amalgamated FINANCIAL CORP.

Second Quarter 2023 Earnings Call Transcript

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CORPORATE PARTICIPANTS

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CONFERENCE CALL PARTICIPANTS

Alexander Twerdahl, *Piper Sandler*

Janet Lee, *JP Morgan*

Christopher O'Connell, *KBW*

PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to the Amalgamated Financial Corporation Second Quarter 2023 Earnings Conference Call. (Operator Instructions)

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 second quarter 2023 earnings call.

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

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

Before we begin, let me remind everyone that this call may contain certain statements that constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. We caution investors that actual results may differ from the expectations indicated or implied by any such forward-looking information or statements. Investors should refer to Slide 2 of our earnings deck, as well as our 2022 10-K filed on March 9, 2023, 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'll 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 appropriate or 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.

Now that we are a few months out from the banking events that occurred in early March, things have begun to return to the new normal environment of fierce competition for deposits, higher for longer interest rates, metropolitan office credit concerns, and more. We have been operating our business from a position of strength. Demonstrating agility, and the flexibility of our strategy, we quickly pivoted to a modified growth strategy centered on a flat balance sheet and building capital.

Loan growth is still expected, funded mainly from runoff of our securities portfolio, as is preparing our balance sheet to accommodate growing political deposits as the next presidential election cycle begins in earnest.

Despite nagging headline activity in the banking sector, I believe there's reason for optimism. The economy has proved quite resilient, inflation data has improved, large and medium bank earnings have been in line, and investors are starting to move back into the banking sector. At Amalgamated, it's a very exciting time as our differentiated, yet simple model, uniquely positions us to win.

Given that you've had our material financial information for almost two weeks, I'd like to spend our time together talking about three keys to our continued future success, those being our deposit franchise, our lending segments, and our earnings potential.

Our deposit franchise features an industry leading cost of funds and customers that have banked with us for decades given our shared values and union heritage. Given the strength and longevity of our customer relationships, we introduced a designation last quarter called super-core deposits in order to provide more transparency into our deposit base. Our super-core deposits come from loyal customers that bank with Amalgamated for more than five years, and cumulatively represent approximately $3.6 billion or 54% of our core-deposits at the end of the second quarter. These customer relationships have been with us for more than 17 years on average. When thinking about a bank's deposit stability, our super-core deposits are an incredible advantage, one earned from over 100 years of relationship-based banking.

Another deposit-based advantage for Amalgamated is our political banking franchise, which we began developing nearly a decade ago. We uniquely understand the needs of our political customers and our ability to execute on the demands of the most sophisticated campaign finance professionals sets us apart. Our political deposits balances trend with major election cycles and normally rise leading up to an election and then decline in the quarters near its conclusion. We experienced this once again following the midterm elections last November. As national election cycles have greatly lengthened, we are now in an accumulation phase boosted by the onset of presidential candidates announcing their intentions to run during the quarter.

Through the second quarter, we have seen a strong inflow of deposits from politically active customers as the election cycle begins to gain momentum. We anticipate these political inflows to continue through the balance of the year and into next year, which is a powerful driver for our bank. Our political franchise is a big contributor of non-interest bearing deposits as funds are largely in DDA accounts given their lifecycle, and this helps to mitigate the rise in deposit costs and add flexibility for us as some of our customers deposits move off balance sheet into our treasury investment services where they seek higher yields in the current rate environment.

Overall, we are maintaining our non-interest-bearing deposits and mitigating the rise in funding costs, all while reducing our uninsured deposit balances, which is quite an accomplishment given the current market backdrop.

Shifting to our lending segments, we spent much time discussing the expansion of our banking team over the last two years, which has driven a notable acceleration to loan growth and loan yields. This has provided an important lift to the earnings power of the bank. One area that I would like to spend more time on today are the initiatives we have around sustainable lending. This is a growing industry where it is estimated that $3 trillion of investment over the next 10 years is necessary for the U.S. to achieve the goal of net zero emissions by 2050. This is a significant market opportunity, which we believe will grow through economic cycles, given the importance, urgency, and the momentum to address climate change.

We have deeply experienced bankers in sustainable lending with customer relationships across renewable energy, energy efficiency, battery storage, and PACE to name a few. Our team includes recognized industry thought leaders and sustainable lending experts who help drive the dialogue around financing and source significant opportunities. More importantly, we have the sophistication to prudently underwrite emerging technologies. This leads directly into our future earnings potential.

As we continue to demonstrate our expertise and sustainable lending, we are going to drive a powerful mix shift in our balance sheet as we replace lower yielding loans and securities with higher yielding sustainable loans. It's important to remember that we are still turning over an older balance sheet as our lending strategy is just in its early innings. As lower yielding multi-family loans and securities roll off our balance sheet over the next 12 to 18 months, we should experience a strong lift in yields, and as a result, margins, and earnings.

Paired with our already strong and well protected earnings stream, our ability to grow net interest income next year and maintain a margin over 3% is encouraging, with great opportunity for margin to expand if Fed interest rates normalize around a lower terminal rate.

To conclude, we are running our bank and leading on issues we care about. In April, we hosted the Global Alliance for Banking on Values Annual Meeting in New York City. Over 200 people attended, spanning a range of international bankers, impact investors, customers, and software providers to discuss using finance to deliver sustainable economic, social, and environmental development. As our presence in this area grows, so will our business. We are America's socially responsible bank, and we're glad the people are starting to notice. In the end, results are what matters. Results for shareholders, for customers, and the communities we serve. Our second quarter results clearly demonstrate the strength of our customer relationships as well as the significant opportunity that we possess to drive earnings growth for many years to come.

Let me now turn the call back over to Jason, to provide a review of our second quarter financial results.

Jason Darby

Thank you, Priscilla.

Net income for the second quarter of 2023 was $21.6 million or $0.70 per diluted share compared to $21.3 million or $0.69 per diluted share for the first quarter of 2023. The $0.3 million increase for the second quarter of 2023 is primarily a result of a $2.7 million increase in non-interest income, a $1.1 million decrease in provision expense, a $1.1 million decrease in non-interest expense, mostly offset by a $4.3 million decrease in net interest income, and a $0.2 million increase in income tax expense.

Beginning on Slide 5, there were no exclusions related to solar tax equity investments for the second quarter of 2023. Because of the income statement volatility associated with the accounting for these investments, we believe metrics excluding the timing impact of tax credits or accelerated depreciation is a helpful way to evaluate our current and historical performance. Core net income, excluding the impact of solar tax equity investments, a non-GAAP measure, for the second quarter of 2023 was $22 million or $0.72 per diluted share, compared to $23 million or $0.74 per diluted share for the first quarter of 2023.

Turning to Slide 7, deposits at June 30, 2023, were $6.9 billion, a decrease of $146.7 million from the first quarter of 2023. While deposits excluding brokered CDs remained essentially unchanged at $6.4 billion, demonstrating a strong and stable deposit base. Through July 21, 2023, total deposits have decreased by approximately $197 million to $6.7 billion, which importantly includes a $242 million decline in brokered CDs previously utilized to replace the political deposit outflows that we experienced in the fourth quarter last year.

Excluding brokered CDs, total deposits have increased by $46 million. Excluding brokered CDs again, non-interest-bearing deposits represent the 48% of average deposits and 46% of ending deposits for the quarter ended June 30, 2023. Contributing to an average cost of deposits of 87 basis points up 26 basis points in the previous quarter as we continue to attractively price our deposits to retain our customer base. Our total cost of deposits, including brokered CDs, was 110 basis points in the second quarter of 2023, a 29 basis point increase from the previous quarter.

Moving to Slide 8, our high-quality super-core deposit base totaled $3.6 billion. Our super-core deposit base uniquely displays important insight into our impact customer segments. At quarter end, total uninsured deposits were $3.9 billion or 57% of total deposits, an improvement from $4.4 billion or 62% during the first quarter of 2023. Excluding uninsured super-core deposits of approximately $2.5 billion, remaining uninsured deposits were approximately 20% to 23% of total deposits with immediate liquidity coverage improving to 183% from 137% in the prior quarter.

Consistent with prior quarters, we have maintained significant liquidity with cash and immediate borrowing capacity of $2.6 billion and $758.3 million of two-day capacity from unpledged securities, resulting in $3.3 billion of total two-day liquidity. Our liquidity covers 85% of our uninsured deposits, an increase from 79% of our uninsured deposits in the prior quarter. Again, excluding super-core, our liquidity covers 183% of our uninsured deposits.

Turning to Slide 9, our core-deposit base continues to show stability and resiliency during the first full quarter following the recent bank seizures. Importantly, our political balance flows have begun accumulating as the next election cycle gears up, and we have seen a nice acceleration through the second quarter and into July.

Taking a closer look on Slide 10, deposits held by politically active customers were $835.8 million as of June 30, 2023, an increase of $157.7 million on a linked quarter basis. As noted, we expected political deposit flows to rebuild in the second quarter of 2023 following the typical pattern of seasonality. Additionally, we've experienced $11.2 million of incremental political deposit inflow through July 21, 2023.

Jumping ahead to Slides 13 and 14, the book value of our investment securities portfolio decreased $12 million during the quarter, primarily as a result of $29.5 million in strategic sales and $46.2 million in traditional securities pay downs, offset by $41.4 million in net PACE assessment growth. Floating rate represented 46% of total securities, excluding PACE assessments at the end of the quarter, a 1% decline from the prior quarter, as we have modestly reduced that ratio over the past several quarters to protect our earnings stream.

Our unrealized loss position and are available for sales securities portfolio is $128.1 million or 7.5% of the total portfolio balance. Importantly, our AFS portfolio duration was only 1.9 years, reflecting our conservative investment decisions.

Turning to Slide 15, total loans receivable net of deferred fees and costs at June 30, 2023, were $4.3 billion, an increase of $53.5 million or 1.3% compared to March 31, 2023. This increase in loans is primarily driven by $32.9 million increase in multifamily loans, a $25.6 million increase in commercial and industrial loans driven by our climate and sustainability loan segment, and a $5.9 million increase in the commercial real estate portfolio, offset by a $1.6 million decrease in residential loans, a $9.2 million decrease in construction loans, and an $8 million decrease in our consumer loan portfolio.

During the quarter, we had $5.2 million of improvement in criticized or classified loans, including a payoff on a $3.8 million office related loan, as we continue to focus on improving the credit quality of the bank's commercial real estate portfolio. The yield in our total loans was 4.33% compared to 4.40% in the first quarter of 2023. The loan yield decline was mainly attributed to the charge-offs or payoffs of higher rate consumer solar loans.

Our commercial real estate portfolio has been a portfolio that we have been de-risking for the past several quarters. At quarter end, we had $66 million in office-only exposures across six credits with an average LTV of approximately 37%. Of the six credits, all are past grade with the exception of one special mention. Additionally, a $1.3 million commercial real estate loan that was considered non-performing for documentation purposes at the end of the first quarter, was returned to current status in the second quarter.

On Slide 16, net interest margin was 3.33% for the second quarter of 2023, a decrease of 26 basis points in 3.59% in the first quarter of 2023. The expected margin compression was largely due to increased rates and higher average balances of interest-bearing liabilities, particularly interest-bearing brokered CDs and savings now and money market deposits as we continue to focus on deposit retention, partially offset by continued loan growth, particularly within our climate sustainability segment, which garner attractive yields at a premium to our traditional legacy sectors. No prepayment penalties were earned in loan income in the first or second quarter of 2023.

On Page 17, core non-interest income, excluding the impact of solar tax equity investments, a non-GAAP measure, was $8.2 million for the second quarter of 2023 compared to $7.5 million in the first quarter of 2023. The increase of $0.7 million was primarily related to increased income from equity investments, higher trust department fees, and fees on treasury investments for certain clients seeking alternative yields to deposit pricing.

On Page 18, core non-interest expense, a non-GAAP measure, for the second quarter of 2023, was $37.2 million, a decrease of $1.4 million from the first quarter of 2023. This was in line with the expected non-interest expense range provided on last quarter's call and was primarily due to a $0.8 million decrease in compensation and employee benefits given the timing of payroll taxes and corporate incentive payments, as well as temporary personnel costs and benefit insurance costs incurred during the first quarter of 2023.

Additionally, advertising expense and data processing expense decreased during the quarter, offset by increased reserves for FDIC depository insurance and increased professional fees. Going forward for the remainder of 2023, we anticipate our non-interest expense to trend similarly.

Moving to Slide 19, non-performing assets total $35.3 million or 0.45% of period end total assets at June 30, 2023, a decrease of $3.4 million compared with $38.7 million or 0.49% on a linked-quarter basis. The decrease in non-performing assets was a result of the Silicon Valley Bank senior note that was placed on non-accrual in the first quarter, which was subsequently sold in the second quarter, and a $1.3 million commercial real estate loan that was brought current in the second quarter.

Additionally, a $1.7 million commercial loan was charged off in the quarter, which was substantially reserved for during the second quarter of 2022, offset by an additional $1.4 million in retail loans that were placed on non-accrual status. Our criticized assets decreased $6.4 million or 6% to $103.9 million on a linked-quarter basis.

On January 1, 2023, the current expected credit loss or CECL methodology for establishing the allowance for credit losses was adopted, which increased the allowance for credit losses on loans and securities for on and off-balance sheet credit exposures. During the quarter, the allowance for credit losses on loans remained essentially flat with an increase of $0.1 million to $67.4 million at June 30, 2023, from $67.3 million at March 31, 2023. The ratio of allowance to total loans was 1.59% at June 30, 2023, and 1.61% at March 31, 2023. The ratio of allowance to non-accrual loans was 200.19% at June 30, 2023.

Provision for credit losses totaled $3.9 million for the second quarter of 2023 compared to $5 million in the first quarter of 2023. The decrease in provision was mainly attributable to the previously mentioned impairment charge on the SIVB senior note during the prior quarter, which was subsequently sold in the second quarter.

Continuing to Slide 21, our core return and average equity and core return and average tangible common equity, excluding the impact of solar tax equity, were 16.8% and 17.3% respectively for the second quarter of 2023. We repurchased $2.2 million of our common stock during the second quarter and have $23.5 million of remaining capacity under our $40 million share repurchase program. Additionally, we have declared a quarterly dividend of $0.10 per share.

As previously noted, we continue to closely manage our capital position based upon the state of the current economic environment and in the wake of the banking sector volatility. As a result, and as shown on Slide 22, our tier one leverage capital ratio improved 28 basis points to 7.78% as compared to the linked quarter, primarily driven by our strong quarterly earnings.

Slide 23 shows a reconciliation of the change in tangible common equity and related tangible book value. As expected, the Federal Reserve Board raised rates 25 basis points in May, held rates unchanged at its June meeting, and raise rates again, 25 basis points yesterday. Our expectation is for at least one more 25 basis point increase this year, though remaining higher for longer with potential interest rate reductions to occur during 2024. As a result of our $21.6 million quarterly earnings partially offset by a $7.9 million increase from the previous quarter in the tax affected AFS mark-to-market adjustment, as well as share repurchase activity, our tangible book value per share, a non-GAAP measure, improved to $16.78 as of June 30, 2023, as compared to $16.42 in the prior quarter.

We also remain pleased with our tangible common equity tangible assets of 6.59% for the quarter in comparison to 6.43% from the previous quarter. We remind investors that we publicly set a general tangible common equity minimum of 6% back in the second quarter of 2022, and we have never been below that target.

During the second quarter, we achieved net loan growth of 1.3%, which was a bit below our anticipated target of 2% to 3%. However, we believe this is reflective of our selectivity and desire for relationship lending. Additionally, we took advantage of a strong PACE assessment origination environment growing our portfolio nearly 6% during the quarter. As a reminder, growth and loans and PACE assessments are primarily expected to be funded by reductions in securities.

Turning to Slide 24, we note that the high degree of economic and banking industry uncertainty makes projections more difficult, but we have maintained our full year 2023 guidance as follows: core pretax pre-provision earnings ex-solar of $133 million to $140 million, and an interest income of $248 million to $255 million, which considers the effect of deposit migration to interest bearing and the forward rate curve for the remainder of 2023. Going forward, we estimate an approximate $0.5 million decrease in annual net interest income for a parallel 25 basis point increase in interest rates.

To conclude, our focus remains on equally growing our capital position, curtailing potential borrowings and balance sheet leverage, and managing expenses. We do expect our net interest margin to compress by approximately 5 to 10 basis points in the near term as pressure on our cost of funds continues. As a result, we anticipate interest income to decline slightly to approximately $61 million to $62 million in the third quarter of 2023.

Looking-forward, we'll continue to protect existing deposits and work to attract new deposits to reduce our borrowings and provide liquidity to support our growth for good strategy. Our results this quarter demonstrate the strength of the bank, as well as the mission-based differentiation that we share with our customers and communities.

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

Operator

Thank you. Our first question is from Alex Twerdahl with Piper Sandler. Please proceed with this question.

Alexander Twerdahl

I first want to hone in a little bit on this $3 trillion of spending that you alluded to in your prepared remarks. Priscilla, maybe if you could give us a little bit more about what's driving that. Is that public spending or private sector spending and sort of the types of loans and really what you guys are doing. Obviously, sustainable lending has been a big part of your model, but sort of specific things that you've been doing recently to make sure that you get more than your fair share of the lending opportunities associated with that spending.

Priscilla Sims Brown

Yes, thanks for bringing that up. The number comes from external research on the topic, and it's really just a mathematical calculation of what it will take for U.S. companies to achieve the stated goal of getting to net zero by 2050. We see the opportunity in just continuing to do what we do. We're not looking to expand very far beyond that, but as you know, we've done quite a lot in this area already. We have one of really the world's, certainly the country's, most engaged experts on some of these topics on our team as well as bankers, underwriters, and portfolio managers who understand this business. We see a real opportunity to continue to do more of it.

Jason Darby

Alex, I'll add to that, it lines up closely to how we've already been going through our staffing model. I think the spend is a combination of public-private and again, as Priscilla mentioned, through external research. The things that Amalgamated does well from a banking point of view, is probably being mainly in the electrification space, energy efficiency space and battery space, those are sort of the leading areas in terms of where the investment is going to go first, at least that's what we think. We have bankers that have already been aligned along those segments.

We've talked about that a bunch, our ability to have expertise in that area, our ability to have been there first and our ability to have great referral sources, we think will give us a good position to really win. As we've talked about before, we think the margins are good on these particular asset classes, and we think that there's going to be a really good opportunity for us to turn over our balance sheet and move into these asset classes as the quarters and years go by.

Priscilla Sims Brown

The only other thing I'll add to that is I should have mentioned, obviously the IRA is a good step in the right direction, but by all accounts, this is only going to get us as a country only about a third of the way to that goal as well. To Jason's point, it is public and private that'll be required to make it happen.

Alexander Twerdahl

Got it. Then, maybe you can talk a little bit more about that sort of mix shift that you alluded to as well, the multifamily coming off, the pace in which we might expect to see, some of that mix shift and how it could actually impact loan yields over the next 18 months.

Jason Darby

Yes, I think that's sort of a hidden or unlocked power, the bank's balance sheet and the bank's earnings potential. As Priscilla pointed out in her comments, it's still a bit of an older balance sheet. Our lending strategy is still relatively in its early innings. We had a nice start to it throughout last year, and obviously we've modified our growth approach throughout the rest of this year for reasons we've discussed in the past.

Again, if you sort of think about the earlier multifamily deals that are still on the books and the low spread or the low margin that's on those, some of the residential assets that'll continue to come off and our ability to play in the space of climate sustainability on the commercial side and having deals that'll price out around the 6.75% -7% range. There's a really good opportunity for us to see asset yield expansion as we get out into probably the early part of next year. Again, we're pretty excited about that and we think that we've spent a lot of time sort of preparing the balance sheet for this and we hope that the margin is going to benefit from it pretty greatly here as we get out into next year.

Operator

Thank you. Our next question is from Janet Lee with JP Morgan. Please proceed with your question.

Janet Lee

On that part about favorable remix over time, can you give us a sense of that yield comparison for different types of sustainable lending loans that you originate today versus conventional loans that are rolling off? I just want to see if there's any sort of data that you can provide us.

Jason Darby

The asset classes within sustainability and climate, again, we're seeing 6.75%, 7% type of yield opportunities. If you look at some of our more dated commercial loans on the multifamily side, some of those are still in the 4% range, 3.5% range. There's a good opportunity to find some spread there, Janet, but I don't have a specific quote for you other than you can really just think again about the aged nature of the balance sheet. We hadn't had really any loan growth on the book all the way up through 2021. We kind of sat at neutral from 2019 through 2021 in terms of loan growth, and then we started to pick that back up again in earnest when Priscilla arrived, and we developed our lending strategy. It gives you a little bit of a sense for the type of assets that are still in the books that are ready to roll off and the types of opportunities we have in our climate sustainability section.

Janet Lee

That's helpful. In terms of your NII sensitivity, going back to your $1.5 million comment. So, if the Fed lowers rates, you would benefit on the net interest income side from your asset sensitivity point of view?

Jason Darby

I think so. We're in a pretty neutral position right now, I don't think the benefit is going to be anything significant in the immediate term. I think over time we absolutely would benefit from it. The cost of funds are probably not going to drop as rapidly as the Fed rate goes down. In theory, the bank should benefit as rates decline over time, and I think we've done a pretty good job so far of protecting the earning streams in our static situation right now by not adding anything new to the books, we've got a well-protected earning stream, and as rates decline, we should see some benefit going forward.

Janet Lee

I know it's tough to guess, but is it fair to say that we're nearing the trough for your non-interest-bearing deposit outflows absent of seasonality with political deposits? Do you see a scenario where your non-interest-bearing deposits could continue to go down and dip below 40% of your total deposits?

Jason Darby

That's an interesting question. I suppose there's always that type of scenario. It's hard to predict what's going to happen in the rate environment going forward. Just looking at the churn that we had in the current quarter and having us only decline by about a percentage point on non-interest bearing from a mix point of view, we're not seeing below 40% at this point in time, but I think a 42% to 44% landing spot by the end of the year is a reasonable prediction. Again, it's a little bit of a guess because a lot is dependent upon the flow of the political deposits, which we saw really have a nice impact this quarter. At the same time, if rates stay higher for longer, over time we could see that ratio continue to drop. Right now, we're targeting between 42% and 44% for the end of the year.

Janet Lee

My last question. Can you give us more thoughts around your plan for share repurchases? Are you doing that as long as the buyback is accretive to book value or what's your plan around that over the near to intermediate term?

Jason Darby

I think we've really always stood out there with our repurchase authorization. I think we look for opportunities where we feel the price is attractive. Obviously, tangible book value is an important part of that calculus. It really, Janet, becomes a function of accretive value when paired against our stated desire to continue to grow our capital base. I think there'll always be some level of balance between the amount that we look to repurchase and our ability to continue to provide a building capital base, so that we can achieve a leverage ratio that we think is really appropriate for this bank to create optionality for growth going forward.

Janet Lee

What's the target leverage ratio for you?

Jason Darby

We want to be at 8% on a consolidated level at a minimum by the end of the year and continue to build that into next year. I'd like to see us somewhere around 8.5% by the middle of next year. The reason why I say that is, is twofold. Number one, I think it's appropriate to have a capital base at that level, but also, we want to make sure that we're not showing any type of unnecessary leverage drag as we get into the peak season for political deposit gathering as the as the presidential election will be nearing.

Operator

Thank you. Our next question is from Christopher O'Connell with KBW. Please proceed with your question.

Christopher O'Connell

Just wanted to start on the balance sheet and the securities portfolio. I think the AFS book was down about $55 million quarter-over-quarter, and I was expecting maybe a little bit more of a reduction given the short duration of the book. I think last quarter was mentioned there was about $50 million per month of out outflows in that portfolio expected. Just any reason why that was kept up a little bit larger this quarter.

Jason Darby

Yes, great question. Great observation. Really, we put one of our PACE pool purchases into available for sale. In this particular quarter, we wanted to have a little bit more flexibility to be able to move that asset class. That was the first purchase that we've ever classified as available for sale. It was about $20 million. That's probably the difference because the actual paydown on the traditional, we're really trying to make sure we get this terminology out of a traditional securities portfolio, which would exclude PACE. If you look at traditional AFS, we actually did have a decline excluding the mark of about $70 million, which should have tracked pretty close to the cash flow that we had talked about in previous quarters.

Christopher O'Connell

Okay, got it. That makes sense. On a go forward basis, how are you thinking about the traditional securities portfolio and how much those balances move in the back half of the year versus the PACE portfolio?

Jason Darby

I think they're going to move a bit in opposite directions. We still think PACE is a great asset class for us. It's highly credit secure, has really attractive returns and because people are staying in their homes given the current rate environment, the energy efficient improvement opportunities for residencies has greatly improved. We've benefited also from a consolidation in the market. Our providers got more access to originations and the flow opportunity for us is great. I think you'll see that continue to move possibly at the same rate as you saw in this current quarter, which is about a net of $40 million, $45 million somewhere in that range.

With regard to the traditional portfolio, we're going to see that continue to come down. We're not looking to add any positions in that particular portfolio from an agency or non-agency position. We're going to be using the cash flow to fund the growth. I think the $70 million that I quoted for you just a moment ago is a good way to think about that between the third and the fourth quarter in terms of a run rate. Again, a little bit of an opposite moving direction between PACE and traditional securities, but we do expect that to continue to run down and be the primary funding source for our origination side in lending and of PACE.

Christopher O'Connell

As far as the multifamily book goes, I know you guys are talking about running it down, but it was the biggest growth driver this quarter. Just maybe if you could break down where the loan pipeline is on various lending segments and just the decision to grow multifamily. I think it's up about $100 million or so this year versus what you guys are talking about with the rundown over time.

Jason Darby

Yes. I want to maybe make a quick clarification. I think the rundown or the de-risking we've talked about is mainly in our traditional commercial real estate portfolio and not specifically multifamily. I think for the commercial real estate, we're really looking at the portfolio that houses any type of office exposure or things of that nature. The multifamily, I think that's a spot where we wanted to see some growth and we talked about having that be one of our drivers for the year. I think we did about $32 million or $33 million net in multifamily. I think the good side of that story is that it really gets right into the sweet spot of the team that we brought over from M&T a while back. The originations are largely impact oriented in its workforce housing and has a really strong mission impact for us as well. And we're able to find pretty decent returns on these, and also it all allows us to continue to turn over that portfolio for some of the legacy assets that we've had.

I think what we were really trying to focus on was really reducing the commercial real estate side of our portfolio. I think we've done that to a large degree. We had a little bit of an uptick in that portfolio this quarter. We're not totally out of the asset class, we're just simply not looking for office-only related exposure. If we find a unique opportunity for us given some of our union roots, if we find a really strong opportunity to do an owner occupied commercial real estate type of deal that has a lot of security, a lot of deposits that might come with it, I think there's opportunities for us to be able to put that on the books and that's really what occurred mostly in this quarter. I hope that answered your question.

Christopher O'Connell

Yes, definitely. Of the multifamily that you're putting on what kind of origination yields are getting on those?

Jason Darby

They're coming in 5.75% to 6% right now, so we're getting a good clip. It's a little tighter, obviously, than what we could do in the C&I sustainability space and we're trying to balance out our capital allocation between good solid multifamily deals that have mission alignment and higher yielding C&I deals. I think what you're seeing from us is an opportunity to be really selective and basically take our time with making sure that we're putting on the right type of assets.

Christopher O'Connell

I was just surprised this quarter to see the loan yield move down a bit on a quarter-over-quarter basis. Any specific factors driving that? If you have any look into where you think loan yields could move in the back after the year, that'd be helpful.

Jason Darby

Yes, great question. It was a little surprising for us as well, not that it's something that we think is going to continue. I think it was really some discreet events that occurred within the consumer solar portfolio. I think first we made an accounting election change in terms of how we run our discount accretions on some of these portfolios, which lowered the yield a little bit in quarter, but you can see that as being something predictable going forward. It's not going to be another blip that way. That's the first piece of it.

Then I think the second was really related to some of the higher yielding consumer solar loans that we've had, the charge offs or the payoffs that were related to those clipped down the yield a little bit. We figure that blip really as an in-quarter event only in our mind, it is not really a continuing erosion as far as we see from our yield projections. All of the other asset classes that we have in our portfolio were up on average yield. You can get a sense for the balancing out effect of how the asset yields worked with one another in the quarter, Chris. I think where we're at right now, we should be able to see continued yield expansion in a controlled manner, but yield expansion going forward, and I'm not expecting there to be more erosion.

Christopher O'Connell

Then lastly, any look into how you guys are feeling about credit moving forward, looks like the consumer solar charge offs were down a bit from the past couple of quarters pace. Any outlook as to if that somewhat of a downtrend can continue going forward?

Then just any update, I know you guys mentioned a few items including a return payer on the office, but just any outlook on what you're seeing inside your office portfolio in terms of the relative risk moving forward as these things mature over the next year, year and a half?

Jason Darby

I did get a note from my group just back to your multi-family yields. I was probably a little low in our estimates. It's between 6.25% and 6.5% that they're coming on right now. A little bit wider margin. I wanted to correct myself and take a moment there. On the charge offs for consumer solar, I think what we're able to see is some of the governors in the credit structuring that we've put together for these starting to take hold and limit the amount of charge offs that the bank needs to incur. We're reaching buyback provisions with our providers. We're reaching loss recoveries with our original providers. I feel like we're in a decent spot there relative to stability in that charge off line.

As you know, we're not adding any new flow from those original providers that have the bulk of the assets on the books. Any of the new providers that we've been working with have very tight credit standards and they're performing quite well, albeit it's pretty early in their cycle. We're not ready to declare a declining trend at this point, but I feel good about saying stable looks pretty good going forward right now.

With regard to the commercial real estate portfolio, our office exposure, I think we pointed out in our release is down from last quarter. It's down to about $66 million from $71 million. In the previous quarter, we had a nearly $4 million payoff of one of our special mention classified assets, which I think we talked about last quarter as well. We still feel really good about collectability in our special mention group for our commercial real estate portfolio. Of the six remaining, there's still one that's classified as special mention that's set to mature first quarter of next year. We're in regular contact with the borrower. We feel pretty good about our ability to work with them and maintain that in an accruing and paying status at this time.

Then again, nothing's really changed characteristically, still really low LTV, on those assets in that office-only portfolio, about 37% or so of LTV. All of them are performing, all are paying, and good collateral value right now. On a relative risk basis, I think we're good. Then we are also carrying roughly 75 basis points of coverage through our allowance on those. We feel like from an all-in risk point of view we're in a good spot relative to commercial real estate office in particular.

Operator

Thank you. There are no further questions at this time. I would like to turn the floor back over to President and Chief Executive Officer, Priscilla Sims Brown for closing comments.

Priscilla Sims Brown

Thank you, Operator, and thank you for those great questions, and for your continued interest in the Company. We look forward to taking your questions offline and wish you all a great day.