S&P Global
Market Intelligence

OceanFirst Financial Corp. NasdaqGS:OCFC

FQ1 2020 Earnings Call Transcripts

Friday, April 24, 2020 3:00 PM GMT

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Presentation

Operator

Good morning, and welcome to the Oceanfirst Financial Quarter Earnings conference call. [Operator Instructions]

Please note, this event is being recorded. I'd now like to turn the conference over to Jill Hewitt, Investor Relations Officer. Please go ahead.

Jill Apito Hewitt
Senior VP & Investor Relations Officer

Good morning, and thank you all for joining us this morning. I'm Jill Hewitt, Senior Vice President and Investor Relations Officer at OceanFirst Financial Corp. We will begin today's call with our forward-looking statement disclosure. Please remember that many of our remarks today contain forward-looking statements based on current expectations. Please refer to our press release and supplemental presentation for our forward-looking statement disclaimer.

Our investor presentation and other filings with the Securities and Exchange commission contain risk factors that could cause actual results to differ materially from these forward-looking statements.

Thank you. And now I will turn the call over to our host, Chairman and Chief Executive Officer, Christopher Maher.

Christopher D. Maher
Chairman, President & CEO

Thank you, Jill. And good morning to all who've been able to join our first quarter 2020 earnings conference call today. This morning, I'm joined by our Chief Operating Officer, Joe Lebel; Chief Risk Officer, Grace Vallacchi; and Chief Financial Officer, Mike Fitzpatrick.

As always, we appreciate your interest in our performance and are pleased to be able to discuss our operating results with you. This morning, we have a number of topics to cover that relate to the quarter. Our recent acquisitions and, of course, updates regarding the impact of the pandemic on our business. After that, we look forward to taking your questions.

In terms of financial results for the first quarter, GAAP diluted earnings per share were $0.27. Quarterly reported earnings were impacted by a number of unusual items that totaled $10.4 million net of income tax. These items related primarily to the adoption of the CECL loan loss standard and the dual acquisitions completed on January 1. As a result, we take core earnings of $0.45 a share.

Looking past some of the unusual items for the quarter, underlying financial performance was strong, as demonstrated by expanding margins, an increase in noninterest income and well-controlled operating expenses. The earnings strength of the franchise is critically important as we move into an environment of substantial economic uncertainty.

Regarding capital management for the quarter, the Board declared a quarterly cash dividend of $0.17, the company's 93rd consecutive quarterly cash dividend. $0.17 dividend represents a conservative 38% payout of core earnings. As you will recall, we maintained a relatively low payout ratio over the past few years to prepare our balance sheet for a shift in the credit cycle.

This allows us to maintain the common dividend, while continuing to provide a degree of capital flexibility. There are no plans to reduce or eliminate our common dividend at the present time. Capital levels remain strong with a tangible capital assets to total assets of 8.9%. At the current earnings rate, we expect to build capital levels for the duration of 2020. Early in the year, the company was able to repurchase 648,851 shares of common stock, but suspended repurchases on February 28 as the global impact of the pandemic became apparent. Share repurchases are possible in the future, but we will preserve capital until the full impact of the pandemic is well understood.

The company has slightly more than 2 million shares remaining in the current share repurchase program. Just a quick note regarding tangible book value per share, which now reflects the impact of the Two River and Country Bank acquisitions. Tangible book value per share decreased by about 3% and primarily driven by the consideration paid for the dual acquisitions completed in January. The book value dilution is slightly more favorable than the estimate provided when

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these transactions were announced in August of last year and should accelerate the tangible book value per share earn back period.

Turning to the income statement. The first quarter demonstrated strong performance in net interest income, healthy fee income driven by swaps and well-managed expenses. Included in the core operating expense number is $1 million of expenses related to the pandemic. These pandemic related expenses should moderate in future quarters. Even without fully realizing the efficiencies from the twin acquisitions, the core efficiency ratio remained close to 55%. Joe will provide more detail regarding funding costs but the stabilization of net interest margins also bodes well for future quarters.

Later in the call, Grace will walk you through credit provisioning and the impact of CECL and the pandemic. Our decision to implement CECL requires some additional discussion. As you may recall, I've been vocal regarding the pitfalls related to CECL and strongly advocated that the new standard be set aside given the unprecedented economic shock the world is facing. Unfortunately, the policy action taken regarding CECL has made things even worse. By offering an optional deferment, we have created a few new issues. First, banks deferring CECL may be considered to have more pre carry's balance sheets. Second, securities guidelines require the disclosure of impacts related to upcoming accounting changes. The banks electing to defer CECL have some responsibility to share the CECL estimates anyway.

And finally, the idea that the deferral would require a future restatement of prior period financials is the icing on the CECL cake. We have a high-quality loan portfolio and a strong capital position and determined it would be best to just move forward as planned.

I guess every crisis experience is an accounting issue, in 2008 was the application of mark-to-market and for the pandemic, it will be CECL. Asset quality is especially important as we move into unfamiliar economic environments. As discussed on previous calls, we've been proving the balance sheet of higher risk loans for quite some time, and we continue to sell higher risk loans in the first quarter. First quarter loan sales were responsible for 82% of our net charge-offs for the quarter. Helping drive down the level of nonperforming assets to just $16.6 million or a mere 16 basis points of nonperforming assets to total assets. In fact, other real estate owned amounted to less than $500,000 at quarter end. Given economic conditions, we expect these figures to grow in the upcoming quarters, but our balance sheet provides the critical room to work with our clients during a challenging time. Regarding the pandemic, we have provided several supplemental slides to our quarterly earnings release. These slides include important details regarding forbearance programs and our efforts to serve as a conduit for the SBA's PPP program. I won't repeat the discussion from our March 24 pandemic investor call. However, I will assure you that the bank was early to respond to the pandemic. We continue to address operating conditions in a wide variety of ways. We remain open for business, our assisting customers and are prepared to operate in a socially distanced world for an extended period of time.

Our operating discipline and strong digital solutions allowed Oceanfirst to address forbearance and crisis responds quickly and effectively. By applying our forbearance experience in Hurricane Sandy, we have been working with clients to address 4 branch requests since March 16. Over the past several weeks, we have had thousands of conversations with businesses and consumers that have resulted in request to defer payments on $1.1 billion worth of loans.

Our deferral experience indicates that forbearance loans performed quite well when their precrisis credit risk attributes are conservative. Brice will talk you through our supplement slides, which demonstrate the quality of the loans requesting temporary forbearance. Joe will discuss lending activities, including our participation in the SBA PPP program.

However, I want to quickly highlight the importance of having dedicated substantial resources over the past several years to build out our digital banking platform. To put our efforts in perspective, OceanFirst was not an active SBA lender when the Cares Act was signed on March 27, less than 1 month ago. I'll say that again. OceanFirst did not have an SBA department nor had we originated an SBA loan. Our SBA portfolio related exclusively to loans acquired through the purchase of other banks.

Recognizing the critical importance of this program for our clients, we responded quickly by simultaneously building a digital application interface, while working with the SBA to activate the SBA license we acquired on January 1 as a result of the Two River acquisition. By April 3, we were channeling hundreds of digital PPP applications from our clients into our encino commercial loan system for processing.

Our first successful submission to the SBA generated SBA approvals on Sunday, April 5. The week of April 6 was dedicated to developing a custom-built electronic closing package that would comply with somewhat fluid SBA guidance. On April 14, we began closing these loans electronically, becoming among the first banks in our market to disperse funds.

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Through today, we have secured SBA approval for 1,568 loans totaling $350 million, which will fund over 36,000 jobs in our communities. Delivering for our clients was possible because of our extraordinary commercial lending team. Of course, they were supported by amazing information technology professionals, where the tools, skills and experience to respond promptly. Before I turn the call over to Joe and Grace, I want to acknowledge the recent decrease in our share price. We know the entire banking industry has been impacted, but every OceanFirst employee is also a shareholder. We share a common goal to create shareholder value and know that the decisions we make in times of crisis are especially important. Our efforts in the upcoming quarters will focus on helping our customers through an incredibly challenging time. Assisting our customers in their recovery will protect and preserve the assets of the bank and build the bank's reputation in our communities. The combination of the strong balance sheet, and stellar community reputation represent the path to building shareholder value over time.

At this point, I'll turn the discussion over to Joe to provide more details regarding operating conditions and some additional color regarding many of the initiatives I've outlined.

Unknown Executive

Thanks, Chris. Loan originations of $426 million drove loan growth of $158 million for the quarter. Year-over-year originations were up 63%. And commercial lending closings were strong at $267 million, with quarterly commercial growth of $165 million. New York and Philadelphia continued to progress as they closed $170 million in the quarter. I'll note that the quarter had very little loan originations from country in Two River as expected after an acquisition, but closings have occurred in April, and their pipelines are building. Our swap fee income had a strong quarter with over $4 million in revenue. And while we expect revenue to be bumpy due to volume and economic conditions, we anticipate a solid year in swaps to offset reductions in other fee business. Our residential real estate continued its solid performance with $149 million in closings. The total pipeline at $525 million at quarter end was at an all-time high with record commercial and residential activity. We anticipate a solid second quarter in loan activity. And while there could be some fallout due to the uncertain economic environment, we remain confident in our underwriting and risk appetite. While Grace will provide much more detail on credit metrics and her comments to follow, I'll note that we are re-underwriting every commercial pipeline transaction as we approach closing to be sure the underlying business is healthy and cash flows are intact.

In the residential business, we have also gone back a second time and reverified income and job status prior to closing. We've also increased minimum down payments for purchases and eliminated cash out refinances for vacation homes and investment properties, while also reducing loan-to-value limits on equity lines and loans.

Moving to the net interest margin. We saw a core net interest margin improvement of 1 basis point and a reported net interest margin expansion of 4 basis points. The reported figure includes purchase accounting accretion and modest prepayment fees. The additions of Country Bank and Two River Community Bank loan portfolios, helped to keep margins stable despite the effect of prior Fed cuts and lower weighted average originations. Our cost of deposits increased 6 basis points to 70 basis points. Due to deposit costs from the acquired Country Bank and Two River Community Bank. OceanFirst legacy saw a reduced weighted average cost of deposits of 2 basis points in the quarter to 60 basis points. While the weighted average cost of deposits at Two River was 87 basis points and the country bank deposits 146 basis points. We expect the cost of deposits in all portfolios to decrease in the second quarter due to continued repricing.

Expenses were well managed, and as Chris noted, included approximately $1 million in COVID-19 related expenditures. Most of which represents pandemic bonuses paid to branch staff and bank office personnel. We remain confident in our quarterly expense run rate, but cautious given the economic outlook. We expect to spend as necessary digital acquisition, cybersecurity and other important initiatives, including the safety and protection of employees, customers and visitors to our facilities. While we will be vigilant with our management of expenses, now is not the time to save a few dollars at the expense of the health and safety of our staff, our customers and our community. Merger integration for Tutor Community Bank remains on track with a mid-May systems conversion and branch consolidation is scheduled. As previously noted, we will be closing 5 legacy OceanFirst branches the same weekend. I will note that the majority of the closure expenses related to the branch consolidation are in the first quarter expense number. Closings will occur in Q2, and we will see the financial efficiencies beginning in Q4. In regard to Country Bank, we've elected to delay their systems integration date and will not make a decision on a revised date until midyear. Since there are no branch consolidations involved the Country, the run rate and upcoming cost savings are not as significant. In regard to daily branch operations, you may recall, we were one of the first banks to close branches and limit activity to drive through teller transactions only. As we now begin to focus on the return to work in a new normal environment, we expect to begin by focusing on the return of full-service banking utilizing a hub-and-spoke methodology. Full-service would be available at certain geographically

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specific hub branches with surrounding spoke branches limited in hours or closed inside traffic, while remaining open at the drive-throughs. We are exploring abbreviated schedules as well, using both customers and employees back into a safe environment over time. We will employ safety protocols, which will include the use of personal protection equipment.

Chris provided some overview comments on the Paycheck protection program, commonly referred to as PPP. Let me provide you a few more details to date. We've electronically distributed over 3,000 applications for assistance, receiving back more than 2,500, and we're able to secure SBA approval for almost 1,600 prior to the first round of funding being exhausted. These approved loans represent $349 million in loans to businesses, employing over 36,000 workers. We remain driven to approve the remaining request in our Q when the SBA program is reloaded with the goal of supporting loans approaching $500 million and over 53,000 jobs between the loans we've done so far and the requests we have in-house. And just a note on funding of these short-term loans, if needed, we will utilize borrowings from the Federal Reserve allocated to PPP pledged loans at a cost of 35 basis points, which will help to offset any funding costs or liquidity needs and has the added benefit of capital protection. With that, I'll turn the call over to Grace.

Grace M. Vallacchi
Executive VP, Chief Risk Officer & Director

Thank you, Joe. As Chris mentioned, I'll discuss CECL adoption and the components of the increase in our allowance for credit losses. As well as provide an update on our customers seeking debt relief. I would like to preface these remarks, however, with some contextual comments regarding our preparedness for the current environment. OceanFirst has long had a conservative credit culture and strong earnings stream. This is borne out by the stress test results we shared during our investor call last month. You may recall that this stress test included a severely adverse scenario that approximated the severe adverse case in the most recent CCAR guidelines. Our model indicates an ability to absorb over $300 million of credit costs over a 9 quarter period, while maintaining our profitability, our ability to pay dividends and our capital ratios well above both bank policy and regulatory minimums.

We certainly hope that the level of fiscal intervention will result in a far less onerous environment, but we believe the balance sheet is prepared for a shock. These results are not an accident. Over the past several years, management has focused on building a fortress balance sheet in anticipation of the next credit cycle. These actions included maintaining our credit underwriting discipline despite increasingly liberal market terms and a focus on credit risk management practices that ensure safe and sound growth.

Evidence of our efforts is the widely diversified credit portfolio as well as our risk selection. We have not participated in the leveraged loan market, energy sector credits, credit card finance, automobile loans or equipment finance. Even land loans are negligible, totaling just $19 million or just 1 quarter of 1% of total loans. While we could not predict what would trigger the next credit stress event, this management team has been through several credit cycles over the course of our careers, and these experiences have taught us that preparation is the best defense for times like this.

With that context, I'll turn to the primary components of the increase in our allowance for credit losses. The components I'll discuss are outlined in more detail on the slides that accompanied last night's earnings release. In summary, our transition from the incurred loss methodology to CECL resulted in an aggregate $15.6 million or 92% increase to loan reserves between December 31 and March 31. Now to break this change into components. Our December 31, 2019, ending allowance balance was $16.9 million. We added the day 1 CECL mark of $4.2 million, Two River and Country acquisition, CECL marks of $5.4 million, funded net charge-offs of $1.1 million and then added to the CECL reserve to address the expected economic deterioration related to COVID 19.

The COVID addition was driven by $7.2 million of qualitative factor adjustments. During the first quarter, our loan growth was centered in portfolios with historically very low loss rates. This, combined with further declines in loss rates in almost all of our loan portfolios would have resulted in a net contraction of $1.2 million in legacy OceanFirst reserve requirements despite net loan growth. These figures reflect the current risk rating distribution of our portfolio. CECL models are quantitatively driven and historical loss rates and portfolio composition are key drivers of the allowance balance. We have focused our lending activities and lower risk assets, and subsequently have benefited from a very low level of credit losses for many years. These facts drive the allowance map, acknowledging the unprecedented economic challenge ahead and the quantitative reserve limitations, we expanded the total reserve by adding qualitative reserves related to COVID that totaled $7.2 million.

This $7.2 million qualitative factor adjustment is intended to set aside reserves to account for the likelihood of risk rated migration as the impact of the pandemic becomes clearer. This represents our best estimate at this time of

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expected future credit losses from the pandemic. It's too soon to know the depth and duration of the economic impact. The nature and breadth of economic stimulus is not yet fully known, nor is the mitigating effect these programs will have on the economy and individual borrowers. As the impacts become clearer, we expect the risk ratings on certain loans to deteriorate. This shift may result in increased quantitative reserves, which could be funded by decreases in qualitative reserves over time. This again represents our best estimate at this time of expected future credit losses from the pandemic. I'll add what we've learned from our experience during Hurricane Sandy. The forbearance loans performed reasonably well. In that case, our initial Sandy reserve was $1.8 million, yet net charge-offs related to Sandy totaled less than $500,000. Of course, the pandemic is a different and much broader event and could be more protracted or severe than Sandy. While very difficult to assess, at least now, our collateral remains intact and undamaged and can return to productive use more quickly than real estate destroyed by a natural disaster. Active acquirers like OceanFirst also maintained purchase accounting marks related to acquired loan portfolios, even following the implementation of CECL. While these balance sheet marks exist outside the allowance for credit losses, they represent a different element of credit reserve. As a result of the 7 whole bank acquisitions made by Oceanfirst, we maintained a net amortized credit mark of $38 million that is in addition to our $32 million allowance. We believe that these 2 figures should be viewed in concert.

Real estate values are by far the most important indicator of future losses for us, and our low loan-to-value should partially protect us. Even in the event of a substantial decline in real estate values. This reality was evident during the Great recession when our peak annual loss rate was just 57 basis points. Our stable earnings stream is currently sufficient to fund the level of future provisions that could be driven by risk rating migration, additional qualitative factor adjustments and net charge-off activity. As I mentioned, our low historical loss rates are largely due to our conservative risk selection in both individual loans as well as overall portfolio composition. Again, we have no exposure to the energy, airline or equipment leasing industries. We're not a credit card lender and have not participated in the leveraged loan market. We don't maintain a consumer automobile portfolio. So it's comforting not to have to consider lease residual valuations. Even land loans are conservative $19 million or less than 20 basis points of total assets.

Next, I want to share some information on those borrowers that are seeking forbearance. To date, our early and active outreach has resulted in $775 million of commercial loan forbearance requests. These credits have a strong pre pandemic risk profile, with just 5% rated special mention or substandard and 93% never delinquent over the past 24 months. A full 96% of this exposure is secured by real estate, with a very low weighted average loan-to-value of just 55% and strong debt service coverage of 1.9x. An aggregate, these borrowers are well positioned to weather the current economic conditions. Our commercial forbearance requests are centered in the accommodation and food services industry and commercial real estate secured by retail properties. No other industry comprise more than 5% of total forbearance requests or more than 5% of total capital. 1/4 of our forbearance requests are from borrowers in the accommodation and food services industry. This includes restaurants of $92 million and hotels of $110 million or [1.2 and 1.4] of total loans, respectively. In aggregate, our accommodation and food services credits have a weighted average loan-to-value of 52% and weighted average debt service coverage of 2.6x. This includes the Irish pub portfolio at Country Bank of $69 million, where our real estate collateral has a weighted average loan-to-value of just 44%.

I the commercial real estate requests secured by real retail properties totaled $106 million. These credits have a weighted average loan-to-value of 53% and debt service coverage of 1.8x. I we've also received over 1,100 residential debt relief requests totaling $311 million. These credits also have a strong pre-pandemic risk profile. The current weighted average FICO score is 742 on these borrowers, and the weighted average LTV is 70%. Furthermore, almost 90% of these loans have never made a late payment over the life of their loan. You can see why this segment of low LTV and high FICO loans with exceptional payment history is not cause for undue concern. Returning to our credit risk profile more broadly, I'd like to point out that our allowance for credit losses now exceeds nonperforming loans by a measure of 1.8x. When compared to 2008, our starting point for this crisis includes a more diverse loan portfolio, stronger profitability, a lower dividend payout ratio and approximately 250 basis points higher capital levels.

In short, we believe we are prepared for the storm. I'll now turn it back over to Chris.

Christopher D. Maher
Chairman, President & CEO
Thanks, Grace. At this point, Mike, Joe, Grace and I would be pleased to take some questions.

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Question and Answer

Operator

[Operator Instructions] Our first question will come from Frank Schiraldi with Piper Sandler.

Frank Joseph Schiraldi
Sandler O'Neill + Partners, L.P., Research Division

Just on the reserves. Even if you adjust for the marks on the purchase book, the reserve to loan ratio. Still I'd argue well below where some of your community bank peers have built their reserves to. And I know Grace spoke to the confidence in the portfolio and the low expected loss. But I wonder if partially, it also reflects maybe a difference in opinion on how provisioning is likely to play out. It seems like a lot of the calls I've been on management teams are talking about a very front-loaded provision where I've gotten the sense in the past, Chris, that you look at the potential for CECL provisioning as being a bit more stable through the year, maybe as -- later in the year, some quantitative factors maybe take over for the qualitative factors currently. So I wondered if you could just speak to that.

Christopher D. Maher
Chairman, President & CEO

Frank. It's a difficult time for all of us. Any of us and our peers to estimate what the impact of this pandemic might be. Look, if we thought that we could put aside more reserves and responsibly do that, we would have done that. And I'm very cautious not to send the message that, hey, we've taken some giant reserve and that don't worry about it for the rest of the crisis. I don't think any of us know exactly what the duration of the depth of the crisis will be. I think the important point that I would stress is that taking a really healthy provision, the largest we've taken ever, almost $10 million for the quarter. We still maintained our ROA, core ROA over 1%. So we can continue to fund provisions as needed. It's very hard to tell what we will need. So we do look at this as the data comes in. We're going to be data-driven. So I won't say that while the aggregate number of forbearances is something that gives you pause, as we've had conversations with our borrowers, I think they've been very productive discussions about how their businesses go far. And we went into this, and I think like many banks, our clients got through 2008. They have very low levels of leverage. They put cash aside, in many cases, the request for forbearance is a precaution. It's not that they don't have any cash to pay us. Is they're trying to preserve their liquidity because they know they've got to restart their businesses and hopefully, 90 days or somewhere in that time frame. So I think, Frank, you characterized it reasonably well. I would expect elevated provisions during the course of the pandemic. But I don't think there is anything that should overly concern us given our earnings stream and our starting position. I'd also point out that our composition of loans is different than many peers, and we really have avoided -- we've avoided a lot of asset classes that carry higher provisions. If you think about credit cards, they typically run 800 basis points. So if you have any of those on your balance sheet, that's going to drive a more significant reserve. Almost everything we have is real estate secured, and the LTVs are quite low. So we could have nonperformers, but the actual charge-offs over the course of the pandemic may be lower than you think.

Frank Joseph Schiraldi
Sandler O'Neill + Partners, L.P., Research Division

Great. Okay. That's appreciated. And then just a follow-up. Obviously, Joe, you spoke to the strong pipeline. Can you maybe just talk a little bit more about growing the loan book in this environment? And maybe if the focus has changed at all and how you get comfortable with things like collateral values here?

Joseph J. Lebel
Executive VP & Chief Operating Officer

Yes Frank. Yes, I think I try to refer to some of that in my comments in the sense that we're trying to -- we're looking at every 1 of these a little differently. As you would expect, we're making sure that the underlying criteria still meet what was our credit standard and what maybe even a little tighter credit standard at the moment. And I think from the loan growth perspective, we're focusing on the big strong CRE types of credits that you may see. We've recently financed, approved 2 financings for Amazon warehouses, we're in the process of doing some some other credit tenants, such as Walgreens, CVS, the kind of stuff where you're not going to make a killing and spread, but what you know is that you're going to put assets on at the right leverage position with bonafide strong historical cash flows. And I think as you go forward, I mentioned, I think the second quarter will be fine. Just because of what's in the pipeline. I think we'll see some fall out.

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But I do think the second quarter will be okay, but I think it's hard to forecast going forward, right? I mean, it's -- we just don't know how things will occur. It really just depends on how the pandemic plays out and not only consumer, but also our commercial customer confidence.

Frank Joseph Schiraldi
Sandler O'Neill + Partners, L.P., Research Division

I think you might have mentioned loan to values. Has that underwriting standards in terms of the loan to values you're willing to go up to. Has that changed meaningfully?

Joseph J. Lebel
Executive VP & Chief Operating Officer

I wouldn't call it meaningfully. I think it's -- some banks will come out and said, we're not going to do certain types of lending equity. Lending has been a good example. Our equity book -- home equity book has largely been for customers. It's a reactive portfolio with very low LTVs in the mid-50s typically. We're still doing them. We've cut back on the maximum LTV. But we're not going to say -- we're not going to be there for our client that needs our support. But we absolutely are looking at underwriting criteria and scaling back a bit, yes.

Operator

Our next question will come from Matthew Breese with Stephens.

Matthew M. Breese
Stephens Inc., Research Division

I was hoping you could maybe walk me through the process of actually getting a forbearance. What's the bar for approval? And are there any cases where you deny or forbearance?

Christopher D. Maher
Chairman, President & CEO

Yes. So there are very different processes on the consumer and the commercial side. So when we had this experience during Sandy as well, on the consumer side, you're dealing with lower dollar amounts and the burden for someone to provide paperwork in the middle of whatever crisis they're going through is pretty rough. You can't take someone who may have a family tragedy on playing out in front of them and say, "Hey, look, we'd like your tax returns. So on the consumer side, our rule is very clear. If you're willing to certify that you have COVID-19 issue and you need forbearance, you're going to get it. And we're going to put you on forbearance. And then as we relook at those loans in 90 days, we'll have a deeper conversation over the the reasons that you might need forbearance. And I think that, that's appropriate. I think if you consider the kinds of folks that have been impacted, we just don't feel that re-underwriting those is appropriate. However, so that we understand the risk profile of what we're doing. We are capturing information like the FICO score at the point the forbearance is granted so that we can understand the degree of deterioration that might hit this segment and make sure we're reserving appropriately as time goes on. So we're collecting information, but a consumer forbearance request is reasonably automatic. It's a little different when you shift to commercial. And we also want to be accommodating. We want to make sure that people have been impacted by COVID. But you also recognize that there's a lot of commercial borrowers who would jump at the chance to go interest-only for a period of time or and that they may or may not have had a significant an impact to their business. So in that case, we are asking for minimal, but some reasonable documentation about what's going on in the business. Again, this is about making sure that our forbearances are thoughtful and they're prudent. So let's take the case of commercial real estate. We're asking for new rent rolls. So we understand how much deterioration there has been in the rent roll. And look, we have cases where if you were covering at 2x your debt service and now you're covering it 1.5x your debt service, we're probably having a conversation saying that a forbearance is not appropriate. But if your rents are down and you can pay principal, but not interest, we may put you on IO and et cetera. So -- and it's dual-purpose as well. First, we want to throttle the amount of forbearances we grant. So there is a credit approval required. And the second thing is this is the kind of data we will need during the course of the year to understand how much credit risk we're facing. So it's an important point to pull that in. The $775 million worth of requests that we noted earlier, there's a few hundred million of that we've been able to take action on Baron. I would expect we'll get through the rest of it in the coming weeks and make those decisions. But we're just -- as you can appreciate, we're just getting rent rolls for April for many of the commercial real estate tenants. So it's 2 different analysis, and hopefully, that helps.

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Matthew M. Breese
Stephens Inc., Research Division

Very helpful. I mean the 1 million-dollar question on our end is how many -- how fast are these modified or loans with forbearance? How fast are they going to grow? And to what extent are they going to transition to non-performers. And any detail you have in terms of on the consumer side, whether or not if it's a residential loan, homeowners are unemployed or if it's commercial loan and these companies are shut down do you have those types of metrics at your fingertips?

Christopher D. Maher
Chairman, President & CEO

Yes. So well, look, we can share some of what or highlight some of what we've shared to date, which is if you take a look at the consumer book, the fact that the FICOs are in the 740 s is extremely encouraging. And the reason for that is FICO is driven, I think it's a misconception that's driven just by late payments. It's driven a lot by credit utilization. So you don't wind up with a 740 FICO score if you're tap down, right? If you've got all your credit lines pulled down. So these are customers that have liquidity and that are probably frightened about what's going on in the economic environment. They're trying to preserve cash. They don't understand how long they're going to be out of work. So any piece of help they can get. So I'm not terribly concerned on the consumer side. Although the duration of time that people are out of work is going to play into this. On the commercial side, it's too early to tell. So we're collecting information. But I think it would be too early to go out and make broad statements. I will say that when you think about how to assess the risk, if you go back to our March 24 call, we wanted to make sure we disclose to everyone our concentrations in sectors where there could be a risk. Now it's much more important to look at who's requesting forbearance, where are they coming from? And we went out, and this is just our position, we proactively called our commercial clients in high-risk segments and said, what's going on? Do you need help talk to us, tell us what's going on. And we wanted to pull those forbearances out quickly. I don't want to wait until someone misses a payment to start a forbearance conversation. So I think if you look in the slides, the supplement slides, we showed you the unit trend in requests for forbearance. And at least for this wave, it appears to be moderating for both consumer and commercial. So we don't know how long the pandemic is going to last and how the restart efforts are going to go. But we think we have the majority of the forbearance requests are reflected in the numbers we're sharing with you today. And there's not going to be, say, another $1 billion coming to us in the next 30 days. We think we've got a good handle on the temple.

Matthew M. Breese
Stephens Inc., Research Division

Understood. Okay. And then on the provision, I understand it's very hard to predict what's going to happen here. But maybe you can just set the stage in terms of the framework. As we think about the underlying assumptions, if we go from an unemployment forecast and we take it from 5% to 10%, and is the next incremental 5% if we were to go to 15%? Is that as painful as the first? Or is there some -- does it soften as you go higher? Is there any sort of way you could frame that for us?

Christopher D. Maher
Chairman, President & CEO

I think there's 2 key attributes you have to remember in reserving. The first is the probability of the fall. And then the second is the loss given the fall. So things like the unemployment rate do affect the former. They don't necessarily affect the lateral, though they may. It's really hard to tell this early in. So I don't think it's as sharp, and Grace can give you a little more information what I'm done about kind of how we look at the model. But in a portfolio like ours, where the vast majority of loans are real estate secured. And you have some presumption to real estate values staying in the same range. I'm not saying they're going to stay where they are. Your actual losses, the net charge-offs are going to be lower than you might expect. So I think for a balance sheet like ours, it would not be unusual to see an elevation in nonperforming loans. But like we saw in the credit -- in the last credit cycle in 2008, our peak nonperforming loans crested at 300 basis points or so. But our worst year of charge-offs were just 58 basis points. So I think we may have a bunch of loans that we're dealing with, but the actual risk to capital and earnings in the balance sheet maybe larger than that. Grace, anything you'd add to the way we're -- the model works.

Grace M. Vallacchi
Executive VP, Chief Risk Officer & Director

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The only thing that I would add is that what's unusual about this situation, is that the model and many CECL models are based off of historical correlations between things like unemployment and GDP going back decades. But given the measures that are being taken by the federal government for instance, the supplemental $600 payment for unemployment, we really don't know how strongly those correlations will hold. We would think that it will be mitigated somewhat by that. A lot of people are actually making more money on unemployment than they did as an hourly worker. So that all kind of remains to be seen. That's the only thing I would add besides what Chris said.

Matthew M. Breese
Stephens Inc., Research Division

Understood. And then my last one. In terms of getting loans done, has some of the underlying mechanics, have they improved yet? I mean, local County clerk's office notaries, areas where Inc. signatures are necessary? How much of a hindrance is this the business? And are the municipalities catching up and making improvements on their end?

Christopher D. Maher
Chairman, President & CEO

It's getting better. So we had a couple of our states, New Jersey and now Pennsylvania are going to electronic notary, which is a new thing for them. By enlarge, the counties have been pretty good. So we were initially concerned that the title might be a log jam or something like that real estate transactions. They're a little slower, but they've continued to function. Probably the area where we still see significant concern is around anything related to construction. So construction has been shut down or discretionary construction in many of the areas we operate in, although there are some carve-outs like residential properties where you have fewer than, say, 5 contractors involved. The process of appraisals, the process of inspections, the ongoing management of that segment has been more problematic. But we're observing, I guess, Pennsylvania will restart construction to a certain degree in a couple of weeks. And we may see New York and New Jersey go to that soon as well. So right now, that's what we're seeing. We're seeing it in inspections, COS, those municipal inspectors being out on the job.

Operator

Our next question will come from Christopher Marinac with FIG partners. .

Christopher William Marinac
Janney Montgomery Scott LLC, Research Division

Chris and team, thank you for all the background both last night and on the call this morning. So back to the reserve level overall. I mean you're -- even with CECL, you're reserving for actual loss expectations, right, Chris. So at the end of the day, your point of kind of the past experiences with Hurricane Sandy and other disasters really lead to kind of what you expect on losses that you reserve for that today. So that really reflects what you're expecting and until you have a different fact pattern, there's no reason to expect that the reserve should significantly change. Is that correct?

Christopher D. Maher
Chairman, President & CEO

Yes that's correct. And I would point to the number, Grace shared, that $7 million worth of the allowance we took is not quantitatively driven. It's qualitatively driven. So we knew that the model was producing a number that we thought was [wide] compared to what our expectations were. So that set aside will cover some migration of loans as they kind of burn down. The other thing is that look, there's no reason to believe that Sandy will be exactly like this. They're very different situations. Although in Sandy, we had the destruction of collateral. We had real estate destroyed, in some cases, completely destroyed. And our for bantering loans at that point had a 1.2% charge-off rate. On the consumer side, and interestingly, we had no commercial charge-offs related to Sandy. So -- and we've tried to be a careful and conservative lender. So look, it was not the kind of broad-based issue we're facing now with the pandemic but there wasn't $2.5 trillion flooding into the economy either, nor were their unemployment programs like there are today. So it's a tough time, but our quantitative reserves would have been about $7 million lower. We upped them with a qualitative reserve because we knew we needed to put some additional funds aside for margin.

Christopher William Marinac
Janney Montgomery Scott LLC, Research Division

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And then 2 follow-up questions. Could you remind us how the fair value market will evolve over time? Does that kind of go down quickly in the next couple of quarters? Or will it be slow?

Michael J. Fitzpatrick
Executive VP & CFO

Chris, it's Mike. It's accretive back into income over the life of the loan, but it's based on a level yield so it's more at the front end of the loan. So even though it's probably over the last -- the next 4 years, most of it comes in and then there's kind of a long tail. So that will accrete back into income. Over the next several years.

Christopher William Marinac
Janney Montgomery Scott LLC, Research Division

Great. So we can still use that as a sort of de facto reserve loss as if you -- just like you said in the slides?

Michael J. Fitzpatrick
Executive VP & CFO

Yes. I think you can use that as a pool, you considered $38 million being accreted back in income, and you could use that to reallocate that into the credit losses if needed.

Christopher William Marinac
Janney Montgomery Scott LLC, Research Division

Great. And then last question just on the Fed's kind of upcoming main street lending facility, is that something that might apply to your commercial borrowers? Just any early read on that?

Christopher D. Maher
Chairman, President & CEO

A small number of credits that would be of the size and nature to qualify for a main street program. So we may have a few loans that we would add related to that, but it would be, for us, a much smaller event than the PPP program is.

Operator

Our next question will come from Russell Gunther with D.A. Davidson.

Russell Elliott Teasdale Gunther
D.A. Davidson & Co., Research Division

Chris, I know we really don't have a great crystal ball in terms of how long the current situation is going to persist. But just given sort of your footprint and sensitivity to summer months and if beaches and boardwalks remain closed, is that type of event captured in a qualitative reserve this quarter? Or how might that play out within your modeling?

Christopher D. Maher
Chairman, President & CEO

I think that's an area, Russell, that is highly comparable to what we went through in Sandy because even though people who come to the beach, a lot of the restaurants hotels were just unavailable for use in the season following Sandy. You remember, Sandy hit in late October and early November, very few businesses were able to completely reopen by the following may or they might have reopened in part. We expect a weak summer season this year just because of social distancing requirements. And we think it may hopefully, based on the numbers, maybe the second half of the season will be better than the first. And usually, July and August are more important to these summer resort towns than, say, May and June. I guess the way I would think about it is we'll probably limp through this season, it will be okay. We have the other benefit, which we saw after 9/11, which is when people don't want to get on a plane, they want to get in the car. And something around 25% of the U.S. population is within a tank of gas of the Jersey Shore resorts. So I think that there'll be some element that will support us this year. And then I wouldn't be surprised if next year, and God willing, we have a vaccine and things are a little better shape, next year could be a really roaring year for the shore. So I think a weak year this year, possibly very strong next year. And the advantage we have is we don't have to rebuild these places. There were cases where literally, the entire building was gone. There was nothing but sand. And you needed a lot of help to get something rebuilt and productively deployed. In some cases, that took 2 or 3 seasons.

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Russell Elliott Teasdale Gunther
D.A. Davidson & Co., Research Division

Understood. Okay. And so I guess, Chris, just to summarize, were that to play out? You believe that, that type of scenario is kind of captured in the qualitative adjustments that we spoke on this quarter, that weak summer scenario.

Christopher D. Maher
Chairman, President & CEO

That's right. I think that -- I'll go back to my earlier comments that reserves and charge-offs relate to the net credit experience not to nonperforming loans. And when you have very conservative real estate values, you may have a bubble of nonperforming loans that does not result in the same degree of net charge-offs. So we may carry some of these. And look, the 6-month forbearance program will get us through this summer. If we've got further issues after that, some of these will become TDRS, but we go into this at a pretty good leverage rate, most of our clients.

Russell Elliott Teasdale Gunther
D.A. Davidson & Co., Research Division

Yes. No, I appreciate you confirming that. And here is hoping for a better result. I've got my heart set on spring Lake weekends this summer. So we're all pulling for the same thing. I wanted to follow-up on questions for the loan growth. And Joe, your comments, what are you guys assuming for kind of pull-through rates within commercial and resi, obviously, a different situation be historicals. And then is there enough visibility to recommit to a net organic loan growth of $50 million to $100 million? Or just how do you see that shaking out throughout the remainder of the year?

Joseph J. Lebel
Executive VP & Chief Operating Officer

So I'll take it in stages, Russell. I think the I think the resi business with the underwriting criteria that we've always had, and then just, as I mentioned earlier, the focus on making sure that the new transactions that are going on are the right transactions and verifying all the income and job status and all that kind of good stuff. We tend to see a very strong pull-through rate typically in the [90s] and look, the pipeline has still been very strong. Do I think we'll fall out? Sure. Is there some concern as we talked about just trying to get stuff through the pipe? Yes. What we've done, though, I think, is what we've always done, which is stick to what we do well in terms of the type of properties we finance, the expectation for down payment. So I think that -- and look, we haven't seen a significant fallout. If anything, we continue to see a lot of volume. And our rates today are not at the bottom, a lot of very large banks are markedly lower than us in rate for other reasons. I don't know why. But -- so that, I think, is an answer on the resi side. On the commercial side, I think it's a little harder to predict. Although I'll tell you that with the addition of Philadelphia and New York to our legacy markets, it's really allowed us, and we've seen it quarter-over-quarter, Philadelphia had a good quarter, then New York will have a good quarter, the legacy market have a good quarter. So I do believe we're going to still see opportunities. And as I mentioned earlier, our focus on really strong uncredited [CRE] or strong operating businesses in our markets that we know. Believe it or not, we're going to get some new business add up, the opportunities and some of the things we've done in the PPP program. We've reacted quickly. We've gotten a lot of kudos even from customers or noncustomers that we didn't do the PPP that heard how quickly we reacted to our own client base. So I think that we're going to see more fall out there had to predict the number, but I think that we'll be successful. In terms of committing to loan growth, I think it's a harder dynamic, right? I think the second quarter, we'll see loan growth borrowing barring us deciding to sell some pools in residential just for liquidity. But I think it's a harder dynamic to determine whether or not we're going to see that. It's hard to forecast in the third and fourth quarter.

Russell Elliott Teasdale Gunther
D.A. Davidson & Co., Research Division

Understood. I appreciate your comments, Joe. And then guys, last line of questions for me. Would Pete try to put a finer point around the expense discussion. Understanding the kind of COVID related costs in there. I wonder if you could comment about just what impact on expenses, whether it's positive falling to the bottom line just from certain services being -- or facilities being closed, any offsets on fees that would be lower? Do those things kind of come out in the wash? And then around assumptions for cost savings I believe last quarter, we spoke about a $50 million quarterly run rate by the end of the year. Any update to that guidance would be helpful as well.

Christopher D. Maher

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Chairman, President & CEO

I guess I classify, Russell, by saying that expenses will be -- should be a tailwind for us, not a headwind. We will complete, as Joe mentioned, the Two River integration in the second quarter. That and the reduction of 5 additional legacy branches that were planned before the pandemic, give us that tailwind going into the second half of the year. We're a little cautious, though, about setting -- I wouldn't set out any guidance about a specific expense number. But as of right now, I would say our trends should be favorable. We just want to be cautious and understand as we work through reopening protocols, expenses like PPE equipment and things like that are going to start to pile up. I still think we've got a tailwind, but we'll give you a better update probably after the second quarter.

Operator

Our next question comes from Collyn Gilbert with KBW.

Collyn Bement Gilbert
Keefe, Bruyette, & Woods, Inc., Research Division

First, kudos to you guys for pulling off what you did on the PPP program without having any kind of FBA platform in place prior to that. So that's very impressive. One thing I just want to understand I haven't asked my bank yet this. You guys are the first to ask, but what -- how do you see the relationship between those borrowers that are asking for on PPP participation? And then could they also be asking for forbearance request too? Or how do you either collaborate on those 2 or isolate those 2 situations?

Christopher D. Maher
Chairman, President & CEO

Look one of the reasons to be really good about the PPP program is it improves the liquidity of your commercial clients. So every dollar we can get out to them to help fund their payrolls is going to strengthen their businesses. And in the long run, that's going to strengthen their ability to work with us. So there's a virtuous cycle here where at the end of the day, keeping our businesses a float is only good for us, right? And we're also doing it, obviously, protecting jobs in our community. Banks are closely correlated with their communities. If communities fine, you're fine. And if it's not, you can't do that much to change it. So we looked at that. We also -- we got a tremendous outpouring of requests from noncustomers. We accommodated a few as we could. But I think that this is going to be 1 of those reputational moments for most banks. And look, we're not the only bank that did a great job with PPP, lot of our peers have done a wonderful job as well, but some haven't been able to deliver. And I will tell you that banking was a commodity business 3 months ago. It's not a commodity business today. People understand it. I've even had a couple of cases where people said, look, I need to give you guys a call in 30 days when this comes down, we need to move over to you because we're disappointed with our bank. So -- and thanks for your comments about us getting PPP going. A lot of our staff is up to 24/7. We were working straight through the night to make sure we got this done because we knew is that important for our community.

Collyn Bement Gilbert
Keefe, Bruyette, & Woods, Inc., Research Division

Okay. And then just in terms of the question on those that applied for the PPP program, could they -- I mean, then also apply for bearing?

Christopher D. Maher
Chairman, President & CEO

Yes, there is an overlap there. And if we look at it and we say, look, what's the reason for the forbearance? And if you're a restaurant or something and maybe you're functioning on takeout only or if you're a multifamily landlord, and you have a slightly depressed rent roll for the next 90 days, but you think it's going to catch up. That's a perfectly reasonable reason to have forbearance. What we've always stayed away from is businesses that had a defined significant weakness before the pandemic started, those are the kinds of businesses that we may not be granting forbearance because we may not be able to help them.

Collyn Bement Gilbert
Keefe, Bruyette, & Woods, Inc., Research Division

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Right. Okay. Do you happen to know offhand or have the number, either number of borrowers or dollar size, where there was overlap between the 2 programs?

Christopher D. Maher
Chairman, President & CEO

I don't have that handy. Sorry, maybe we get back to you after the call.

Collyn Bement Gilbert
Keefe, Bruyette, & Woods, Inc., Research Division

Okay. That's fine. It's just not -- again, not a question I ask others, but I started thinking about that. Okay. And then just lastly, Joe, you had indicated in your opening comments, just you mentioned swap activity was strong this quarter. But yet, I think you had indicated that you thought that overall activity would still be strong for the year there. And I guess I'm a little surprised by that and just the thought that activity would sort of come to a screeching halt. Can you just kind of walk through sort of how you're thinking about that business line and what activity you would need to see within your commercial borrower base to sort of drive that?

Joseph J. Lebel
Executive VP & Chief Operating Officer

Yes. I think for us, adopting the product a little over a year ago, after I'd say, probably a few years of clients saying, this is -- we -- a lot of us said have been familiar with swaps in the past from prior companies. We look forward to the opportunity and when we have the depth and the breadth to be able to do it on our own. So adopting it was good. A lot of clients were excited to have it. It's opened new doors for us. And I think I mentioned that swap income could be choppy, right, quarter-over-quarter, depending on what you get done. I think what we're seeing with a lot of borrowers that have very strong liquidity and balance sheets that want to have and do swap transactions as they're looking at what's likely to occur. So we're at all-time lows in interest rates and what's likely to occur is maybe not tomorrow, maybe not new year, maybe not in 5 years, who knows higher rates at a certain point or at least normalized rates. So borrowers look at the opportunity for flexibility swaps do give them that flexibility. So I still think -- look, it may not be significant. I think it will end up being a very good year for us in swaps. And I think it will just continue as the economy recovers. So we're bullish. We're bullish on the swap business, but we're cognizant of it. We still maintain that that credit appetite, that's a little bit more conservative. So we're making sure we cover the bases on both sides.

Collyn Bement Gilbert
Keefe, Bruyette, & Woods, Inc., Research Division

Okay. That's helpful. And there's a last question. Maybe, Chris, sort of big picture or Joe, you too, on the lending side. But are you seeing just sort of anecdotally differences among how your business borrowers are operating and then we'll respond when the economy starts to open again, like from the geographies of what you're doing in New York City versus New Jersey versus Philly, any sort of interesting takeaways there as to how you might see each of those markets come back posted?

Christopher D. Maher
Chairman, President & CEO

Yes. There's certainly been some interesting things that you'd pull out of the data that you might not have expected. So the #2 category requesting PPP loans from us, for example, was the health care category. Which when you start to think about the dislocation in cash flows in health care, whether it's a hospital or a doctor's practice, these the stopping of elective procedures and all that has really disrupted health care cash flows, which you might not have expected going into this. So we're seeing -- and we're seeing other things. We had a high-end jewelry retailer that was preparing for something like this, had plenty of cash and doesn't need any help, which we thought would have been 1 of the first people on the list to ask for help. In terms of regions, there's certainly a difference given the impact of the pandemic has impacted, for example, the New York City area much more than Philadelphia, at least thus far. But the theme we're hearing across all of our markets. When you talk to -- I'll call them our smartest, most liquid and best prepared commercial clients is they sense that it's going to be a good time to make investments at some point in the next year or 2, but they are not interested getting involved until there's more clarity around economic conditions. So I think there will be a wave of people that are on the sidelines today. There's a lot of cash out there that are more than happy to make investments going forward. But they're not going to step into the market yet. So the smartest people that we're talking to are waiting and watching. They

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plan to be jumping in and investing. I think that will happen at some point in 2020. And that's the opportunity where we just can't tell what loan growth might be. I'll say this. I think the credit appetite in our communities later in 2020 and going into 2021 is going to be very strong. So provided those reasonable credit requests, there could be an opportunity for us to continue to show organic loan growth. But we've got to wait and see how that unfolds.

Operator

Our next question will come from Eric Zwick with Bunning at Scattergood.

Erik Edward Zwick
Boenning and Scattergood, Inc., Research Division

First question, just curious if you have an expectation for what percentage of the PPP loans will ultimately be forgiven? And then secondly, when -- what quarter you would potentially record the associated accelerated to see?

Christopher D. Maher
Chairman, President & CEO

I'll take the first question, kind of anybody's guess on what percent will be forgiven. But we think it's probably a pretty high percent. I think the folks that are accessing the PPP program are doing so because they plan to maintain their payrolls. They'll be eligible forgiveness, and we'll file to do so. And we expect the significant effort to help our customers do that. And it's going to be honest before you know it. Those forgiveness requests are going to start to hit in just a few weeks. The reason I'm a little bit tempered on it is we've had more than 1 story from a client who has applied for taking the app funding. It's called their employees, ask them to come back to work and their employees have declined. And as you can imagine, for all the right reasons, the unemployment supplement that Grace was talking about earlier. In some cases, means an hourly worker earns the same or better, staying on employment than they would -- coming back to work. So the financial incentive is not there. And they've got concerns about coming to work and in an environment that's kind of rough today. So I think if there's an issue around forgiveness, it's going to be for those businesses who had difficulty getting their folks into work. So they could pay them and qualify for their forgiveness. So I think that's where that a why.

Erik Edward Zwick
Boenning and Scattergood, Inc., Research Division

Understood. I appreciate that.

Christopher D. Maher
Chairman, President & CEO

What's your second part of question, but I'm sorry, I i.

Erik Edward Zwick
Boenning and Scattergood, Inc., Research Division

Yes, it was in terms of what quarter you would potentially expect to record the accelerated fee once they're forgiven?

Christopher D. Maher
Chairman, President & CEO

I think you're going to see the majority of that in the next couple of quarters. But -- and then with a tail after that. So I think if you're getting 2/3s or 3 quarters of that in the next 2 quarters, it's probably around the right tempo.

Erik Edward Zwick
Boenning and Scattergood, Inc., Research Division

Great. And then just looking at the trends of the loan yields, both the pipeline yield and the origination yields, it looks like the residential real estate yields have held up better relative to commercial and home equity. I'm curious if that's something specific to you, your customers? Or if that's a reflection of some of the dislocation that we've heard about in the secondary market for residential mortgage loans?

Christopher D. Maher
Chairman, President & CEO

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I think that's true in residential. There has been a dislocation. You saw kind of well stepping back from the correspondent business. So there are fewer players out there. But there's a broader thing going on as well. Most of our peers and we've done the same thing, have instituted pricing floors because we're just not -- we're simply not interested in making long-term loans at today's interest rates so the historical relationship between, say, the 10-year treasury and residential rates or even the 5-year treasury and commercial rates as the credit spreads have widened. So I think you're going to see better pricing than the yield curve would expect you to see in this market.

Erik Edward Zwick
Boenning and Scattergood, Inc., Research Division

And then just last question for me. In terms of the 949,000 charge offs of, as I think you guys call it, higher risk residential loans. Any color you could provide there with these loans, particularly related to cove developments? Or are they previously criticized? Just kind of curious how that played out.

Christopher D. Maher
Chairman, President & CEO

Those were all pre-COVID issues. And we've just adopted a position. It goes back a couple of years now where if -- especially in the consumer world, if things start to slide, we don't want to be part of them. And obviously, we sell them at a loss, but we'd rather get them off the balance sheet, sometimes your first loss is your best loss. But no matter what, we knew we had to make room. We expected a cycle shift. We didn't expect this. But in a cycle shift, you don't want to have to fire sale assets. So what you do is you make room on your balance sheet. So when you've got good borrowers, you can work through things with them. So it goes back a couple of years now. We -- as soon as we had a pool of loans we could dispose of, we would dispose of them and cut our losses and move on.

Operator

[Operator Instructions] Our next question will come from Louis Feldman with Wells Fargo Asset Management. .

Unknown Analyst

Mike, quick question for you. Given the stock price adjustment and stuff, have you talked with your auditors about impairment, goodwill impairments at this point?

Michael J. Fitzpatrick
Executive VP & CFO

We have, Louis, we've gone through that analysis is given the stock price and some other issues related to COVID, we thought that might be triggering events. So we've done -- we usually do that in now analysis annually in August, but we did it just recently, and there was -- we concluded that there was no impairment and our olders agreed with that.

Operator

Our next question will come from Stan Westhoff with Walthausen & Co. .

Stanley M. Westhoff
Walthausen & Co., LLC

Just to get off on a different topic. On funding cost. I mean, you had a pretty good jump on your deposit costs. And obviously, a lot of that came over from the acquisitions. Where are we standing now? Or what are your plans to try to reduce some of those -- I guess, really the big spot was the savings account rate jumped up 30 basis points here?

Christopher D. Maher
Chairman, President & CEO

Yes. So the -- that was driven entirely by the acquisition of Two River and Country that had higher deposit rate structures than OceanFirst legacy had before that we brought them in. We typically do adjust rates as we go through acquisitions. We're always reasonably careful to do that over time as we get to know those customer bases and not kind of shock them with a lot of rate reductions. So we began reducing rates in earnest in those 2 portfolios probably late in the first quarter, so you wouldn't see much of it in the overall deposit costs. But I think as Joe said earlier, we expect to be able to reduce the deposit cost of legacy OceanFirst but also the Country and Two River acquired deposit portfolios over the course of

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this quarter. So -- and we're looking forward to that to help the stabilization of margin. So there is room to bring those down, and you'll see that coming down.

Stanley M. Westhoff
Walthausen & Co., LLC

Okay. Yes. I was hoping to hear something along those lines. And then, I guess, not to beat a dead horse as much for this whole CECL stuff. Did I get that right that basically the quantitative part of that model actually suggested at least a very small increase in the provision, and you decided to add to that with that $7 million?

Christopher D. Maher
Chairman, President & CEO

Yes. It's ironic. You're actually right. So well, obviously, there was a day 1 adjustment, right, where we had to gross up different methodology. But after we grossed up, there's really 2 things that happened during the quarter. The first thing is our loan mix changed. And loan mix has a lot to do with provisioning because different loans have different experience levels. The second thing that happened is every quarter you add to your history changes your loss history. And we added another quarter of low losses to our history. So the quantitative numbers shifted down because our loss rate actually continued to come down. And then it shifted again because the composition of loans were very different. So I guess all else equal, we would have had the possibility of a contraction in the oil that counting the day 1. And we certainly didn't think that was appropriate given economic conditions. The other thing is that CECL drives off an economic model. Every bank has -- some banks use their own projections. We don't have -- we're too small to have a group of economists here at the bank and probably thank God for that. But we have purchased the services of -- we use Oxford analytics. They provide us with our economic forecast. Their forecast was more benign than a number of other forecasts we saw in the market. So we wanted to calibrate for that too and say that the quantitative model was the inputs into that, the economic inputs we're rather benign. So we using the qualitative adjustments, we're able to adjust it to some of the other more gecon an forecast ahead of economic conditions.

Stanley M. Westhoff
Walthausen & Co., LLC

Got you. I guess, can you share what you -- I guess -- because I know I've been understanding the unemployment number is a big factor in this. Can you share what that unemployment number was that was supposed to go into that model?

Christopher D. Maher
Chairman, President & CEO

I'd like to get away from sharing individual numbers because there's a lot of numbers in there. The unemployment numbers, one, the GDP numbers and other, but there's a whole bunch of other numbers that go into it, probably somewhere around the range of 50. So once we start giving 1 or another, you started to go down a slippery slope. I will tell you though that the Oxford number was lower than most other estimates, and that's the reason that we put on the qualitative reserve.

Stanley M. Westhoff
Walthausen & Co., LLC

Okay. That's kind of what I was kind of pointing out. Obviously, it sounded like there was lower. I was just trying to get a degree factor in that.

Operator

[Operator Instructions] Our next question will come from Frank Schiraldi with Piper Sandler.

Frank Joseph Schiraldi
Piper Sandler & Co., Research Division

Just 1 quick follow-up. Wondering how we should think about the increase in delinquencies linked quarter? Is that just kind of bouncing around? Is that COVID related and should turn likely into deferments at some point? Because a 30 days greater past due, it would seem that would imply, I guess, February, which would seem to be early to be COVID related. But just how do we think about that?

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Christopher D. Maher
Chairman, President & CEO

Yes. So you're exactly right, Frank. Some of that, we think, has driven, we think, hopefully, the majority of it by COVID. There's a strong overlap between forbearance requests and delinquencies because we only started soliciting forbearance requests on on March 16. And then we do -- we're credit underwriting them. So there's a credit process before we actually declare forbearance. There's another small number that's related to the [1 2 31] number was Ocean first only. And the [3 31] number includes Two River and country, so it's just a larger loan book. But we would look to, by the end of the second quarter, have those moderate because of forbearance requests.

Frank Joseph Schiraldi
Piper Sandler & Co., Research Division

Okay. And then just to bring the idea that those ran into issues in February. And because I've seen this in a lot of banks, actually, I just haven't asked a question yet. Do you think it's just people saw the writing on the wall and just in an attempted cash preservation. They missed the February payment and and it truly is something that's COVID related?

Christopher D. Maher
Chairman, President & CEO

I think this is where geography may have a big difference. So we operate kind of in the epicenter, unfortunately, right now, of where the heaviest COVID cases are in the U.S. So if you were in New York, if you're in North Jersey, some of those early issues drove sentiment. I will say this that the -- going through year-end, delinquencies have trended really positively. Our weighted average risk ratings on loans before COVID was all very good news. In fact, some of those restaurant hotel businesses that have issues today had among their best years ever in 2019. So that helped a little bit, but there's a big change in sentiment.

Operator

This concludes our question-and-answer session. I would like to turn the conference back over to Christopher Marr for any closing remarks. .

Christopher D. Maher
Chairman, President & CEO

All right. Thank you. With that, I'd like to thank everyone for their participation in the call this morning and now this afternoon. We faced a very troubled economy in the coming quarters, and nobody has a crystal ball, but our company has been around since 1902 for a reason. We take conservative risk positions. We're strongly profitable, and we maintain ample capital levels. We look forward to talking again after our second quarter results are posted in July. Thanks again. Say.

Operator
The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.

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