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Earnings Call Transcript

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Janet Lee, *J.P. Morgan*

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PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to the Amalgamated Financial First Quarter 2024 Earnings Call.

As a reminder, this conference call is being recorded.

I would now like to turn the call over to Mr. Jason Darby, Chief Financial Officer. Please go ahead, sir.

Jason Darby

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

With me today is Priscilla Sims Brown, our President and Chief Executive Officer.

As a reminder, a telephonic replay of this call will be available on the Investor's 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's 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 2023 10-K filed on March 7, 2024, 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

Good morning, everyone, and thank you for joining us.

It's great to be here today to discuss our first quarter results, which continue to show Amalgamated as a banking industry leader, highlighted by a 16% increase in core net income, 5 basis points of net interest margin expansion, and stellar deposit growth.

Despite continued turbulence in the banking sector during the quarter, this time centered around metropolitan real estate asset concerns, we proved once again that our unique and valuable business model is well positioned to thrive in varying economic conditions. This clearly separates Amalgamated from our peers and affirms my incredible optimism for the future.

I used the word stellar a moment ago to describe our deposit growth, but I'd like to put that into context. It goes without saying that the deposit gathering landscape remains a challenging environment. Higher interest rates have not abated, and recent economic data has certainly muted sentiment for rate cuts throughout the remainder of the year. The reality is that we cannot control any macroeconomic factors and so we must plan for variability.

I speak often about our differentiated deposit gathering franchise and this is where it shines the brightest. For the quarter, our on-balance sheet deposits, excluding brokered CD's, increased $374 million, or 5.5%. We also moved approximately $154 million of deposits off-balance sheet into our reciprocal network, and we are now managing over $450 million of off-balance sheet deposits. In total, we brought in over $480 million in new deposits during the first quarter, results that we consider to be stellar in this environment. Importantly, our deposit growth was broad-based once again with strength in our political, our union, our non-profit and our social advocacy segments.

Our political segment delivered $250 million of inflows as the presidential election continues to approach. This growth is ahead of our cycle-over-cycle historical trend as our political deposits totaled $1.4 billion at quarter end, well above the prior peak of $1.3 billion during the mid-term election cycle in 2022 and forecasted to match the continuous record-setting fundraising we see each presidential election year. While political deposit inflows have continued through April, we expect outflows to begin towards the end of the second quarter and into the third quarter as campaigns begin to spend more aggressively in the ramp-up to November's election.

We also experienced deposit growth across our union, non-profit and social advocacy customer segments with inflows of $230 million representing a mix of both new and existing customers. As I've said before, this is a challenging deposit gathering environment and Amalgamated has something very few banks have, an undisputed reason to win the ties when they come up.

Looking to the balance of the year, we remain focused on driving organic deposit growth across our core customer segments and we're encouraged that the success we have achieved will continue. A big opportunity is to offset the expected political deposit outflows with lower cost core deposits versus using higher cost borrowings. We are ahead of our deposit plan through the first quarter, which puts us on track to consider our conditional growth target for the second half of the year.

Though we have been cautiously expanding our loan portfolio through the first quarter given the environment that we're in, we also remain optimistic that our socially responsible banking business will provide a source of growth over the balance of the year and beyond. This is a market segment where we have a dominant position, and we expect significant investment over the next 10 years in order for the U.S. to achieve the goal of net zero emissions by 2050.

The Inflation Reduction Act is a catalyst as monies are earmarked for critical projects in the renewables, infrastructure, and water segments of the market. In fact, I have been spending much of my time building and expanding relationships with the organizations that will benefit most from these funds, of which the recipients are now being identified, and whose funding is expected to begin flowing before year-end. With our impact lending model, we are well positioned to win this business and make a substantial impact on lowering emissions in the United States.

Wrapping up, our results show that we are on a path to continue delivering solid earnings and growth in tangible book value for our shareholders. Our quarterly results and optimism for the year would not be possible without the dedication and hard work of our very talented employees as well as our changemaker partners and our customers. To you all, I say congratulations and thank you.

Jason, over to you.

Jason Darby

Thanks Priscilla. Hi there and good morning, everyone.

Before I get started, I'd like to take a moment to note that we have revised the layout of our accompanying earnings presentation. We've streamlined the information to spend more time on key highlights and also to shorten the length of our prepared remarks. We've moved many of the traditional detail slides to the appendix and have also created some new appendix slides such as a reconciliation of core deposits and a metrics index for you to conveniently refer.

I'm going to start off on Slide 3 of the earnings deck. Our 2024 first quarter produced solid results. Net income was $27.2 million, or $0.89 per diluted share. Core net income, which is a non-GAAP measure, was $25.6 million, or $0.83 per diluted share, and as Priscilla mentioned, that was an increase of 16% from the previous quarter.

The quarterly results also featured increased net interest income to $68 million, 5 basis points of net interest margin expansion, a 22 basis point leverage ratio increase, a dividend increase announcement to $0.12 per share, and significant growth in deposits across multiple segments, all of which I will discuss in further detail. Taken as a whole, we are very pleased with our core operating performance.

Continuing to Slide 4, we look at some of our key performance metrics during the first quarter. Starting on the left, our tangible book value per share increased $0.99 or a healthy 5.29% to $19.73 primarily driven by our quarterly earnings. Our core revenue per diluted share was $2.48 for the first quarter, essentially the same as last quarter.

Moving across, let's take a quick look at our returns. Core return on average equity was a very strong 17.14%, which was a nice uptick from the prior quarter and in line with previous quarters in 2023, and also reflective of the bank's above peer net interest margin. We are especially pleased with our core return on average assets of 1.27%. While we know we have more work to do to develop non-interest income streams, our core return on average assets shows the bank firing on most cylinders and our earnings potential becoming reality.

Moving to capital. As previously discussed, we have been unwavering on building our capital position and saw our Tier 1 leverage ratio improve another 22 basis points to 8.29% as we are on track to achieve our 8.5% target by the end of the second quarter of 2024. Our tangible common equity to tangible assets was 7.41% for the quarter in comparison to 7.16% from the previous quarter, despite long term interest rates ticking up. We believe this nicely shows the result of us aggressively turning over our securities portfolio. As a reminder, we have sold more than $620 million of securities over the past eight quarters.

Turning to Slide 5, total deposits at March 31, 2024, were $7.3 billion, an increase of $293.8 million from the linked quarter, but this only tells part of the story. On-balance sheet deposits, excluding brokered CDs, increased by $373.8 million or 5.5% to $7.1 billion, though there was significant additional deposit growth during the quarter. Non-interest bearing deposits represent approximately 45% of average deposits and 45% of ending deposits excluding brokered CDs, contributing to an average cost of deposits of 146 basis points in the first quarter of 2024, up 11 basis points from the linked quarter. Additional details on this can be found in the metrics index of the appendix.

Checking in on political deposits, we are up to approximately $1.4 billion as of March 31, 2024, an increase of $250.4 million on a linked quarter basis and through April 17, 2024, we have had a further $87.5 million of political deposit inflows, setting a new high-water mark for our political deposit franchise. We do expect political deposits to begin flowing out towards the end of the second quarter, but balances have exceeded our expectations so far. We also note that we classify political deposits raised during the election year as non-core deposits given their transactional nature.

In keeping with our neutral balance sheet strategy, we are now managing $456.8 million of deposits off-balance sheet comprised primarily of transactional political deposits and certain transitional deposits scheduled for our trust business. Our continued deposit strength is also allowing us to reposition our balance sheet for sustainable profitability and returns. During the quarter, we utilized our on-balance sheet deposits to pay down our higher cost borrowings and brokered CDs by a total of $250 million, which is faster than our expectations entering the year. This funding mix shift will help to mitigate further cost pressure especially if the recent rise in interest rates were to drive increased pressure on deposit costs.

Jumping ahead to Slides 6 and 7, the book value of our traditional securities portfolio increased $3.3 million during the quarter, primarily as a result of $128 million in purchases, which were offset by $75.5 million in strategic sales and $50.3 million in traditional securities paydowns.

Net PACE assessment growth was $10.1 million. We anticipate R-PACE production to increase to between $20 million and $25 million in the second quarter as we add additional purchases.

Our pre-tax unrealized loss position in our traditional available-for-sale securities portfolio was $94.1 million or 6.1% of the total portfolio balance, improving by $8.6 million from the previous quarter, largely as a result of our continued repositioning of our portfolio by strategically offsetting underwater security sales with income generated by our off-balance deposit sheet strategy.

Turning to Slide 8, net loans receivable at March 31, 2024, were $4.4 billion, an increase of $13.8 million, or 0.3%, compared to the linked quarter. The increase in loans was primarily driven by a $27.3 million increase in multifamily loans, and a $3.1 million increase in commercial and industrial loans, offset by a $9.8 million decrease in consumer solar loans, and a $6.3 million decrease in residential loans. The yield on our total loans increased 8 basis points to 4.76% during the quarter. The loan yield increase was mainly attributed to the improved yield of new loans generated during the previous quarters and we saw increases across nearly all individual asset classes.

Slides 9 through 11 are new additions to our earnings deck to better illustrate our exposure to certain real estate asset classes. As we have spoken about many times, we have been de-risking our real estate portfolio for the past two-plus years since our new real estate management team arrived and as evidenced by an over $112 million improvement in related classified and criticized assets. We think it is very important to stipulate that all bank metropolitan real estate portfolios are not the same, as evidenced by our strong underwritten DSCR's and low LTV's.

On Slide 10, over the balance of the year, we have $174 million in maturing, lower priced commercial real estate and multifamily loans. We have already been working with all of the borrowers well in advance of maturity and feel comfortable with our plans for action, relative risk, and related allowance reserve coverage at this time.

Spending a moment on Slide 11, we have identified office-only commercial real estate loans and multifamily loans subject to pre-1974 New York State rent stabilization rules as those with higher risk profiles within our total real estate portfolio.

All that said, we recognize that our portfolio holdings viewed as a percent of multiple categories nicely reflect the bank's diversification in asset classes and relatively benign exposure profile as our office-only commercial real estate portfolio was $61 million, comprised of all pass-grade credits and less than 23% of our multifamily portfolio had loans with units subject to pre-1974 rent stabilization rules.

On Slide 13, the net interest margin was 3.49% for the first quarter of 2024, an increase of 5 basis points from 3.44% in the linked quarter. The increase is largely due to increased yields and average balances of interest-earning assets driven mainly by rising loan yields and securities purchases. While we are rather pleased with our margin expansion, we are acutely aware of the continuing higher rate environment and the ongoing competition for deposits.

Assuming no changes from the Fed, we expect to see asset yields continue to grow as we turn over our balance sheet. But we also believe deposit costs will continue to rise as well. A key offset for us is the retiring of more than $320 million of higher cost borrowings in 2024 that can be replaced with lower cost deposits, $250 million of which occurred in the first quarter as I noted a few moments ago.

On Page 14, core non-interest income, which is a non-GAAP measure, was $8.3 million, compared to $8.5 million in the linked quarter. The decrease was primarily related to lower BOLI income, partially offset by an increase from fees from our treasury investment services. As a reminder, we report non-interest income generated from our off-balance sheet deposit strategy as non-core due to its temporary nature.

Core non-interest expense, also a non-GAAP measure, was $38.5 million, an increase of $0.8 million from the fourth quarter of 2023. This was mainly driven by a $1.1 million increase in compensation and employee benefits expense due to select differential investments in employees as well as increased payroll taxes.

Moving to Slide 15, non-performing assets totaled $34 million, or 0.42% of period-end total assets at March 31, 2024, and our criticized assets decreased $9 million to $100.9 million on a linked quarter basis. The criticized or classified loans decrease was largely related to the payoff of $6.6 million of commercial and industrial loans and the upgrade of $3 million of commercial and industrial loans.

On Slide 16, the allowance for credit losses on loans decreased $1.3 million to $64.4 million at March 31, 2024, from $65.7 million in the previous quarter and the ratio of allowance to total loans was 1.46%, a decrease of 3 basis points from 1.49% in the linked quarter.

Provision for credit losses totaled an expense of $1.6 million for the first quarter compared to an expense of $3.8 million in the fourth quarter of 2023. The expense in the first quarter is primarily driven by increases in required reserves and charge-offs on the solar loan portfolio as well as a reserve build for our multi-family portfolio which we deemed prudent to reflect current market repricing conditions and was not driven by any particular credits. These were partially offset by improvements in macro-economic forecasts used in the CECL model.

Turning to Slide 17, we are modestly raising our full year 2024 guidance to core pre-tax pre-provision earnings of $145 million to $149 million, and net interest income of $270 million to $274 million, which considers the effect of the forward rate curve for 2024.

To conclude, we will continue with our neutral balance sheet strategy through the second quarter as we continue to pursue our stated Tier 1 leverage target of 8.5%. We will also be monitoring a number of macro-economic factors to inform our decision-making and our credit quality metrics will be key as we determine whether to accelerate our balance sheet growth to 3% in the second half of the year.

The most important factor will be the performance of our deposit gathering franchise given the significant political deposit outflows that we expect in the fourth quarter when the presidential election concludes. We remain optimistic with deposit growth that we have been experiencing in our core customer segments outside of political.

Briefly looking at the second quarter, we are cautiously optimistic that our net interest margin can experience a possible 2 to 3 basis points of expansion. Correspondingly, we anticipate our net interest income to range between $68 million and $70 million in the second quarter of 2024. While we do not expect a Fed rate cut in June, we estimate an approximate $2.2 million decrease in annual net interest income for a parallel 25 basis point decrease in interest rates beyond what the forward curve currently suggests.

In closing, we are very happy with our Q1 results and are cautiously optimistic for the remainder of the year. We'll look forward to updating you all again with our second quarter results in July.

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

Operator

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

Alexander Twerdahl

Hey, good morning.

Priscilla Sims Brown

Good morning.

Jason Darby

Good morning, Alex.

Alexander Twerdahl

I wanted to start with some of the comments that you made, Priscilla, on some of the dollars that are earmarked in the IRA towards sustainability initiatives. One that I was looking at recently was this greenhouse gas reduction fund, which seems like it's pretty new and some substantial dollars that are earmarked towards various projects. I was wondering if you could just give us a little bit more color and thoughts on if you know how some of that money will actually flow and how Amalgamated could actually play into some of these types of projects and initiatives?

Priscilla Sims Brown

Yes. Thank you, Alex. It's a great question and great timing for us. First of all, the distribution of funds could be done in a number of ways, and we don't know exactly how that's going to happen. We will know as of September when that disbursement is intended to occur or at least the announcement of how it's going to be happening.

But look, we are well positioned to help organizations manage the receipt of those funds, whether it's for immediate use or whether the funds need to be placed in ways that will cause the use to occur over time. This is not inconsistent with what we have done in the past. We moved large sums of money in laddered fashion for our union clients over the last year or more using different tranches of treasuries to maintain liquidity when the customer needed it. In that sense, it's much like the work we've already done.

In addition to that, the political group that we have developed came out of the White House and has been very tuned into the IRA for quite some time now. The advantage we have is that we know most of the awardees well, either they are customers or they're a part of, I would call them, coalitions, or groups, which have been formed. That group is a new one, but it's made up of a number of green banks, within which we've done business. An example of one that's been announced is the coalition of Green Capital. They're the aggregator of green banks. Again, that's a community we work well with.

The advantages for us, in addition to the fact that we know a lot of these clients and have been helpful to them as they've gone through this process, we have a unique understanding of the renewable energy financing programs and methods. We would like to continue to advise them, and we think we'll have a differential advantage in doing so. Really excited about that. We think it's going to be fun to deploy these assets in ways that both fulfill the mission and help grow the bank.

Alexander Twerdahl

Okay. It sounds like we’ve got a really wait till September to find out some of the specifics. But would you say that they could be balance sheet opportunities for Amalgamated or is it mostly just partnership?

Priscilla Sims Brown

No, no, no. I think there's opportunities both in deposits, depending on how these funds are going to be dispersed as well as financing opportunities for us as well. It's $20 billion that's been announced thus far. There's another $7 billion to be announced. As we go down the line, there will be other activities.

Alexander Twerdahl

Okay. We'll wait to see how that progresses. Then I wanted to ask, and maybe this is kind of a stupid question, but when we think about the deposits that are off-balance sheet right now. Being the more transactional political deposits, should we think of those as the first line of defense for the political deposit outflows that we expect in the second quarter so that maybe those political deposits start to decline towards the end of the second and into the third quarter, but the actual deposits on Amalgamated’s balance sheets really aren't impacted?

Priscilla Sims Brown

I'll take first part of that. One way to think about that is we have planned for this political deposit outflow. If you look at what's happened over the last couple of quarters, you'll see that you've seen deposits grow not only in political, which we consider to be somewhat transactional, but also deposit growth in our core areas and other parts of the business and in other segments.

Jason Darby

Yes. Alex, you're thinking about it similar to the way we are in the sense that the off-balance sheet deposits likely would be the first line of defense for the inevitable outflow of these political deposits, the closer we get to the conclusion of the election cycle. That said, we still have the ability to time or advance some borrowings paydowns, and we may choose to do that first, in which case, you could see deposits on-balance sheet being used to support political outflow. But given the nature or the size of the off-balance sheet deposits right now and the relatively low amount of wholesale funding that we would have able to be paid off here in the second quarter, it's very likely that the first line of defense will be the off-balance sheet deposits to support the initial outflow of the political deposits.

Alexander Twerdahl

Okay. That's great. Then just a final question, just to dig a little bit more into the multifamily, and I appreciate all the additional disclosure that you guys provided this quarter. When we think about the mission aligned portion of multifamily, can you help us think about that a little bit more and maybe some of the factors that would differentiate what Amalgamated has on its balance sheet and the types of new multifamily loans that Amalgamated is making today versus maybe the overall perception of what's happening in the market?

Jason Darby

Sure. The mission aligned nature of our business lends itself mainly to relationships and our ability to really understand the clients that we're lending to, that we’re doing business with, and being able to better understand also the financing requirements of these organizations.

Now at the same time, we've certainly identified asset classes that have less restriction relative to rent stabilization rules versus greater. We've spent a lot more of our time in the recent years lending into 421a style buildings, Section 8, those that have greater abilities to have support for repayment streams and a little bit less on some of the more onerous pre-1974 rent regulations.

But to maybe just roll the answer up more succinctly. I just think it's really relationship driven, knowing who your customer actually is, knowing what the financing requirements are before getting into the transactions and being very acutely aware of where the regulation sensitivities are and trying to lend away from areas where we have free market constraints and really stay more in areas where we have the ability to gain competitive market on the particular assets that we invest in.

Alexander Twerdahl

Okay. That's helpful. Thanks for taking my questions.

Priscilla Sims Brown

Thanks, Alex.

Jason Darby

Thanks, Alex.

Operator

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

Janet Lee

Morning.

Priscilla Sims Brown

Good morning.

Janet Lee

Appreciate all the comments on your multifamily portfolio, but if we can go back to what happened in the first quarter. Can you just walk us through how much of your rent-regulated multifamily portfolio might have come due and got refinanced or paid off, how much you have to modify and extend if any, because they weren't getting refinanced?

Jason Darby

Sure. It wasn't an incredible amount. It was under $25 million that came due in the first quarter. We've got about $63 million of the pre-1974 multifamily real estate assets that are going to come due between now and the rest of the year. On average, it's about $100 million or so per year, which is fairly consistent with the runoff chart that we've had in the past, Janet. There wasn't any significant concessions that we had to make in any of the refinances that we made in this particular quarter, it was fairly neutral in terms of being able to roll those assets over. I give a lot of credit to the fact that there were strong LTVs on the properties already. The borrowers had the ability to put cash into deals where needed. We had been in touch with the borrowers long before the renewals were set to take place. There weren't any surprises with regard to anything in the first quarter for us.

Looking outward, we see a very similar track. We have identified individually all of the credits, obviously, that we're going to be renewing. We've been in conversation with all of those borrowers where there is potential stress in some of these deals. We've been working on various arrangements to help the borrowers stay in their properties and keep the cash flow moving for the bank.

Again, we're aided by just a really nice profile relative to as underwritten DSCRs and lower LTVs, maybe than other peers are experiencing. Overall, we're in a pretty decent spot. We're certainly aware that there's risk and we're managing towards that. We did a little bit of reserve buildup in our multifamily portfolio just to account for the general environment relative to the multifamily or the real estate profile in general for metropolitan banks. But none of our reserve build was really related to anything specific. It was more just a reaction to the general environment.

Janet Lee

Okay. Got it. Basically, is it fair to say, if I look at your criticized and classified balances only looks like it's only $10 million, no past due or NPLs in that part of the portfolio. You built reserves, but still at 38 basis points. Are you basically saying this is just a reflection of higher rates for longer and not an expectation for like lost content coming?

Jason Darby

Not an expectation for loss content, and your observation of the asset facts from a non-performing and from a criticized asset and past due point of view are accurate. We just haven't really seen the loss rates in our actual portfolio, maybe that has been reflected in other reporting for other institutions. That said, we've also seen fairly stable past-due performance. We did have a blip at the end of the fourth quarter, and we had communicated that was a documentation issue that has returned to current status, and you see that in the first quarter numbers.

But it's really just a reflection of the current market environment. As you point out, we think that the interest rate environment will probably remain in a higher state than maybe was originally being thought of earlier in this particular year. We just felt it would be prudent to have a little bit more reserve on our books at this particular time. But we feel good about the assets that we have, and we feel really good about what's coming due through the maturity schedule and that we have a good plan of action to be able to manage the assets appropriately.

Janet Lee

Okay. Great. Back to comment about bringing in lower cost for deposits to plug the hole of expected political deposit outflows in the second half. How much are we thinking here? Traditionally, you guys have tapped FHLB, what gives you better confidence this time around? Besides political, where specifically are you seeing growth momentum in deposits picking up of all the niche segments?

Jason Darby

Sure. I'll go in reverse for the questions, Janet. Forgive me if I miss one, I may ask you just to refresh me on it. But the growth in the other deposits, we see the social advocacy and not-for-profit really leading the charge in terms of new deposit attraction. We're also seeing some fairly substantial wins in our union-based business. We saw a little bit of that last quarter, and that had fairly sizable balances, but those tend to take a lot longer on the cycle for new account generation. I wouldn't expect we're going to see a tremendous amount of new union deposits throughout the year.

That said, we are seeing increased balances as well from our existing union clients. Taken as a whole between social advocacy, not-for-profit and union, that's where we're seeing the majority of the non-political deposit growth occurring.

Forgive me Janet, what was the first part of the question on the political, just was it outflows and what we should expect to see?

Janet Lee

Yes. How much are we thinking in terms of being able to plug that hole of expected political deposit outflows, any like any way to quantify or in terms of like the magnitude?

Jason Darby

It's difficult to really predict it at this point in time. What I can say is a little bit about what we've seen in the past and really where we target. Generally speaking, we target between $500 million and $600 million of funding requirements in the fourth quarter of an election year to plug the hole, if you will, for deposits that would lead to support these campaigns. That really is a back-in number that depends upon how well we did relative to our political targets to begin with in addition to how well or how close to plan we are with our other non-political deposit segments.

Where we are right now is we are ahead of plan fairly well for both the political deposit gathering and the non-political. Where we come in now, we're about $1.4 billion, maybe even a little bit over midway through April on political deposits, that certainly exceeded where we expected to be at this point. That will probably mean we're going to end up having more outflow, but it's really, again, difficult to say how things are going to ultimately end up. But all that equal, the other deposits, the non-political deposits are also proceeding ahead of our plan as well.

Now, if we're able to stay on this particular pace, we would think it would be—likely we would not need to use $500 million or $600 million of wholesale funding to plug the deposit outflow, it may be some number less. I don't really know, Janet, I don't have a good number to give you at that point in time. But it's also very much what factors into our conditional balance sheet growth strategy for the back half of the year. As we get more clarity a little bit further into this year, we'll be able to communicate a little bit better and you might even see that end up in balance sheet growth manifestation as well.

Janet Lee

Got it. If I can add just a final question. Since you guys are approaching that 8.5% Tier 1 leverage target, how should we think about buyback in the second half of 2024?

Jason Darby

For stock buyback, yes, it's always an arrow in our quiver. We will look at the situation as it presents itself relative to the market value of the stock at a particular point in time relative to the book value of the Company. As we approach that 8.5% Tier 1 leverage, we're certainly seeing a corresponding increase in tangible book value. We know that we're ready and able to step into our stock whenever we feel that it's not appropriately valued. The other thing in our capital building plan, we do allow for a provision for stock buyback. As we go to that 8.5% lever, we're not constrained in any way in terms of being able to perform buybacks within a quarter and still try to achieve that target. That's generally how we look at it, and it's very much a as the world turns type of scenario.

Janet Lee

All right. I'll step back. Thanks.

Jason Darby

Thanks, Janet.

Priscilla Sims Brown

Thanks, Janet.

Operator

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

Christopher O'Connell

Hey Priscilla and Jason. Just wanted to quickly circle back to the multifamily. I appreciate all the commentary so far. There was some growth this quarter. Was that growth in rent-regulated segments? Or is that or what segment was it in?

Jason Darby

Yes. It's generally in the 421a or the Section 8 housing, I shouldn't even say generally, it's majority, if not all, in those particular sections where I mentioned earlier. Really trying to navigate some of the free market restrictions with what the assets are that we put on the portfolio. We're spending more time in the space where we can get some better market opportunity for ourselves and also for, of course, the borrowers.

Christopher O'Connell

Got it. To the extent that you're putting on growth in those segments going forward or maybe even just using the Q1 actuals as an example, what are the credit—general credit metrics that you're looking to target in terms of what's the yield on it, what's the debt service coverage ratio, and what are the LTVs? Are they higher than they've been in the past, given some of the stresses?

Jason Darby

Yes, we certainly are looking at credits with a sharper eye. Also, we've been more conscious of what we're allowing to make its way into our pipeline. I don't think on balance we'll have the same type of net loan growth numbers in the real estate portfolio this year that we had in last year. But we still think that there's really good opportunities to put on quality assets. We talked a moment ago about doing some 421a in Section 8 style housing loans. There's also great opportunities in the industrial asset class as well. Thinking about LTVs and DSCRs ,we have a standard for DSCRs, and I would generally think of now as 1.3 is a measuring stick for what we think makes a good credit for the time being.

On market rates, we've said this multiple times. We really want to be at where market pricing actually is, we could see things in the 6.5% range. We can see things maybe a little bit below if there's quality deposits that help us hurdle a little bit better in terms of our returns. From an LTV point of view, really thinking somewhere in that 55% range, 60% range, somewhere in that range are the standards that we're really looking at today. Those things could change over time. But right now, given the environment we're in and the way that the bank is trying to protect its balance sheet and its risk profile, that's pretty much where we're at in terms of new deal flow.

Christopher O'Connell

That's helpful. What are the market rates generally that you guys are seeing out there right now on that?

Jason Darby

We're seeing things—it's moved around a little bit, but we're seeing things between as low as 6% and we're seeing things in the 6.5%, 6.7% range as well.

Christopher O'Connell

Got it. When you've looked at these recent deals and you've gotten the updated appraisals, just generally, do you have a sense of how much they were down from when they were last appraised?

Jason Darby

I don't have a great number to quote for you. Our overall average or weighted average DSCRs have risen a bit. Generally, we used to be in the high 40s to low 50s. I think we're now up in the high 50s and low 60s in certain LTVs. We still feel really good about our LTV profile, but maybe that gives you an indication of the erosion of LTVs from a market point of view, at least from what we've seen.

Christopher O'Connell

Great. Then you mentioned the PACE production increase in Q2. Is the $20 million to $25 million increase over Q1 production? Or was that the targeted total production in 2Q?

Priscilla Sims Brown

Yes. Generally, production is for 1Q slightly lower than the mid-30s production we typically had. But what's also different is that there was generally around $5 million to $8 million, I think Jason, of paid down to those. This time it was up to around 17%. The net number difference that you're seeing reflects both sides.

Jason Darby

Right. To talk about what you should see in Q2, Chris, I think it would be around $20 million, $25 million net production, not in addition to the $10 million that we did in this particular quarter, as Priscilla was mentioning a moment ago. The originations, we think there's a couple of good opportunities for us to add some additional purchases outside our normal production provider to make sure we're at our $20 million, $25 million net target for Q2.

That's really on the R-PACE side. We still have good opportunities in our pipeline for C-PACE that we could see flowing through as well. When I talk about those numbers, and Priscilla mentioned it in her comments as well, we're really referring to the residential PACE as those quoted volumes of $20 million to $25 million. Anything from the C-PACE would be incremental to that PACE number that we just talked about.

Christopher O'Connell

Great. You mentioned some of the securities movements in Q1. What was the amount sold in purchase?

Jason Darby

Yes. We did $128 million of purchases during the quarter, and we had that largely offset by sales of about $75 million, which is a little bit more aggressive than we normally do, but we had the ICS income to offset that with. We also had our normal $50 million of paydowns or so. We got a little bit more active in the securities market really to augment the loan production that was a little bit muted during the quarter and rightfully so, and I don't think was an outlier relative to any other bank.

But we did want to make sure we put some of the liquidity that we had to work in shorter-term securities. We have that really planned to largely be either available to us through maturity or through sale by the end of this year to help with cash flow needs relative to the political deposit outflows. More importantly, though, just taking advantage of this really unique opportunity we have with the ICS income that's coming in through our off-balance sheet strategy to match off as much as we can on the securities portfolio for sales and repositioning and really help us work on our sensitivity to down interest rate scenarios.

Christopher O'Connell

Yes, makes sense. Do you have the yields on what was purchased versus sold?

Jason Darby

The purchases were coming in roughly around 6%, a little bit higher, call it, 6% to maybe 6.25%. We largely focused on fixed rate assets, again, talking about that down rate sensitivity profile. We could have clipped a little bit more yield on floaters, but in this particular environment, we really want to be in the fixed market. On the sales, I don't have an exact number for you other than it had a nice impact on the unrealized mark that was going through the AFS portfolio. The yields about 4.9%, 5% somewhere in that range, Chris, for the sales, somewhere in that range.

Christopher O'Connell

Okay. Great. That's helpful. Then on the specific reserve, there's $1.6 million increase in those provisions in the quarter. What types of loans were those related to?

Jason Darby

Yes, really came through on two loans. One loan was a construction loan that we had been watching for a bit, and we ended up taking about $850,000 or so on that particular credit. It's had some issues. We've been watching it. We think there might even be another leg down on this that's coming up. It's a little bit more to come. But we took about a third of the principal balance in specific reserve on that particular credit.

The other was a C&I loan that was for about $1 million in principle balance, and we saw that one rather quickly move into a deteriorated state where we really couldn't find a good way out. An unfortunate credit, but small relative to our overall portfolio size. The upside on that is there isn't another credit, at least that we've seen right now, that's moving in that direction with that type of speed. It's really those two credits, and we felt it appropriate to put those reserves on.

Christopher O'Connell

Great. Then you mentioned another C&I loan that was upgraded. Could you just walk us through the dynamics that played out there?

Jason Darby

I don't have a lot of specifics for that other than we are pretty active in our portfolio management. Any credits that have made their way back into an upgrade, generally speaking, have not needed the bank to step into the deal and make a modification. It doesn’t say it doesn't happen ever, but in this particular case, it's really a question of the borrower working on their business the right way, spending their adequate amount of time to generate the cash flows necessary to meet our reporting metrics and putting enough time into that level of performance where the bank is comfortable with an upgrade.

What I can say specifically, though, is we take upgrades very, very seriously. As I hope most banks do. It's not an easy process for us to upgrade a credit because we have a lot of expectations on the borrowers to adhere to the covenants or to adhere to the metric standards that have been put into the deal. But when the borrowers have reached those particular measures and they've been able to demonstrate history with meeting them, we are very fair in being able to upgrade those. We feel good about being able to report them as not only upgradable but able to remain in an upgraded status.

Christopher O'Connell

Awesome, thanks for all the color. Great quarter.

Jason Darby

Thanks, Chris.

Priscilla Sims Brown

Thank you.

Operator

Thank you. There are no further questions at this time. I'd like to turn the floor back over to Priscilla Sims Brown for closing comments.

Priscilla Sims Brown

Thank you, Operator, and thank you all for your time today and your continued interest. We appreciate your questions. We know we're going to get more after this call, and we appreciate those in advance because we enjoy talking about these first quarter results because they demonstrate the strength and competitive advantages that Amalgamated enjoys as we look to the balance of the year.

This is an exciting time for Amalgamated as we reposition our balance sheet to drive margin expansion, improve capital and a foundation for continued earnings growth. Our deposit franchise continues to deliver strong inflows across our key customer segments where we are uniquely positioned to win. Importantly, we are optimistic that inflows can mitigate the eventual outflows of our political deposits, which we discussed today, and which could provide a source of margin upside as we look to the end of the year. Additionally, we're beginning to see monies released from the Inflation Reduction Act, which will provide growth opportunities for our sustainable lending franchise where we are a leader.

As we replace older, lower-yielding loans and securities with higher yielding sustainable loans, we expect a powerful mix shift in our balance sheet and further improved profitability. I couldn't be more excited with what the future holds for Amalgamated, our shareholders and our customers. Thank you again for your time today. Operator?

Operator

This concludes today's teleconference. You may disconnect your lines at this time. Thank you for your participation.