Third Quarter 2021 Earnings Call Transcript

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PRESENTATION

Operator

Welcome to the Amalgamated Financial Corp. Third Quarter 2021 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.

Good morning, everyone. We appreciate your participation in our Third Quarter 2021 Earnings Call. With me today is Priscilla Sims Brown, President and Chief Executive Officer.

As a reminder, a telephonic replay of this call will be available on the Investors section of our website for an extended period of time. Additionally, a slide deck to complement today's discussion is also available on the Investors section of our website.

Before we begin, let me remind everyone that this call may contain certain statements that constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. We caution investors that actual results may differ from the expectations indicated or implied by any such forward-looking statements or information. Investors should refer to Slides 2 and 3 of our earnings slide deck as well as our 2020 10-K filed on March 15, 2021, for a list of risk factors that could cause actual results to differ materially from those indicated or implied by such statements.

Additionally, during today's call, we will discuss certain non-GAAP measures, which we believe are useful in evaluating our performance. The presentation of this additional information should not be considered in

isolation or as a substitute for results prepared in accordance with U.S. GAAP. A reconciliation of these non-GAAP measures to the most comparable GAAP measure can be found in our earnings release as well as on our website.

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 share a few highlights of our third quarter 2021 results but spend the majority of my time providing an update on our strategic plan development, including our recently announced acquisition of Amalgamated Bank of Chicago. Jason will then offer the financial benefits of our acquisition in more detail, along with a more in-depth review of our third quarter results.

To start, I'm very pleased with our third quarter, as we've delivered strong results across the dimensions of revenue, profitability, credit quality and foundational growth drivers, such as PACE assessments and deposits.

Our total net loans, including PACE assessments, grew modestly by $31.4 million, marking a linked-quarter continuance of net positive growth. Without the effect of the runoff on our residential loan portfolio, which we have strategically decided to allow, growth was $83.7 million, or 3.2%. Also importantly, we had net positive growth of $9.4 million in commercial and industrial lending and $26.8 million in consumer lending, each driven by solid growth in our Sustainability segment where we believe we have a competitive advantage. While we acknowledge these results must improve, we are encouraged by both the reversal of net loan portfolio declines experienced during the past few quarters and the signs of momentum as we see returns generated from the earliest stages of our lending strategy implementation.

Along these lines, I am very happy to report that, during the quarter, we also hired a new Chief Credit Risk Officer, who will report directly to me. He joins us with direct experience in the segments in which we do business and has demonstrated understanding the connection between production targets and prudent credit risk management.

Now I'd like to update you on the strategic initiatives we've been working on to enhance our growth and better serve our customers. To accomplish this, we have established a four-pillar strategy that focuses on, number one, building our business through mission. Two, and since we focus on Customer segments that share our values we are uniquely positioned to gather and leverage insights on these core customers, and that's an important second pillar. We're also developing and expanding relevant product offerings to grow our lending platform and our trust business. And fourthly, we're improving the management of our data and technology to drive improved efficiency and effectiveness.

The first pillar on building our business through the mission as America's socially responsible bank is one that I'll spend a few minutes on next. Interest in the environment, social causes and communities have never been greater, and we're committed to being a bold leader of policy and public affairs that impact our customers and employees. Our goal is to live the mission by building an authentic culture of social responsibility and impact. This will drive our existing customers' loyalty and attract many new prospects that share our mission and values.

By way of example, I am proud to report that we have committed to being net-zero by 2045, and we've established a science-based target system to achieve this goal. We have named a Chief Sustainability Officer to support this process and deliver on our targets for the science-based targets initiative. We are promoting our team as thought-leaders and are excited to participate in the U.N. Climate Change Conference being held in Glasgow next week.

In addition to organic examples of mission, we certainly look for opportunistic expansion of our mission through partnerships as well as to plan to fully leverage our mission to accelerate the pace of growth in the Midwest through our acquisition of the Amalgamated Bank of Chicago, which I will say more about in a few minutes.

The second pillar is leveraging insights on core customers. Over the years, we have discussed our customers in the political, not-for-profit and union sectors as being deposit customers with little demand for loans or other traditional banking services. I believe that within our core deposit-led Customer segment, there's a significant opportunity to drive additional revenue streams. To accomplish this, we have begun building on our data infrastructure, examining customer information and behavior to identify demonstrated needs and interests, and related profit tracks.

Our engineers are now organized around this objective, and we recently augmented their expertise with data science resources.

The third pillar focuses on developing and expanding our product expertise. In the same way, the bank added a team of deeply connected relationship managers to grow our successful low-cost deposit franchise, we're now focused on assembling talented leaders with the same level of unique specialization in our mission-driven Lending segment, adding to our staff of bankers and underwriters with proven acumen and results in the commercial solar, PACE and sustainability project finance markets.

We have also repositioned some of our existing talent, allowing them to use their valuable expertise across our New York City, Boston, D.C., San Francisco and soon to be Chicago offices. In tandem with our mission-driven Lending segment’s staff build-out, we are also revamping our traditional commercial real estate team by recruiting motivated and experienced leaders who have proven track records in this important marketplace. Commercial real estate lending remains our largest asset class on the balance sheet, and we intend to return to pre-pandemic origination levels and be more successful at protecting our existing book of business as we head into 2022.

We are also connecting our consumer and trust business to our commercial banking business to better serve core customers across offerings. It is essential for Amalgamated to fully identify ourselves as a true ESG institution with a wide array of banking and financial services, moving us beyond the impression of some stakeholders that this is a deposit-only institution. We have added experienced talent in our ESG investments platform, including a leader who will manage our Responsifunds suite of ESG investments, with a focus on transforming our relationship bankers into referral engines while also ensuring clients are earning appropriate market returns that, in turn, drive marginal profitability to the bank.

The fourth pillar is focused on our infrastructure and digital platform to support our growth. We are working to become a stronger digital bank, offering our customers, both commercial and consumer, the absolute best of banking experience through the use of enhanced user-friendly technology supported by exemplary in-person support. We offer our commercial customers a great digital experience now, but we want this interaction with all of our services to set us apart as we continue to evolve into becoming an even stronger digital bank. Smart insight-driven investments here will ensure that our customers value their differentiated online experience.

It's an exciting time for our bank on many fronts, and most certainly contributing to that is our recent announcement of the acquisition of Amalgamated Bank of Chicago, known as ABOC.

One of the many strategic opportunities that the acquisition provides is an established entry into a market we have long desired. ABOC provides us entry into Chicago, which is a far-reaching market that encompasses most of the Midwest. Additionally, we bring to ABOC and its customers and prospects the capability that a significantly larger bank can provide. What we have found is that ABOC has deep relationships with their customers and that their customers are rich referral sources for new prospects. Combined, we have the balance sheet to support ABOC's customers and prospects as they continue to grow and which will provide immediate revenue synergies. The acquisition also gives us a tremendous

opportunity to export our multi-segment customer model to the Midwest to capitalize on the segments that exist well beyond ABOC's foundational union customers.

We signaled last quarter that we would be exploring smart M&A opportunities, and we will continue to do so. As I also stated on our second quarter call, we will need to make investments into people, products, and services and technology to foster the growth that we are expecting; and are actively planning a thoughtful roadmap that considers timing, prioritized investments, net neutral funding decisions and profitability. Although we have much more work to do, we are evolving and exciting things are happening.

I will now turn the call over to Jason, who will fill you in on some of the details of the ABOC deal as well as the just completed quarter.

Jason.

Jason Darby

Thank you, Priscilla.

I would like to echo Priscilla's comments as she speaks of the excitement with which our entire team is approaching the ABOC acquisition as well as our four strategic pillars designed to accelerate growth while effectively managing risk and build value for all of our stakeholders.

While our September 22 press release contains the details of the ABOC transaction, I would like to briefly highlight several of the financial benefits and growth opportunities that ABOC provides Amalgamated, which are as follows.

First, we see substantial cost savings opportunities through the elimination of duplicative functions, which we expect will drive earnings accretion of approximately 17%. The bulk of the cost savings will be in SG&A, which will be reduced by about 25%, or $8.1 million, on a pre-tax basis. We expect the full economic benefit from the acquisition to be in 2023, assuming the deal closes in the fourth quarter of 2021.

We also see revenue opportunities, as we will redeploy ABOC's excess liquidity into securities through the first quarter of 2022, which will drive margins and earnings. Opportunities also exist to reinvigorate ABOC's go-to-market strategy as well as to reengage with their current customers to drive new business and revenue growth. We are already working with ABOC's lender team to change their positioning to be proactive, given our plans to grow their loan business.

Lastly, we are targeting to close the deal by the end of this year, pending regulatory approval. We have deployed two of our senior people to Chicago to welcome our new associates and to assure a smooth transition. We are pleased with our progress to date and trust you can see why we are so excited with the many opportunities that this acquisition affords us.

Now I'd like to briefly highlight our third quarter results before taking your questions.

Net income was $14.4 million, or $0.46 per diluted share, compared to $10.4 million, or $0.33 per diluted share, for the second quarter of 2021, representing a 39% earnings per share increase. The $4.0 million increase was primarily due to a $2.3 million release of provision for loan losses compared to a $1.7 million provision expense in the preceding quarter, as well as a $1.4 million increase in net interest income and a $1.4 million increase in non-interest income. These increases were partially offset by a $1.6 million increase in noninterest expense.

Starting on Slide 8, deposits at September 30, 2021, were $6.2 billion, an increase of $314.5 million, or 21.1% annualized, as compared to $5.9 billion as of June 30, 2021. Non-interest-bearing deposits represent 52% of average deposits and 51% of ending deposits for the quarter ended September 30,

2021, contributing to an average cost of deposits of 9 basis points in the third quarter of 2021, a 1 basis point decrease from the previous quarter.

As can be seen on Slide 8, deposits held by politically active customers such as campaigns, PACs, advocacy-based organizations, and state and national party committees were $1.0 billion as of September 30, 2021, an increase of $223.5 million as compared to $791.3 million as of June 30, 2021.

Turning to Slide 11, our total net loans at September 30, 2021, were $3.1 billion, a decrease of $50.0 million as compared to June 30, 2021. The decline in loans was primarily driven by a $52.2 million decrease in residential loans and a $27.2 million decrease in commercial real estate and multi-family loans due to refinancing activity. That said, our balance of PACE assessments, which is reported in the held-to-maturity securities portfolio, increased by $81.4 million in the third quarter to $627.2 million as compared to the 2021 second quarter. Factoring our strategic decision to not portfolio long-term fixed rate residential loans, we are encouraged by our combined portfolio growth, which is an important inflection point and provides confidence in our full year 2021 financial outlook.

The yield on our total loans was 3.84% compared to 3.82% in the second quarter of 2021. Adjusting for prepayment penalties our loan yield was up six basis points in the third quarter as compared to the previous quarter.

On Slide 13, our net interest margin was 2.70% for the third quarter of 2021, a decrease of five basis points from 2.75% in the second quarter of 2021 and a decrease of 18 basis points from 2.88% in the third quarter of 2020. We estimate that our excess liquidity this quarter from balance-sheet growth has suppressed our NIM by 24 basis points.

Turning to non-interest income, it was $6.7 million for the third quarter of 2021 compared to $5.3 million in the linked quarter and $12.8 million for the third quarter of 2020. A sequential increase of $1.4 million was primarily due to an expected equity method investment depreciation related to investments in solar initiatives. The decrease of $6.1 million as compared to the year ago quarter was primarily due to depreciation of $0.5 million related to equity investments in solar initiatives in the third quarter of 2021 compared to a $4.3 million gain in the third quarter of 2020. We have primarily recognized the benefit of the tax credits in 2020, the initial year of the equity investments, and also the accelerated depreciation impacts in the current year. We expect to recognize modest gains related to cash distributions from our solar equity method investments during the remainder of 2021, as well as over the remaining life of the investments through 2025. These impacts do not include any benefits of new solar equity initiatives or investments that we may make in the future.

Non-interest expense for the third quarter of 2021 was $33.0 million, an increase of $1.6 million from the second quarter of 2021 and a decrease of $4.9 million from the third quarter of 2020, as outlined on Slide 15. This increase of $1.6 million from previous quarter includes $0.4 million in ABOC-related deal costs. The remaining difference was primarily due to a $1.2 million increase to data processing related to the full impact of our Trust Department outsourced operations, a $0.5 million increase to compensation employee benefits, and a $0.4 million increase in reserves for unused loan commitments, partially offset by a $1.2 million decrease in professional services expenses net of ABOC-related deal costs.

Turning to Slide 17, nonperforming assets totaled $67.8 million, or 0.99% of period-end total assets, at September 30, 2021, a decrease of $3.2 million compared with $71.0 million, or 1.08% of period-end total assets, at June 30, 2021. The decrease in nonperforming was primarily driven by the payoff of $4.2 million of non-accruing multi-family loans. I am also happy to report that, early in the fourth quarter, we completed the sale of one of our legacy leveraged loans, as we continue to focus on our nonperforming asset metrics.

Provisions for loan losses totaled a recovery of $2.3 million for the third quarter of 2021 compared to an expense of $1.7 million in the second quarter of 2021 and an expense of $3.4 million for the third quarter of 2020, respectively. The recovery in the third quarter of 2021 was driven by a decrease in the

allowance, mainly from improvement in loss and qualitative factors, improved credit quality, and lower loan balances.

Moving along to Slide 18, our GAAP and core return on tangible average common equity were 10.3% and 10.6%, respectively, for the third quarter of 2021. Importantly, we remain well capitalized to support our future growth initiatives.

Turning to Slide 20, we are maintaining our guidance for the full year 2021, which includes core pre-tax pre-provision earnings of $66.0 million to $72.0 million, which excludes the impact of solar tax equity income or losses and net interest income of $168.0 million to $174.0 million, which includes prepayment penalty income.

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

Operator.

Operator

Our first question comes from the line of Alex Twerdahl with Piper Sandler. Please proceed with your question.

Alexander Twerdahl

First question for me. Certainly appreciate a lot of information here on this new strategic vision, which obviously fairly comprehensive and includes several parts here and will take some time to kind of probably fully implement. I'm just wondering if there's in the back of your mind any metrics in terms of profitability or efficiency ratio or growth or any other targets either stated sort of soft targets that we can think about as you're rolling this out in sort of the time frames in which any of those could be achieved.

Priscilla Sims Brown

Jason, I'll flip it to you to talk about the financial metrics.

I just want to say, Alex, absolutely. In fact, we see this as a big part of the more effective and efficient way we want to operate generally. So in addition to what Jason will remind you of in a minute, there are a number of nonfinancial metrics, which we are actually taking to the Board next week and working through with Management now. And those nonfinancial metrics are really leading indicators that will help us get to the financial metrics. And importantly, we think there's an opportunity to tie compensation and other drivers of behavior to these nonfinancial and financial metrics internally.

As we bring on new employees, and also as we think about the work to be done by and the accountabilities of existing leaders, these metrics will be very tight and correlated to their performance as well.

Jason, do you want to talk about the financial management?

Jason Darby

I think with growth and some of the objectives that we're trying to achieve, we're looking mainly in the loan section of our balance sheet right now and targeting kind of the mid-to-upper single digits of annual growth for the AMAL standalone bank that's really not including ABOC at this point in time. And I say that in a manner of I would love to see that metric move up as we start to deliver some momentum on our quarterly results as we keep going through our loan strategy implementation.

Staring with that as sort of baseline, again, acknowledging some of the loan deficiency that we've had in growth over the past few quarters, and we've been starting to change in the first two quarters of Priscilla's CEO tenure here, so I think that's kind of on the loan side.

From a core efficiency point of view, I think 65%, which is kind of where we're at right now, that's sort of the bell mark where we want to never be higher than, so we're trying to manage to lower than that. I don't have a specific number on mind at the moment, but it's between that 65% to 60% efficiency ratio land as we kind of move forward.

And then with our deposits, I think we would try to keep a reasonable pace similar to this year in terms of our deposit growth. Obviously, we're keeping a close eye on how that affects leverage and related Tier 1 capital. But basically, that's kind of the overall metrics that we're starting to manage to from a growth perspective, trying to be balanced and kind of thoughtful in sort of the trajectory that we want to take and build with momentum if the results start to prove that out in the upcoming quarters.

Alexander Twerdahl

Something like a 65% efficiency ratio, is that something that you think is achievable in 2022? Obviously, it will include the implications from the Amalgamated Chicago transaction as well.

Jason Darby

Sorry, I'm stripping out that from the—are you talking about the one-time charges, Alex, or just sort of more run rate?

Alexander Twerdahl

More run rate.

Jason Darby

No, I think 65% is achievable. In fact, I guess we'd like it to be lower. The ABOC charges, we feel a lot of that operational cost is going to be able to be achieved, because most of it is coming through the kind of employee resource side of things, so it's a little bit less on inherent operations and other types of costs related that way. So right now, we feel pretty good about what that projection looks like.

Alexander Twerdahl

Then you made a comment about revamping the commercial real estate team and hiring some seasoned lenders. So I was just curious where you are in the process of that.

Priscilla Sims Brown

I'd say we were early stage on that. So we talked about basically a two-pronged approach with our real estate business. One protecting what we have on the books today and showing existing customers, and then also pursuing new ones. And to do that, we certainly think that there's an opportunity to bring on new talent. We've begun the process of looking at talent.

Operator

Our next question comes from the line of Janet Lee with J.P. Morgan. Please proceed with your question.

Janet Lee

Good morning.

On the sustainability segment, I want to just ask a clarification question. I think it was as of second quarter of last year, in 2020, sustainability portfolio, which you guys define as a combination of PACE securities, commercial solar and residential solar. I think those portfolios were around $600 million, a little bit over. And obviously, right now, PACE securities you guys have right now is already over $600 million. Where is the portfolio balance today? And how much has that grown over the past year and looking out into 2022 and beyond? Like how much do you expect this portfolio to grow? Is that a core part of the lending segment that you guys are going to focus on?

Jason Darby

Yes. I think I'll start with the portfolio is probably—let me see here, I'm just kind of getting my numbers down. It's really kind of close to about $1 billion when you add in kind of the C&I portion of sustainability when you talk about C-PACE at being over $600 million right now, and consumer solar is about $245 million. So there's been nice growth in those sections. We sort of see that as the continued shoots for us to continue to grow into. Just this quarter alone, C-PACE again was up another… Well, I shouldn't say C-PACE, but PACE in total was up another $81 million, so that was about 15% growth in the quarter. Sustainability, C&I portion of our business was up another $25 million, so that's relatively small in terms of growth but on a net basis still has a significant impact relative to our C&I portfolio in total. And then consumer solar was up another $30 million, or 13% quarter-over-quarter.

When we think about that going forward, I think there's plenty of room on the balance sheet in terms of potential concentration limits for us to continue to grow in the C-PACE space. And when we look at our pipeline, we still see pretty strong growth opportunities for Q4 and heading into the next year, particularly as we focus our bankers in that particular area. Turning to the consumer solar side of things, we definitely see that as a continuing shoot, probably, hopefully, near the clip that I just talked about in this quarter, $30 million or even possibly more. We've just initiated some new flow arrangements with providers that are going to kind of increase that capacity. We feel pretty good about that, Janet.

And then on the sustainability side, meaning in the C&I, that's probably where there's the best opportunity to really make meaningful impacts. And Priscilla has talked a little bit about that in her strategy where we start to position bankers much more focused on what they do best in there and whether that be renewable energy as a segment within sustainability or whether that be CDFIs or things of that nature, that's the opportunity for us to really grow and make a meaningful impact in the overall book. And then you sort of pair that up with the hiring of our new Chief Credit Risk Officer, who we kind of consciously went out and recruited for the purpose of being able to evaluate deals specifically in this type of space, and also a person that's been correlated to book growth in the past with a real understanding of credit quality. That's kind of, Janet, I think, makes the best opportunity for us.

I don't have a full set of kind of numbers for you for the 2022 outlook, other than it sort of ties into that overall mid-to-high single-digit growth rate on the loan portfolio. And I would say the majority of that growth really would come from the sustainability part of C&I and the consumer solar.

Janet Lee

For the PACE purchase target, I believe it was $150 million for 2021. So if you look to 2022, how should we think about that new purchase target for the new year? And how does the acquisition of ABOC impact this target versus standalone Amalgamated?

Jason Darby

Great question. For the projection for the end of the year, we're right on track for the $150 million in purchase through our PFG arrangement on the R-PACE side of things. And we've actually got some additional capacity now out of that relationship. As we start to head into 2022; we've done some repricing to be able to create greater flexibility, greater competitiveness for them as the kind of the consumer unsecured space kind of came racing back during this year. I think we did a lot of work to protect our outflow arrangement heading into next year.

Their growth has been much better as we looked into their fourth quarter projections. And when we talk about other opportunities within that relationship, we're hopeful that our New York offering; we have a kind of an exclusive deal with PFG to do the New York offering on the PACE program. We're excited that, that could potentially expand capacity. I don't really know when that might take off. I'm hoping first quarter of next year, but it could be in second quarter, so that could actually add to possibly the $150 million flow. I think there's still a great opportunity for that to actually look like a bigger number than it was for this year on a flow basis.

When you think about Chicago, I don't know that it necessarily correlates directly, because we have to find legislative opportunities for that to be kind of put into place. Illinois is definitely one of the states that's going through the processes right now, Janet, of kind of building the legislation around potential R-PACE activity. But I think where it's more interesting is on the C-PACE side and us being able to export our C-PACE kind of business knowledge into that market.

If you recall, we really weren't able to participate at all in that market based on a previous agreement between ABOC and Amalgamate Bank of New York. And now that that's going to go away, our ability to kind of get into those commercial projects and introduce R-PACE knowledge there, I think that's where it's a great opportunity to expand that capability in that market.

Janet Lee

If I can squeeze just one more question. So on loan growth, apologies if you guys have already talked about this. But is the elevated paydown and prepayment level, like is that largely behind us, or is that going to continue impacting loan growth in the fourth quarter or maybe over the next two quarters? And can you also comment on your new loan pipelines and how that compares to, say, the end of the second quarter?

Jason Darby

Really, it's two different pieces within the business that are still experiencing some paydowns, some refi. On the residential side, we did see a slowing of still about $50 million of payoffs that occurred in resi in our portfolio in Q3, although that has been slowing. I think we're also getting to the point now where we're starting to contemplate keeping our own production on our books. The refi activity is certainly starting to slow down. We saw some of that, Janet, with our whole-loan resale agreement coming due and there just being a lack of production out there to refill that. So we feel like we're hopefully reaching the end of that on the residential side, and we've got some thoughts around making sure that we get to, hopefully, net neutral with our residential portfolio for this last quarter as we kind of look out a little ways.

On the commercial side, though, I think it's a little bit better suited; meaning Priscilla talked about it a lot on the CRE and multi-side, that we want to be much more aggressive in protecting our book from the refinancing that's occurring out there. I think having our new CCRO is going to really help in that matter so that we can be as competitive as the market is dictating relative to our best credits and really kind of stem the tide there. And then outside of that, we do have some exposure to larger customers that pay off lines fairly quickly.

We had some of that occur again late in the quarter in Q3, but we're happy about that in the sense that there's still existing customers and we expect them to draw back into their line. I feel like that would be something that we can kind of count on and to stem some of that tide as well as we head into the fourth quarter and into next year.

And you had one more part to your question, Janet; forgive me, I lost track of it. What was the second part?

Janet Lee

Yes. Just the new production levels, loan pipeline.

Jason Darby

Yes, that's been a kind of an interesting story. We are starting to see a lot more deal flow coming, because this positioning of bankers, that really started right around when we Priscilla arrived. So this isn't like a new thing we just started thinking about in Q3, really started getting bankers kind of motivated around driving opportunities. Our new CCRO is actively looking for opportunities to review, so I think that's a helpful partnership that's being built on the production side.

Also, we had some deals that closed in the third quarter. We got a little bit unlucky where some of the funding moved out into the fourth quarter. So we're kind of excited about that, and those deals that we closed, they're fairly robust. And I think that opens up a way for us to be able to do more of those types of deals as we head into Q4 and Q1. So kind of more to come on that.

We need to show you the results, obviously, but the pipeline has been fairly encouraging as we've seen so far.

Operator

Our next question comes from the line of Brian Morton with Barclays. Please proceed with your question.

Brian Morton

I think, I'll start off with some of the implications of the ABOC deal on kind of the way you think about de novo versus inorganic strategies. Do you think, as you work on the integration of ABOC, do you think that you can still continue to pursue de novo strategies, particularly as it relates to the L.A. office?

Priscilla Sims Brown

The answer to that is, yes. I think we will continue to look at both inorganic and organic ways to expand the expertise that we're building in sort of key areas and take it across the country to other like markets where we see real opportunities in the segments that we're in. As you know, Boston is a de novo office for us. We're really excited about now sort of accelerating the work that's going on there, and Los Angeles is also continuing to be of interest to us.

Brian Morton

Then kind of now that you have some experience with kind of an inorganic strategy, how quickly you think you would be in the position to maybe consider additional deals? Or is this kind of more of a onetime event?

Jason Darby

That’s a great question. I think the ability for us to do additional deals isn't tremendously far off in the future. I think we have a couple of things we want to be able to prove first. Number one is really get an efficient integration done and start to really show the cost saves and the synergies that we've been projecting. And I don't think it will take us too long to start to prove that out.

I think the other part of that is going to be making sure that we have appropriate levels of capital to deploy against an opportunity. So part of our strategy here is going to be a little bit of a build back of capital, as you would probably expect, because we're going to take on some leverage in order to do the ABOC deal. As we build back a little bit of capital, that creates a bit more capacity for us.

More importantly, I think, for the first time in a while, the phone is ringing on our side for potential partners and then people that are looking to find out more about our story and what we're willing to do. And I think

as we kind of listen to those discussions and we see what that footprint might look like, as we kind of look out into the future, it's certainly appealing to us. And so we'll evaluate capital and we'll evaluate buying power and what some of our levers are to pull in order to see if those opportunities make sense for us in the future.

Brian Morton

Maybe a little bit more on the capital side. I mean, it didn't look like you were doing any repurchases. What's kind of your thoughts on capital deployment and the trajectory going forward of maybe when you would do share repurchases in the future?

Jason Darby

We paused doing share repurchases during Q3. And again, we have a $7.5 million remaining availability from a capital approval to repurchase shares. We paused in Q3 as we were contemplating the ABOC deal. Now, all of our capital projections, as they look out going forward, include our normal kind of dividend, our dividend run rate, and also the utilization of our remaining capital allocation for the share buybacks. So that's still within our capital plan.

In terms of how aggressive we would get out in terms of buying back shares, I wouldn't say we'd be tremendously aggressive. We probably have a benchmark in mind of below tangible book where we might become buyers of our stock, and fortunately, right now, we're trading a little bit above that. But we'll maintain that dry powder for us to get back in the market probably if the shares start trading below a level that we feel is properly valued.

Brian Morton

Then I guess one on expenses. I just want to get a little bit more detail on kind of your expense dynamics. It looks like you have some cost saves built in with the ABOC deal. You also have some data and technology investment initiatives, and maybe also some other efficiency initiatives possible. So kind of as you look at 2022, kind of how do you think about maybe the overall, like the dollar expense level? Do you think you keep that static? Or is it you're looking at it from an efficiency ratio basis? And would positive operating leverage for next year kind of be a goal or not necessarily?

Priscilla Sims Brown

I think the answer is, yes. Yes and yes. So, no, we do think, obviously, about maintaining expense levels, given the bit of an aberration we had to the plan when we started to look at the ABOC opportunity, but we do think that going into next year we should be able to do that.

Jason Darby

I think we're probably going to be a little bit higher in expense run rate, as I start to look out, I think this quarter, probably just on the bank proper, or AMAL proper, prior to ABOC. We’re probably going to be in that $32 million to $33 million expense run rate, at least for the next quarter coming up. I think we've made the investments that we want to make right now in the outsourced infrastructure model, particularly for our trust organization, which we'll start to see paying back for us as the ABOC trust portfolio starts to migrate on to our platform.

I think the salaries kind of returned to a little bit more of a normalized level as some of our executive comp kind of normalize; we didn't have our previous CEO and CFO on the last couple of quarters in terms of our salary run rate. So I kind of look at a little bit. I think we're sort of normalizing it at the current run rate here, and we'll be actively managing opportunities for neutralizing offsets. I think we tried to show that in this quarter, too, where we have a little bit of an expected expense increase, and we offset that with some decreases in professional services or other type of supplementary costs that we were incurring.

To kind of look at it on an outward basis, I think I was talking about a little bit before with Alex, that core efficiency ratio, right now, it hovers around 65%. There are definitely opportunities to move that down. Some of the levers to pull there are a little bit harder than others, just given kind of the unique structure of this bank. But when I look at overall Opex, I think that 65%, and trying to get lower than that as we get into 2022 is really the target, and that would be based on like a 32%, 33% per quarter run rate on expenses.

Operator

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

Chris O'Connell

I was hoping to just start off on the balance sheet and the residential run-off. I guess, when did it become like the strategic decision to not balance-sheet any of the residential production and just like the strategic rationale behind that versus keeping it on balance sheet at this point, given the pace of those pay downs?

Jason Darby

Well, we've been trying to keep, as much of the production flow as we can in the form of gain on sale. So while we've been allowing it to run-off, and that kind of that trade on profitability, we felt it was still appropriate going through the gain on sale line up through at least this current quarter. I think at this point, right now, it's kind of an open discussion internally here as to whether we start keeping our production. I mean, the big thing is we're still seeing a lot of 30-year, which is fixed rates long term and it's pretty low coupon that's kind of hovering in that 2.5% to 2.75% range, which we're not that crazy about, given the fact that we can kind of make it up on the non-interest income line right now. But as that starts to slow down and as sort of maybe home prices start to exceed what people are able to pay, there's probably going to be opportunities for different types of residential structures, maybe just as 7- or the 10-year arm start to come back into play. When those things start to move in a direction when we feel like we can really count on that, that's probably when we'll start to make the switch flip and really kind of start to balance-sheet those assets again.

Like all I can say on that right now is it's an active discussion for us, and we're certainly cognizant of the trade and the balance sheet run-off versus the gain on sale right now.

Chris O'Connell

Then it looked like the loan deferrals ticked up a bit this quarter. I may have missed it, but if you could just provide some color around that and what was the driver there.

Jason Darby

Deferrals relative to like a COVID? I'm sorry, because I didn't quite follow on the deferral side.

Chris O'Connell

Yes. The COVID deferrals.

Jason Darby

That's just a little bit on the residential side. I think there's a little bit of sort of waving water that occurs there, but the majority of our—virtually all of our COVID-related deferrals already kind of flowed through on our criticized asset table right now. I don't spend a lot of time really worrying about too much, because I think we already took the pain of sort of moving that into our classifieds or sub standards, and the residential is not something that I'd lose a tremendous amount sleep on, and I'm not really that worried about it at the moment.

Chris O’Connell

And then as far as the political deposits, it looks like that had a bit of a drop-off post quarter end, although up very strongly on the end to period basis for the quarter. If you could just explain some of the dynamics, there and then maybe the outlook is into 4Q and early next year?

Jason Darby

Yes. The political deposits, they sort of behave that way. They sort of reach level points at the end of the quarter, they might get subsequent to that. And we like to show that just to show a little bit of kind of the volatility that comes along with the political deposits. I think the more important trend, though, is that on a steady basis quarter-over-quarter we keep building on balances. And I'm expecting those balances to continue to increase as we sort of run up to the midterm elections next year; as we've kind of seen in the kind of the election cycle as almost blended together now, it's almost like one long continuous fundraising cycle and local elections almost as prominent in certain cases as some of the national ones. So we do expect to see that to continue to rise. And then, obviously, we'll probably see some type of drop as we get into Q4 or Q3 a little bit because that money will get spent.

I think, more importantly, we are very conscious of what that looks like from a forecasting point of view, and we're very conscious about what we need on our balance sheet in order to support that, because we do feel that while the political deposits take up a little bit of space in terms of capital, at the same time, they're really rich with referral sources. The folks that we're dealing with, with regard to those political raises, really open up a tremendous amount of doors for us for other business relationship opportunities, and so that's something we sort of very carefully manage. But again, kind of I would expect this to continue to rise as we look towards Q3 of next year.

Chris O’Connell

Then I was hoping to get just a little bit of color on the—I think it was the second pillar of the plan and kind of deepening the relationships with the core customers on the social enterprise, non-profit lever for our existing customers. And just a little color around the opportunity there. And is that mostly looking to make those customers loan customers, not just deposit customers? And if so, maybe examples of how that can happen.

Priscilla Sims Brown

I'll start that, Jason, if you want to add to it.

I think one thing that you have to think about is that our current model capitalizes on kind of the local localized expertise and leadership we have in each of the four cities we're currently in. We think that to optimize the value of the platform, what we'll do is cross-pollinate sort of the secret sauce we have around certain segments. So the depth we have with, for example, unions in New York and political organizations in D.C. and sustainable financing in San Francisco, will now be incubated in other markets, Chicago, the rest of California and Boston. And so we think that this will result in all of them having a little bit more depth and breadth.

Jason's point is a good one, is that, while you think of some of these markets is having some of these segments is having very little interest in lending, we actually are finding pockets within them that do. And then, more importantly, they really helped as referral sources to customers who are lenders who are interested in lending. And so, we see the opportunity really in just taking more of a national approach and hitting all cities, not as special areas of confidence, but actually having breadth across each of the areas of the business. That's where we see some real opportunity.

Another good example, Jason gave one earlier, but another example is that, in Chicago, they're doing quite a lot of corporate trust business. That's not something that we're doing a lot of in other places. So, there are real specific product things, and then there are segment opportunities where we're stronger in some places, we can get stronger in others.

Jason Darby

I'll maybe just add one bit to that in the Chicago market. If you just think about kind of our new entry there through ABOC. Historically, their customer lens has been union. Now, what Priscilla mentioned earlier in her remarks is we've learned that they're deep in terms of referral sources. And when you expand the market in Chicago and the greater Midwest, you find that there's a pretty big space for social advocacy and philanthropies and areas that really line up very well with our kind of segment lending. And our ability to sort of export our national knowledge, what Priscilla was talking about, into that market and really look at an ABOC customer and follow that customer to a social advocacy referral; we think that's really where there's a great opportunity for us to expand the overall lending platform and get deeper in the segments.

That hopefully is, Chris, a bit of an example for it as to how we think of the existing platform or the existing customer set and how it could expand into the newer segments.

Chris O'Connell

Then last final one, if I could, is just any color around. I know there's a lot of moving parts here with the balance sheet still having some run-off, as well as the Political Deposit segment. But kind of excluding the acquisition, how are you guys are thinking about the NIM directionally over the next couple of quarters?

Jason Darby

NIM eroded about 5 basis points on kind of a straight level, just looking at it quarter-over-quarter. If we factor out prepayments and some of the mark accretion, it was pretty flat, at least between Q2 and Q3. I think it's about a 2-basis point decline, maybe 1-basis point decline, something like that. So hopefully, we're reaching a bottoming of what the NIM would look like. I can't always predict what that's going to be, because, as you pointed out, there's some noise that rolls through on the deposit gathering side and maybe some timing issues on the asset generation side. I think what's important for us right now is really developing that origination, that lending origination platform, so that we can have an accountable engine to deploy the liquidity that we have.

That's kind of top of mind for me. The other thing is I try not to manage very, very specifically to NIM, I focus a lot more on NII and making sure that I'm growing that. And I think that the NIM will sort of functionally reflect that as we move along. And so I was fairly happy with where we came in on Q3 on an NII basis. But that's kind of my prevailing thoughts right now on NIM in terms of where we are and hopefully where it's heading.

Operator

Ladies and gentlemen, at this time, there are no further questions. I would like to turn the floor back to Management for closing comments.

Priscilla Sims Brown

Well, I just want to say thank you for your questions and for your active engagement over the recent weeks. We've really been guided quite a bit by the thoughts of our investors and analysts in this market. And thank you, Operator.

Thank you for your time today. And we appreciate your great questions, and the opportunity to interact with you about the bright future of the Company going forward. We believe this momentum is building for the opportunities that we just talked about. And I've been speaking with many of you and with our

customers about emerging strategies for our loan and trust businesses and the acquisition of ABOC, and I've been met with a lot of enthusiasm and a lot of genuine interest.

When we talk about doing good for more customers and developing new customer relationships that we can continue to be proud of, we are really, really pleased that you are encouraging in this and you understand this strategy. We think that the mission-driven services that we provide are going to be exciting for more and more customers in each of the markets we're in. So there's a real energy around where we're headed from here, and I trust that you'll follow us on that journey and partner with us as we go through it.

I look forward to coming back to you next quarter and talking to you about the early results of implementing these new strategies and more details on incorporating ABOC into the Amalgamated family, and also about all the other initiatives that we'll be able to share with you at that time. Thank you again for your time, and we look forward to dialogue in the future.

Operator.

Operator

Thank you. Ladies and gentlemen, this concludes today's teleconference. You may disconnect your lines at this time. Thank you for your participation.