WSFS Financial Corporation
Second Quarter 2020 Earnings Conference Call
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**Company Participants:**
Rodger Levenson, Chairman, President, Chief Executive Officer
Dominic Canuso, Chief Financial Officer
Art Bacci, Chief Wealth Officer
Steve Clark, Chief Commercial Banking Officer
Rick Wright, Chief Retail Banking Officer

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

**Presentation:**

*Operator: Ladies and gentlemen, thank you for standing by and welcome to the WSFS Financial Corporation Second-Quarter Earnings Conference Call. [Operator Instructions] Please be advised that today's conference call is being recorded. [Operator Instructions]*

*I would now like to turn the call over to your host for today, Mr. Dominic Canuso, Chief Financial Officer. Sir, you may begin.*

**Dominic Canuso:** Thank you Joelle, 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 Rodger begins with his remarks, I would like to read our Safe Harbor Statement. Our discussions 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.

During our call today we will be referencing both our Earnings Release and Earnings Release Supplement. Both are available on the Investor Relations section of our website at www.wsfsbank.com.

With that read, I'll turn the discussion over to Rodger Levenson.

**Rodger Levenson:** Thanks Dominic, and thanks, everyone for joining us on the call.

As outlined in our First Quarter Earnings Materials, we had anticipated that the economy in our region would remain in a complete “Stay at Home” protocol throughout the 2nd Quarter due to the uncertainty related to the COVID-19 pandemic. Thankfully, as the regional health situation began to improve, we started to see modest improvement in economic activity starting in mid-May followed by the official re-opening of the economy in early June. While we continue to move through the various phases of re-opening established by our State and Local Governments, this process has been uneven and continues to evolve. The impact of this recovery is reflected in the results for the 2nd Quarter. And while the local economy continues to open, longer term economic forecasts expect an extended recovery.

As detailed in the Earnings Release, WSFS recorded a Net Loss of $7.1 million, or $0.14 per share, for the 2nd quarter. These results were directly attributable to the $94.8 million Provision for Credit Losses in the quarter. As noted by Dominic, we have provided details in the Earnings Supplement on CECL, Credit and the Loan Portfolio. I will also provide additional comments on credit in a few moments.

Excluding the impact of the Provision, our operating performance this quarter was solid. Core Pre-Provision Net Revenue was $63.5 million, or 1.96% of assets. This includes approximately $3 million of pre-tax income related to PPP.

PPP was obviously a highlight and organizational focus during the quarter. We are proud to have assisted our customers and communities by processing almost $1 billion of loans which went directly into the local economy and supported an estimated 100,000 jobs.

When excluding PPP, a continued intentional decline in the non-relationship run-off portfolios and increase in the allowance for credit losses, loans were essentially flat for the quarter, reflecting low levels of business activity. Deposit growth was very strong, with Total Customer Deposits growing at a 28% annualized rate when excluding the estimated impact of PPP loan proceeds.

PPP reduced the Net Interest Margin by 8 basis points in the quarter. The on-going impact of PPP on the NIM will be dependent upon the timing and magnitude of the forgiveness results. We have included the estimated NIM impact in our second half Outlook in the Supplement.

Core Fee Income was also a direct reflection of the current economic factors, as well as the benefits of having diversified fee revenue with the clear bright spot being mortgage, which has continued to see elevated volumes driven by the lower rate environment.

The Core Efficiency Ratio of 58.7% included a $3.2 million increase in Non-Provision Credit Costs vs the 2nd quarter last year related to unfunded commitment reserve expense. Excluding this credit-related cost, the Core Efficiency Ratio would have been around 56%.

In addition to PPP, the other significant highlight for the quarter was the $22.1 million gain related to the sale of almost all of our Visa Class B shares as detailed in our 8-K dated June 18. Total returns to date are approximately $78 million on an initial investment of just under $18 million.

Turning to credit; As a result of several factors, including the uncertainty as to the shape and duration of the economic recovery, we prudently and conservatively built reserves during the quarter while maintaining our strong capital position.

About 40% of the Provision was related to our Economic Forecast, which assumes a full year 2020 negative 6.1% GDP improving from positive mid-single digits throughout 2021. Our forecast also assumes unemployment declining to 9.3% in the 4th quarter of this year and remains in the mid-to-high single digits throughout 2021. Underlying this forecast is continued limited economic activity and modest travel and entertainment spending until a significant improvement in the health situation which most likely will not occur until there is a safe vaccine. The magnitude and impact of on-going and additional government stimulus also remains undetermined.

In terms of overall asset quality, delinquency levels remain low primarily as the result of the short-term loan modifications executed in April and May. Since that time, we have seen few requests for new deferrals, with most of the existing deferrals expiring in June and July. In addition, about 25% of the commercial loan deferrals paid their interest during the quarter. Based upon on-going discussions with these customers we expect a significant majority of these loans to return to contractual payments and total loan modifications as a percentage of the portfolio should decline to the mid-to high-single digits during the 3rd quarter.

We did see some early signs of credit deterioration as evidenced by the increased levels of problem loans. During the quarter we performed updated risk rating assessments on the loan portfolios most likely to be impacted by the pandemic with a focus on those loans with the highest potential for additional loan modifications. The majority of loans evaluated were in the Hotel, Food Service and Retail sectors. As a result of this process, the Hotel portfolio experienced significant risk rating migration, with Criticized Loans at 48% at quarter end. The increase in Problem Loans in Hotels accounted for approximately 70% of the growth in Total Problem Loans and was one of the primary drivers of the reserve increase in the quarter.

The ACL coverage now stands at 2.73% excluding PPP and at 3.26% when including the credit marks on previously acquired loans.

Capital levels including the impact of the reserve build remain very strong with the Common Equity Tier 1 Ratio at 12.68%. As outlined in the Supplement, our strong PPNR run rate provides material capacity to pay our existing dividend and absorb an estimated $850 million of additional ACL reserves over the next 6 quarters before hitting the regulatory minimums for "well capitalized".

In summary, we took the approach to get as much of the potential credit issues as a result of the pandemic reserved for as fully as possible within the framework of CECL which includes the primary economic assumption of a long and uneven recovery. This will allow us to focus on running the business and gaining market share as the economy returns to normal.

As we look forward to the 2nd half of 2020, and assuming no material changes to the economic environment or forecasts, we would expect significantly lower reserve builds with loss content to occur later in the year and into 2021. We also expect Core PPNR to remain in a range of $59 million to $68 million per quarter, which includes the impact of PPP, as well as Durbin which begins in the 3rd quarter.

In conclusion, the strength of our business model combined with the remarkable dedication of our over 1,800 Associates, uniquely positions WSFS to serve our customers and support our communities during this unprecedented period.

Thank you again.

I will now turn it over to Dominic to facilitate Q&A with our team.

**Questions & Answers:**

**Dominic Canuso:** Thank you, Rodger. Joelle, we'll be pleased to answer any questions, if you could open up the line. And as a reminder for those who are interested in asking questions, we will also make ourselves available after the call today, to the extent you would like more detailed specific questions to be asked.

*Operator: Thank you. [Operator Instructions] Our first question comes from Frank Schiraldi with Piper Sandler.*

**Frank Schiraldi:** Good afternoon. Just wanted to start with -- it seems to me that certainly other banks are kind of lagging into reserve builds here and certainly seems like they're delaying risk rating downgrades until maybe they have more information later in the year. Obviously, with the large provision this quarter -- you're 100 basis points, in some cases 200 basis points higher than other banks your size in terms of reserve for loan ratio. Assuming -- are you assuming that that could move higher in the near term if the model remains sort of where it is? Or are you confident that these -- under where the models -- what you have modeled out here, that these are peak reserves now?

**Dominic Canuso:** Yes. Thanks, Frank. First off, I can't speak to how others have approached kind of the review of both their portfolio and the assumptions into the CECL framework. But as Rodger mentioned, given the uniqueness and severity of the economic environment and the continued uncertainty around the recovery, we took the approach to be very rigorous in our assumptions and in our portfolio reviews and downgrades at this point in time. Clearly, if the economic environment worsens, we would obviously re-evaluate. But, again, as Rodger mentioned, we took the opportunity under the framework of CECL to fully reserve for expected impacts associated, based on the knowledge we have in this Deep-V and elongated recovery environment.

**Frank Schiraldi:** So based on -- as you said, based on the knowledge you have today -- I mean, I think one of the reasons that banks are delaying risk rating downgrades is they -- obviously nobody has a crystal ball into year-end. But the expectation is that Hotel occupancy rates will improve and maybe we'll get another stimulus, and also many of these businesses are just reopening? So some have just argued it's too early to make a good assessment on downgrades, I'm wondering how you guys sort of handled that, I mean, are you looking at occupancies now and just assuming that could be a run rate when properties come off in deferral in October? Or what are your thoughts there?

**Dominic Canuso:** Sure, and as Rodger mentioned, we did take the approach to focus our efforts in the quarter on what we see as the at-risk portfolios of Hotel, Retail and Food Services. But I'll pass the line over to Steve Clark to discuss our approach for credit evaluation in the quarter.

**Steve Clark:** Yes, thank you Dominic. Frank, really to kind of emphasize the Hotel piece and to answer Frank's question, as of June 30, about 2/3 of our Hotel book is in the business sector, with 1/3 being in leisure. So we do have the benefit of having the Jersey Shore and the Delaware beaches in our footprint. And when the pandemic started, occupancy really was in the low- to mid-single digits. But as the last couple of months have progressed, our owner/operators are reporting to us that in the business segment occupancy has risen up to 30% to 35% and the leisure operators at the beaches and shore on weekends are reporting better occupancy, in fact, may be approaching 90% on weekends.

But our view, taking a step back and as Dominic and Rodger have expressed, there is significant uncertainty about the future. And, while we do expect a decent portion of our hotel book to resume contractual payments, payments alone don't necessarily dictate risk ratings and there are other potential weaknesses. And clearly the economy, as described earlier, is weak and uncertain. So we took we think a very prudent and targeted approach to risk rating that book.

**Frank Schiraldi:** Okay. If you think about -- and I'm not asking -- I understand you're not looking at closely at other banks' Hotel books, but when you think about weaknesses, potential weaknesses, in that book versus your average community bank, would you say the weakness lies in the fact that a greater amount are in the -- dealing with businesses? And then, is there anything else -- I mean, LTV looked pretty good compared to what I've seen elsewhere. So is there anything else you can point to as maybe being a greater weakness in your book versus some others where have had much less -- much lower provision rates to date?

**Steve Clark:** Yes. So I think the fact that 2/3 is in the business sector, that contributes to our assessment. And, frankly, the uncertainty -- the states here of Pennsylvania, New Jersey, Delaware, kind of in and out of restrictions on travel between states and in and out of opening restaurants and closing restaurants. That to us is really important to the uncertainty, Frank, mostly revolving around the travel restrictions.

**Frank Schiraldi:** Okay.

**Dominic Canuso:** And just to add, to close out the comments around CECL, if information based on the economic forecasts remains consistent, we would expect our provision going forward to return to kind of pre-COVID builds but again, a lot to evaluate there.

**Frank Schiraldi:** Okay. Got you. I'll hop back in the queue and let someone else ask a question. Thank you.

*Operator: Our next question comes from Michael Perito with KBW.*

**Michael Perito:** Good afternoon. Thanks for taking the questions. A couple things I wanted to hit. I guess first, to close the loop. I had follow-ups to Frank's questions. So, I'm sorry if I missed it somewhere in the supplement, but -- so how much -- would that mean that some of the reserve build was kind of specific allowance against, for lack of a better word, the Hotel book and specific credits within the Hotel book, versus being I think what was mostly just a general reserve build in the first quarter?

**Dominic Canuso:** Sure, thanks, Michael. Yes. In fact, if you look at Slide 6 in our supplement, we provide a bridge that really demonstrates the growth in the reserve from first quarter to second quarter. And you see that about $39 million of it is specific to the economic forecast assumption across the portfolio, and then $44 million specific to migration impact. And a good portion of that migration impact is from the hotels, with some additional from the retail and food services industry.

**Michael Perito:** So, but is the migration impact, I guess be incorporated within that or are there specific reserves against certain properties and credits? Or is it not, still not that specific yet, just given timing uncertainty of the outlook for these businesses?

**Dominic Canuso:** No. They're based on kind of the pooled approach CECL methodology and looking at the risk rating and expected correlated loss forecasts for those versus specific loan-by-loan reserves.

**Michael Perito:** Okay. Helpful, Dominic. Thanks. And then, so I mean, I think, Rodger, one thing you said that I thought was interesting was you kind of do this and this credit build and now focus kind of the other parts of the business. And I guess on that point, moving forward here, the PPP is behind you guys in terms of the origination part of it. Deferral activities aren't trending down and you guys are obviously doing a lot of work on the credit analysis side.

But as we look at kind of the rest of the business outlook, you talked about the PPNR guide that you updated. Maybe starting on the cost side, how are you thinking about the cost structure of your business today, given what we've seen and learned from your consumers so far and kind of with the stay-at-home orders in your footprint? And how should we be thinking about some of the investments and maybe cost reduction opportunities that you guys are considering as we move forward?

**Rodger Levenson:** Yes. Thanks for the question, Mike. I'll let Dominic give you some specifics about how we view costs for the second half of the year. But I would generally say that as a result of the process that we've gone through -- and, as I mentioned in my remarks, between that and the PPP, which was a organizational focus for the second quarter and as we move past these loan modifications, we think there's a lot of market share going to be up for grabs. There was a lot of inquiries that we had around PPP that were prospects, were not being served by their other banks and were interested in talking to us. And we assume that there's more business to come out of that that will be available once we get through the forgiveness process. And so we think that that bodes well for potential growth and market share gains for our commercial relationship managers. So that's what I was referring to, is trying to get the credit piece identified, dealt with and behind most of the team, so that they're then out there, hoping that we can grow the business and gain market share. But I'll let Dominic address the cost side.

**Dominic Canuso:** Sure. Thanks, Rodger. And, Michael, to your question regarding costs, as a reminder, the driver of our cost growth is primarily investment in the businesses and our delivery transformation initiative. We are focused on an annual basis to create positive operating leverage, obviously excluding any shifts in the rate environment, and would expect our efficiency ratio to trend relatively consistent with where we have been for the last few quarters, maintaining in the high 50s, particularly in this environment and lower interest rate and with the on-set of Durbin beginning in the third quarter.

If you're looking at our 2nd quarter costs specifically, that included charges for unfunded commitments, some PPP administrative and technology costs and costs specific to COVID and preparing our opening of our retail offices. But stepping back and looking forward, some of those costs clearly would not re-occur going forward. And as I mentioned, the investments in the business particularly are opportunities to create synergies, as we've communicated over the last two years with the Beneficial acquisition and our business cases around mortgage and small business and while those continue on course and we continue to see the opportunity to generate the incremental market share and the absolute growth levels Rodger was speaking to.

In addition, obviously the results of COVID reinforced our expectation and the investment we want to make in our delivery transformation initiative, as a significant amount of our customers who were maybe hesitant to adopt both our mobile banking and other digital platforms quickly adopted those. And we saw significant increases not only in the usage of them, but were able to maintain the quality and level of service that is known for WSFS in our markets. So we expect to continue to make those investments, as we take the long view and as we've been talking about, being able to take the approach we did in the second quarter with regard to CECL and the reserve build, now focus on our intention on executing on that longer-term strategy.

But to say, obviously, COVID has taught us some things around how we can work more efficiently in various locations. We are doing a full assessment of our retail footprint, our office space footprint and costs across our organization and looking for opportunities to create efficiencies in our cost base and leverage the learnings we have over the last few months on how our associates have maintained efficiencies while working from home, in some cases increased them because of lack of commutes, et cetera. And we'll look to take the best of what we've experienced over the last few months and embed that into our operating model as we look to 2021.

**Michael Perito:** That was all really helpful, Dominic. Thank you. And then I guess, is it fair to say that some of that, the office space analysis that you guys are doing now, any action taken there, would that be additive to the PPNR outlook? Or are you guys incorporating some level of cost efficiencies at some point, even if they don't all fall to the bottom line in that analysis, or in that outlook, rather, already?

**Dominic Canuso:** Yes. I would say its additive. But I would also say we're not looking to rush into any decisions right now. So, while the last 4 months have felt like forever, we don't want to overreact to the environment, but taking prudent steps to do our due diligence in a post-COVID vaccine world, ensuring that any decisions we would make in the near term would work and serve our customers best and, again, put our Associates' health, wellbeing and fulfillment towards the top of our priorities. And so it's not included in our PPNR views for the second half of the year and would more likely result in opportunity, again, in 2021.

**Michael Perito:** Got it. And then just lastly for me and I'll hop out. Rodger, just on capital, I mean, with this reserve build, trying to kind of take a big swing and be conservative sounds like on what given the uncertainty of what losses could look like, I mean, obviously capital, even after this quarter still very strong. You're still sitting with quite a bit of excess. I know it's hard to comment on timing, so I won't ask you to do that. But in terms of what you're looking for from a clarity perspective to maybe get back in the saddle on share repurchases or just to start thinking about capital deployment more efficiency, what are you guys looking for? Is it as simple as the credit clarity? Or is it more complicated than that?

**Rodger Levenson:** No. I think it's as simple as the credit clarity for us and for the industry and for the economy. I think until we have a better handle on that, even though we are very, very well positioned today, it's prudent to wait to do any significant capital actions.

**Michael Perito:** Okay. Well, listen, thank you for taking my questions. I appreciate it and stay well.

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

**Russell Gunther:** Good afternoon. Maybe just a kind of ticky-tacky question to start, but want to understand how you characterized some of the step-by-step reserve build. So the economic forecast impact of $39 million, is that something you would characterize as a qualitative factor and the $44 million migration a quantitative factor tied back to the specific portfolios? Maybe just help me understand those two moving pieces first.

**Dominic Canuso:** Sure. Thanks, Russell. No, they're primarily quantitative. They are the CECL model and inclusive of -- and I'd remind everyone while we communicated on that slide what the GDP and unemployment forecasts looked like, the model is also dependent on the 10-year interest rate curve, the BBB spreads and then real estate price indices. And so as those influence the model, statistically speaking, that's what's incorporated here. And, again, same with the migration. These aren't specific reserves. And while we do have some qualitative or special adjustment factors driving these steps in the reserve build are model driven.

**Russell Gunther:** Okay. I appreciate the clarity on that. And then just kind of following up on the migration impact, understanding I think you said it's kind of a pooled approach, but are there identified, observable credit deterioration metrics that you could share in terms of whether it's price decline or just some of the inputs that caused you to downgrade those credits?

**Dominic Canuso:** Sure. Steve, if you would like to speak to those?

**Steve Clark:** Yes. So could you repeat the question, Russell?

**Russell Gunther:** Yes, hi Steve. I'm just trying to get a sense of any specifics you can provide in terms of your thoughts around sort of asset price declines within those portfolios, what your assumptions would be within Hotels, Restaurants, Retail, that drove the decision to move them into the problem loan bucket?

**Steve Clark:** Thank you. So for us it's really -- the primary metric is cash flow and coverage, the ability to cover debt service. So for instance, in the Hotel book while the origination in the weighted average loan to value is really strong, 55%, the fact is that the Hotels are operating at a very low capacity, hardly operating at all. So if you look at that particular borrowing entity and its ability to generate cash flow to service the debt, that is the number one metric. So that really drove much of our decisioning. And the same applies to other business, Restaurants or otherwise. For us in risk assessment and risk rating, it's all about that metric, cash flow, and the ability to cover debt.

**Rodger Levenson:** Yes. And if I could add just a little bit, Russell, of color maybe to help you kind of understand the process. As we said when we did the first round of modifications, that was in the early stages of this process, where people really were in a total shutdown, did not know the impact of the business, what the duration was going to be, what the path forward was. And therefore we felt it was appropriate to give those 90-day deferrals to give people a chance to get their sea legs underneath them, adjust their businesses as they could and then start working with us on a forecast on kind of what the future looked like.

And so I think a fair amount of what you see in the risk-rating migration in the Hotels is Steve and the team sitting down with those customers, getting the updated occupancy, RevPAR, ADR, all the other stats for those properties and then forecasting them out under multiple scenarios, dependent upon a number of factors, including business versus leisure, flag type, et cetera, and then making that assessment that all plays into the primary driver of risk rating, which is, as Steve said, cash flow and debt service coverage.

So I think it's a very informed process. As we said, as we did that evaluation we take those sensitivities and have a conservative eye as we evaluate those. But I think we actually have a more informed understanding of kind of where things are at at this point now that those sponsors have had a time to react and adjust and sort of develop their plans for the future.

**Russell Gunther:** I appreciate all three of your thoughts on that. Thank you. Another bit of help, please, in terms of clarifying. So the $1.1 billion of at-risk loans that were reviewed this quarter -- and I'm on Slide 7 -- does that tie out to the -- that $1.1 billion in relation to the $1.8 billion of commercial loans that have been modified and the remainder of that balance is what you plan to review in the third quarter?

**Dominic Canuso:** Steve, you want to talk a little bit about the status?

**Steve Clark:** Yes, so this is Steve. So that is correct. When we took a look at our overall portfolio, we kind of triaged the portfolio kind of red, yellow, green. And the red really were borrowers that were going to be clearly impacted by the COVID pandemic, or requested payment relief. So they were the first portfolios we reviewed. We got very deep into, well, 100% of the Hotel book, a significant portion of the Retail CRE book and we reviewed every Retail CRE of $8 million and larger, nearly half of that portfolio. The top 10 of Retail C&I relationships, almost 40% of that portfolio. So a significant penetration -- Food Service, every Restaurant with exposure over $1 million, 50% of that portfolio.

So yes, the $1.1 billion does kind of tie into the $1.8 billion. And we'll continue to evaluate through our normal quarterly -- very, very focused quarterly portfolio reviews with our relationship managers. And we'll continue that process end of July and August. But we believe we have significant penetration into all those books.

**Russell Gunther:** Thank you, Steve. Great color. Final question, another point of clarification. How much of the kind of $1.1 billion that's been reviewed -- how much does that reflect the kind of ring-fence run-off portfolio from the Beneficial acquisition? How much of that is really a piece of what you've reviewed in the quarter?

**Rodger Levenson:** I would estimate very little is actually in the run-off portfolio. Most of this is in the on-going book.

**Russell Gunther:** Okay. Thanks, Rodger.

Operator: Our next question comes from Brody Preston with Stephens, Inc.

**Brody Preston:** Good afternoon, everyone. I hope you're well. I guess just a house cleaning question to start, Dominic, a couple. The PPP income and expense reconciliation in the non-GAAP, I just wanted to clarify on the PPP expense, is any of that interest? Like, did you draw on the lending facility at all? Or is that all non-interest expense?

**Dominic Canuso:** That is all non-interest expense. The way we've articulated it on Slide 5 is the $4.8 million in the quarter of net interest income included the fee accretion along with the spread on the 1% on the loans minus kind of our internal funding cost.

**Brody Preston:** Okay, great. And then, I guess the PPP expense -- you had some one-time items, the PPP expense, the pension plan loss, insurance recovery and COVID. Just wanted to get a better sense of where those showed up across the consolidated line items.

**Dominic Canuso:** Sure and happy to work with you after the meeting. We'll walk you through kind of the various items within the P&L as we've reported in the earnings release, if you'd like to do that?

**Brody Preston:** Yes. That would be great. So just to circle back to the Hotel, the $222 million that moved into criticized, how much of that went into the special mention and how much went into substandard?

**Rodger Levenson:** So it's about -- it's a little under 40% went into special mention and a little over 60% went into substandard.

**Brody Preston:** Okay. Thank you for that. So I guess just if that 40%, I guess as you continue to do these in-depth quarterly reviews, if that remaining 40% were to migrate into substandard, you would see I guess that migration impact in a future quarter reflect that, I suppose. Is that fair?

**Rodger Levenson:** Yes if everything remained static and there wasn't any other changes. If there was some continued downward migration that would be reflected. But, as you know, these portfolios are dynamic and some things get better, some things don't. So it would be hard to make it an absolute statement about how that would happen and over time.

**Brody Preston:** Okay. And I guess, Dominic, you mentioned the pooled approach to the migration impact on the CECL as opposed to any of the reserve being on specific credits. But, when you do the pooled approach, is it pooled by, I guess, maybe asset type, like a CRE Hotel pool and then a Retail CRE pool? Or how should I think about that?

**Dominic Canuso:** Yes. The problem primarily in the portfolio loan segment, as we've laid out on the slide, we do look in some of those categories by the assets underwriting those loans. But for the most part we look at them at the total segment level and then by risk rating.

**Brody Preston:** Okay. Okay. That's good color. The 75% of original loan modifications that you all expect to revert in 3Q, I guess I'm just thinking about the base for the original mods, the $1.6 billion that we saw last quarter, is that how I should be thinking about that math?

**Dominic Canuso:** Yes. I would say on Slide 7 we illustrated what we see as kind of the full first round, if you will, those first 30-day modifications. And that includes a total of just over $2 billion across the entire portfolio and with commercial being at $1.8 billion. And it's off those basis that we're speaking of.

**Brody Preston:** Okay. And so I guess what were peak modification levels?

**Rodger Levenson:** Yes. I think, Brody, it was just a little bit higher than that, which was -- I think the total dollar amount was $2.2 billion and it's come down just a little bit.

**Brody Preston:** Okay. So I guess as I think about the 25% that will not revert to full contractual payment, that thinking about it in terms of, like, $550 million might be a good place to start for another 90-day kind of deferral.

**Rodger Levenson:** Yes. I think that obviously that's the math. I think I should make a comment on these second deferrals. I think this is important -- or modification. So the approach that we have coming into these is that there is an expectation if we're going to do a second modification that customers will be at least making interest payments. And that's really where we're driving the process. And short term, again, although there could be some situations where as part of working with the borrower, potentially getting some enhancements to the loan structure, the actual length of the deferment may be a little bit longer. But that's really the approach that we're taking. Shorter term, making interest payments, we would expect that to be the primary profile of what's left once we get through what we're calling the second round of modifications.

**Brody Preston:** Okay. All right, that's great detail. I guess just as I step back, Rodger, and I think about it more broadly, you've got a near 7% reserve on the C&I book. And with the additional loan march you're at the 3.25 or so reserve ratio all in. I mean, does any of this I guess like -- assuming the macro doesn't change, do you feel like somewhat optimistic as you look forward and you look at where you are from a reserve perspective, you look at your capital levels and you look at I guess the market share opportunity that you have in front of you, do you feel like I guess maybe optimistic about the future in terms of if everything's okay, future reserve releases and the forward pace of earnings? I guess just any color there on your high-level thoughts.

**Rodger Levenson:** Yes. So we're very optimistic about the opportunity and the path in front of us. As we've said a couple of times, everything that we thought going into the Beneficial combination in terms of the magnitude of the opportunity has been confirmed and, in many cases, has increased. And even going through this difficult environment, as I mentioned, the contrast that we have as being the large local bank to compete against the big guys, I think we will see benefits from that in the near term because of how PPP and most likely how they will handle some of the credit situations that come up as this unfolds. So we're very, very optimistic about the opportunity to take the WSFS business model into that Beneficial customer base.

And, as we said, part of the strength of the combination was not only the strength of the capital base that we had and the market position that we had, but the opportunity and the optionality to deal with things like this that would be coming our way. Obviously, we did not envision anything of this magnitude, but clearly it's being demonstrated we can deal with this and we can still also focus on growing the business. And we have a great opportunity to grow the business. So, I know, speaking for myself and the team, we will feel very optimistic for the future, obviously with the caveat depending upon how things play out in the near term with the health situation.

**Brody Preston:** Okay, great. And then, Dominic, one last one for me on Cash Connect. The $9.3 million of net revenue that you reported this quarter, is that -- I guess with interest cuts sort of behind us, is that a good go-forward rate, maybe biased slightly upward for Smart Safe and Non-Bailment revenue growth sources?

**Dominic Canuso:** Yes, I would say that's a strong run rate, especially because it's a national business and about 1/3 to 1/2 of the quarter included stay-at-home orders for almost 80% of the country. It was primarily driven by kind of lower volume, but you are correct, the rate environment drives those lower fees. But those fees are fully offset in lower funding costs, both in our Net Interest Margin and in our operating expenses as we're interest rate neutral. So I would say it's a good baseline to continue the recovery in the economy and then the continued growth in the business, including new aligned product lines that bring higher returns than some legacy products.

**Brody Preston:** All right. Thank you very much for taking all my questions. I appreciate it.

*Operator: Our next question comes from Erik Zwick with Boenning & Scattergood.*

**Erik Zwick:** Good afternoon. Just a couple of follow-ups on the Hotel portfolio. Looking at Slide 10, $78 million of that portfolio is construction, so about 15% or so. Curious, one, how many properties that entails. The average I guess would suggest maybe 10 or 11 million, but curious if there's any bigger properties in there. And then, secondly, is all of the construction still ongoing at this point? And is it all new construction, or are some potentially improvements or expansions to existing properties?

**Steve Clark:** Yes. So this is Steve. So, yes, all of the construction is on-going and this part of the Hotel book really resides in our lowest pass category, because all of these loans have interest reserves built into the project financing. And most of these properties are not due to open for some period in the future as they are in the midst of construction. On Slide 10 you see the average size. I will have to circle back with you on specifics, but the math is about right, somewhere between 7 to 10 projects in flight under construction.

**Rodger Levenson:** Yes. I would just add to that, Erik, just a point of clarification. The slide is balances, so the commitments on those are larger. And that would support the size that Steve was talking about.

**Erik Zwick:** Got you. Thanks to both of you for the clarification on that point. And then I guess, Steve, kind of taking I think the point that you made there, since these properties are not scheduled to open for quite a bit, then is a lower percentage of them, of those properties, criticized at this point compared to the existing portfolio, since there's -- you mentioned there's all that interest reserves and things of that nature, so there's potentially not as much risk at this point in the process.

**Steve Clark:** Yes, that's correct. I believe that none of the Hotels in the construction segment that are under construction are criticized at this point in time.

**Erik Zwick:** Great. That's all I had. Thanks for taking my questions.

Operator: [Operator Instructions] Our next question comes from Frank Schiraldi with Piper Sandler.

**Frank Schiraldi:** Thank you. Just a couple of follow-ups if I could. I just wanted to get a sense of how the conversations have gone here for guys to come off the deferral, not get another 90 days. Is it mostly of their own volition? Or have there been tougher conversations on your end? Or if they're willing to cover at least the interest can they stay on and has it been pretty straightforward?

**Steve Clark:** This is Steve, Frank. I would say for the 75% of the original loan modifications that are returning to contractual payment, those conversations have been very, very good. And for the most part it's the customer saying to us they're ready to return. For the segment, or for the piece of this, the 25%, that aren't ready to return, some of them are interest only, sort of the bridge to contractual payments that they're going to pay interest. Those conversations have been good. And then there's clearly a piece where there are some tougher conversations when a customer is asking for another round of full deferral. As Rodger mentioned, we are looking to support our customer, but we're also looking for some levels of credit enhancements, whether that's additional guarantees or a reserve account for future payments after the next round of deferment. So those conversations are a little tougher.

**Frank Schiraldi:** Okay. And just to get clarification, Steve, from you, I think you mentioned earlier on that if you looked back at the June 30th occupancy rates in some of these places, they were pretty dire and have improved since then. In terms of your -- the risk rating that you guys have done, were you -- is that more based off of June 30? Or were you, you think, able to effectively pull forward what you've learned since then and apply to these loans?

**Steve Clark:** Yes. So I think the direness really goes back further to kind of that end of March, April, at the very beginning where occupancies were very, very low. And, as I said, things have improved based on what we're hearing from our owner operators. But they really haven't improved to a point where when we're forecasting out different scenarios -- can the property comfortably service its debt? And that is the assessment that we've been using in terms of risk rating. Some of the properties will make payments, but still there's such a potential weakness there, or even clear weakness, that we're risk rating these appropriately as criticized.

**Frank Schiraldi:** Got you. Okay. And that makes sense, because doing the math there's some that seem to -- a number that seem to be coming off deferral and going back to contractual payment. But I guess there's a piece of that that has still been downgraded, is classified criticized.

**Steve Clark:** Yes, that is correct. I mean, contractual payment alone does not necessarily drive a risk rating. So, yes, we have criticized assets in that book that are making payments, or plan to make payments.

**Frank Schiraldi:** Okay. And then just finally, Rodger, you talked about some market share up for grabs and getting the credit piece behind you helps you get more I guess flexibility to go after that market share. And you've already been asked on buybacks. But to ask it again, I would assume you get more capital flexibility on the potential for buying back stock, too. Is there any sort of timing you can offer on -- and I know it's broken into two pieces, the supplementary and the -- to get you up to a 30% payout, because your dividend's so low, and then buybacks beyond that if you like the price. So just any help on how this maybe sets you up for getting back to buybacks earlier and any sense for timing there?

**Rodger Levenson:** So I think part of this does get us closer to that point in time, Frank. As you know, we temporarily suspended all buybacks. And as I mentioned, I think it's prudent for us -- we believe it's prudent to wait until there's a little bit more visibility on the overall credit environment before we go there. So it's something that we evaluate and will continue to evaluate every quarter. But until there's a little bit more certainty, we feel it's prudent to wait. And this environment has had a number of unexpected turns. And we hope the next turn is a much more positive turn. But at this point, until that's a little bit clearer we're going to just continue to evaluate and wait until that point in time.

**Frank Schiraldi:** Okay. Fair enough. Thank you.

Operator: And with no further questions in queue I would like to turn the conference back over to Mr. Rodger Levenson.

**Rodger Levenson:** Thanks, Joelle. Thanks, everybody, for joining the call today. Appreciate the questions. Sure there's going to be some follow up and, as Dominic said, he, I and the whole team are available if anybody wants to have some further follow-up conversation. Please reach out and we'd be happy to do so. So thanks again for joining today and wish everybody a good rest of your day. Thank you.

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