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FINANCIAL CORP.

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Earnings Call Transcript

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CONFERENCE CALL PARTICIPANTS

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Alex Twerdahl, *Piper Sandler*

Chris O'Connell, *KBW*

PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to the Amalgamated Financial Corporation Fourth Quarter 2022 Earnings Conference Call. During today's presentation all parties will be on a listen-only mode. Following the presentation, the conference will be open for questions with instructions to follow at that time.

As a reminder, this conference call is being recorded.

I would now like to turn the call over to 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 fourth 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 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 actual results may differ from the expectations indicated or implied by any such forward-looking statements or information.

Investors should refer to Slide 2 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. Good morning, everyone. We appreciate your time and interest today.

This morning, I will provide an update on the progress we have made on our Growth for Good strategic plan and my thoughts on the next leg of our strategy journey. Jason will then provide an in-depth review of our fourth quarter financial results.

With 2022 concluded, culminating in our third consecutive quarter of record earnings, I feel good about what we've accomplished and confident that we can execute the next leg. Before discussing future plans, I'd like to spend some time on the quarterly and full year results.

Starting off, we reported another record quarter of earnings at $0.80 per share, while we reported core earnings of $0.83 per share. For the full year 2022 we grew earnings per share 56% to $2.61.

Also, we delivered 6.1% loan growth as compared to the linked quarter, increasing nearly 24% or $785 million to $4.1 billion over the year. Our net interest income was $67 million for the quarter, and increased $66 million or 37.6%, to $240 million over the year.

I have spoken often about our commitment to credit quality and the efforts we have undertaken, beginning over 18 months ago, to better condition our balance sheet against future credit risk. Over the course of the year non-accrual loans decreased to $22 million or 0.5% of total loans, and equally as important, credit quality greatly improved as classified or criticized assets declined by $125 million or 54.3% to $106 million.

At the beginning of 2022, we set a macro target of a 1% return on average assets. While modest as an industry peer comparison, this target represented a 25% increase from our previous year performance. Given our improved profitability and earnings power, the return profile of the Bank is markedly improved and our return on average assets expanded 24 basis points to 1.05% by year end 2022.

Before leaving our results discussion, I'd like to take a moment now to discuss our fourth quarter deposit metrics. Average deposits decreased by $576 million to $6.7 billion, largely due to the $513 million expected run-off of our political deposits following the congressional elections. The run-off during the quarter was at the high end of the estimate that we communicated during our third quarter call as this election cycle was highly competitive, evidenced by the thin margin of both majorities in Congress. We were very pleased that our political deposits grew to approximately $1.3 billion during the year and our political deposit trends are interesting as both our high and our low balance points have grown over previous cycles. With another highly contested presidential election already in its early phase, political deposits have started to build already through January. We expect our political deposits to grow steadily throughout the year by approximately $250 million.

Also during the quarter, we had some nice nonpolitical deposit wins and I am encouraged by our deposit pipeline. Although we expect our deposit base, including political, to be more rate sensitive in 2023 based on a protracted higher rate environment, we believe our deposit gathering franchise and mission aligned thesis will be a differentiated and competitive advantage.

Over a year ago we described the fundamentals of the first leg of our strategy were to accelerate loan growth and improve our profitability, managing our risk exposure prudently, and growing our positive impact on society. Underlying these fundamentals were a set of financial targets that focus on us being the most improved bank in the country for financial performance. The combination of credit profile improvement, lending execution, deposit retention strategies, and our core earnings strength positions us well for a changing economic environment and success as we are on the precipice of our second century as a U.S. banking institution.

As we celebrate our full first 100 years, I cannot be more inspired by the team we have in place to propel this great bank into its next centennial.

The expansion of our lending platform has been a priority for our management team. The lending and credit risk management teams we have built over the last six quarters should continue to deliver results in the segments of the market where we see opportunity to grow, including real estate, sustainability and not for profit. In particular, we believe sustainable lending holds significant opportunity where it is estimated that $3 trillion will need to be invested in the United States to achieve net zero emissions by 2050. This is a significant market opportunity, which we believe will be less impacted by economic or cyclical factors. Our bankers are experts in sustainability and underwriting commercial loans across the sector, such as storage for solar energy, geothermal projects and biodiesel projects.

We also anticipate that the fee increases that we negotiated with our customers last year in the Trust business will take effect in 2023. I'm confident that the rolling of our Trust business under our Chief Banking Officer will provide the unified customer focus needed to drive better results. Similar to our digital and customer strategy, we see substantial growth to cross-belt banking services to our Trust customers and trust and asset management services to our banking customers.

As mentioned on previous calls, we will be focused this year on executing our digital transformation. We see a tremendous opportunity to tie our commercial business into a reimagined consumer business and reach through our commercial customers to their members. For instance, if we're doing business with a large non-profit, we want to attract their members and donors who are naturally aligned with Amalgamated. To be successful, we need to offer products and services that are competitive and meet their needs, as well as enhance the customer experience for both our commercial and consumer customers. To date, we have conducted an RFP for a digital plan and we expect to make a selection during the first quarter.

The combination of our efforts in both marketing and digital were reflected in the fourth quarter expense rate and we expect to remain constant on those expenses through 2023. We recognize these investments need to be made. As was the case with our lending strategy, we will make discipline choices funded through profitability with a requirement for timely returns.

I am excited moving Amalgamated into its next centennial and the next leg of our Growth For Good strategy. Our support of issues that are consistent with the social responsibility of a bank and importance to our employees, our customers and the majority of Americans will always be core to our mission. I expect continued discussion around positions we have taken, and I understand this and encourage a sensible dialogue to build a better understanding of views. Ultimately, I believe our mission, paired with our financial performance this year, shows the resilience of our strategy.

Now, let me turn the call over to Jason.

Jason Darby

Thank you, Priscilla. Net income for the fourth quarter of 2022 was a record $24.8 million or $0.80 per diluted share compared to $22.9 million or $0.74 per diluted share for the third quarter of 2022. The $1.9

million increase for the fourth quarter of 2022 was primarily a result of a $0.7 million decrease in noninterest expense, a $0.9 million decrease in provision for loan losses, and a $1.3 million decrease in income tax expense related to an elected change in taxable income recognition, offset by a $0.3 million decrease in net interest income and a $0.8 million decrease in noninterest income.

Beginning on Slide 5, exclusions related to solar tax equity investments were $1.7 million in accelerated depreciation for the fourth quarter of 2022. Because of the income statement volatility associated with the accounting for these investments, we believe metrics excluding the timing impact of tax credits or accelerated depreciation is a helpful way to evaluate our current and historical performance. Core net income, excluding the impact of solar tax equity investments, a non-GAAP measure, for the fourth quarter of 2022 was $27.2 million or $0.87 per diluted share compared to $24.8 million or $0.80 dollars diluted share for the third quarter of 2022.

Turning to Slide 7, deposits at December 31, 2022 were $6.6 billion, a decrease of $565.3 million from the third quarter of 2022. The decline in spot balances was primarily due to the expected decline in political deposits given the conclusion of the congressional elections in the fourth quarter of 2022. Through January 20, 2023, deposits have increased by approximately $225 million to $6.8 billion, including approximately $135 million of brokered time deposits, strategically issued to reduce fundings costs.

Noninterest bearing deposits represent 53% of average deposits and 51% of ending deposits for the quarter ended December 31, 2022, contributing to an average cost of deposits of 34-basis points in the fourth quarter of 2022, a 20-basis point increase from the previous quarter due to our repricing actions in response to the more competitive environment for deposits in our markets.

Deposits held by politically active customers were $643.6 million as of December 31, 2022, a decrease of $513.7 million on a linked quarter basis. As noted on our previous call, political deposit trends are difficult to predict, but we are at the natural low point of our balances as the election cycle concluded in November. We expect political deposits to begin rebuilding in the first quarter of 2023 and we have experienced $5.2 million of political deposit inflows through January 20, 2023.

Turning to Slide 12, total loans receivable, net of allowance and deferred fees and costs at December 31, 2022 were $4.1 billion, an increase of $231.8 million or 6.1% compared to September 30, 2022. The increase in loans is primarily driven by $120.6 million increase in commercial and industrial loans, an $82.7 million increase in multifamily loans, and a $39.8 million increase in residential loans, offset by a $3.8 million decrease in consumer and other loans, a $1.3 million decrease in construction and land development loans, and a $2.9 million decrease in commercial real estate loans as we continue to reduce that asset class exposure.

During the quarter, we had $12.7 million of payoffs of criticized or classified loans as the Bank's credit quality continued to improve. The yield on our total loans was 4.24% compared to 4.11% in the third quarter of 2022.

On Slide 13, our net interest margin was 3.56% for the fourth quarter of 2022, an increase of 6 basis points from 3.50% in the third quarter of 2022. The margin increase was driven by continued loan growth which substantially improved our asset yield mix, offset by increased rates and average balances of interest-bearing liabilities, particularly in short term borrowings. This increase in funding costs was expected as we communicated during our third quarter call that borrowings would elevate in the fourth quarter in relation to the decline in political deposits.

Prepayment penalties earned in loan income contributed 1 basis points to our net interest margin in the fourth quarter of 2022 compared to 4 basis points in the third quarter of 2022.

Core non-interest income, excluding the impact of solar tax equity investments, a non-GAAP measure, was $7.3 million for the fourth quarter of 2022 compared to $7.5 million for the third quarter of 2022. The decrease of $0.2 million was primarily related to slightly lower Trust department fees, a $0.2 million loss on the disposition of an OREO property, and a $0.6 million loss on the sale of nonperforming held-for-sale loans, mostly offset by increased business banking fees and a one-time beneficiary income on bank-owned life insurance.

Core noninterest expense, a non-GAAP measure, for the fourth quarter of 2022 was $35.6 million a decrease of $0.7 million from the third quarter of 2022. This was primarily driven by a $1.5 million decrease in professional fees, offset by a $0.5 million increase in advertising and promotion expense, and increased other expenses related to recruiting services. Looking forward, we expect our noninterest expense to modestly rise as we embark on the next leg of our Growth For Good strategy as Priscilla discussed earlier in the call.

Moving to Slide 17, nonperforming assets totaled $34.8 million or 0.44% of period end total assets at December 31, 2022, a decrease of $19.5 million compared with $54.3 million or 0.7% on a linked quarter basis. The decrease in nonperforming assets was primarily driven by the sale of $9.6 million of restructured residential loans held-for-sale and $12.7 million of payoffs related criticized and classified loans. Our criticized assets declined $7.4 million or 7% to $105.6 million on a linked quarter basis.

The allowance for loan losses increased $2.9 million to $45 million at December 31, 2022, from $42.1 million at September 30, 2022, primarily due to higher loan balances. At December 31, 2022, we had $27.8 million of impaired loans for which there was a specific allowance of $5.7 million, compared to $38.2 million of impaired loans for which a specific allowance of $5.2 million was made. The ratio of allowance to total loans was 1.10% at December 31, 2022 and 1.09% at September 30, 2022. The ratio of allowance to nonaccrual loans was 207% at December 31, 2022.

Provision for loan losses totaled $4.4 million for the fourth quarter of 2022 compared to $5.4 million for the third quarter of 2022. The decrease in provision expense in the fourth quarter of 2022 was primarily related to $1.6 million in charge offs related to nonperforming loans that were transferred to held-for-sale in the previous quarter and subsequently sold in the current quarter. Adjusted, our provision for loan losses in the current quarter increased by $0.6 million related to higher loan balances, increases in certain specific reserves, and elevated chargeoffs in our consumer solar loans.

Moving along to Slide 18, our core return on average equity and core return on average tangible common equity excluding the impact of solar tax equity were 21.8% and 22.6%, respectively, for the fourth quarter of 2022. We did not repurchase shares of our common stock during the fourth quarter and have $28 million of remaining capacity under our $40 million share repurchase program. Additionally, we have declared our quarterly dividend of $0.10 per share. Our capital position remains solid to support our ongoing growth initiatives and improved to 7.52% during the quarter.

Slide 20 shows a reconciliation of the change in tangible common equity and related tangible book value. As expected, during the fourth quarter, the Federal Reserve Board continued its cycle of interest rate increases with a 75-basis point and 50-basis point increase at each of the November and December meetings, respectively. The Fed has also messaged further rate increases to occur in the first half of 2023. Despite the consistent rising interest rate environment through the fourth quarter, the Fed stepped down the rate increase in December, which reduced the market volatility in the fourth quarter and resulted in very little change to our tax affected mark-to-market adjustment to the fair value of our securities portfolio from the third quarter. As such, as of December 31, 2022, tangible book value per share, a non-GAAP measure, was $16.05 compared to $15.37 as of September 30, 2022, increasing almost entirely related to quarterly earnings.

We are also pleased with our tangible common equity to tangible assets of 6.30% for the quarter in comparison to 6% from the previous quarter, reflecting our conservative balance sheet management and capital position against our general target of 6%. As a reminder, fluctuations from mark-to-market changes have no impact on our Tier 1 capital position.

Following the trajectory of the third quarter, our loan growth exceeded our expectations in the fourth quarter as demand for our mission aligned real estate lending and our sustainability lending continues to increase based on fiscal spending projects and increased funding in our focus segment, paired with the investments we made in talent where needed. That said, we anticipate net loan growth to moderate in 2023 to approximately 2% to 3% sequential growth, led mainly by our commercial portfolios.

As the industry pivots to an overall conservative outlook relative to the uncertainty that exists for 2023, we have implemented actions relative expense from balance sheet management, which correlate to closely managing our solid current liquidity position, access to capital, and borrowing capacity to avoid realized losses.

Turning to Slide 21, considering the economic uncertainty and the forward curve suggesting further rate increases in the first half of 2023, we are initiating full year guidance for 2023, which includes core pretax pre provision earnings ex solar of $142 million to $148 million, and net interest income of $256 million to $263 million.

As the Fed continues to raise interest rates, generally speaking, the benefit to our net interest income from asset sensitivity reduces. Going forward, we estimate an approximate $0.5 million increase in annual net interest income from a parallel 25 basis point increase in short-term rates and a decline of approximately $0.7 million if only short-term rates increase by 25 basis points.

We are taking a cautious view towards the economy given the risk of recession as the Federal Reserve has aggressively raised rates over the last year. We are focused on optimizing our loan portfolio by continuing to replace older, lower yielding loans with higher yielding loans, and expect modest margin expansion and net interest income growth as we improve our loan yields while also reducing high-cost borrowings over the course of the year.

That said, we anticipate net interest income to decline to approximately $63 million to $65 million in the first quarter of 2023 as we recognize the impact of the borrowings used to offset our political deposit outflow. Looking forward, we know we will need to be more competitive to maintain and attract deposits, which will continue to drive upward pressure on our funding costs. That said, we will still be repaying high-cost borrowings at lower cost deposits throughout the year and we believe this is a significant opportunity to drive earnings.

As Priscilla noted, we are pleased with the Bank's third consecutive quarter of record results, which demonstrates the resilience of our sustainability focused lending segments and strategic initiatives designed to grow the bank while improving our profitability and returns.

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

Operator

Thank you. We will now be conducting a question-and-answer session.

Our first question comes from the line of Janet Lee with JPMorgan. Please proceed with your question.

Janet Lee

Hi. Good morning. I want to start off with your NII guidance of $256 million to $263 million. Are you still assuming that 33% interest-bearing deposit beta that you gave in the third quarter?

Jason Darby

We have a 40% beta on any incremental rate rises. When we think about how we're modeling it out, it's really based on any forward increases to the Fed rate, but we're not taking it as 40% kind of across the entire portfolio on a blended basis. As you've probably seen, in the first 300-basis points of rate rises, our deposit beta was very, very low, and only more recently in the last hikes that happened in November and December, and as we're projecting into the February meeting and beyond, 40% on those numbers, but we think that overall our cost of funds should remain relatively stable when factoring in the previous performance of the deposit base over the first 300 basis points of rate rise.

Janet Lee

Okay, just to make sure I understand this correctly. If we look at it, in terms of the cycle to date, through the cycle interest-bearing deposit betas, is it going to be lower than 40%? Is that what you said?

Jason Darby

On the incremental increases that are coming from the Fed in the current year, we're going to look at 40% on the interest-bearing deposits. That's kind of our model. But I'm not taking that as a number across the entire portfolio as a 40% beta. What I'm trying to say is I think there is an implied benefit that we've received in the first 300 basis points of rate rise and I think our overall blended cost of funds should remain stable from where we've been right now, other than the increases that we've seen in the November, December Fed hikes and then what we're projecting going forward. It's really a prospective 40% beta on interest-bearing and nothing on any retrospective rate hikes.

Janet Lee

Got it. I think there's a lot of moving pieces with the debt paydown. So, in terms of the trajectory of NIM directionally through 2023, is it fair to assume a step down in margin from the 4Q 2022 level, starting in 1Q 2023? And then are you assuming a stabilized NIM after first quarter? How should we think about the trajectory of NIM?

Jason Darby

I think that's exactly the way to think about it and the way we're thinking about it. There should be a little bit of margin compression in Q1 as the full effect of the deposit repricings we did near the end of the fourth quarter and also the effect of the borrowings that we've had, take hold in our margin calculation in Q1, and we do expect that to stabilize. Then as we look out throughout the remainder of the year, our ability to really drive deposits through the deposit gathering franchise could favorably impact the margin if we're able to pay down more borrowings than we're modeling right now.

Janet Lee

Okay. That's helpful. On the deposit growth, you're expecting around 3% balance sheet growth for 2023. Can you just give us more color around how you're seeing your deposit growth, deposit trends in 2023? I know there's a lot of seasonality to your deposit trends on a period end basis. But if you look at it on an average deposit balance, how should we think about that growth prospect in 2023 versus full year 2022?

Jason Darby

Yes. I think we're trying to take a very conservative view on deposit growth throughout the year and be realistic relative to the deposit market and the competitive environment that we're in as the liquidity has continued to tighten from the Fed; we're expecting a protracted higher rate environment. A lot of what we're showing in our projections is assuming a conservative approach. If I were to think about it, probably generally speaking we see a 5% opportunity to grow deposits on an average basis throughout the year. I would look at that as sort of accelerating as we get into Q2, Q3 and Q4, particularly as we would expect the political deposits to start to build at a more rapid pace leading up to the 2024 elections. That's generally how we're thinking about it right now, Janet.

Janet Lee

Okay. So, 5% on a full year basis for average deposits.

Jason Darby

That's our conservative model, yes.

Janet Lee

Okay. I want to shift to credit. It's good to see your NPLs going down. Looking at your net charge-offs in the fourth quarter, it looks like all of your charge-offs were coming from solar loans. If I'm doing some rough math here, I'm getting about 1.5% loss ratio on that consumer solar loan balance, which is a little bit up from that 75-basis point to 100-basis point range you mentioned in the previous call. How comfortable are you with that credit risk on this portfolio? I know you guys should be working on the CECL adoption that started in January, so I assume there's some expectation that you guys have with that portfolio. Do you expect the continued sort of tick-up in loss rates on this segment? Can you just help us think about that?

Jason Darby

Yes, absolutely. The consumer solar charge-offs have ticked up a bit from where we were originally thinking they were going to be. I think as rates have accelerated and remain in a little bit of a higher place; we've seen a little bit more stress in a little bit of a faster fashion in that portfolio than we were originally anticipating.

That said, I think we're still just under some of the thresholds that we have with loss protections that we've got built into some of our arrangements right now, most of the charge-offs that you're seeing are coming in before some of those protections kick in. I feel like there's a little bit of a governor on that charge-off ratio kind of moving forward, but it is something that we think is going to be a little bit higher than 1%. Whether it gets to 150 on an annualized basis is a little tough for us project, but right now there's really two things in the solar portfolio. Number one, we're really not adding more solar in the consumer space throughout at least the first half of this year, maybe some minor things. But more importantly, I think what we've seen now is an opportunity for us to really tighten up on the credit box that we're requiring for additional purchases that we're going to be doing.

With regard to things that are already on the books, we're paying very close attention to the individual loans that are in fact going delinquent and we're working with the providers right now to make sure that we're getting all the benefit of what they offer in terms of collection services and other things that would potentially put a governor on this consumer solar charge-offs.

To your point on CECL, obviously, it's a significant component of CECL. We factor that into what we've been doing to model it right now. In terms of how it would lay out, we're not quite ready to talk about that since we haven't vetted our entire control structure through our audit team yet. But what we do see is not a significant impact on capital when we do the adoption and the build through our retained earnings, but probably we'll have an overall increase in our coverage ratio, ALLL, that would obviously have a component of it related to solar.

Operator

Our next question will come from the line of Alex Twerdahl with Piper Sandler.

Alex Twerdahl

I wanted to ask about loan growth. I know you guys did a lot of hiring at the end of 2021, early 2022. I'm just curious as those teams, or if those teams, and people that you've hired are now kind of fully up to speed or if there is additional kind of low hanging fruit to expand the loan portfolio early in the New Year?

Priscilla Sims Brown

Yes, Alex, you're right. We've talked about this on prior earnings calls too, we had a robust pipeline due to the banker growth and hiring initiatives that took place back in first and second quarter of 2022, and that materialized through both the third and fourth quarter as those banker relationships developed into securing loan originations at a pace ahead of plan.

In the quarter, the biggest drivers were our commercial portfolio with our C&I book at $120.6 million, primarily a function of our unique climate finance products, and we had an increase of $82.5 million or so in multifamily. The retail resi book was also supportive at nearly $40 million. That was the quarter.

We think that you'll still continue to see nice opportunities coming our way and a very nice pipeline on both the multifamily book and also in the areas of sustainability. When you've got a net zero sector that's looking like it's valued at around $3 trillion, we've got bankers now, both existing and some of those that we brought on, with unique skills and expertise in these areas and so we're really seeing the opportunity to bring on additional loans, but also we have the opportunity to be quite choosy in this environment and bring on the kind of quality that we want to see in the book.

Alex Twerdahl

Great. When you think about the sustainability loan, C&I loan, since I think a lot of us probably aren't familiar exactly on what that might look like. What sort of spreads or pricing or indexes would those be pricing off of and what are new loan yields today that we could maybe help to think about where the overall loan yield could be going over the next couple of quarters?

Jason Darby

Let's maybe focus a little bit more on the yields. I think they're coming in right now, call it, 5.75% to 6%. They move around a little bit; it depends on sort of the underwriting criteria, Alex. But I think in general, the spreads are fairly wide for us in terms of being able to have profitability and good return on those.

I'd have to get back to you on some specifics. It might be easier, because I need to break it down a little bit between the types of sustainability deals that we get into. But right now, I'd say generally speaking they're coming on in the upper 5% to 6% range.

Alex Twerdahl

Okay. Then just kind of looking forward a little bit, you guys are pretty asset sensitive. You really enjoyed the lift up in rates, and now seeing that the forward curve now has a number of rate cuts baked into them, I'm just curious what kind of steps you're taking to try to shield net interest income for the possibility of rates going down at some point towards the end of this year or early next year?

Jason Darby

Yes, that's a great question. I mean, I think we've been kind of doing that throughout the year. In certain cases, we've been taking security sales losses and repositioning those proceeds into fixed rates, so trying to blend down the overall portion of our portfolio, particularly in securities for example, to more of a 50/50 mix between fixed and floating. If you recall, we were much higher on the floating side as we entered the year and then slowly we've been mixing that down to sort of put in built-in hedges to interest rate declines.

But I think the more important thing has been kind of the overall migration from the securities portfolio and from cash into the lending portfolio. The more we grow the lending book, and we're up almost $800 million this year in net loans, roughly 75% to 80% of that book is fixed rate, so we're really doing a lot to sort of protect ourselves from that down interest rate sensitivity. I think I if I were to characterize ourselves, right now we're probably pretty close to neutral in terms of sensitivity to an interest rate drop at this point.

Operator

Our next question comes from the line of Chris O'Connell with KBW.

Chris O'Connell

Good morning, I was hoping to dig a little bit into the commentary around deposit pricing and being a little bit more rate sensitive for next year. Could you give us a breakdown of how much of the political deposit business is noninterest bearing and what might be subject to some sort of rate sensitivity next year? And how much of longer term you expect to kind of remain in noninterest bearing?

Jason Darby

Yes. Thanks, Chris. Normally we've been operating at about a two-thirds DDA or noninterest bearing and one-third interest bearing. That number has been sort of moving over time in the past year towards almost the exact opposite direction. Right now, I would say we're probably at about 40% DDA and 60% interest bearing at this point in time. The way we sort of think about it is of the remaining $650 million that we have right now, roughly $150 million is how we model that as being potentially subject to shifting from a noninterest bearing to an interest-bearing position. That's sort of the risk that we have baked into our DDA mix right now for cost of fund adjustments.

But in general, what we think will happen this year, because it's sort of a building year for political deposits, we think more of those will come in, requiring some form of compensation. We don't think it's going to be top of the market in terms of pricing. I think there's still very much mission aligned value proposition that has benefit for the Bank in terms of when these deposits come on even if they are interest bearing. But over the course of this year, it's likely that there'll be some form of compensation that will be required for these deposits because they'll be in a building phase.

As we move into next year, 2024, and a much more a transactional style year heading up to the election, I think we would naturally expect there to be less requirement for pricing on those deposits and just more ability for it to be placed and then execute it in terms of the way campaigns typically want their accounts serviced by a bank.

Chris O'Connell

Got it. It sounds like the modest near-term pressure, given the high velocity of those deposits in general, that they're still pretty insulated from rates longer term?

Jason Darby

I think that's a fair characterization.

Priscilla Sims Brown

It's not totally insulated; you would say partially insulated. In other words, we think that this unusual rate environment is going to lead to a greater focus on rates than we would have had in the first 300 basis points, but we don't expect to have to go to market.

Chris O'Connell

You mentioned some success recently and some pipeline success potentially from kind of the rest of the sustainability or SRO broader clients outside of political deposits for deposit gathering. Maybe just some of the categories or types of clients that you guys are having success there, outside of political deposits?

Jason Darby

Yes. I think one of the interesting things, we gave a little bit of an update on deposits through January 20th, and we're up $225 million or so, granted, $135 million is our issued broker CDs, but that leaves a $90 million delta which is all new customer attraction. It's been things that we were talking about towards the end of Q4 where we thought the pipeline looked good, and we still think it does even after these wins. They've been kind of spread across some of them are union-based customers, some of them were really relationship driven accounts based on the real estate lending we've been doing prior, and then there's been others that have been very mission aligned in the philanthropic space.

Priscilla Sims Brown

Yes, that's right. They've been not-for-profits. That's where you're going to see that continue as we look at the pipeline today.

Chris O'Connell

Great. On the Trust segment and those fees, when do the 2023 fee adjustments take hold and how material is that increase on those fees, and just any other kind of success or update that you're having on that side of the business?

Priscilla Sims Brown.

Those fee adjustments and cost adjustments, meaning the pass-through of some of our costs related to custody, those adjustments you're starting to see come through in the beginning of 2023 and on.

Jason Darby

Yes. It's going to be an evolutionary process in the Trust business. There's a lot of opportunity for us to drive results out of that business, but I think it's going to be a staged approach. I think in the current year, we'll see some incremental benefit to the Trust fee line as it runs through the income statement. I don't have an exact number to quote for you Chris, but I do think you can think of where we are right now or how we finished the year at about $13.5 million, as sort of a baseline, and that it should be improving from there. It's going to be based on the existing book of pension-based business. It's not new products or anything that we're kind of hoping for. It's really things that are already embedded and just additional margin contributions that we've been working with our partners to be able to accommodate on and then I think over time, we'll continue to focus the Trust business. But as it pertains to overall noninterest income, I don't think it will have a significant impact relative to the ratio of our noninterest income to interest income over the course of 2023.

Operator

There are no further questions in the queue. I'd like to hand the call back to Priscilla Sims Brown for closing remarks.

Priscilla Sims Brown

Okay. Thank you all. Thanks for your questions and thanks for your interest today, and thanks for listening to our optimism for the Bank as we go forward this year, in particular, with great enthusiasm and our 100th anniversary. We look forward to follow-up calls with most of you one-on-one as we go through the rest of the day and next week. Thank you for your participation.

Operator

Ladies and gentlemen, this does conclude today's teleconference. Thank you for your participation. You may disconnect your lines at this time. Have a wonderful day.