United Financial Bancorp, Inc.

Fourth Quarter 2015 Earnings Conference Call

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CORPORATE PARTICIPANTS

Marliese Shaw – *Executive Vice President, Investor Relations*

Bill Crawford – *Chief Executive Officer*

Eric Newell – *Executive Vice President, Chief Financial Officer*

Brandon Lorey – *Executive Vice President, Head of Consumer Strategy*

Mark Kucia – *Executive Vice President, Chief Credit Officer*

PRESENTATION

Operator
Good morning, and welcome to the United Financial Bancorp, Inc. Q4 2015 Earnings Conference Call. All participants will be in listen-only mode. Should you need assistance please signal a conference specialist by pressing the star key followed by zero. After today's presentation there will be an opportunity to ask questions. To ask a question you may press star then one on a touchtone phone. To withdraw your question, please press star then two. Please note this event is being recorded.

I would now like to turn the conference over to Ms. Marliese Shaw, Executive Vice President, Investor Relations. Please go ahead.

Marliese Shaw
Thank you, Gary. Good morning, everyone. Welcome to our Fourth Quarter Conference Call. Before we begin we would like to remind you to read our Safe Harbor advisement on forward-looking statements on earnings announcements. Forward-looking statements by their nature are subject to risks and uncertainties. Certain factors could cause actual results to differ materially from our expected results. Our comments today are intended to qualify for the Safe Harbor afforded by that advisement.

And now I would like to introduce Bill Crawford, our Chief Executive Officer.

Bill Crawford
Thanks, Marliese. Good morning. And thank you for joining us on today's call and for your continued interest in our company. With me this morning I have Eric Newell, our CFO, and several other members of our executive team. Today I'll make a few comments regarding fourth quarter 2015 results, focus on some significant actions taken by management in the fourth quarter, and share with you our thought processes and give you an update on where the company's headed.

First, I want to thank all of our United Bank employees for their tremendous effort in 2015. In our first full year as the new United Bank we earned $49.6 million, or $1 per share. That was 87 basis points ROA, 8.08 ROE, a 10.35 percent return on tangible common equity, the efficiency ratio was 60%, we grew loans 18%, we grew deposits 10%, we also paid out $0.46 per share in a dividend to our shareholders, we grew tangible book value 5.2%, while maintaining excellent asset quality at a near neutral interest position.

I see 2015 as a year of solid progress. In the fourth quarter of 2015 we made some important management changes. I want to thank Marino Santarelli, our former Chief Operating Officer, for his significant contributions over the last five years. Marino helped grow our retail and mortgage business, led merger integration, along with IT and many back office functions, and has been a key contributor for many years.

In the fourth quarter of 2015 we made a decision to eliminate our chief operating officer and chief technology officer roles. Brandon Lorey had already begun leading our Consumer Banking segment in July of 2015. As I looked at our organizational leads in the fourth quarter, it was clear we needed one position which consolidated information technology, project management and operations in a role reporting directly to the CEO.

Since 2011 we've grown from 1.7 billion to 6.2 billion, and the technology world continues to change, and change dramatically. Technology likely is now banking's greatest strategic risk and opportunity. Through a national search process we hired John J. Smith from CIT Bank in New York. John is a very experienced, industry-leading technologist and proven executive leader. Technology, managing strategic partners and projects and operational excellence is at the very heart of everything we do. These are also areas where we will invest more in terms of people and systems, and you'll see that in some of our forecasts. I'm confident John can help us drive an even better customer experience, lower cost, and protect our banking clients as we face new opportunities and risks in the years ahead.

In the fourth quarter of 2015, which is typically a slow quarter, our Retail and Commercial teams grew DDA at 32% annualized, and Commercial loans grew 13% annualized. In addition to solid improvement reflected in our Greenwich and Associates net promoter scores, operating non-interest expense to average assets was 2.17%, reflecting our attractive cost structure. United's 2015 year-to-date ROE and ROA compares equally, if not favorably, to the largest publicly traded banks headquartered in Connecticut and most all other banks in Connecticut.

We have a very strong credit culture. For example, our originated, non-performing assets, NPAs, are 0.36% of total assets. Over the last five years our net charge-offs have averaged less than one-tenth of one percent. In short, we know how to lend money. Over the last five years we've improved our average return on equity from 2% to 8.12%. While our headline GAAP earnings per share for the fourth quarter of 2015 was only $0.20 per share, we actually had record quarterly operating earnings of $11.3 million, or $0.23 per share in the fourth quarter.

During 2015 we looked at numerous specialty finance options. While we will continue to grow traditional business lines and build franchise value, we'll grow some of these lines at slower rates, like mortgages on our portfolio. I want to now share with you some actions we've taken to help improve our pre-tax, pre-provision return on assets, or PTPPROA.

Herve Bonnet joined us late in the fourth quarter after having spent the last 15 years as an executive with Societe Generale, or Soc Gen. His last seven years he headed up a Soc Gen subsidiary known as CGI Finance in Europe and North America. The North America subsidiary began around 2008, and the business model worked as follows. Herve and his team have built relationships with Europe's premier luxury brand marine manufacturers, and these clients wanted Herve and Soc Gen's help financing their dealers in North America and providing retail boat financing. The select manufacturing clients are financially very strong and care deeply about their brand, so they're willing to provide credit enhancement on behalf of qualified dealers.

Additionally, if and when a retail boat loan defaults the bank, the servicer, the dealer, and the manufacturer work together to get control of the boat, and resell it at the highest possible price. These premium manufacturers do not want their boat sold at auction for low prices because it harms their brand value. In the third quarter of 2015 as we investigated the acquisition of various loan portfolios we identified CGI Finance's remaining $176 million marine loan portfolio and subsequently identified Herve and the team, which were employees of the Mid-Atlantic Bank.

Late in the fourth quarter we acquired a $176 million portfolio and listed out a 13 person Soc Gen team. The team's located in Baltimore, Maryland. The manufacturing clients are mostly in Europe, and most of all the dealers are in the United States. So, our plan is simply to run Soc Gen's former North American marine business model adapted to our operating and credit underwriting standards. This business is about becoming a trusted partner with select manufacturers and dealers, and making sure we provide exceptionally customized personal service to the retail clients.

These clients can get loans anywhere. Our job is to simplify the process. We're not interested in a mass market marine lending strategy. We will pursue business with select manufacturers and dealers based upon the aforementioned business model. We really like the client base. We can develop full relationships with these manufacturers, dealers, and even retail clients using our expanded mobile and cash management capabilities. The risk adjusted return on capital, or RAROC, on this business line is very attractive. In 2016 we anticipate we'll originate about 100 million in variable rate floor plan loans, and about 100 million in retail marine loan production. We want to gradually build this business over the next few years and keep it size appropriate for our balance sheet. The retail loan portfolio duration is around four to five years, and the floor plan lines are generally annually renewable. The ROA of this business unit is expected to be at least double our company's ROA on a fully costed basis.

We also purchased two consumer loan portfolios totaling $150 million from two new strategic partners, while selling $119 million of residential first mortgages to the secondary market. The equity line portfolios are highly granular portfolios, with strong FICO and debt service borrowers. We spent significant due diligence time with our two new strategic bank originators like we did when evaluating legacy United Bank's lending processes and portfolios. The two portfolios have very attractive mostly variable rate, risk adjusted returns. While we liked these niche portfolios, it did not make sense for us to invest in the infrastructure to originate these credits ourselves. We originated 706 million in mortgages in 2015, and sold 404 million. In 2016 we expect to sell a much higher percentage of our mortgage production. The 150 million acquired portfolios helped to diversify our consumer loan book and marginally reduce loan book duration while improving ROA.

Our best path forward at headquarters here in New England I think is as follows. One, earn the best RAROC, or risk adjusted return on capital we can in our core markets while maintaining discipline around credit and duration risk. This will also help to build even stronger franchise value. But on the margin we want to identify higher net margin loan and core deposit specialty businesses and portfolios where we can earn better margins. But we want to stay in the prime and uber prime on the credit side. We also want to keep these right sized relative to the bank.

Obviously, our first focus is making sure we have crisp plans to manage credit, liquidity and operational risk any time we're looking at something new. We also want to make sure we do not create revenue, earnings, or balance sheet concentration risks. Diversification and granularity for balance sheet income statements remain key operating principles for us. Banks which maintain strong asset quality diversification through the economic cycles ultimately prove to be long-term winners. We expect continued revenue growth from commercial banking, retail banking, and financial advisory in 2016, including high single digit fee income growth from the new teams we lifted out in late 2014, early 2015.

Overall in 2016 we expect double-digit operating revenue growth with mid-single digit expense growth, which should yield attractive operating leverage. We expect high single digit loan growth and low double-digit deposit growth with double-digit DDA growth. Our focus in 2016 is to grow our operating pre-tax, pre-provision return on assets, so we move from around the third quartile in $2 billion to $10 billion banks nationally, to near the first quartile over the next few years.

2016 should be the end of fair value accretion for us. Currently our effective tax rate is anticipated to change from 11% to 25% in 2016. By moving from third quartile PTPPROA to near first quartile will drive stronger core earnings. By improving our DDA and core deposit mix over time we should improve franchise value as well.

Based upon our projected earnings less dividends, we expect to generate capital internally to fund additional balance sheet growth. We're now 6.2 billion in assets, the third largest bank headquartered in Connecticut, and we have created significant franchise and scarcity value, which is not currently reflected in our share price. Over the next few years we have the opportunity to significantly enhance franchise value, grow operating PTPPROA, grow GAAP earnings per share, and grow tangible book value. Our focus will be traditional organic growth and building profitable niche books that are right-sized with our business lines, where we can earn a favorable RAROC.

In the new normal for bank returns I think 1% GAAP ROA and 10% ROE are the right targets for us to pursue over the next few years. Do the math, and you can see we're not getting to these levels in 2016 due to accretion headwinds, tax rate, interest rate environment. Our progress in this PTPROA should become even more evident in the third and fourth quarters of 2016. We have assembled a large, deeply talented team and we're well positioned to significantly enhance the value of our company over the next few years.

Along with the broader equity markets in the financial sector our share play prices declined significantly since the fourth quarter of 2015 due to overall market conditions. Our focus remains on serving clients, winning new clients, maintaining a strong balance sheet, growing revenue, and operating leverage. Over time as we continue to improve operating earnings, tangible book value and franchise value, we believe our share price will improve along with overall equity markets in the financial sector.

Now, I'd like to turn the call over to Brandon Lorey, Brandon heads up our Consumer businesses, and he's going to talk a little more in depth on our marine business and some of our portfolio acquisitions. Brandon?

Brandon Lorey
Thank you, Bill, and good morning, everyone. As indicated by Bill, this is not a general marine portfolio, nor is it a general marine growth plan, as we will not be lending to aspirational boat owners. This is a partnership between high end, long tenured manufacturers and their dealers, coupled with corresponding uber prime retail originations. The team that was brought on was responsible for the seasoned originations of the purchase portfolio, which carries a historical loss rate below 60 basis points. The delinquency rate is also consistent with our overall consumer portfolio, right around 1%.

As stated in the investor deck, the 56 month seasoned purchase portfolio has a weighted average FICO of 749, loan-to-value at origination of 76%, and a debt-to-income ratio below 32%. These credit characteristics are what we will expect for our go forward retail originations, as we slowly build out the program. We are deploying the same structured retail credit philosophy with this line of business as we did with our other consumer and retail originations.

Now, additionally, following significant due diligence the bank also purchased two smaller consumer loan portfolios during the period reflecting high yield, high quality paper and providing strong geographic diversification for the institution, the first being a home equity line of credit portfolio, and a second installment portfolio, which is 90% guaranteed by HUD. The combined portfolios carry a weighted average FICO score of 755, and a debt-to-income of 36%. In order to originate at this level the bank would have had to move significantly down the credit spectrum, which is outside of the institution's credit philosophy.

Now, Mark can share some color as to the day-to-day underwriting and risk management specifically related to the marine line of business. Mark?

Mark Kucia
Thank you, Brandon. Once again this is an established team with a long track record of successfully managing this business line. We will independently underwrite each manufacturer, dealer, and retail customer. We will have direct contracts with the manufacturers whereby they will either guarantee, or agree to repurchase inventory to support their dealers. We employ robust credit administration and risk management around our existing portfolios. We will exercise the same level of robust management around this business line. We intend to build this business over many years in a thoughtful, measured

way, actively monitoring its performance and the economic environment.

Now, I will turn the call over to Eric Newell, our CFO.

Eric Newell
Good morning, everyone. Our GAAP financial results in the fourth quarter were impacted by a notable decline of purchase accounting effect on the margin, as well as one-time costs associated with the executive separation, as well as investment banking fees associated with the loan purchases we discussed. On a pre-tax basis the unfavorable change of accretion benefit was $2.5 million, separation costs were $1.8 million, and investment banking fees were $1.6 million, for a cumulative total of $5.9 million impact in the quarter.

In our tables in the press release we disclosed operating net income which totaled 11.3 million for the fourth quarter, a modest improvement over the linked quarter of 10.9 million, but it's also a record for the company. I mention this because despite the noise in the quarter, fundamentally the Company is continuing to show improvements in profitability from favorable operating leverage from investments we've made over the last several quarters. With the additional assets we purchased late in the fourth quarter and the completion of our budgeting process for 2016 we're in a position to discuss expectations for 2016. Details were provided in the earnings release deck released last night along with our press release.

2016 will show continued core strength, as evidenced by operating pre-tax, pre-provision revenue as it relates to average assets. The measure which in the fourth quarter was 1.03% continues to show improvement as we move forward in 2016. When we look at publicly traded peers similar in size to us nationwide, as well as in New England and the Mid-Atlantic, we expect to improve to the 70th percentile among our peers over the next couple years. We expect to accomplish this by achieving positive operating leverage in 2016 due to expected double-digit revenue growth offset by more modest mid to high single digit expense growth.

We're expecting to have a stable operating net interest margin for the year as compared to 2015. You will note the significant decline in mark-to-market benefit we expect in 2016, declining to a range of $4 to $5 million from $12.6 million benefit we experienced in 2015. While this will certainly have an impact on our GAAP net interest margin, our operating net interest margin is expected to be stable for 2016.

In the fourth quarter operating net interest margin was 2.9%. We expect this to improve by 10 basis points in the first quarter of 2016 due to the loan purchases and then compress about 4 to 5 basis points per quarter through 2016. We expect GAAP NIM to behave similarly. We reported GAAP NIM of 3.02 in the fourth quarter. We expect it to improve about 10 basis points in the first quarter of 2016, and then compress about 5 basis points per quarter through 2016.

We expect a similar level of provisioning to average loans in 2016 as we experienced in 2015, around 33 to 36 basis points on an annualized basis relative to average loans. We expect high single digit fee growth and a quarterly run rate of NIE at 33 million. This level of non-interest expense will result in continued improvement in the ratio of NIE to average assets, and we expect that we'll be in the top quartile of our peers on this measure.

The higher level of expenses in 2016 will reflect the addition of our specialty marine finance division, investments in additional staff in technology and risk management departments, as well as investments in revenue producers in our wealth management department, which will start to meaningfully contribute to our profitability in the second half of 2016.

As I mentioned, in the middle of 2015 we do expect a higher effective tax rate versus 2016, at 25%. Keep in mind this reflects current investments we've made.

Thank you for your time this morning, and the management team and I will be happy to answer questions.

QUESTIONS AND ANSWERS

Operator
We will now begin the question and answer session. To ask a question, you may press star then one on your touchtone phone. If you are using a speakerphone, please pick up your handset before pressing the keys. If at any time your question has been addressed and you would like to withdraw your question, please press star then two. At this time, we will pause momentarily to assemble our roster.

The first question comes from Kevin Fitzsimmons with Hovde Group. Please go ahead.

Kevin Fitzsimmons
Hey. Good morning, everyone.

Bill Crawford
Hey, Kevin.

Eric Newell
Hey, Kevin.

Kevin Fitzsimmons
Just a couple of questions. First, Eric, you just mentioned on the tax rate, so is that going to slowly build up to that level, are we going to assume 25% over the course of the year? And then, is there any kind of accompanying change we should be aware of in the net loss and limited partnership investments in the fee income area, or is that going to stay roughly where it is?

Eric Newell
The effective tax rate will jump up to the 25%, so it will be the same starting in the first quarter. And good question on the partnership. I actually put some guidance out on that, I believe, in the third quarter earnings call. And, unfortunately, I don't have that in front of me, but I did put something out on that, probably not on the last earnings call but the one beforehand, where I did give some expectations on the partnership loss in 2016, which would be lower than what we experienced for full year 2017.

Kevin Fitzsimmons
Okay. Okay, great. I can look back on that. Just a quick follow up, you guys announced the additional buyback authorization. I'm just wondering if you can comment about your likelihood of utilizing that, because it seemed like you put it in place but then you didn't buy back shares in the fourth quarter, and you made a point to say that you looked to leverage your capital buy on the balance sheet. So, if you could just give us a little color there. Thanks.

Bill Crawford
Sure. This is Bill. We always want strategic optionality. Today we believe that we're going to be able to grow our loan book in a nice way and provide stronger earnings through that path. What we'd like to have, we always like to have a buyback in place in the event market conditions change and we decide that it's better to slow loan growth and look at buyback. But we always like having that tool available.

We've certainly used it significantly in the past.

Kevin Fitzsimmons
Okay. Thanks, Bill.

Bill Crawford
Thank you.

Operator
The next question comes from Mark Fitzgibbon with Sandler O'Neill. Please go ahead.

Mark Fitzgibbon
Hey, guys. Good morning.

Bill Crawford
Hi, Mark.

Eric Newell
Hi, Mark.

Mark Fitzgibbon
On the marine portfolio, I wondered if you could give us a sense for the rough annual cost of having that team of 13 people down in Baltimore, what that will add to expenses?

Eric Newell
I would say that we're probably looking at 1.5 to 2 million a year.

Mark Fitzgibbon
Okay.

Eric Newell
But keep in mind, that's an ROA business that's nearing 2%.

Mark Fitzgibbon
Okay.

Bill Crawford
And that's in the projections that are in our forecast.

Mark Fitzgibbon
Okay. And then that team, they've got a portfolio now of 176 million, how big do you think they're likely to grow that portfolio, and how big would you be comfortable with them growing the marine business to?

Bill Crawford
Yes, Mark, we want to get in there and grow the business, but do it in a thoughtful and responsible way. The most interesting, compelling piece to it is really the floor plan business because we want to serve those manufacturers. That's the need they're really trying to do. So, maybe we do 100 million of floor plan over the next 12 months. On the retail production, maybe that's 100 million. But we're really looking at growing this thing gradually over time and making sure we like the risk characteristics of it as we go forward in time.

Eric Newell And just as a follow up on that, Mark, this portfolio has a CPR of almost 20% to 25%, so while Bill mentioned 100 million on the retail side, you're going to have some significant paydowns. So, I wouldn't just take the 100 million and add it to the 176.

Mark Fitzgibbon
Okay. And in the other two consumer portfolios you bought could you just give us, and I apologize if I missed it, what kind of consumer loans are those?

Brandon Lorey
Sure. So, yes, we have about $100 million, it's a home equity line of credit, just a straight, high prime HELOC. And then the remaining $50 million was, it's Title I so it's 90% Title I home improvement loans. So, it's secured by real estate, but guaranteed to 90% by HUD. So, again, they're standard consumer lending portfolios that we would do, but the infrastructure it would take to build that out internally is greater than we'd want to spend.

Mark Fitzgibbon
Okay. And then lastly, on your expense guidance it didn't look like in your 2016 forecast outlook there was a number on expenses. Actually, I apologize. It's here. My mistake. Thank you.

Bill Crawford
You're welcome.

Operator
The next question comes from Travis Lane with KBW. Please go ahead.

Travis Lan
Thanks. Good morning, everyone.

Eric Newell
Hey, Travis.

Travis Lan
Hey. Bill, when you referenced double-digit operating revenue growth I assume that excludes accretion benefits? Is that correct?

Bill Crawford
Yes.

Travis Lan
Okay. And then the purchase loans were included in the non-covered loan segment in the presentation, so did those come with some type of credit mark that you could quantify?

Eric Newell
They did go into the non-covered and we did apply a credit mark. But I don't think we're probably going to be disclosing that—

Mark Kucia
Yes, I mean, they're recorded at fair market value. I would say that it's not very significant, though. There's not a big mark on that at all.

Travis Lan

Okay. As you think about the marine finance business, do you have a sense for why Soc Gen was willing to sell the portfolio, or allow the team to leave at this point?

Bill Crawford
Yes. They did that in 2014, and as you know, there was a lot going on in Europe. It was just a strategic decision that they made. In fact, we think we're going to have an opportunity to partner with them because basically there's very strong relationships between Herve and his team, those were long term Soc Gen employees, and so I think there will be some interesting synergies with them.

Travis Lan
And what kind of synergies are you thinking about, just in the marine business as it is, or are there other types of businesses that you think there could be synergies there?

Bill Crawford
No, no, it's just assistance in the marine business with common clients. They're focused on Europe doing the same thing. We're focused in the United States.

Travis Lan
Okay. So, I guess after the MOE, and then you guys had made some commercial lending additions, the narrative was that the team was in place to capitalize on these market share gains that were available across the footprint from larger players. What do the loan purchases say about those opportunities in your market? And do you expect to have to supplement some of the organic growth with additional purchases going forward in various segments?

Bill Crawford
Yes. Travis, what I would say about that, we could generate almost any commercial loan growth number we wanted. So, that is really not the issue. When we look at commercial lending we're doing very well there. We have nice growth rates. We're building a very nice franchise value there. But when you look at the lending markets, whether it's here in Connecticut or Massachusetts, or whether you go to Boston, wherever you go what you find is RAROCs are very low in that business. You have to really pick your spots. And, for example, in Boston we looked at a real estate project, we were willing to finance $33 million on it, someone else did the deal at $44 million at 35 basis points less.

So, we love the commercial business, we're really good at it, and we're going to keep growing it very nicely. But we don't want this to be our only lever. We are going to slow down growth on the single family residential one to four portfolio and that's why we want some growth in the consumer space that's variable with better RAROCs.

Travis Lan
Okay. That's really helpful color. I know you guys are making the best decisions that you think are available under your RAROC model, and, Bill, you had referenced the stock price performance recently. How do you sort of explain, I guess, the divergence between you making the best decisions that you think for the company under the RAROC model, and then the way that the stock has performed? Do you have a way to bridge the gap there, at least how you guys think about it?

Bill Crawford
Well, how about this, we created enormous franchise value through this transaction through the merger, and when you look at the stock, when you look at price performance certainly since the fourth quarter, it's been very tough all around. So, I do think we're in a very tough equity market, obviously, but I think what we're going to have to do is just continue to drive consistency in performance. I think when you look at our 2015 results, while the headline ROA was strong, one of the highest in

Connecticut, we talked about our pre-tax, pre-provision was like third quartile, and out of two to ten billion banks nationally, so I do think getting pre-tax, pre-provision revenue up, or ROA up, is going to be a key to ultimately driving of course a better stock price.

Travis Lan
Got it. Okay, that's really helpful. And then the last one I just have, as you kind of balance the potential independent path to driving or improving shareholder returns and then kind of mix that against the opportunity to maybe partner with somebody that can maybe accelerate your own goals, how do you guys think about that going forward?

Bill Crawford
Well, I would say, I'm a significant shareholder in the company, as is our board, as is our executive management team, and so we have a clear idea of what we think the company's worth. And we also have a pretty clear plan as to over the next two or three years what we think we can accomplish and how do we close the gap between what we might be worth in a strategic transaction and where we are now. And we think we have a good plan around that. Obviously, a lot of that depends on how the economy goes and everything else, but we think we're well positioned to grow revenue, grow earnings, and do that responsibly, and outperform. If you look at us, even in 2015, on an ROA or an ROE basis, Travis, you'd be hard to find anybody headquartered in Connecticut that had a better ROA or better ROE. And that was just our first year as a combined entity.

Travis Lan
Yes. Okay, I appreciate that. I would just kind of say that you obviously have the tax benefits that help and you were getting aided by accretion, so I just don't know that it's an apples-to-apples comparison. But I do appreciate it. So, anyway, I appreciate the commentary. Thank you.

Bill Crawford
Thanks.

Operator
The next question comes from Matthew Breese with Piper Jaffray. Please go ahead.

Matthew Breese
Good morning, everybody.

Eric Newell
Hey, Matt.

Matthew Breese
On the marine acquisition and the marine portfolio, I just wanted to get a better sense of what these loans will look like and where they'll end up. So, maybe we can start with the actual floor plans, what are the rates, the sizes, the types of dealers you'll be dealing with? And then secondly, geographically where are those opportunities?

Bill Crawford
Mark, go ahead

Mark Kucia
Yes. So, we will have relationships with the manufacturers and then we will have contracts in place that will then support a portion at some level of their dealer networks. The individual floor plan lines are probably anywhere from 1.5 to 2.5 million. We'll have a master agreement, financing a handful or more

of dealers per manufacturer. The dealers are located in North America. And once again these are the team that we're taking on here, that we've brought on, these are their relationships currently and we're looking to bring those relationships over. So, they have a lot of experience with the manufacturer, with the dealerships.

Bill Crawford
And, Matt, to expand a little bit, where are boats? They're in Newport, Rhode Island. They're in Baltimore. They're down in Fort Lauderdale. Those dealers are generally in coastal places, about 21% of the existing portfolio is California, 22% is in Florida.

Eric Newell
And, Matt, they float off LIBOR, so depending on the relationship it could float anywhere LIBOR plus—

Mark Kucia
275 to 475.

Eric Newell
Yes, 275 to 475.

Bill Crawford
And keep in mind, Matt, with these manufacturers, if you look at our risk rating system, one through nine, these manufacturers would be either a three or a strong four on our system. So, really those floor plan loans, it's like we have a loan to somebody who's rated three or four at those kinds of rates. So, that's what's very attractive. For them it's just a service convenience thing.

The dealers themselves are actually probably, they're five rated, they certainly have past credit, and we believe they're financially strong, but understand, we're not financing all of some boat dealer's inventory. We're only financing the boats related to our manufacturer, and we have either a guarantee or a repurchase agreement. So, the risk is very nominal. We also have an independent company that's doing all the floor plan and all that examination process, and we have deep processes, procedures from an audit perspective to prevent fraud and that sort of thing. But that's a pretty solid piece of it.

On the consumer piece we're getting very strong down payments. These are very strong borrowers. And you know what, if we don't like the deal we don't do it. It's that simple.

Matthew Breese
How does the guarantee work for the dealer network?

Bill Crawford
Matt, how about this, if for some reason the boat doesn't sell, it goes out of term, they start to curtail the loan, at some point, let's just say the dealer goes bankrupt or whatever, the manufacturer takes the thing back and sends us a check. We have to make sure obviously these manufacturers are very strong. We're underwriting them. We'll have relationships with their CEOs. We've already been making calls there and we have access to them.

Obviously let's just say the economy gets bad, marine starts to go down with the economy, I think what you'd see, these manufacturers have been through economic cycles, certainly 2008. Most of them are 20, 30, 40 year companies. And so I think what you'd see happen if the economy really turned down they would manufacture less boats, we would floor plan less boats, they would sell less boats, we'd finance less boats, and the business would just grow much slower, but there would still be some people to buy boats. We were able to watch how these companies performed through the crisis of 2008/2009, and that's what happened, they just sold less boats and the portfolios performed well.

Matthew Breese
Okay. And then, the portfolio you acquired, the 172 million, how much of that was to the floor plans and how much of that was retail?

Brandon Lorey
That was all retail originated by the same team.

Bill Crawford
Yes, originated by the same team. And, Brandon, reiterate the losses on that over—

Brandon Lorey
Yes, so the historical portfolio loss rate on this portfolio is under 60 basis points, and again this is a seasoned portfolio at 55, 56 month season at origination the loan-to-value was 76%. It's going to be lower at this point, and we have an attrition rate somewhere between 20% and 25% on the portfolio itself.

Bill Crawford
Yes, generally the customers don't hold these the whole term. What happens with those boat owners, usually we're not financing first time boat owners. These are second or third time. And what happens is they either decide, you know what I don't like boating, and they sell it and get out, or, I love boating and I want to get a bigger, different boat, and that's why it doesn't go full term.

Matthew Breese
So, who are the actual borrowers, can you describe the typical client that walks in and wants to buy a $200,000 boat?

Brandon Lorey
The average price on these boats is going to be somewhat north of $200,000, is the average loan size. It's in that range. These are borrowers with significant liquidity and reserves. Again, the average FICO is in the high 700s. These are individuals that could buy the boat outright three and four times over at a minimum. These aren't folks that I have to borrow money in order to get the boat. These are not, again, aspirational boat owners trying to get their first 20 foot throw on to the local river. So, these are, again, very high end, very liquid, high net worth individuals that are purchasing these boats.

Bill Crawford
Yes, think surgeon, business owner, those kinds of people.

Matthew Breese
Okay. And, Bill, I think you had mentioned, yes, you want to keep the core competency of the overall institution in commercial lending, plus these ancillary business lines. But what else could that mean for potential portfolio or business lines acquisitions? The marine portfolio came as a surprise to me. It was not on my radar. What else is on your radar?

Bill Crawford
We think about what we might be able to do in the deposit space. We're studying that very carefully. And I do think that technology is going to give us the opportunity to work with different niche opportunities. And we're studying that because now we have a very strong cash management, we have much stronger mobile offerings, so I think we're interested in niche businesses. But again we're

going to be a bank that has a couple of niche businesses with nice returns. We're not going to be a specialty finance company, or a specialty anything company.

Matthew Breese
Could that entail like going into the prepaid card space, or HSA space? When you say "deposits" what kind of interesting niches would that be?

Bill Crawford
I don't know if it's managed. It's kind of premature. We are looking at different things. But think about fiduciary, things like that, things where there's really nice deposits, there's a compelling reason. We're still very much studying this stuff.

How about this, I think that to go out there and start building retail branches in Connecticut, to get retail business I think that's a loser strategy. I just think that the markets are very much overbanked, and we are really preparing to do business online. That's why we hired John Smith. He joins us from CIT, very strong technologist. And we're really preparing for the world where we can do business with clients in terms of mobile, online.

We certainly value our branches. They're very important to our existing clients. And if we see commercial opportunities we'll have some physical presence. But I don't think growing retail though de novo branching is a great idea.

Matthew Breese
Okay. My last question, Eric, your margin assumptions for 2016, what kind of interest rate assumptions are in there? How many Fed hikes are you assuming?

Eric Newell
We do not assume any increases, or any Fed hikes there. But the reason that I'm confident that we would achieve that even if there was additional movement from the Fed is just given our neutral interest rate risk position.

Now, let's say if you did see the yield curve, the 2-10 spread, if you did see that continue to flatten, I think that that wouldn't necessarily impact our 2016 results. That's going to take some time to get into the spread, but probably more of a problem for 2017.

Matthew Breese
Understood. That's all I had. Thank you.

Operator
The next question comes from Eric Grubelich, a private investor. Please go ahead.

Eric Grubelich
Yes, hi. Good morning. A lot of my questions have been answered on your foray into boat lending. But can you just tell me something about the consumer portfolios that you bought, are you servicing those portfolios, and did you buy them from one entity?

Bill Crawford
Brandon?

Brandon Lorey
We purchased them from two different entities. They both have expertise in the servicing, and the

servicing is remaining with them. They both have long time experience and the loss rates on the portfolios have been historically very, very low, better than our own internal loss rates on the consumer portfolios.

Eric Grubelich
Okay, so was this a bank entity, or a non-bank entity that originated it?

Brandon Lorey
Bank entity.

Bill Crawford
Yes, good question. These are all bank entities.

Eric Grubelich
Okay. And then just getting back to the marine lending business, so you made it clear what type of credit, the portfolio that you bought and that you're going to do on the consumer side of the boat buyers. But it sounds like on the floor plan, so the floor plan is all on the come, these people have done these loans before, but for some reason the floor planning business didn't come in the transaction, or the bank didn't want to give up those relationships, is that right?

Bill Crawford
How about this, Soc Gen exited the whole thing in 2014 in North America, or primarily in the United States, and then we lifted this team out of a small bank in the Mid-Atlantic. So, the floor plans, the key is the team we lifted out has very strong relationships with the manufacturers. That's our entrée into the dealers.

Eric Grubelich
Okay. So, again, they're going to try and migrate the existing floor planning relationships that those dealers have to you, but is it that existing bank relationship or someone else that has those floor plan loans now?

Brandon Lorey
When Soc Gen exited the business the manufacturers and dealers went to various institutions, and so fortunately this team still has the relationships with those manufacturers and dealers, and we are in the process of reaching out and rebuilding.

Eric Grubelich
Okay. And you did say, I think in the earlier comment, just for clarification, that even though you do not have these floor plan loans now on the books you expect to. You have the infrastructure in place and the people to check everything when those loans start coming in and make sure, as you mentioned, that there isn't any kind of fraud or double pledging of titles, or anything like that? That's all there now?

Bill Crawford
Yes. And, Mark, why don't you elaborate on our due diligence on examining, really checking out that team?

Mark Kucia
So, the team itself has successfully managed these lines and relationships over the years. We will have a robust credit administration risk program around it as well. First and foremost, employing what we do on a day-to-day basis, but specifically to these portfolios, there's an independent company that audits quarterly to ensure that all the lines are in trust. We have an individual who will also be down

there, who's got 30 years marine floor plan, etc., doing credit administration review, audit, etc. So, we will have a very robust program here. And once again, I guess the final thought is, this team has successfully managed these lines and this line of business for many years.

Bill Crawford
How about this, these guys are expert at what they do. But I'll say this, I came from Wachovia, Wells Fargo, SouthTrust, we have competitors, for example, who are in asset-based lending, they're in equipment lending, etc., etc. Those are definitely I think much more complex businesses than this. If somebody's going to send a boat over from Europe to a dealer who's a very strong company and we're going to have a loan that has the ability to go back to that very strong dealer, we have to make sure the boat stays there, we have to make sure it's insured. And then we have to be able to make a retail boat loan.

And another real key, though, is these manufacturers that we're dealing with, they do not want us to repossess a boat and sell it for $0.50 on the dollar. It damages their brand. And so we're very careful about which manufacturers we choose to do business with.

Eric Grubelich
Okay. And you didn't mention, approximately how many of these European brands do you expect to deal with? Is it like a dozen?

Brandon Lorey
Yes, that's going to—

Eric Grubelich
I'm not familiar with—

Bill Crawford
It's like a dozen. We don't want to throw names out right now because we're calling on these companies and developing relationships.

Eric Grubelich
Oh, that's fine.

Bill Crawford
And how about this, it's the most established ones. You're going to look at these companies, they've been in business 20, 30 years, some of them longer than that, so very strong, very established brands. We'll be monitoring their financial performance. They would have to fall very far before they even got near our five rated land.

Eric Grubelich
Okay, okay. And so it sounds like the consumer portfolio should be making money day one, correct, because of the—

Bill Crawford
Yes.

Eric Grubelich
—yields and the loss rate. Where does the floor planning portfolio, where does that start to make money for you? Do you think you're going to be making money in a year from now, or how long does it take to get it to a level of profitability?

Bill Crawford
Yes, the good thing is with the existing retail portfolio, we're earnings per share accretive very nicely right now. The floor plan, that will involve loans, we'll have some deposits, there's fees. It's a very attractive RAROC. Those RAROCs are well north of 25% because of the really good credit quality and its variable rate, and the fees, and the deposit relationship, so that's why we're doing it. But we're already profitable. And so the ROA ultimately on this business fully costed will easily be double what our bank is.

Eric Grubelich
Okay. Thanks a lot, Bill.

Bill Crawford
Thank you.

Operator
The next question is a follow up from Matthew Breese of Piper Jaffray. Please go ahead.

Matthew Breese
Thanks, everybody. Just a couple of follow ups. I noticed in the deck you note with the portfolio that there's a servicing element, and the portfolio financial servicing company has 32 billion under management. What is that, and what are the fee income opportunities from the marine finance acquisition?

Brandon Lorey
So, PFSC is the servicing company that we have hired that's servicing, and will continue to service these loans. They have been servicing, and this is their niche business, so of that 32 billion I believe 8 billion is direct servicing and then they've got another portion that's outside of that. But this is the company that has been servicing this particular portfolio and saw it through the 60 basis points loss and low delinquency under the management and guide of the team that we were able to lift out. So, again another reason why we didn't want to bring that in house, we had to make sure that the experts that have been doing it continue to service that for us.

Bill Crawford
And Brandon has been out there and met their CEO, toured their facility, everything, so that's a very strong strategic partner for us.

Matthew Breese
Okay. And then what are the fee opportunities from this line of business? You mentioned that there would be some.

Bill Crawford
Yes, it's just sometimes you're able to charge loan fees essentially is what that is, on floor plan lines, on used fees, things like that.

Matthew Breese
Okay. And then you also mentioned you're going down the path of getting Series 6 and Series 7 folks in house to develop your wealth management business. What contribution will that have to non-interest income in 2016?

Bill Crawford

Eric, I'll let you take that one.

Eric Newell
I don't want to be specific about what that bottom line contribution is, but I would say that that line of business was not contributing in 2015 to the bottom line and actually it was probably, did it lose us money in 2015? It lost us money in 2015. We're going to be breakeven in the first half, and then you'll start to see some benefit in the second half.

Bill Crawford
Yes, we were able to lift out a team there from First Niagara, their leader, and then we lifted out some excellent bankers. And we're really excited about this. This was a business that Wachovia, Wells Fargo run, and essentially what you're doing is helping clients with their financial needs, they're already customers, we have some very top talent there. And what you find is when you're able to help clients with their investment needs you end up doing a lot more deposit business with them and a lot more investment in loan business. So, we're very excited about this. It's a need that our customer has and we're able to really pick off some great talent there.

Eric Newell
I would say, Matt, that the single digit fee income growth that I guided to is inclusive of that benefit that we're going to get in the second half. And as we start getting some traction there we might provide you some more information.

Matthew Breese
Got it. Thank you. That's all I had.

CONCLUSION

Operator
In the interest of time, this concludes our question and answer session. I would like to turn the conference back over to Bill Crawford for any closing remarks.

Bill Crawford
Okay, well, thank you for your interest and your time today. And we're looking forward to a strong 2016. Take care.

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