HomeStreet, Inc.

Year-End and Fourth Quarter 2019 Earnings Conference Call

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CORPORATE PARTICIPANTS

Mark Mason - *Chief Executive Officer*

Mark Ruh - *Chief Financial Officer*

PRESENTATION

Operator
Good day, and welcome to the HomeStreet, Inc. Year-End and Fourth Quarter 2019 Earnings Conference Call. All participants will be in listen-only mode. Should you need assistance, please signal a conference specialist by pressing the "*" key followed by "0." After today's presentation, there will be an opportunity to ask questions. To ask a question, you may press "*" then "1" on your touchtone phone, to withdraw your question, please press "*" then "2." Please note today's event is being recorded.

I would now like to turn the conference over to Mark Mason, Chief Executive Officer. Please go ahead, sir.

Mark Mason
Hello and thank you for joining us for our year-end and fourth quarter 2019 earnings call. Before we begin, I'd like to remind you that our detailed earnings release was furnished this morning to the SEC on Form 8-K and is available on our website at ir.homestreet.com under the News & Events link. In addition, a recording and a transcript will be available at the same address following our call.

On today's call, we will make some forward-looking statements. Any statement that isn't a description of historical facts is probably forward-looking and is subject to many risks and uncertainties. Our actual performance may fall short of our expectations, or we may take actions different from those we currently anticipate.

Those factors include conditions affecting our financial performance, the actions, findings or requirements of our regulators, our ability to meet cost-savings expectations or to realize those cost savings at the pace we expect, our ability to pay or increase future dividends or implement future share repurchase programs, the novelty of the recently adopted Current Expected Losses, or CECL, accounting standard which replace the allowance for loan and lease losses accounting standard coupled with our relative inexperience with the newer standard, and general economic conditions such as declining interests rates and flat or inverted yield curves that may affect our net interest margin, borrower credit performance, loan origination volumes, and the value of mortgage servicing rights.

Other factors that may cause actual results to differ from our expectations or that may cause us to deviate from our current plans are identified in our detailed earnings release and in our SEC filings, including our most recent quarterly report on Form 10-Q, as well as our various other SEC filings.

Additionally, information on any non-GAAP financial measures referenced in today's call, including a reconciliation of those measures to GAAP measures, may be found in our SEC filings and in the detailed earnings release available on our website. Please refer to our detailed earnings release for more discussion of our financial condition and results of operations.
Joining me today is our Chief Financial Officer, Mark Ruh. In a moment, Mark will briefly discuss our financial results. but first, I'd like to give a summary update on our results of operations and review our progress in executing our business strategy.

HomeStreet produced solid results in the fourth quarter of 2019, capping off a year of significant change. During the year, after thoughtful consideration by the board of directors, we executed on the board's decision to substantially reduce our mortgage banking business. Following that decision, we planned and executed the exit of our standalone home loan center-based mortgage origination business and related servicing.

The successful completion of this downsizing avoids significant costs of liquidation and most of our employees associated with these centers were transferred to the acquirer of the home loan centers. We also sold the majority of the mortgage servicing rights related to loan originations associated with those home loan centers. Finally, during the fourth quarter of 2019, we completed the sale of our ownership interest in our former mortgage joint venture WMS Series, LLC.

We have also made progress toward our goals of improving efficiency and profitability with organizational and operational changes which were resulting in substantial reductions in operating cost and headcount, with FTE in continuing operations, decreasing 6% from 1,109 at June 30, 2019 to 1,048 at December 31, 2019 and are expected to further decrease some 8% to 1,020 by February the 1st of this year. Including discontinued operations, total full-time equivalent employees decreased 12% from 1,221 at June 30 2019 to 1,071 at December 31 2019 and are expected to decrease some 16% to 1,027 by February the 1st of this year.

We made these reductions without materially impacting our ability to compete for business. During the fourth quarter, we originated $675 million of commercial real estate loans, a quarterly record. We also increased business core deposits by $38.1 million or 2.4% and consumer core deposits by $71.8 million or 3.9% during the quarter.

While we are making meaningful progress toward achieving our efficiency and profitability improvement goals, the lower interest rate environment and persistently flat yield curve have had an adverse impact on the balances of loans held for investment and our net interest margin and certain operational, technology and real estate cost reductions will occur later than originally anticipated, challenging the pace of our improvement.

Asset quality remained strong throughout the year with non-performing assets totalling 21 basis points of total assets at the end of the fourth quarter. Our markets remain some of the strongest in the country with large diverse economies. However, we are keeping a careful eye on fundamentals, and remain focused on controlling credit risk.

On October 2019, we added Nancy Pellegrino to our board. She brings over 30 years of wealth management and private banking experience. And this morning, we also announced the appointment of Jim Mitchell to our board. He is the former Founder and Chief Executive of Puget Sound Bank, with over 40 years of commercial banking experience.

We added these very experienced individuals to our board as part of our board refreshment activity and in anticipation of expected retirements by our next annual meeting. We are making great progress toward our board diversification goals and we look forward to the contribution and fresh perspectives of our new board members.

The board recognizes that our shareholders have supported the development of the company and the recent significant changes to our strategy, all of which were pursued with the goals of reducing earnings volatility and improving profitability and ultimately enhancing shareholder value.

While some of these actions and specifically the current initiative to improve operating efficiency are obviously still a work in progress, it is clear to the board that the foundation for improvement has been laid. As such, the board is pleased at this time to reflect the accomplishments to-date with the initiation of a quarterly common dividend for the first quarter of 2020 payable on February the 1st 2020 to shareholders of record as of the close of market on February the 5th 2020.

In determining this dividend, the board considered numerous factors. Most importantly, we acknowledge that both the consistency and absolute level of the company's current profitability continue to have much room for improvement. At the same time, we believe we have now greater visibility of these measures and the path to improvement than we have had in the past. Because we anticipate internal capital generation in 2020 to exceed the capital required to support growth and need a sustainable common dividend payout, we are supplementing the capital return to shareholders via dividends with share repurchases.

Taking everything into consideration, the board has set the initial quarterly dividend at $0.15 per share representing a $0.60 per share annualized dividend, which currently results in a dividend yield of approximately 1.8% on the closing price of our shares last week.

Notwithstanding factors that may affect capital planning on an ongoing basis, the board intends to periodically evaluate the quarterly dividend as the company pursues our opportunities for improving efficiency and profitability. In addition to the declaration of a dividend, the board also authorized the repurchase of up to an additional $25 million of our common stock, underscoring our confidence in HomeStreet’s future performance and long-term value creation for shareholders.

And now, I will turn it over to Mark Ruh, who will share the details of our financial results.

Mark Ruh
Thank you, Mark. Good morning everyone and thank you again for joining us. Our consolidated net income which includes the results of both continuing discontinued operations for the fourth quarter of 2019 was $11 million or $0.45 per diluted share compared to net income of $13.8 million or $0.55 per diluted share for the third quarter of 2019.

Net income from continuing operations for the fourth quarter of 2019 was $13.1 million or $0.54 per diluted share, compared to net income from continuing operations for the third quarter of 2019 of $13.7 million or $0.54 per diluted share.

Core net income from continuing operations for the fourth quarter of 2019 was $14.9 million or $0.61 per diluted share, compared with core net income from continuing operations for the third quarter of 2019 of $14.3 million or $0.57 per diluted share. Excluded from core net income from continuing operations for the fourth quarter of 2019 were approximately $1.8 million of restructuring related expenses net of tax.

The decrease in net income from continuing operations was primarily due to a decrease in net interest income and a decrease in non-interest income offset by a decrease in non-interest expense and reversal of provision for credit losses during the fourth quarter of 2019.

Net interest income decreased by $1.6 million to $45.5 million in the fourth quarter of 2019 from $47.1 million in the third quarter, primarily due to a decline in our net interest margin and a decrease in loans held for investments.

The rate and volume of loans held for investment decreased during the quarter, despite record commercial real estate loan originations as a result of higher loan prepayments driven by operating any lower interest rate environment during the quarter.

Loans held for investment decreased $66.7 million to $5.1 billion at the end of the fourth quarter, primarily due to approximately $450 million of prepayments and $295 million of transfers to held for sale.

Lower short-term interest rates resulted in a decrease in the cost of interest-bearing liabilities primarily as a result of lower balances of broker deposits and lower rates on our Federal Home Loan Bank advances and money market deposits.

Deposit balances were $5.4 billion at December 31st, a decrease of 8% from September 30th. The decrease in deposits was primarily driven by a $472 million reduction in our broker deposits as Federal Home Loan Bank advances were priced more attractively during the quarter. The decrease was offset by increases of $109.9 million of core deposits comprised of $38.1 million or 2.4% of core business deposits and $71.8 million or 3.9% of core consumer deposits.

As a result of the foregoing changes, our net interest margins on a tax equivalent basis decreased to 287 basis points in the fourth quarter from 296 basis points in the third quarter. Non-performing assets increased slightly to $40.3 million but remained at 21 basis points of total assets at December 31st.

We had a reversal of provision for credit losses in the fourth quarter of 2019 of $2 million compared to no provision during the third quarter of 2019. The reversal was due to the reduction in loan balances and higher net recoveries during the quarter and reflects our level of allowance for loan losses through December 31st, 2019.

On January 1st, 2020, we adopted the Current Expected Credit Losses, referred to as CECL, Accounting Standard. CECL replaces the allowance for loan and lease losses incurred loss model in U.S. Generally Accepted Accounting Principles, with an allowance for credit loss methodology that reflects expected credit losses and requires consideration of a broader range of reasonable forecast information to inform credit loss reserve estimates.

The adoption of CECL resulted in an increase in allowance for credit losses of approximately $3.7 million at January 1st 2020 or 9% as compared to our December 31, 2019 aggregate reserve levels. This adjustment will be recorded in retained earnings and will not impact net income nor that it materially impacts regulatory capital ratios. The newly adopted standard will be reflected in our first quarter 2020 financial results.

Non-interest income decreased $2.6 million from $24.6 million in the third quarter of 2019 to $21.9 million in the fourth quarter of 2019. The decrease was primarily due to a decline in the volume and margin of commercial loan sales during the quarter.

Non-interest expense decreased $2.5 million to $53.2 million in the fourth quarter of 2019 from $55.7 million in the third quarter, primarily due to a $2 million recovery of stock-based compensation expense and reduced salary expense on lower headcounts. This decrease was partially offset by $2.3 million of restructuring expenses related to our corporate efficiency improvement plans and included occupancy costs associated with re-leasing cost as we reduce our office space.

Our effective income tax rate of 14.6% for the fourth quarter of 2019 differs from our combined Federal and State Blended Statutory Tax rate of 23.5% primarily due to the benefit we received from tax-exempt interest income and bank owned life insurance income.

Finally, as we completed the exit of our home loan center base single-family mortgage business, net loss from discontinued operations was $2.1 million in the fourth quarter of 2019, compared to net income of $162,000 in the third quarter of 2019, primarily due to reversal in the third quarter of $2.3 million of estimated restructuring and compensation-related cost net of tax, which had been previously accrued. Going forward, we expect that there will no material revenues or expenses associated with discontinued operation and as the disclosure of discontinued operations financial results will end with the fourth quarter 2019 results.

Thank you for your attention. I will now turn the call back over to Mark Mason.

Mark Mason
Thank you, Mark. On our second quarter 2019 call, we laid out a plan established by management and informed by our efficiency consultants to improve our operating efficiency and reduce our cost structure to reflect our simplified business model and lower growth expectation.

The plan identified a range of expense reduction opportunities many of which involves substantial organization, operational, technology, real estate and personnel changes. This include simplifying the organizational structure by reducing management levels and management redundancy.

Consolidating similar functions currently residing in multiple organizations, renegotiating where possible major contracts, primarily technology, identifying and eliminating where possible redundant or unnecessary systems and services and adjusting staffing, in turn to recognize the significant changes in work volumes and company direction.

We anticipate these expense savings to be primarily centered in continued decreases in salaries over the near term. Potential decreases in occupancy expense over the medium term and decreases in information technology costs over the longer term as contracts expire or are replaced.

Based on that plan we established targets for return on average assets, return on average tangible equity and efficiency ratio by the third quarter of this year. These targets were made with the assumption that our net interest margin and the size of our loan portfolio would remain relatively stable. Given the unanticipated decline in the size of our loan portfolio and ongoing reduction in our net interest margin, we no longer feel confident that we will produce the revenue on which those targets were based.

The targets also assumed expense cuts would occur as initially projected by our consultants as headcount was reduced, office space was repurposed and IT contracts were renegotiated. However, now that our consultants have completed a more detailed analysis of major functions, we no longer believe that we will be able to achieve these expense cut at the pace we had originally forecasted, in part because real estate re-leasing timelines have been extended and significant technology vendors have not today been willing to restructure existing agreements prior to maturity.

We continue to believe that we will be able to achieve all of our originally planned profitability targets in mid-2021. We are amending our previously issued guidance for the timing of achieving those targets. Despite our disappointment in not meeting the timing of our original profitability expectations, we still believe we will make substantial progress toward our goal of reducing expenses and increasing profitability by the third quarter of this year with more to come.

Assuming that we are able to realize the expense reductions currently planned by management and projected by our consultants and absent continuing negative impacts to our net interest margin beyond current expectations or as a result of changes in the interest rate environment, changes in capital management or other changes in the business or credit environment that would negatively impact our ability to accomplish our goals, we now expect to achieve an efficiency ratio in the low 70% range, return on average assets of approximately 95 basis points; and return on average tangible equity of approximately 11% in the third quarter of this year.

Even though we now only expect to achieve an efficiency ratio in the low 70% range by the third quarter of this year due to the various factors I have mentioned, we are pleased to have the resulting return to average tangible equity target remain at 11%, thanks to favorable balance sheet and capital management. More importantly, we are left with ample opportunities to lower our efficiency ratio into 2021 and beyond, which will lead to additional improvement to our return on tangible equity.

By mid-2021, we believe we can achieve an efficiency ratio in the mid-60% range, a return on average assets of approximately 110 basis points and return on average tangible equity of approximately 12%. For the first and second quarters of this year, we expect ongoing run-off in our single-family loan portfolio, offset by growth in our commercial loan portfolios resulting on this flat to slightly increasing average balance of loan held for investments over these periods.

For the same periods we expect average deposits to decrease as we continue to replace brokered deposits with more attractively priced FHLB advances and the maturing of CDs with promotional interest rates used to fund the transfer of services-related deposits.

We hope to offset these decreases by continued growth of business and consumer core deposits. Additionally, assuming ongoing flatness in the yield curve, we expect our net interest margin to begin increasing in the first quarter of this year slightly, reflecting lower deposit costs and the stabilization in the size of our loan portfolio and asset yields.

This concludes our prepared comments. Thank you for your attention today. Mark and I would be happy to answer any questions you have at this time.

QUESTION AND ANSWER

Operator
Thank you. We will now begin the question and answer session. To ask a question, you may press "*" then "1" on your touchtone phone. If you are using a speakerphone, we ask you to please pick up your handsets before pressing the keys, to withdraw your question, please press "*" then "2."

Today’s first question comes from Jeff Rulis with DA Davidson. Please go ahead.

Jeff Rulis
Thanks. Good morning.

Mark Mason
Good morning.

Jeff Rulis
Congrats on the addition of Jim Mitchell to the board, certainly a well-respected banker in the region. I am curious just in the conversation with the board since we're nearly a year since the undergoing of significant strategic change and really the Chairman in the release signalled the next stage in the company's evolution. If you could just…what you can share on that conversation with the board and maybe how that has evolved?

Mark Mason
Well, more specifically, what is your question, Jeff? The conversation about the status of our change of strategy? I just want to make sure I answer your question.

Jeff Rulis
Sure. Yes, you referenced a board refresh and now there is some retirements there, but in the framework of the release on Jim's appointment, again entering the next stage, It's a high level, how has the conversation shifted from say a year ago today with the board?

Mark Mason
Sure. If you look at the makeup of our board, we, over the last year and this year, have the anticipated retirement of several directors. In fact, all three of the directors who otherwise would have been up for re-nomination and re-election, all exceed our maximum age limit and accordingly are not anticipated to be re-nominated. As a consequence, we have been actively involved in a search for new directors to refresh our board, to further our diversification goals and our business goals.

And if you look at the directors that we have added over the last two years and most recently with Jim Mitchell, we have addressed many of those goals with these appointments. One, the reappointment of Mark Patterson a little farther back, strong investor buy-side experience, in particular with HomeStreet, two, most recent additions with Sandy Cavanaugh and Nancy Pellegrino, helping address our diversity goals, both individuals with strong executive bank management experience, and with Jim Mitchell, increasing the bank's commercial banking experience and in particular community commercial banking experience in our primary market.

And if you look at the individuals who we anticipate retiring at the end of their terms, we are losing substantial expertise, commercial banking, general business and real estate development experience. And so, the board is very focused on the skill sets, and its refreshment and we are pretty happy to have attracted these really high-quality individuals. In particular, I am tickled by the addition of Jim Mitchell recently. Not only does it speak well of the board's search and decisioning process, but I take it as a personal compliment that Jim is willing to take on that assignment and help us continue to develop the company.

Jeff Rulis
I appreciate the color. Maybe a question for Mark Ruh on the core expenses, this quarter there were some puts and takes. What would you assign the base level for the fourth quarter and then if you could give us some guidance on kind of the trend line into 2020 understanding that you've got some seasonal perhaps mortgage influences, but trying to narrow down your comments about some cost savings that shifted a little later in the calendar, but what's the base level this quarter? And what should we expect as we proceed through 2020? Thanks.

Mark Ruh
Okay. You are looking for the core non-interest expense, is what you are looking for, is that correct?

Jeff Rulis
Yes.

Mark Ruh
Okay. Again, we are going to continue to see, I mean, as we march towards the efficiency goals that we outlined, you've going to continue to see a march downward in salaries and related costs, certainly obviously as we cut FTEs, occupancy expense as we rationalize the office space. Again, we had a lease impairment that we just recognized and then therefore going forward we are going to have a lower cost on that.

Again, all the other cost associated with having those extra people at the company are going to continue to decline as well. You know there is some G&A et cetera. Legal was certainly expensive in the past but that's because we expect stability in that as we move forward. So…and I think the biggest cost that you are going to see again are salaries in the year to continue a march down and you could correlate that to the number of people that we have in the guidance that we just gave you that 1,026 that we put out in February and we anticipate going even lower into next year marching towards under 1,000, which is where we are headed.

And then finally, IT, we have...we did mention that our...we are meeting the longer-term goals. But longer term, is we are going to crack the nut on these IT expenses. But again, we told you for a couple of quarters now that, that's harder than we anticipated and the timeline is longer than we anticipated. But we will crack the nut on that, so that's really longer term.

Mark Mason
Jeff, this is Mark Mason. I would just add that I thought, if you look at the reconciliation of non-GAAP disclosures in the back of the earnings release, there is a calculated number for non-interest expense from continuing operations core, that is just over $50 million. We should really be adjusting that for other unusual or non-recurring things that we've disclosed in the press release to get to what would you call or I would call a base line.

Jeff Rulis
Yes. What is that number in the fourth quarter? What would you assign the core number in the fourth quarter and then the question remains in 2020, what are the quarterly ranges that we can expect to see?

Mark Mason
Well, I would take the...just above $50 million and make some adjustment, not a 100% but some adjustment for the reversal of stock compensation expense, which was somewhat unusual. We will always have stock compensation expense I am assuming. But we had to adjust it because the company's performance over the three-year performance period wasn't going to make the targets originally established. And so, that stock is not going to vest, it had to be reversed. That is the primary adjustment I would make this quarter.

Last quarter, I would adjust FDIC insurance, all those community banks received a nice, I won't call it a dividend, a credit on our deposit insurance which unusually reduced our operating expenses. So, I would go through what we disclosed, adjust our core continuing number in the non-GAAP exposures to get a baseline and then start reducing the various expense categories consistent with Mark’s comments as we continue to decrease headcount, real estate, and technology expenses.

Jeff Rulis
Okay. Thanks.

Operator
And our next question today comes from Steve Moss of B Riley FBR. Please go ahead.

Steve Moss
Hi, good morning, guys.

Mark Mason
Good morning, Steve.

Steve Moss
Just on total expenses as we think about number of FTEs and the overall reductions you are looking at for the upcoming year, should we think about the decline of that, call it $52.9 million range to be in the 10% to 15% range by the time we get to the fourth quarter? Just curious as to if you could quantify that a little bit.

Mark Mason
I am going to let you calculate that. We’ve given you pretty good guidance on margins and I think that you can reasonably project forward non-interest income adjusted for seasonality and given the targets on return on assets and equity I think you will be able to drop in those numbers.

Steve Moss
Okay. And then on loan growth here, you had good commercial real estate multifamily growth and then obviously the pay downs by resi mortgage, just wondering what the pipeline looks like. And what are your thoughts about the loan balances throughout the year here?

Mark Mason
We did give some guidance on loan balances that we expect single-family mortgage balances to continue to decline being replaced with commercial real estate and general commercial lending with a slight increase in overall loans held for investment balances over the year.

Steve Moss
Okay. So I take it the commercial loan pipeline still remains strong.

Mark Mason
Oh yes, I'm sorry, I didn't answer that question. So the pipeline itself, typically this is a weak period of the year. There is a rush to closing transactions at the end of the year, particularly the fourth quarter and we have historically started out with relatively weak pipeline.

That is not true this year. I think that is due in part to the low rate environment. I think the recent changes in the ten-year will accelerate that somewhat and we entered the year with stronger than typical pipelines in every lending area, including single-family mortgage. While refinancing is at a higher than typical rate, the application pipeline for purchases is higher than normal at this year.

Though I will caution you, at least in our market here in Puget Sound, new home and resale home inventories are dropping again, which means home prices will be moving up again and we are a little concerned about this sustainability of a higher-than-normal purchase pipeline.

Commercial real estate, quite active, you saw we had the largest origination quarter in our history. That is dominated by permanent lending, but we are making a few new construction loans. That market continues to be very, very active, and we are looking for a stronger year this year than even last year. So we feel great about commercial real estate.

Homebuilding, still a strong pipeline, that business is driven by entitlement pacing and land pacing, but we are in great markets and while there was a lull in the middle of last year, those pipelines are quite strong as well, and an ever-strengthening pipeline in the C&I area. We had a substantially better year in our C&I group, somewhat better in volume, but substantially better in profitability, and while we don't break those numbers out, I can tell you it was meaningfully better with more to come this year as we continue to improve the efficiency of that business as well.

Steve Moss
Okay, that's helpful. And then given the strong commercial loan demand here, you know any thoughts around commercial gain on sale for the upcoming year? Just pretty good year this past year, do you expect that to increase again in 2020?

Mark Mason
Well, if we increase the volume that will increase. We don't have any reason to believe gain on sale numbers will change materially but until we get further in the year, of course, we're not going to know. We are active in that market already this year. We've already completed our first significant sale of the year. And so, I feel good at least at this juncture that we're going to continue at this pace or better.

Steve Moss
Alright. Thank you very much.

Mark Mason
Thanks, Steve.

Operator
Our next question today comes from Jackie Bohlen of KBW. Please go ahead.

Jackie Bohlen
Hi, good morning.

Mark Mason
Good morning, Jackie.

Jackie Bohlen
I wanted to start off with the buyback. You had really good activity through the year and in the fourth quarter. And just looking at the level of repurchases in the fourth quarter and then the new repurchase authorization that you have outstanding, absent meaningful asset growth, is this a good level for us to look to going forward for repurchases?

Mark Mason

That is an excellent question. We are still analyzing what our repurchase activity will look like going forward. We have in our internal plan continued repurchasing. Part of the reason I am hedging a little is we have a conversation to have still with the FDIC about what our baseline tier 1 minimum should be at the bank. For many years before and since the IPO we have maintained by non-formal agreement with the FDIC at least a 9% tier 1 level at the bank and that of course has driven our capital planning for the bank up.

Given the much more simplified business plan of the company, the substantially reduced volatility of results, the improving results and our strong capital position, we may be making changes to our baseline assumptions, which can only improve potentially capital return to shareholders. Even at the current levels though, we hope to at least get an additional $25 million authorization from the board after completion of the current most recent authorization which should take us through the middle of the year, and we think that the prospect for improving profit and results of operations also should be accompanied with the prospect for increasing dividends in the future. And so, taken together, I'm optimistic that assuming continued improvement in profitability in a consistent credit environment, all these things we think about that return of capital will continue at this or similar paces for some period of time.

Jackie Bohlen
Okay. Thank you. That's helpful. And then looking to the single-family portfolio and understanding that, you've said, you're going to have contraction through the first two quarters or so. Are you expecting expansion then in the latter half of the year or are you only looking to predict given a fluid environment what balances would be like in the first half of the year?

Mark Mason
Well, in the single-family portfolio, there is going to be a stabilization at some point, given the downsizing of our origination activity and the low rate environment you are seeing a natural runoff that exceeds new originations. And that portfolio should stabilize, we think somewhat later this year, fourth quarter or so again, with all the caveats on rates and everything. So you should see that kind of pattern toward the end of the year.

Jackie Bohlen
Okay. So is it fair to say that the low rate environment has accelerated some of the natural run off you would see, given the change in the business operations, and so that enables you to stabilize sooner than you otherwise would have?

Mark Mason
I think that's fair. Stabilization is, I'll give you a bit of a caveat because we are experiencing higher run off on everything, and so until the absolute level of run off stabilizes, I can't say if we are stable, all is right, so.

Jackie Bohlen
So, yes. No, I fully understand how fluid everything is right now and how much you have going on, so many different moving pieces. And on that note, just one last one for me. I understand that it's difficult to predict the timing of when you can do a lot of the initiatives that you have and you are dependent on the responses from the others that you are working with. What are some events that you look to that could either reaccelerate some of the cost savings you expect or potentially further delay them beyond what your new expectations are?

Mark Mason

Also a great question. Because we are so much farther along as we sit here today in analyzing the opportunities presented to us by our consultants, we have greater clarity about the size of the opportunity and the timing. So, our forecast we believe at least for the near term are substantially stronger with respect to things within our control. The things that could change the pace of further personnel reductions are really within our hands to complete analysis and acceptance of changes by the remaining functions of the company.

Those processes we have been very careful with, because remember, this is a functioning bank. And the risk management and control aspects of making significant changes need to be handled carefully and correctly. To-date, we have not made any errors nor created any internal control lapses and it's important that we move thoughtfully and carefully with things that challenge people to think differently, reduce resources for work that has been done similarly, but inefficiently and make technological changes. And all of these things are happening at a relatively fast pace on the heels of a big restructuring. So, pacing is based upon adoption and acceptance rates. There is further analysis that we are doing that has not been completed on several areas of the bank - corporate overhead and corporate operations. There is only so many days in a week and we only have so many consultants and members of management with extra time. And so, I think there is a pacing issue. We feel reasonably good about the opportunity. The timing has been challenging.

With respect to real estate, that is a market issue. And how quickly we can re-lease space as an example, we are trying to re-lease three floors on our current building here, in a strong market but a market that has competition. And we've been somewhat successful, but not completely successful and so that timing is somewhat out of our hands. And technology has been a very frustrating area of opportunity for us. We know the cost will decline meaningfully. We are unable to get our partners, I'll call them partners for the moment, our technology providers. In particular, our core service provider to enter into any meaningful discussions for renegotiation. And yet, we know that the levels, the volumes and the rates in those agreements, in particular our core service provider agreement are meaningfully above the levels we should be paying today.

Now look, it's a contract we entered into, all of these are, we are responsible for living up to them, but it's quite frustrating to us and so it's going to drive the need to consider changing technology upon maturity in order to get the costs in line with where they should be. And unfortunately, one of the largest numbers in technology is our core service provider contract, which doesn't mature until 2022. And so, this is part of what we hoped we could renegotiate earlier based upon the experience of our consultants, but it has not occurred yet. I hope that's somewhat helpful.

Jackie Bohlen
Yes. No, no, it is very helpful. I don't know if this is something you're able to answer, but with regard to the changes you want to make with your core servicer and understanding that that contract doesn't expire until 2022, how big of a chunk of your expected cost savings does that comprise just generally?

Mark Mason
I don't think I can answer that, in part, because of the confidentiality provisions in the contract. I would love to answer that question.

Jackie Bohlen
No, fair enough, fair enough, so.

Mark Mason
But, let me say this, it's meaningful, and of course, at some level would change your ultimate outcome before then. But, we've given you guidance to the third quarter of this year and mid next year, and mid next year we believe we're going to be in the mid-60% efficiency range. So, that's 2021, not 2022. So that contract itself is not going to prevent us from hitting those 2021 numbers.

Jackie Bohlen
Okay. That was my next question. Is it included in that? Yes.

Mark Mason
That helps?

Jackie Bohlen
Yes, thank you. I'll step back now. Thank you for all the time. I appreciate it.

Mark Mason
You're welcome.

Operator
And ladies and gentlemen, as a reminder if you'd like to ask a question, please press "*" then "1" at this time.

It looks like we have a follow-up from Steve Moss at B Riley FBR. Please go ahead.

Steve Moss
A couple of things to just follow-up, guys. On the margin here in particular loan yield, just wondering where, today's notwithstanding, where were new money yields for the quarter?

Mark Mason
Well, let me give you some examples. In the single-family mortgage area, we are booking things in the very high threes like the 390s in the fourth quarter. Commercial real estate, fixed stuff in the 450s, I am sorry I misquoted something. Those were ARMs on single-family, single family fixed about 492, business banking in the low to mid 4% range on floaters, and then fixed CRE, as I said in the high threes to low fours, if that helps?

Steve Moss
That helps. And then, in terms of just what were single-family rate lock commitments for the quarter?

Mark Mason
I don't think we're disclosing those currently, Steve.

Steve Moss
Okay. And last one, what are you guys thinking for tax rate for 2020?

Mark Ruh
Yes, I would use a effective tax from 19.5% to 20.5% would be a range I'd advise for 2020.

Steve Moss

Alright. Thank you very much.

Mark Mason
Thank you.

Operator
And ladies and gentlemen, showing no further questions, I would like to turn the conference back over to Mr. Mason for any closing remarks.

CONCLUSION

Mark Mason
We appreciate your attendance and patience in listening to us today. I appreciate the great questions. Look forward to talking to you next quarter.

Operator
Thank you, sir. Today's conference has now concluded. We thank you all for attending today's presentation. You may now disconnect your lines and have a wonderful day.