WSFS Financial Corporation [WSFS]
4Q 2021 Earnings Conference Call
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Company Participants:
Rodger Levenson; Chairman, President and Chief Executive Officer
Dominic Canuso; Executive Vice President, Chief Financial Officer
Art Bacci; Executive Vice President, Chief Wealth Officer
Steve Clark; Executive Vice President, Chief Commercial Banking Officer
Rick Wright; Executive Vice President, Chief Retail Banking Officer

Analysts:
Michael Perito; Keefe, Bruyette & Woods
Erik Zwick; Boenning & Scattergood
Brody Preston; Stephens, Inc.
Russell Gunther; D.A. Davidson & Co.
David Bishop; Seaport Research Partners
Frank Schiraldi; Piper Sandler & Co.

Presentation:

Operator: Ladies and gentlemen, thank you for standing by, and welcome to WSFS Financial Corporation Fourth Quarter 2021 Earnings Conference Call. (Operator Instructions) Please be advised that today's conference is being recorded. (Operator Instructions) I would now like to turn the conference over to your speaker for today, Dominic Canuso, Chief Financial Officer. You may begin.

Dominic Canuso: Thank you, Towanda. And thanks to all of you for taking the time to participate on our call today. With me on this call are Rodger Levenson, Chairman, President and CEO; Art Bacci, Chief Wealth Officer; Steve Clark, Chief Commercial Banking Officer; and Rick Wright, Chief Retail Banking Officer.

Before we begin with our remarks, I would like to read our Safe Harbor Statement. Our discussion today will include information about our management's view of our future expectations, plans and prospects that constitute forward-looking statements. Actual results may differ materially from historical results or those indicated by these forward-looking statements due to risks and uncertainties, including, but not limited to, the risk factors included in our Annual Report on Form 10-K and our most recent quarterly reports on Form 10-Q as well as other documents we periodically file with the Securities and Exchange Commission. All comments made during today's call are subject to the Safe Harbor Statement. With that read, I will pass the call over to Rodger Levenson.

Rodger Levenson: Thanks, Dominic. Considering the unique nature of the timing of the Bryn Mawr Trust close on January 1, I will provide a few summary thoughts on 2021. After my remarks, Dominic will be providing a detailed overview of the 2022 outlook, which includes the full year of the combined companies.

2021 was a strategically important year for WSFS. Our financial results were very strong with full year core earnings per share of $5.63 and a core ROA of 1.80%. In conjunction with the improving economy, we experienced a release of approximately $117 million of the credit loss reserves from the COVID-related build in 2020. Excluding the impact of the reserve release, the full year core PPNR was $236 million or 1.58% of average assets. As detailed in the earnings release and investor presentation, the primary drivers between reported and core results were corporate development and restructuring expenses related to BMT and the impact of the litigation settlement recovery, which occurred at the end of the year.

In addition to our financial performance, WSFS exited 2021 with very positive momentum, driven in large part by our prior franchise investments.

First, while loan growth continues to be impacted by significant excess customer liquidity, commercial loan fundings and pipeline continue to grow in the fourth quarter, exceeding pre-COVID levels. The Upstart consumer loan partnership has performed above our original plans and NewLane Leasing had its strongest quarter in its early history.

Second, deposit growth continued in the fourth quarter, mostly from our Corporate Trust business in Wealth Management, almost all of which is non-interest bearing. It is important to note that 54% of our Customer deposits are from Commercial, Small Business and Wealth segments.

Overall, our balance sheet remains asset sensitive and combined with our liquidity, we are very well positioned for rising rates and our ability to fund future loan growth.

Next, both Wealth Management and Cash Connect ended the year strong, continuing to underscore the strength and diversity of our fee-based businesses.

Also, consistent with the reserve release in the quarter, credit metrics continue to improve with significant reductions in Problem Loans, Non-Performing Assets and Net Charge-offs. Overall, these metrics are at or near where the portfolio stood at the end of 2019 prior to COVID.

Finally, and importantly, we closed BMT right after the end of the year. As we said at the announcement, this combination significantly strengthens our business model, builds on prior franchise investments, and enhances our unique competitive positioning as the largest locally headquartered bank and Wealth Management franchise in the Greater Philadelphia and Delaware region.

I will now turn it back to Dominic for the 2022 outlook.

Dominic Canuso: Thanks, Rodger. We head into 2022 with significant opportunities as a combined organization with over $20 billion in assets and $58 billion of AUA and AUM. We anticipate our performance to improve throughout the year as we capitalize on our unique presence in our markets, execute on revenue synergies and achieve cost synergies from our combination with Bryn Mawr Trust.

On Slides 5 and 6 of the Investor Presentation, which is available in the Investor Relations section of our website, we lay out our expectations and outlook for 2022, which I will walk through now. The growth rates in our outlook are based off the combined pro-forma year-end 2021 estimates presented on Slide 5.

Net loan growth is expected to be in the mid-to-high single digits, excluding runoff in our acquired residential mortgage portfolios. With the combined 102 lenders across C&I, CRE, Small Business and Private Banking, Commercial Loan growth is targeted in the mid-single digits. This is supplemented by double digit growth rates in NewLane, our small ticket leasing business and our Consumer Partnership Portfolio, which includes the recent successful launch of our Upstart lending product. These growth rates assume a reduction in commercial loan payoffs resulting from the excess liquidity, given the anticipated rising rate environment.

Deposits are expected to remain relatively flat throughout the year. Our elevated and robust deposit levels, supported by our relationship-based strategy, are generated from across all our primary lines of business, while providing historically low funding costs. Our expectations are subject to the somewhat unpredictable nature of the current macro excess liquidity environment, which we assume continues at elevated levels through 2022.

Consistent with our strategy over the past two years, we continue to deploy our significant excess liquidity methodically into our investment portfolio, generating yield and earnings, while maintaining a shorter duration and providing ample liquidity for future net loan growth or reinvestment at higher interest rates if the excess liquidity environment persists.

Full year Net Interest Margin is anticipated in the 3.15% to 3.20% range, with margin expansion throughout the year, supported by loan growth and 3 assumed interest rate increases of 25 basis points each. Our NIM outlook assumes 7 to 11 basis point benefit of purchase accounting accretion and the 35 to 45 basis points of negative impact from excess liquidity.

Fee Revenue growth is expected in the mid-single digits, including a reduction in deposit overdraft fees, the impact of Durbin on Bryn Mawr's legacy interchange income and the loss of PPP fee income in 2021. Excluding these impacts, Fee Revenue is expected to grow mid-to-high single digits, driven by double-digit growth in Cash Connect, mid-to-high single-digit growth in Trust and Wealth, and meaningful growth from synergies from BMT's Capital Markets platform, particularly in a rising rate environment. This results in a Core Fee Income Ratio in the low to mid-30's.

Provision costs are expected to be between $15 million and $25 million, excluding the initial ACL impact attributable to BMT. Provision costs are driven by assumed net loan growth, continued strong portfolio credit metrics, and a stable economic outlook.

An efficiency ratio in the low 60s is driven by the assumptions previously mentioned, our continued investment in Talent and our Delivery Transformation initiative, along with the phasing of the BMT cost synergies, beginning with the bank conversion in late 1Q. We are on track to meet or exceed the 65% of the target annual cost savings identified with BMT, with 100% of the targeted cost savings achieved by early 2023. As cost synergies are realized, the 4Q efficiency ratio is expected to be in the high 50s.

And consistent with 2021, our tax rate is expected to be around 24%.

Based on anticipated performance and driven by our momentum and strategic opportunities previously mentioned, ROA for the year would be around 1.10%, with performance improvement expected throughout the year, and a 4Q ROA around 1.20%.

We will now open the line to answer any questions you may have.

Questions & Answers:

Operator: [Operator Instructions] Our first question comes from the line of Erik Zwick with Boenning and Scattergood.

Erik Zwick: Wondering if I could first start with just the interest rate sensitivity. You mentioned obviously within your assumptions for the year, you're assuming three Fed funds rate increases throughout the year.

Just curious how your asset sensitivity may have changed with Bryn Mawr now with that transaction closed? And additionally, what are you assuming as far as deposit beta assumptions in that model? And just kind of curious if you think the real-world betas in this cycle will be similar to what you're using in the model?

Dominic Canuso: Sure. Thanks, Erik. So we are asset sensitive as laid out on our Slide 35 of our Investor Presentation. However, I'd caveat that, that is the legacy WSFS at year-end 12/31.

Currently, our variable book is about 52% of total loans. With the close of BMT, we anticipate that to be in the high 50s, so we would increase in asset sensitivity. The three rate increases assumed this year have approximately a 6 basis point impact on NIM with an exit impact of about 12 basis points.

The deposit ratio -- sorry, assumed is close to 0, given the extremely low interest rates and our experience that there's typically a 6- to 12-month lag in deposit betas after the first interest rate increase.

Erik Zwick: That's great. And then turning towards the expectations for loan growth in the year, within that slide, you mentioned some confidence in -- or mentioned reduction in loan payoff levels throughout the year.

Just curious about your confidence in that occurring? Are you already seeing paydown slowdown with some of the increases in rates we've seen at this point?

Steve Clark: Erik, this is Steve Clark. So this is our view that we believe with a rising rate environment, some of the payoffs we've experienced this past year and this past quarter will be behind us.

Many of our CRE borrowers have found the permanent market and have locked in rates with the threat of increasing rates. So our forecast is less payoff activity during 2022 than prior years.

Erik Zwick: Got it. And last one for me, just sticking to the loans. Within the '22 outlook, you talked about the mid-to-high single-digit growth, excluding the residential mortgage portfolio. So just curious, are you guys aiming to keep the residential mortgage portfolio flat? Or do you think it will decline throughout the year? Or what are your expectations with regard there?

Dominic Canuso: Sure. This is Dominic again. We would expect that to run off, commensurate with the interest rate environment and the refinance conditions. So what is it expected to run off with a headwind of about 1% and 1.5% impact to our net growth rate.

Erik are you still there? Towanda, maybe he got disconnected, if we could continue with additional questions.

Rodger Levenson: This is Rodger Levenson for those of you still -- if you're on the call, we're just trying to connect with the operator, not sure what happened. We will be connecting shortly.

Operator: Our next question comes from Frank Schiraldi from Piper Sandler.

Frank Schiraldi: Just curious on the -- what the modeling implies for or assumes for securities purchases, increases in the securities book in 2022?

Dominic Canuso: Sure, Frank. This is Dominic. The recent interest rate that we've been acquiring is in the high 170s, and we're anticipating that to increase with the expansion of the 5 and 10 year.

However, the runoff legacy investments could be comparable to that rate as they were purchased at a higher interest rate environment. So where we landed the year at about 170 yield on that portfolio, we do anticipate to continue for the foreseeable future.

Frank Schiraldi: Okay. And in terms of size of the securities book over the year?

Dominic Canuso: Yes, we would expect it to grow about 5% from where we ended the year. So a couple of hundred million more as we complete our current round of excess liquidity deployment, any remaining incremental purchases would be a function of the macro-economic liquidity environment.

Frank Schiraldi: Got you. And then in terms of the guide on the Wealth Management side, I think it's mid to high single digits. Does that factor in the recent equity market sell-off and then how do we think about that factoring into growth, especially now that you have more of an actively managed portfolio?

Art Bacci: Frank, this is Art Bacci. Thanks for the question. Let me -- just stepping back a second. I mean I'm still expecting more higher single-digit growth in our core business. But if you look at our Wealth business, we really have three sources of fee income.

One is driven by our account-based fees that tends to come from our Corporate Trust area and some of our directed trust. We have AUM-based fees and then we have transaction-based fees. So we serve as assignment agent for some high-yield deals, and there was a lot of trading in those positions in the fourth quarter.

And if you look at the volatility, third quarter of this 2021, we saw a 50% increase in assignment fees[1]. That declined by about 25% in Q3, and we saw a 40% increase in Q4. So it's very volatile. So when you kind of strip out that transaction activity, we're still looking at high single-digit growth in our core Wealth business.

Frank Schiraldi: Okay. And does that look at what happened in January in the markets? I just don't know how impactful market moves are to the -- at least the actively managed portfolio?

Art Bacci: We really bill in arrears. So our fourth quarter AUM was up about -- combined BMT and WSFS is about 5%. So that would indicate to me about a 5% revenue growth, all else being equal. Going into Q1, we have modeled an assumption that the markets -- our portfolios would be up probably 4% to 6% this year.

The volatility you're seeing right now, we saw it in the first -- fourth quarter of 2018, we saw it in the first half of 2020. That's to be expected, but that doesn't mean the market for the full year will be negative, and we still expect positive returns this year.

Frank Schiraldi: Sure. Okay. And then just lastly, if I could, in terms of the double-digit Consumer growth, how much does Upstart play into that? And is it the majority of growth? And what sort of yields -- average yields are you getting there?

Rick Wright: This is Rick Wright. On the Upstart side, I'd say we're just starting to grow that, although it's been a fairly substantial front-end effort on that. I would say that Spring EQ and Upstart together will account for a significant amount of that growth where -- we're doing a lot of production in the other areas, but the runoff, the paydowns, the use of the credit lines are still headwinds. So the basic answer is Upstart and Spring will be a lot of it. The yield is in the mid-7 on Upstart.

Frank Schiraldi: Got you.

Dominic Canuso: And Frank, just to clarify, that's the bottom line NIM, the gross yield on those products are 12% to 13%.

Frank Schiraldi: I'm sorry. So the loan yields 12% to 13%?

Dominic Canuso: Correct.

Frank Schiraldi: Upstart as opposed to, obviously, that's not Spring EQ, that's Upstart yields.

Rick Wright: Correct.

[1]Correction: second quarter of 2021, we saw a 45% increase in assignment fees

Operator: Our next question comes from the line of Michael Perito with KBW.

Michael Perito: Hello. Can you guys hear me?

Rodger Levenson: Yes, Michael.

Dominic Canuso: We got you, Mike.

Michael Perito: Sorry. I had a couple of places I wanted to touch on. Just -- #1, on the Bryn Mawr side. Rodger, I was curious if you could just provide some updated commentary around kind of key employee and Customer retention with the transaction now closed?

And just generally speaking, also on top of that, what the kind of the hiring pipeline in that greater Philadelphia market looks like, which is something I think you guys had some nice momentum on moving into that transaction?

Rodger Levenson: Yes. Thanks for the question, Mike. I think on the Customer side, things are going really, really well. And we really haven't seen any attrition to any degree at all in both the Consumer, Commercial, and Wealth businesses.

There's been a few folks in the Wealth and the Commercial side that have left, I'd say it's all RMs and Customer-facing folks. I'd say it's all very manageable and to be expected when you go through a combination like this and a number of the positions have already been backfilled.

And looking out in terms of future adds, particularly on Commercial RMs, I think we're cycling into that point in the year, particularly as you get past bonus time and others, that those conversations will heat up again. They've been having kind of informal -- happening kind of informally up until now.

And as we said when we made the announcement, I think Bryn Mawr only makes us a more attractive landing spot particularly for somebody who's at a larger bank and isn't happy for whatever reason. So, we'll continue to look to invest in bringing talent over to the extent that we think it can be additive to what we already have.

Michael Perito: Great. And then curious just kind of a 2-part question. I was looking at the Slide 17, you guys put in the deck about some of the strategic partnerships. And I guess, number one, with Bryn Mawr now in the fold, how do you guys see kind of the mix of business unfolding?

I think after the Beneficial deal, there were some conversations around remixing the loan book back closer to where legacy WSFS was and obviously, Beneficial took down your fee contribution as well. Bryn Mawr not so much. But just kind of curious if you can give a broader outlook in terms of how you see kind of your mix of business developing over the next handful of years?

And then also just as we look at this kind of secondarily to that, at the Strategic Partnership slide here, where does this go? I mean is this, at this point, kind of done for the near term? Is there more stuff in the pipeline that you guys are looking at along these lines? Would love some color there.

Rodger Levenson: I'll start and then anybody else from the team can jump in, just kind of starting with the last piece and circling back.

So, I think for a long time, partnerships have been an important part of our business model. Our company has a long history of connecting with entrepreneurial folks if it can be additive to us serving our Customers.

And what you see on that chart are the recent results of that, and I think that will continue to play out. there's really nothing imminent on that front, although a number of those things. I would just remind you, Mike, are still in very early stages. And for example, Cred.ai is just starting to launch their platform.

So I think that will continue to be a big part of our business, I think, particularly on the Consumer side. I think partnerships will -- like Upstart, will continue to be a significant part of how we serve our Customers. And in terms of the overall business mix, I think what you're going to see is, obviously, Wealth becomes a much bigger part of our business to almost 50% of our fee-based revenue going forward. We still think there's a tremendous opportunity in the Commercial space with the growth opportunity we have there.

And I think the consumer bank with the lift from the partnerships will continue to be an important part of the business model as well. So I don't think it's a dramatic shift in our business mix, but I clearly see Wealth and Commercial being the primary growth vehicles.

Michael Perito: That's helpful, Rodger. Is there any loss -- anything material loss-wise related to SoFi with them being approved for a bank charter on the 3-year deposit side?

Rodger Levenson: No. We're totally out of that relationship. We actually sold our equity stake earlier in 2021. So there's no financial impact to the SoFi partnership at this point.

Michael Perito: Got it. And then just lastly for me on the buyback. Curious if you guys can just give us a comment of where the pro forma capital ratio shook out when you closed on the first relative to what you expected? And just any general thoughts on to you guys said in the release you plan to resume buybacks, but just some additional color there would be great.

Dominic Canuso: Sure. Frank, this is Dominic. We have not fully closed the books, obviously, on day one and will provide significant information with regard to the first quarter close and day one marks.

But at this point in time, the pro forma capital is meaningfully favorable to the transaction announcement information along with our regulatory applications. So we continue to be in a highly excess capital position. As we stated in the materials, we do anticipate with the closure of the BMT transaction to resume share repurchases. As we've stated before, our capital philosophy is to return a minimum 25% of annual core earnings split relatively equally between our dividend and share repurchases, regardless of price. And then incremental share repurchases depending on the stock price and the IRR that we would achieve through those share repurchases.

I would note that we did pause early last year with the announcement of BMT. So, we have both the 2021 and 2022 routine share repurchases ahead of us, which is around $60 million and regardless of price and then incremental to that would be dependent on the stock price.

Michael Perito: Got it. That is very helpful. Thank you, guys.

Operator: Our next question comes from the line of Russell Gunther with D.A. Davidson.

Russell Gunther: Just a quick follow-up on the recruitment line of questioning earlier, the RM adds that are seasonally starting to happen. Is that target at all in footprint? Or are there adjacent or new markets you guys would look to employ that strategy in as well?

Rodger Levenson: Russell, it's Rodger. So, it's really primarily in footprint. We would consider, and we've had some conversations with some folks in adjacent footprints, nearby geographies. But the primary focus, as we've talked about is really on the market opportunity in our geographic region, which, as you know, is very large from both a geography and a business count standpoint.

Russell Gunther: Yes. Plenty of opportunity. Understood. Okay. And then back to the guide on fees. You guys mentioned reduction in overdraft fees. So just curious if you could provide any additional color in terms of what's planned there and potential revenue at risk, any additional thoughts?

Rick Wright: Yes, this is Rick Wright again. I would tell you that over the last several years, we've made incremental decisions to make that a little more Customer-friendly as we've gone along. And at this point, the amount of overdraft revenue is not really significant for us.

And I would say that we're talking like $1 million odd dollars in further reduction with this latest move. So, we'll continue to look at it, but it's really very immaterial to our fee revenue.

Russell Gunther: Very helpful. And then just last question for me is on the expense side of things. The guidance talks about the continued Delivery Transformation investments. Could you just give us an update in terms of where that stands? And any color on how that impacts the expense base for '22 and beyond?

Dominic Canuso: Sure, Russell, this is Dominic. So, we do provide information on our delivery transformation on Slide 18. And we've communicated by both the $13.3 million net investment in 2021, along with a slight step-up and increase into 2022, primarily just from timing of some initiatives going into next year.

We continue to focus on a holistic approach to serving our Customer an omnichannel experience and a technology stack that provides flexibility outside of our core systems to bring in new partnerships, as we've talked about, but to also create operational efficiencies in the back office and across the organization, from our lenders to our data analytics.

Next year, we'll be very much focused on rolling out our Salesforce CRM platform to ensure that we have a OneWSFS approach to all the products and services we offer. We're also launching next-gen sales and service, which includes online -- an improved online account opening experience, where currently our most recent launch, a Customer can open up a deposit account in as little as 2 minutes, which is a significant reduction in prior processes, and we'll continue to roll out those capabilities and enhancements throughout the year.

Russell Gunther: That's really helpful, Dominic. Just one quick follow-up. Is the bulk of that investment then behind you guys after this year? Or is this sort of $13 million to $15 million over the past couple of years, something we should think about going forward in terms of what you have planned?

Rodger Levenson: So I'll jump in Russell, it's Rodger. So, I think it's hard to predict. I think there's a certain amount of this that's going to be ongoing. But to forecast out beyond the current year is something we're going to have to see based on our assessment of what we need for our Customers and what the current landscape is.

So I would say we're talking about these levels. But any one particular year, it's kind of hard to forecast at this point. I do think though we are also at an inflection point on this whole project. We've been at it now for over 3 years we've made a tremendous amount of investments in talent and process.

As Dominic mentioned, more of that is showing in some of our Customer-facing applications that we're working on this year, and I think that will continue to be the focus. But if you think about when we started that project from where we're at today, we're a very different company, particularly in the size of the Wealth business and the expansion in some of our partnerships and other things. And we'll just have to continue to evaluate how that will drive where we want to invest those dollars moving forward.

Operator: Our next question comes from the line of David Bishop with Seaport Research Partners.

David Bishop: Just most of my questions have been asked and answered. But maybe, Dominic, remind us maybe post-close Bryn Mawr transaction, the sort of balance sheet restructuring, the security repositioning or paydown of borrowings or cash and maybe your view of excess liquidity exiting the year?

Dominic Canuso: Sure. First, I'll start off with our kind of directional loan to deposit as we ended the year with a loan-to-deposit ratio of 60%. And because of the excess liquidity and really strong Customer deposits across all of our business, we believe that was significantly low.

BMT did bring a loan-to-deposit ratio more in the 80%. So naturally just combining those, it lessens that excess liquidity impact overall on the balance sheet to our net interest margin, given the outlook that we've provided.

We are restructuring their investment portfolio to be commensurate with our strategy. Much of that was actually executed in the fourth quarter in anticipation of the close on the first. So the ending balance sheet is relatively consistent with where it will land. Throughout 2022, we will evaluate primarily their trust preference and some sub debt that are higher interest rates that we would likely call and we communicated at the time of the combination that there would be some of that activity that would continue to support and improve margin that is included in our Net Interest Margin outlook that we've provided.

David Bishop: Okay. Great. And I apologize if I missed this in the slide deck, but C&I line usage, I don't know if you have an update this quarter versus last, just curious where that comes out.

Steve Clark: Yes, David, Steve Clark again. So we actually, in the fourth quarter, saw an uptick in Commercial line of credit utilization, ticked up from 33% to 35.8% in the fourth quarter from the third quarter. So that meant about $55 million in balances.

And we're hopeful as the liquidity runs off, that utilization rate will continue to trend back to our historical norms, which had been in the low 40s to mid-40s as a percent.

Operator: Our next question comes from the line of Brody Preston with Stephens Inc.

Brody Preston: So I've got a handful of questions. I'll try to get through them quickly. You guys just put a lot of great info in the deck, which kind of results in more questions from me. But I guess, on the buyback front, maybe I'll try it a different way. I know that the commitments to return at least 25% of capital every year. But if I look back at like 2019, you all were trading at a similar level to where you are now. The forward ROTCE outlooks were pretty similar for the bank as to where they were now on average throughout 2019. And you're in a more favorable liquidity and capital position today than you were back then and you bought back 7% of shares in 2019 throughout the year.

And so just in terms of a thought process perspective, would it be unfair to say if I look at where the stock is trading, look at what the IRR is and the profitability of the bank, would you at least be open to taking a similar approach as we did back in 2019 now that Bryn Mawr is closed?

Rodger Levenson: Yes. This is Rodger again. Just to remind, Brody, you hit on all the key points. But we've been very disciplined for a long period of time on these nonroutine buybacks with a model that we have that we target an 18% IRR. And the calculation of that IRR is driven by the increase in the EPS. The EPS accretion offset by the tangible book value dilution. And obviously, stock price driven on that. 2019, it was very favorable in terms of where our share price was in the fourth quarter of '19, and that is why we moved quickly on the amount that we bought back in that quarter.

I think we're at levels at this point with the share price, which are getting close to it being attractive for us. But as you can see, we're still at this point, fairly fully valued. And so we'll just have to monitor and see how that plays out. I think, as I said, being disciplined and waiting for that time that it works from the IRR and not convincing yourself to move more quickly by changing some of the inputs on that model or other things, we have learned is a bad strategy. So we're going to stick with our model and to the extent the market moves to a direction that makes that favorable at 18% or better, we will be very aggressive.

Brody Preston: Understood. Maybe just on the loan portfolio real quick. I saw that you put the $908 million of the variable loans are at floors. Do you happen to know how many hikes it would take for that $908 million to come off of floor levels?

Dominic Canuso: Brody, this is Dominic. It's about 2 to 3 rate increases on average because of the blended rate that's involved in the book. So for that portion, the 3 rate increases we assumed start to benefit towards the later half of the year.

Brody Preston: Got it. And then I noticed that you all put some good market share color in terms of what you've gained in the ABS market. And so I guess I'm a little bit more curious about the economics of that business. How does that work in terms of fee generation? Is that more transactional in nature like you were talking about earlier? And is that where you first started the relationship with Upstart?

Art Bacci: Brody, this is Art Bacci. The Corporate Trust business really has no relationship to Upstart and Rick can talk about that. The Corporate Trust business, it's really 2 components, the -- what we call our global capital markets that really deals more with distressed debt, denture trustee, administrative agent. That's where we get more of the transaction fees.

Our core Corporate Trust where we're serving as trustee for securitizations, namely RMBS, consumer loans, tend to be a per account fee that we earn every year, and that's just been truly growth of the business as well as the industry just growing with all the refinancings and home purchases.

Yes, and we've brought in a new Business Development person last year, who's really introduced some new relationships to us. And honestly, the profitability, we -- just like we do on the bank side, we're pretty disciplined. And our margins there are about 50%, if not better in some cases. So it's a very attractive business for us. It's been a rapid growth business. And even if the markets were to slow down on securitization, I think we can hopefully offset some of that with market share gain. We still have a long way to go before we catch up to number three.

Brody Preston: Got it. Okay. Maybe just on the Upstart relationship real quick. I appreciate the commentary on yields, Dominic. I just wanted to get a sense for what the credit box for you all will be for -- it's got 3 other kind of partner banks, at least in the securitization business. Two of them are willing to they go down to FICO 300, whereas the other one keeps it at a mid FICO at 680. So I wanted to just get a sense for what your credit box looks like. I'm assuming it's closer to the 680 just given the yields that you mentioned?

Dominic Canuso: Sure, I just wanted to clarify part of the reason we selected Upstart was to be able to overlay our underwriting strategy our drivers….levers, so that it meets the quality underwriting scores on what the Customers would measure, it is what WSFS would do ourselves using their proprietary underline model. So far to date the average FICO of what we have been generating is about 700, plus or minus, we go a little bit below that but primarily more near prime.

Brody Preston: Thank you.

Rick Wright: Yes. I was just quick color that we have picked them because they have a track record of performing better at all the different FICOs. And while we're focused on those ones that Dominic just talked about, we expect to do better than the market on that. And it is all in footprint. Those Customers are all put in our automated marketing platform, and we're marketing to them. So we see this as a real opportunity for us.

Brody Preston: Got it. Okay. And then maybe just shifting gears to the runoff portfolio. I know it's a smaller portion, and I'm sure that there's some offsets with LendKey as well that will be positive for you here.

But when the moratorium, if it ends in May, I guess, if it doesn't get extended, would you expect the $109 million in student loans from Beneficial that you have, would you expect those to kind of refi and run off at a faster pace going forward?

Rodger Levenson: It's hard to tell, Brody. But for a long time, that portfolio for Beneficial has a traded at kind of normal amortization, we don't really see that changing dramatically and certainly nothing to the magnitude that it would move the needle on our loan portfolio.

Brody Preston: Got it. And then for the runoff, have you all gone through a similar analysis for the Bryn Mawr loans at this point? And if so, could you help us kind of ring-fence the size of the runoff portfolio from the BMTC that will be getting added?

Rodger Levenson: Yes. So I would just say at a high level, Brody, there's really only the residential mortgage portfolio that will be run off from Bryn Mawr. Their Commercial book, because of where they were and their evolution, was very different from Beneficial. And as you can see, as outlined in the materials. We've essentially completed the runoff of those Beneficial runoff portfolios down to very, very small levels. So it's just really the student and the resi mortgage. So the resi mortgages that will come over with Bryn Mawr will be part of that portfolio. And as Dominic said, the attrition of those portfolios will be very dependent upon what's going on with the rate environment and the refi activity, obviously, counterbalanced by new home sales and things like that.

Brody Preston: Got it. And then last one for me. The core loan yields, ex PPP and PAA inflected higher this quarter. And so I wanted to ask, was there anything specific that drove that?

Dominic Canuso: No, it's really driven by a combination of continued deployment of the excess liquidity. Some loan improvement, however, that was supported by some loan payoff fees and then a slight tick down in our cost of funds coming down. So it was really split across all 3 drivers.

Operator: [Operator Instructions] I'm showing no further questions in the queue. I would now like to turn the call back over to Rodger Levenson for closing remarks.

Rodger Levenson: Actually, I think Dominic want to take it away. Thanks, Dominic.

Dominic Canuso: Sure. Thank you, everyone, for joining the call today. Rodger and I will be attending conferences and investor meetings throughout the quarter. We look forward to meeting with many of you then. If you have any questions, don't hesitate to reach out. Thanks for joining. Have a good day.

Operator: Ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect.