quarter to now.

Drew LaBenne

Yes. In terms of loan purchases, first of all we did purchase $35 million residential loans on the West Coast which normally we haven't been doing, but we're doing that for CRA purposes. Those are going to be high-quality loans, high-quality residential loans. It's more about the geography that they're in than anything else. We did do some more solar loan purchases. I think the amount there is probably about $35 million. There was one transaction that we had been working on for a while that did finally close. I think for residential solar purchases, at least for now, that's probably it for us in terms of what we'll be doing. The same for residential loan purchases.

SBA as well. Every quarter we seem to be purchasing some SBA or maybe more so I should say SBA and USDA. They're government guaranteed loans that show up in our C&I portfolio, so we did do some more purchases for those as well.

Our total government guaranteed loans sitting in C&I is now about $150 million, so it's a place we like to deploy capital risk-free.

Chris O'Connell

Got it.

Keith Mestrich

Hey, Chris. Chris, just to follow up on your past question. I emailed really quickly our Head of Commercial Banking. The tele-loan requests were approximately $65 million under the PPP Program.

Chris O'Connell

Great. Then just finishing up on the loan side, maybe dive into the outlook for the rest of the year, just given some of the changes in the economy.

Drew LaBenne

Yes. That looks cloudy. I'll be honest. What we are seeing is—I think there are more opportunities now in high-quality loans than there were before this began. I think the multifamily space has loosened up a little bit, but obviously we're being very cautious there, only doing the highest quality deals. We're requiring six months of P&I Reserve for anything that we're currently underwriting. Those deals are now moving forward.

Residential, we had so much come through in Q1 before all this happened as a result of just rates continuing to go lower that we actually effectively turned off our pipeline. I think we're now looking at turning it on again in a very conservative manner. I think that we should still see some growth there, but it's probably slower than we anticipated. PACE will continue to come on as well in the Securities Portfolio. I'm actually pleasantly surprised with how PACE originations are going with our partners. It's certainly down, but it's not out, so I think those will be some of our growth areas. We continue to have a pipeline of C&I loans as well that we're looking at. We've obviously turned the dial several notches in terms of the risk that we're willing to put on the balance sheet at this point. We're also still in business to originate.

Chris O'Connell

Got it. On the deposit side, I mean, obviously that political deposits really showing this quarter and much stronger than I think even you guys were expecting. Do you have any outlook on—I mean, it's been strong coming into the second quarter as well, it seems like. Is there any outlook, I guess, that you can provide, or is it still kind of murky given the election cycle?

Keith Mestrich

Well, look. One thing I would emphasize is we've seen, as we have in the past couple of quarters, nice deposit growth across our sectors, not just in the political sector. Our commercial bankers, even though they're in a work-from-home environment, they remain active in terms of talking to a number of our distance deposit customers and looking for new relationships. That activity has not stopped or slowed at all.

The election cycle obviously is also in a bit of a murky environment. Gotten a little more clarity on the presidential side now that we have a presumed Democratic nominee. I think you'll start to see—in that piece of the race you'll start to see a consolidation of contributions there that will help in that. We should continue to see some growth there.

Vulnerable congressional Democratic candidates who are in their first term had very, very good first quarter of fund-raising. I anticipate them having a good second quarter as well. But we should, as in past years, start to see a plateau start to happen where people, as we've talked about before, raise and spend at an equal clip. I think as campaigns make adjustments to figure out how to spend money in this environment, we should start to, in turn, see the run-off of the deposit portfolio towards the end of the third quarter, beginning of the fourth quarter, as we've seen in past election cycles.

That's the best crystal ball I have at this point. I could be wrong by a little bit, but I think that will be the general pattern that we'll see, Chris.

Chris O'Connell

Great. Thank you. Just one last one. On the NIM, I appreciate the guidance, probably down next quarter, and I know there's a lot of moving parts here, particularly with the political deposits and unknown how that might end up for the quarter. But assuming maybe they stay flat here for the remainder of 2Q, the balances that you guys gave in the deck, just given all the movement in short term rates, can you give any look into just maybe a range or how that might factor into the quarter-over-quarter NIM for Q2?

Drew LaBenne

Yes. It's going to be—it's tough to see where it is this early in the quarter given all the movements that have happened. I mean, I think you're probably going to be looking at just—and it's a combination of a little bit of NII starting to flatten or maybe drop a little bit, and then the balance sheet growth just expanding very rapidly because keep in mind, the averages that you're looking at for the Q1 NIM, probably just given all the end of quarter activity, are probably $200 million light compared to where they would be if you just take the April—or the end of March average, if that makes sense.

It's going to be on lower-yielding assets because of where we deployed that. I think maybe in terms of NII, which I'm a little more comfortable talking about at this point just given all the volatility, when we model—we had—obviously had our disclosure last quarter where it was I think about $13 million down for a 100 basis point drop, which just happened. I think we're looking at more like $7 million down when we factor everything in, which is a pretty decent size improvement. That's a combination of I think a little better performance in terms of prepayment speeds. LIBOR that assumes LIBOR comes down a little bit from, from where it was, which it's already doing. I think our deposit repricing has been more effective than we thought it would be in the model.

Part of that is just how fast it happened and money market yields, which are sometimes competition for us, effectively going to zero. I'm very pleased, at least, with our outlook which is always subject to some error in terms of where and how it's going to go versus what we originally projected with the down scenario.

Chris O'Connell

Got it. That's $7 million that's coming off the 44.7 million number that's quoted?

Keith Mestrich

No, no, no. Annually, annually.

Chris O'Connell

Annually. Got it. Just wanted to confirm that.

Keith Mestrich

Yes, it's a good one to confirm, Chris. Yes, yes. Call it $1 million to $2 million in a quarter.

Chris O'Connell

Great. All right. That's all I had. Thank you.

Operator

Once again, ladies and gentlemen, to ask a question at this time, please press star, one on your telephone keypad. There are no further questions in queue. I would like to turn the call back over to Management for closing comments.

Keith Mestrich

Thank you, Operator. I just want to thank everyone who joined our call today. We hope that you and your families continue to stay safe and calm. We're certainly living through a challenging time. I wanted to leave you with just a few concluding thoughts.

First, I continue to be very proud every day of our employees who work so hard to support our customers since we moved to a remote working environment. Secondly, our commitment to our employees, customers, and communities remains true to our mission and values. Third, we have many levers to growth including our sustainable lending, geographic expansion, and new product development to name just a few. Fourth, we also have the ability to drive additional operational efficiencies and are reviewing opportunities to further reduce our expenses without impacting our competitive positioning.

Taken together, and despite the challenging backdrop, we're optimistic that we can continue to grow the bank and are confident in our financial positioning such that we will be able to take advantage of market dislocations as the economy begins to normalize again. As a reminder, we anticipate filing our 10-Q this evening.

Thank you, again, for your time today, and everyone, we will see you soon. Thanks.

Operator

This does conclude today’s teleconference. You may disconnect your lines at this time. Have a great day.