Second Quarter 2020 Earnings Call Transcript

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PRESENTATION

Operator

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

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

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

Drew LaBenne

Thank you, Operator, and good morning, everyone. We appreciate your participation in our second quarter 2020 earnings call. With me today is Keith Mestrich, President and Chief Executive Officer. As a reminder, a telephonic replay of this call will be available on the Investor section of our website for an extended period of time. Additionally, a slide deck to complement today's discussion is also available on the Investor section of our website.

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

Additionally, during today's call, we may 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 measures can be found in our earnings release as well as on our website.

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

Keith Mestrich

Thank you, Drew, and good morning, everyone. We appreciate your time and attention today.

On today's call, I will start by providing an overview of our current operations, and how we have diligently managed our business amid the ongoing COVID-19 pandemic. I will then turn the call over to Drew, to discuss our second quarter results in more detail.

First, I would like to begin by thanking our employees, who are the center of our organization. They continue to work tirelessly to ensure that our operations runs smoothly, without sacrificing our banking standards and high level service during this unprecedented time. The safety of our employees and customers remains our top priority, and I am pleased that we have been able to maintain our operations while keeping more than 95% of our employees in work-from-home environment.

The second quarter has also been marked by social tension across our country. At Amalgamated, we have always believed that a financial institution's mission should include using its resources, money and influence to help society move forward. We are selected to be the banking partner for individuals and companies who share our mission, allowing us to support their financial goals. Now more than ever, consumers, investors and workforces are holding companies to even higher levels of social responsibility, and requiring them to focus on contributions over and above simply delivering profits and value for shareholders. We consider ourselves industry leaders in this regard, and work hard every day to continue to build upon on our reputation as America's social responsible bank.

Our second quarter does not only validate this view, but further emphasize the value and partnership that we provide to our core customary base, that can be seen in our average deposit growth of $606 million during the quarter, up 50.5% on an annualized basis, as compared to the 2020 first quarter. This deposit growth was strong in both political and non-political sectors, and demonstrates the brand recognition and competitive position that Amalgamated holds in this significant market segment.

Additionally, we have nearly doubled our deposit base in our western region, since we acquired New Resource Bank two years ago. The Amalgamated approach to gathering deposits that drove success in New York City and Washington D.C. is gaining traction, and demonstrates that we can utilize this approach as we further expand our geographic footprint. As we look forward, we continue to estimate that our deposit market opportunity is $90 billion, where we hold only a small share today. In our current markets there are thousands of values driven and socially responsible businesses and individuals who are aligned well with Amalgamated core values, providing a long runway for growth.

The strength of our business model and competitive positioning in our niche of the market can further be seen in our results, which we delivered despite a challenging economic backdrop, driven by the pandemic. The highlights of which were:

- First, we grew our balance sheet 50% on an annualized basis in the second quarter and now have $6.5 billion in assets.
- Second, we delivered pre-tax pre-provision income of $22 million, which compares to $21.5 million in the 2020 first quarter.

- Third, our net interest margin declined by 36 basis points to 3.1% as compared to the first quarter. As we will discuss further, this decline was largely due to the rapid expansion of our balance sheet and result into opportunistic investments.
- Fourth, our cost to deposits was 20 basis points down from 33 basis points in Q1, and non-interest bearing deposits were 53% of ending deposits.
- Fifth, we grew our PACE portfolio by adding $68.1 million in security during the quarter.
- Lastly, we continue to main our expense discipline and closed six of our branches, which will ultimately result in approximately $1 million in quarterly expense saves in 2021.

As we exit the second quarter, the bank has a strong capital base and a conservatively underwritten loan portfolio as a result of our disciplined credit culture. As Drew will discuss in more detail, we recorded a provision expense of $8.2 million, primarily driven by $3.2 million of allowance related to payment deferrals, and approximately $2.7 million in our CRE portfolio for a hotel that was impacted by COVID-19. We continue to diligently watch our loan portfolio and remain committed to working with our borrowers, in a more challenged industry on payment deferrals during this time period. Importantly, we've seen a stabilization in the amount of loan balances with payment deferrals, as well as a meaningful number of residential customers start to remake payments after their initial 90 day deferral.

As part of our efforts to mitigate the effects of the pandemic while further streamlining our operations, we continue to aggressively reduce our expenses, as we reported non-interest expense of $31.1 million during the quarter, compared to $32.3 million during the first quarter. This was accomplished through taking actions to mitigate the impact of lower net interest income given a lower rate environment. We have reduced spending on non-critical projects and slowed down hiring during this uncertain time, as well as closing unprofitable branches, which I mentioned previously. Importantly, our team will continue to explore opportunities to reduce expenses, without sacrificing the operational integrity of our competitive position at the bank.

To this extent, it is important to draw your attention to the successful migration within our client base to our online banking platform. This began at the beginning of the pandemic and carried on through much of the second quarter, in which our team effectively assisted our clients with the move towards our digital platform. During this time, we experienced high levels of adoption and customer satisfaction with no significant client losses. This successful transition enabled us to opportunistically expedite branch closures, as the branches were not functional due to the pandemic, and our clients banking needs were now addressed through our online platform.

Turning to our growth initiatives, I would like to take a minute to touch on PACE, as we successfully added $68.1 million of PACE securities during the second quarter. PACE continues to be an opportunity for us, as home improvement is doing very well, given that people are spending more time at home and are utilizing PACE to fund home improvements. We expect to continue adding new assessments to our portfolio through 2020, through our agreement with the PACE Funding Group.

Another growth initiative that we move forward with beginning in the first quarter and have continued to execute on is the opening of our Commercial Banking Office in Boston. Given the pandemic and the shelter-in-place orders that existed at the time of the opening, we anticipated a more gradual ramp. I would like to highlight that Mark Walsh and his team are off to a terrific start, having opened eight new deposit accounts in the second quarter, under less than ideal circumstances. This is a real success and we look forward to what's to come in a more normalized environment, as the reopening of our economy progresses. Looking forward, our Los Angeles office remains on hold for the foreseeable future, and we're hopeful to have some additional clarity on this market as we move into 2021.

Turning to capital allocation, our priorities remain consistent. Our share buyback program remains under suspension given the continued economic environment, and we will evaluate our dividend with our Board of Directors each quarter.

To conclude, I'm very pleased with the growth we have achieved during the second quarter despite the continued pandemic. Our deposit base continues to grow and is key to our growth strategy. We remain steadfast in our ability to drive value for all constituents of the bank. Our people, clients and customers come first, and we stand with them through this incredible period of uncertainty and through an important movement in our country's history. I would like to thank all of our employees who continue to work tirelessly to deliver seamless operations to our customers, and who make the fruits of their efforts our mission. Together, we will make it through this pandemic and be at the epicenter of change for our country.

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

Drew LaBenne

Thank you, Keith. I will begin by reviewing our second quarter results before turning the line back to the Operator to open for questions.

Turning to Slide 6, in the second quarter, ending deposits increased $793.8 million or 62.5% annualized to $5.9 billion for the first quarter of 2020, while average deposits grew $606 million for the quarter to $5.4 billion.

Average non-interest bearing deposits increased $445.5 million from the prior quarter, primarily due to seasonality related to the election cycle, and now represent 50.6% of average deposits at quarter end. Our cost of deposits decreased to 20 basis points, down 13 basis points compared to 33 basis points at the end of the first quarter. There is still some opportunity to reduce deposit costs in reaction to the fed rate cuts that we are getting near the end of those moves.

Deposits from politically active customers, such as campaigns, PACs, advocacy-based organizations, and state and national party committees increased $325.9 million from $774.8 million at March 31, 2020, ending the second quarter at $1.1 billion as outlined on Slide 7. The election environment continues to be a source of growth for our deposit franchise. The focus for this year will be the Presidential race, and we continue to be a partner to a majority of democratic candidates, as we support their business needs.

As seen on Slide 10, we delivered loan growth of $123.0 million or 14.1% annualized, as compared to March 31, 2020, and ended the quarter with $3.6 billion of total loans. Loan growth was primarily driven by an increase in C&I loans from the purchase of government guaranteed and PPP loans, as well as residential first lien and consumer residential solar loans.

As a reminder, our balance of PACE assessments is now reported in the held to maturity securities portfolio, which is inclusive of approximately $323.4 million in purchase PACE assessments. Our new investment in the PACE Funding Group will allow the bank to continue adding PACE assessments in future quarters, until we complete the $150 million purchase agreement.

As part of The CARES Act, the bank has implemented a payment deferral program for consumer and commercial customers. The standard agreement allows for three months of deferrals of principal and interest, with the potential to defer another three months if needed. The majority of these loans are not reported as delinquent on our financial statements, and are not downgraded solely due to the payment deferral program. In total, we currently have $428 million or 12% of our loans on a deferral program, which is shown on Slide 12. This is down approximately $84 million from the highest number we've reported about a month ago. The number of new loans asking for a deferral has pretty much ceased. We are seeing a number of residential loans ask for a second 90 day deferral, which we have been granting, but we have also seen $33 million in residential loans begin to make payments after the first deferral, which is encouraging. For those residential customers that reach the end of their first 90 day deferral, 58% began to make full payments. Commercial loan deferrals began later in the second quarter, so we have not had a meaningful number complete the 90 day process, but we do expect several of these loans to ask for a second deferral. We are generally asking the commercial clients to pay interest on the second deferral, if at all possible.

In the first quarter of 2020, the available for sale investment portfolio, had a sizable negative mark through other comprehensive income of $17.9 million, due primarily to the volatility in the fixed income markets. In the second quarter, the markets largely recovered and we had a positive mark of $21.9 million through other comprehensive income. It is worth noting that we have had no downgrades of securities in our portfolio, and we are pleased with the performance, thus far.

Net interest income for the second quarter of 2020 was $44.4 million, which compares to $44.7 million in the linked quarter, and an approximately $2.6 million increase as compared to $41.9 million in the same quarter of 2019. The year-over-year increase is primarily attributable to a decrease in interest expense, due to decrease in borrowings and deposit rate paid, and an increase in average securities and loans of $509.5 million and $383.9 million, respectively, with lower yields. These impacts are partially offset by an increase in average interest bearing deposits of $340.4 million.

As shown on Slide 16, our net interest margin was 3.10% for the quarter, a decrease of 36 basis points from the first quarter, and a year-over-year decrease of 56 basis points. The accretions of the loan mark from the loans we're required in our New Resource Bank acquisition contributes 3 basis points to our net interest margin in the second quarter of 2020, compared to 4 and 6 basis points in the first quarter of 2020, and in the second quarter of 2019, respectively. Prepayment penalties earned through loan income contributes $0.2 million or 2 basis points toward net interest margin in the second quarter of 2020, compared to 6 and 3 basis points in the first quarter of 2020 and the second quarter of 2019, respectively. As Keith discussed, the decline in NIM was largely due to the rapid expansion of our balance sheet from deposit growth. These deposits were either held in cash or invested in floating rate agency securities.

On a go-forward basis, we expect NIM to stay low in the third quarter, as we hold cash and liquid securities in preparation for the outflow of political deposits in conjunction with the election cycle. We expect to use a combination of cash on hand and short-term borrowings to fund the political deposit outflow. The overall impact of this move should be just over $1 million decrease in annualized net interest income.

Now, on to non-interest income. Non-interest income for the second quarter of 2020 was $8.7 million, declining from $9.1 million in the first quarter of 2020, and a $2.3 million increase compared with the second quarter of 2019. The increase in the second quarter of 2020, compared to the like period in 2019 was primarily due to a $1.3 million tax credit on an equity investment in the solar project, a $0.5 million gain on the sale of securities compared to a loss of $0.4 million to the comparable quarter of 2019, and a $0.7 million increase in bank-owned life insurance income due to the receipt of a debt benefit payout. These increases were partially offset by $0.5 million decrease in Trust Department fees, primarily related to the decrease in revenue from a real estate fund, which is liquidating assets.

Keith mentioned the initiatives to reduce non-interest expense on a go-forward basis. As seen on Slide 17, our non-interest expense for the second quarter of 2020 decreased to $31.1 million, which compares to $32.3 million in the first quarter, and $31.0 million in the second quarter of 2019. On a core basis, our expenses were $30.4 million, which reflects our ongoing expense discipline. We're pleased with the prudent expense management and expect to run core expenses at or below $32 million per quarter for the remainder of the year. As we head into 2021, we will also see the $4 million annual benefit of the cost reduction from branch closures.

Skipping ahead to Slide 19, non-performing assets totaled $74.3 million, or 1.15% of period end total assets at June 30, 2020, which was an increase of $7.6 million from the end of December 2019. The change was a result of a $14.7 million increase in non-accruing loans, driven primarily by a legacy $10.2 million hotel loan in Ohio, which has been in our portfolio since 2005. The amount of criticizing classified loans increased by approximately $35 million, primarily due to CRE and construction loans.

The provision for loan losses in the second quarter of 2020 was $8.2 million, which compares to $8.6 million of provision in the linked quarter. The provision expense in the second quarter was primarily driven by a $3.2 million increase in allowance related to payment deferrals in the loan portfolio, an increase in specific reserves of $2.7 million related to the previously mentioned hotel, and additional downgrade to risk ratings of construction loans.

Moving along to Slide 20, our GAAP and core return on tangible average common equity were 8.6% and 9.1% for the second quarter of 2020, respectively. The core return compares to 7.7% for the first quarter of 2020, and 10.5% for the comparable period in 2019. Lastly, we remain well-capitalized to support future growth.

To conclude, we are pleased with our second quarter 2020 results. We've been able to grow our business and support our customers and generate strong returns, all while dealing with the pandemic and building strong reserves to protect against any credit issues that may materialize.

Thank you again for your time today. We look forward to updating everyone on our third quarter results in October.

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

Operator

Thank you. At this time, we'll be conducting a question-and-answer session. If you'd like to ask a question, please press star, one on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press star, two if you like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset before pressing the star keys. One moment, please, while we poll for questions.

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

Janet Lee

Good morning, this is Janet Lee on for Steve.

Keith Mestrich

Hi, Janet.

Janet Lee

Hello. Hi. My first question is on credit. I think last quarter you disclosed $112 million of loans or 3% of total in COVID-19 impacted industry. How has the exposure changed over the past quarter? Can you provide more color around the stress on the one hotel credit you called out, and whether that's a systemic issue you're seeing on your broader hotel exposure? Any other stress you're seeing on the overall CRE bucket.

Drew LaBenne

Yes, okay. Hi, Janet, this is Drew. I'll take that and then let Keith feel free to jump in.

So, on our impacted industries, nothing has really changed. They were certainly not originating more into impacted industries. As you can imagine, a lot of the impacted industries aren't paying off their loans right now.

With regard to the hotel, this is as I was saying in the comments, this is a hotel loan that was originated in 2005, well before any of us were here. They had gone through a—it had been on our workout list. I think actually when I joined the Company in 2015, and we subsequently worked out an arrangement with that loan and then obviously COVID hit and has caused some issues with it. That loan is in Ohio. I would say that hotel is very unique to our portfolio. I would not extrapolate what's happening with that loan to any other part of our portfolio at this point.

We took a pretty strong reserve on that. I think there's a reasonably high likelihood that we end up taking that property in OREO and having to dispose of it ourselves in 2020, most likely, or maybe 2021. But again, I wouldn't extrapolate that out to the rest of our hotels. The rest of the hotel portfolio, which is a little under $20 million, if they're definitely unknown deferrals and they've definitely seen loss of revenue. But I think they're in pretty strong locations. Assuming the economy comes back in Colorado and California where those two are located, we think and hope that they'll be okay.

Keith Mestrich

The only thing I would add Janet, is just to emphasize. Amalgamated has never made a business of doing loans in the hospitality industry, whether it's hotels and motels or restaurants. We have just a handful of them. I would just give a lot of credit to our lending and credit team, as they are on each of these names. I think as the economy has begun to reopen a little bit, first we'll see what happens. But I think that story there has gotten a little bit better or stabilized at least. This is a tiny portion of our portfolio. I agree with Drew, there's no sort of systemic issue because the one hotel in Ohio.

Janet Lee

Yes. It makes sense. So, following up on credit, so included in your 2Q provision, build was $3 million in reserves for loan deferrals. Is that overall reserves for loan deferrals? Or which category of the loan deferral was the primary driver of the reserve build this quarter? Should we expect more reserve build due to deferral to continue in the coming quarters?

Drew LaBenne

Yes. So, I think it was $3.2 million in Q2. It's the same category as the $3 million we took in Q1, which is in the qualitative reserves. So, we've increased our qualitative factors related to COVID now $6.2 million over the two quarters.

I would say that, as far as the qualitative reserves, those are pretty big numbers. I don't think we'll see those size numbers again in Q3. There might be some qualitative reserve, but we've moved up the main factors to their highest level at this point. Then what we would maybe see happening as we go through future quarters is, as the loans come off, the loan deferral and if they are not making their normally scheduled P&I payments at that point, we would downgrade those loans and then they would start to get reserves related to their risk rating or specific reserves if they become a TDR.

So, we could see that playing out in Q3 or Q4, depending on how the numbers evolve.

Janet Lee

Okay. Got you. Shifting to the tax credit. So, the $1.3 million tax credit on equity investment, the solar project, and there was this new fee item line added this quarter. Can you give more color around those? Is this going to be a recurring fee item going forward?

Drew LaBenne

Yes. So, it's a equity investment in a tech solar project as we said. These are pretty common in the industry, and I'm familiar with them from previous companies that I worked at, as well. It does create some lumpy income trends over various quarters for these investments, as you take the tax credit, and you rate them down. The $1.3 million we took this quarter over the next two quarters, the timing of when it will hit is always a little variable, but I think we'll see $1.4 million more in gains over the next two quarters.

But it's quite likely we'll see a larger gain in Q3, and actually maybe a little bit of a reversal in Q4, but the net of those should be $1.4 million positive. Then there's a smaller stream of non-interest income that we we'll receive over time from the projects, but it will be rather small compared to the numbers that we're talking about right now.

Keith Mestrich

I would just add that, though, having now done a tax equity deal and having the regulator sign off on or having done that deal does sort of increase our access to potential opportunities in an industry we still like regardless of the pandemic which is, renewable energy and the solar industry in particular. This just gives us a few more tools in our toolbox, and gives us a little bit more exposure to better deals by having the equity tools available to us.

Janet Lee

Okay, that's helpful. Just to clarify on the third quarter NIM guidance of staying low. Is it fair to assume that net interest income and margin is going down in fact third quarter versus second quarter?

Drew LaBenne

Well, NIM is increasingly difficult to forecast just given the volatility in cash and floating rate securities in our balance sheet with the deposit inflows. So, I'm really not going to say if it's going up or down in this quarter. Just from the inflows, there was about a 19 basis point impact based on the cash we held and the floating rate securities we added. So, deposits continue to increase, which, so far this quarter they have done that could put more downward pressure on NIM. Conversely, and maybe a bit, ironically, as political deposits flow out, that will actually help NIM in terms of going up.

As far as net interest income, I think the pressure is downward. I think from Q1 to Q2, we basically held flat with the exception of a decline in prepayment penalties. I think we'll be down a little bit from where we were in Q2 in terms of net interest income. But it will depend on what we do with the balance sheet over the course of the quarter.

Janet Lee

That's helpful. Finally, my last one is on political deposit. I want to make sure that I understand this right. So, political deposit is kind of going down to $300 million range at the end of 4Q. How should I think about political deposit balances through the third quarter? Is it staying elevated at this level or running off versus second quarter?

Keith Mestrich

It's always a little hard to predict, but we know as we get towards the end of the cycle and get towards the election, we start to see more run off than flow in, if you will. As people spend more money at the end of the cycle on television and fine electoral crap and stuff, our model has us going down to around $300 million.

Now, I would say we've peaked higher than we thought we have in that model was originally put together, but we're kind of holding to our model at that point. That should be the trend around end of September, then through October and into November. If past is prologue here, that should be the kind of thing that we would actually see in the political deposit environment.

Drew LaBenne

The only thing I was going to add was that I think the end of Q3 number is probably a pretty difficult one to predict, because it's right in the heart of when everything is happening, with regard to the election spending.

Janet Lee

Yes. Thanks for taking my questions.

Keith Mestrich

Thanks, Janet.

Drew LaBenne

Thanks.

Operator

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

Chris O’Connell

Good morning.

Keith Mestrich

Good morning.

Chris O’Connell

I wanted to start off on the expense front. I may have not caught some of the guidance there, as to the back-half of the year where we're going from here. But I was also—so if you could maybe go over that again. Then also as we're going into '21, what the net impact, I guess of the six closure branches being the $4.4 million? But is the Boston expansion kind of offsetting that a little bit?

Drew LaBenne

Yes. What we've said on the guidance is that we expect to be below $32 million for the remaining two quarters of 2020. That's a core number, so it excludes the $6 million estimate that we have in Q3 for branch closure expense, the onetime cost, which is—we've closed the branches already or they've gone dark or negotiating lease exits with landlords sometimes. That happens sometimes, you just end up continuing to make the lease payments, but you take the charge upfront, until the lease expires. So, there's a little bit of variability in terms of what may happen there.

The $4.4 million in 2021 is the annual run rate we expect to get when everything is complete with the branches. Now, the one nuance there is, we are moving a lot of staff into open positions in the Company right now. That kind of expense of the branch may not just fully go away, it may take time as we continue to experience vacancy in other positions and fill with those branch employees.

Keith Mestrich

Then in terms of Boston, I wouldn't equate our effort in Boston to replacing any of the kind of expensive brick and mortar operation that one of our branches in New York has. We have a small commercial team of three people that are operating in Boston. Right now we're in sublet space, we're looking for an opportunity to have more permanent office. But that's really a commercial banking office, although it's officially a branch, it's not the kind of typical branch that will have a full complement of staff and the kind of footprint that you would have.

So, while there's some expense associated with Boston, I think that very hopeful kind of start that we've had to there should quickly justify that expense. I wouldn't call it much of an offset at all to the expense savings that we get from the closure of the branches in the New York area.

Chris O'Connell

Okay, great. That's helpful. Then in particular on the data processing line, was there anything one-time or unusual this quarter? Because I know, I think there is—suppose there's better cost savings, which brought it down for the first quarter of this year. But then it kind of popped backup at the level or even a little bit above the pre-vendor costs saves?

Drew LaBenne

Yes, we had a one-time impact in there. I think that number is probably more like 2.6-ish that data processing should be running at, 2.6-2.7.

Chris O'Connell

Great, and then, in terms of—could you just walk us through the $51 million of PPP loans? I know you're partnering with another institution for those and not originating yourself. So, just maybe how that's going to run through income? If that's any different than what you had originated yourselves?

Drew LaBenne

Basically for us, what it looks like is almost like a government guaranteed loan that we purchased with the 1% yield. We purchased pretty much at par. These were almost entirely from the first round of PPP. So, I think the forgiveness rules on that are much, much easier to process through than the second round. So, we would expect that a high level of forgiveness to happen and so they won't be on the balance sheet for all that long.

The only difference for us versus other banks is we didn't originate, so we're not capturing any of the fee income related to that, or any of the kind of operational hassle. I shouldn't say hassle, the operational activity related to the PPP loans and the forgiveness as well.

Chris O'Connell

Okay. Great. All right. Great. Then just finally, on the PACE investment origination front. I noticed that you kind of had or you noted in the deck a little bit of a delay on the extension to the New York market. Does that change your outlook or the demand that you're seeing putting those kind of on the books going forward?

Drew LaBenne

No, I mean, we've really have never included any New York production in our estimates, because it's unproven non-approved program right now, which means it can be subject to delays. COVID is certainly not helping with that.

Chris O'Connell

Okay, great. Well, that's all for me. Thank you.

Keith Mestrich

Thanks, Chris.

Operator

As a reminder, if you'd like to ask a question, please press star, one on your telephone keypad. One moment, please, while we poll for questions.

Our next question comes from Brian Morton with Barclays Bank. Please proceed with your question.

Brian Morton

Good morning, guys.

Drew LaBenne

Hey, Brian.

Keith Mestrich

Hi, Brian.

Brian Morton

Thanks for the kind of additional guidance on NIM in the third quarter. I was just curious, once you kind of get past the decline in political deposits going into the average balances in the fourth quarter, do you think you could recapture any of that 19 basis point impact on the NIM from higher cash level?

Drew LaBenne

Yes, I think we would recapture most of the 19 basis points. The question is which I won't provide an answer right now is, what's going to happen to everything else in terms of NIM, right? So that you might have that 19 basis point increase, but you're still going to have continued pressure downward from just lower yields coming on the books, from everything that's being originated at this point, given the interest rate environment.

Brian Morton

Okay, great. Then maybe a little bit more on capital. What are you looking at? Under what kind of scenarios do you think you'd be willing to restart the share repurchase program? What kind of levels do you think you're going to end the year kind of on CET 1?

Drew LaBenne

Keith, do you want to take repurchase one, and then I'll talk about the capital.

Keith Mestrich

Yes. Brian, I think, most important factor on the share repurchase right now really just is the external environment. I think the dollar sentiment that policymakers and the public at large have around share repurchase at this point. The Fed guidance even on sort of uses the capital. I think before we would even consider that program again, we would need to see an overall change.

Again, I don't think we're very different than the rest of the industry here. I think we need to see a very different change in the external environment, and then as you point on share repurchases before we would restart that program.

Drew LaBenne

Okay. Then on capital, so leverage capital has come down as the balance sheet has grown. I think in Q3, just given where we see our deposits today and probably political, not really coming off that much in Q3, but more in Q4. I think leverage ratio will probably decrease again next quarter a little bit and then rebound in Q4.

CET 1, given most of the assets we've been putting in cash and floating rate securities, I don't see CET 1 making any big moves, probably a little bit down as we grow the balance sheet, but I don't see major moves in CET 1.

Keith Mestrich

Yes. Given that flow in the cash line, right, I think we all feel very comfortable with our capital position at this point.

Drew LaBenne

Yes, absolutely.

Brian Morton

All right. Thanks. That's all for me.

Keith Mestrich

Thanks, Brian.

Operator

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

Chris O’Connell

Hey, just wanted to hop back on for a quick one. For the $10.2 million Ohio hotel loan, you guys put a $2.7 million specific reserve on that this quarter. What's the total specific reserve against that?

Drew LaBenne

Actually, I'm glad you asked that, Chris, because we probably didn't totally clarify that. So, it's $10.2 million, but we have a $2 million standby letter of credit on it, which brings it to $8.2 million, and then—which we fully expect to be paid out on. Then the $8.2 million takes has the 2.7 specific reserve. So that's your net.

Chris O'Connell

Okay, great. I mean, as things stand, given the lack of activity, likely across the board for the hotel space, but for this one in particular, as you move through the back-half of the year, if there's not significant improvement in overall kind of travel and activity levels, do you think that that specific reserves going to have to go higher? Or, do you see yourselves getting paid out on the collateral there?

Drew LaBenne

So, it's a maybe on the first one. I mean, we had a third-party appraisal done and we marked it, I think pretty well, as deeply as we could, based on the appraisal. But, I think it's a very volatile market right now and price discovery is happening. So, it's possible we might need more reserve on that. I don't think you're looking at another $2.7 million, that would shock me, but I guess anything's possible nowadays.

But, it's a pretty heavy mark from where the last appraisal was at this point. So, I think we've put a pretty good discount on it. I think, we'll look at the economic case to carry out an OREO and rehabilitate versus sell it in auction or other method.

Chris O'Connell

Okay, great. That's helpful. That's all I had. Thank you.

Operator

Ladies and gentlemen, we've reached the end of the question-and-answer session. At this time, I'd like to turn the call over the Keith Mestrich, for closing comments.

Keith Mestrich

Thank you, Operator. I just want to thank everybody for taking a little bit of time today. I know it's a busy season in the earnings world and a couple of conferences going on that got everybody's very busy. I think, we'll be seeing many of you at the KBW conference over the next couple of days. I look forward to continuing on those conversations and just want to thank everybody for taking some time to join us today.

Operator

This concludes today's conference. You may disconnect your lines at this time. We thank you for your participation.