

Hanmi Financial Corporation NasdaqGS:HAFC

FQ1 2020 Earnings Call Transcripts

Thursday, April 30, 2020 9:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ1 2020-			-FQ2 2020-	-FY 2020-	-FY 2021-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.29	0.08	▼ (72.41 %)	0.28	1.16	1.20
Revenue (mm)	49.22	50.20	▲ 1.97	47.42	192.85	193.58

Currency: USD

Consensus as of Apr-01-2020 3:40 AM GMT

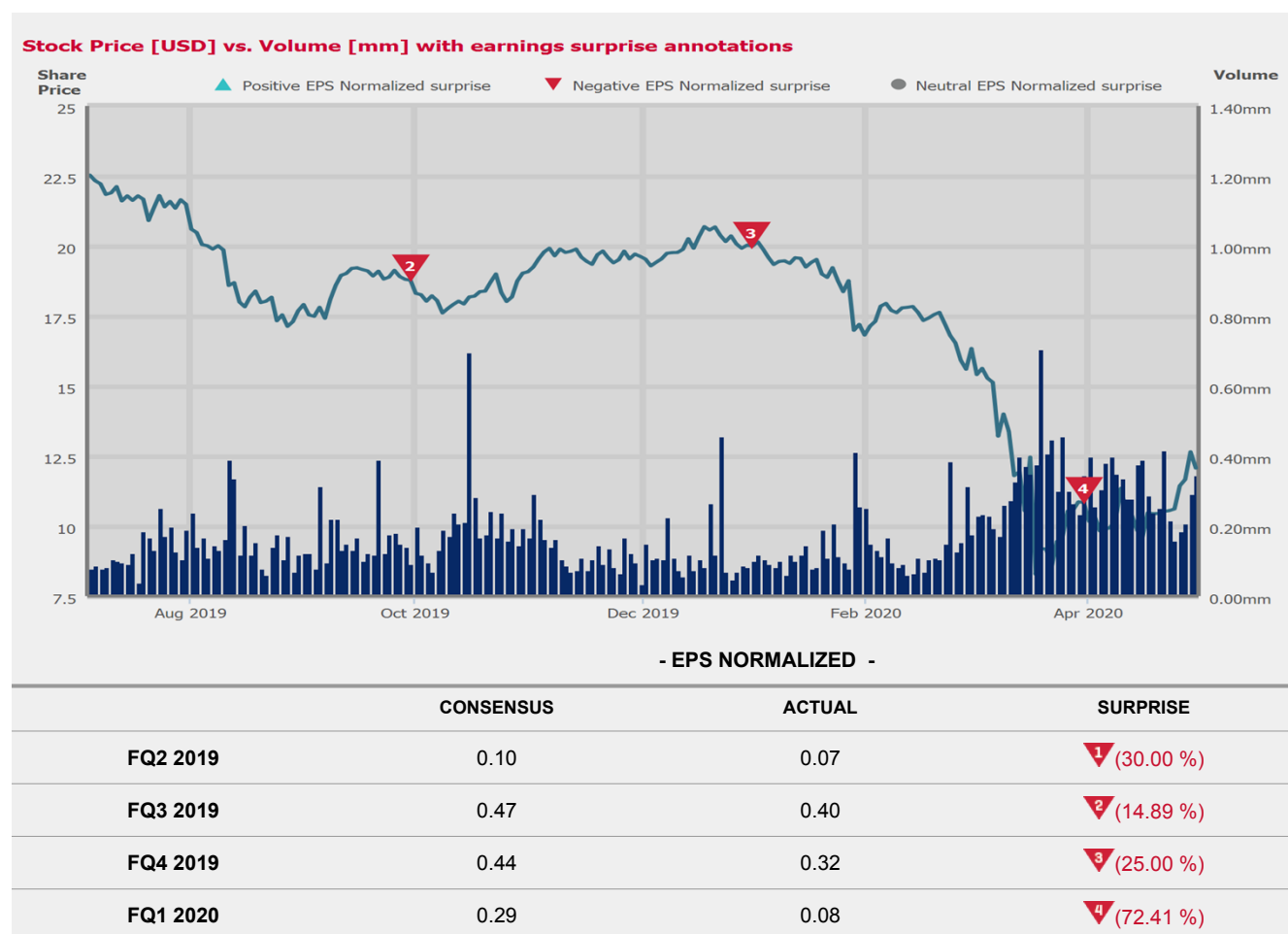


Table of Contents

Call Participants	3
Presentation	4
Question and Answer	8

Call Participants

EXECUTIVES

Anthony I. Kim

Executive VP & Chief Banking Officer

Bonita I. Lee

President, CEO & Director

Romolo C. Santarosa

Senior EVP & CFO

ANALYSTS

Gary Peter Tenner

D.A. Davidson & Co., Research Division

Kelly Ann Motta

*Keefe, Bruyette, & Woods, Inc.,
Research Division*

Matthew Timothy Clark

Piper Sandler & Co., Research Division

Timothy Norton Coffey

*Janney Montgomery Scott LLC,
Research Division*

ATTENDEES

Lasse Glassen

ADDO Investor Relations

Presentation

Operator

Ladies and gentlemen, welcome to the Hanmi Financial Corporation's First Quarter 2020 Conference Call. As a reminder, today's call is being recorded for replay purposes. [Operator Instructions]

I would now like to introduce Mr. Lasse Glassen, Managing Director at ADDO Investor Relations. Please go ahead.

Lasse Glassen

ADDO Investor Relations

Thank you, operator, and thank you for joining us all today. With me to discuss Hanmi Financial's First Quarter 2020 earnings are Bonnie Lee, President and Chief Executive Officer; Anthony Kim, Chief Banking Officer; and Ron Santarosa, Chief Financial Officer. Ms. Lee will begin with an overview of the quarter. Mr. Kim will then discuss loan and deposit activities, and Mr. Santarosa will then provide more details on our operating performance. At the conclusion of our prepared remarks, we will open the session for questions.

In today's call, we may include comments and forward-looking statements based on current plans, expectations, events and financial industry trends that may affect the company's future operating results and financial position. Our actual results could be different from those expressed or implied by our forward-looking statements, which involve risks and uncertainties. The speakers on the call claim the protection of the safe harbor provisions contained in the Securities Litigation Reform Act of 1995. For some factors that may cause our results to differ from our expectations, please refer to our SEC filings, including our most recent Form 10-K and Form 10-Qs. In particular, we direct you to the discussion of certain risk factors affecting our business contained in our earnings release, our investor presentation and our Form 10-K.

This afternoon, Hanmi Financial issued a news release outlining our financial results for the first quarter 2020, along with the supplemental slide presentation to accompany today's call. Both documents can be found in the Investor Relations section of our website at hanmi.com.

I will now turn the call over to Bonnie Lee. Bonnie?

Bonita I. Lee

President, CEO & Director

Thank you, Lasse. Good afternoon, everyone. Thank you for joining us today to discuss Hanmi's 2020 first quarter results. As the COVID-19 crisis continues, Hanmi remains focused on ensuring the health and safety of our employees, customers, partners and communities we have served for nearly 4 decades. Importantly, nearly all of Hanmi's branches remain open with some modifications to business hours.

In addition to complying with all social distancing guidelines, we have sourced and distributed personal protective equipment and other supplies to all branches and installed protective barriers for teller lines for the benefit of our frontline associates. Through the successful execution of these actions, we have not experienced any significant interruption to our business activities.

With respect to our customers, we continue to look for ways to provide support in this time of need. Where appropriate, we are working with borrowers through modifications, deferrals and other services to help them weather the crisis. We've also been extremely active with SBA's Paycheck Protection Program, and we are working tirelessly to process these loans as quickly as possible.

Hanmi is reviewing other government-funded relief programs and intends to stand by its customers. While our first quarter performance reflects the significant challenges imposed by this crisis, the following are some of the key financial and operational highlights. Loan production volume through much of the first quarter was strong. However, a substantial number of loans that were in the late stages approval were withdrawn or delayed by borrowers in the final weeks of the quarter due to economic uncertainties surrounding the pandemic. Nonetheless, first quarter loan production still grew nicely year-over-year.

Net interest income before credit loss provision was relatively in line quarter-over-quarter driven by a 4 basis point improvement in net interest margin. Deposits reflect our effort to reduce higher costing time deposits, and we did lower

deposit rates in response to the rapid decline in the general level of interest rates. Notwithstanding lower deposit rates and the uncertainties of the COVID-19 crisis, I'm pleased that our depositors continued to place confidence in us with their savings.

Hanmi's credit quality metrics reflect our assessment of vulnerabilities to the crisis at this time and include a specific allowance for uncertainties associated with the COVID-19 crisis-related losses. While we invested in Hanmi common stock during the quarter under our current authorized 1.5 million share repurchase program, the program was suspended late in the quarter due to the COVID-19 crisis.

And finally, despite market conditions, Hanmi remains very well capitalized and has ample liquidity. Our regulatory capital ratios are very strong, and I believe we are well positioned to address these challenging times.

Net income in the first quarter was significantly affected by uncertainties associated with the COVID-19 pandemic, for which we established a qualitative provision totaling \$7.4 million. As part of the process in establishing this allowance, we assessed the segment of the loan portfolio that we believe are the most vulnerable to the crisis at this time. This includes loans collateralized by hospitality and retail commercial assets as well as our equipment leasing portfolio. The assessment included analyzing individual loan relationships and stressing under different assumed revenue declines for those credits with debt service falling below 1:1 coverage. While we believe the COVID-19 allowance is adequate at this time, our analysis is based on economic conditions, forecast, loan competition and other dynamic factors. This obviously remains very fluid situation, and we will continue to closely monitor the impact of the crisis on our portfolio.

Let's now turn to asset quality. While our overall portfolio remained relatively stable at quarter end, several of the key asset quality metrics were impacted by the 3 film-credit loans totaling \$18.1 million. These loans are collateralized by film tax credits that are experiencing delays in being certified by government tax authorities. We remain confident that these delays will not result in charge-offs.

Nonetheless, nonperforming loans decreased to \$52.2 million or 115 basis points of loans at quarter end compared with the fourth quarter 2019 nonperforming loans of \$63.8 million or 138 basis points of loans. The decrease in nonperforming loans primarily reflects the charge-off of the previously identified troubled loan relationship.

Hanmi continues to maintain a commitment to conservative, disciplined credit underwriting. For the first quarter 2020, consistent with the asset quality data from prior quarters, the weighted average loan-to-value and debt-coverage ratio on new commercial real estate loan originations were 51.9% and 1.8x, respectively. For the entire commercial real estate portfolio, the weighted average loan-to-value and weighted average debt coverage ratio as of the end of the first quarter were 48.3% and 2.0x, respectively. Anthony will provide additional detail on changes to underwriting in light of the COVID-19 crisis.

During the first quarter, Hanmi repurchased 135,400 shares at an average price of \$16.22 per share for a total investment of approximately \$2.2 million under its previously authorized 1.5 million share repurchase program. Today, approximately 1 million shares remain available for repurchase under this current authorization. Shortly following the federal proclamation declaring the COVID-19 outbreak a national emergency, Hanmi suspended its share repurchase program and does not anticipate it will consider resumption of share repurchases until the national emergency has been rescinded. Even after the first quarter share repurchases, Hanmi's tangible common equity ratio remains strong at 9.74% as do all of our regulatory capital ratios.

I would now like to provide a quick update on some of the activities we're actively engaged in to help our customers during this time of need. To date, we have approved 1,242 requests for payment modifications, totaling \$707 million of loans and leases, which comprises approximately 16% of our total portfolio. In addition, we have been -- also have been very active with the Paycheck Protection Program or P3. Since offering these loans to our customers beginning in early April when the program began, to date, we have originated approximately 1,310 P3 loans totaling an aggregate principal balance of approximately \$157 million.

With that, I would like to turn the call over to Anthony Kim, our Chief Banking Officer, to discuss the first quarter loan production results and deposit gathering activities. Anthony?

Anthony I. Kim
Executive VP & Chief Banking Officer

Thank you, Bonnie. I will discuss loan production and deposit gathering activities, and then turn it over to Ron Santarosa for additional details on our first quarter financial results.

During the quarter, loan production totaled \$208.7 million, which increased 16% over the first quarter last year. Although Hanmi generated strong loan production volume through much of the first quarter, approximately \$100 million of loans that were in late stages of approval were withdrawn or delayed by borrowers in the final weeks of the quarter due to economic uncertainty surrounding the COVID-19 pandemic.

Year-over-year loan production growth in the first quarter was driven by commercial real estate loans. More specifically, first quarter production consisted primarily of \$109.4 million of commercial real estate loans, \$23.4 million of SBA loans and \$18.2 million of C&I loans. We also originated \$56.8 million of commercial equipment leases.

Newly generated loans and leases for the quarter had a weighted average yield of 4.88%, down 20 basis points from the previous quarter's weighted average yield on new production of 5.08%. However, average loan yield for the portfolio of 4.86% was down just 11 basis points quarter-over-quarter as the average yield on new loan production in the first quarter exceeded the average yield on loans that paid off in the quarter by 18 basis points.

Looking out in the second quarter of 2020, we will continue to prudently originate new loans. In light of the economic destruction caused by pandemic, we have tightened aspects of our underwriting, which includes limiting origination activities within certain high-risk industries. I do expect underwriting criteria to continue to tighten as we observe the impact of the slowing economy on customers over the near term.

Moving on to deposits. We continue to operate in a highly competitive Asian-American banking landscape for deposits. And as Bonnie mentioned, the COVID-19 crisis further impacted deposit gathering activities in the quarter. Total deposits of \$4.58 billion decreased 2.5% during the first quarter and declined 4.9% from a year ago. However, most of the decline was in the more expensive time deposit category.

As a result of first quarter loan production and deposit gathering activities, our loan-to-deposit ratio for the first quarter was nearly 100% compared with 95% in the first quarter last year.

I'd now like to turn the call over to Ron Santarosa, our Chief Financial Officer. Ron?

Romolo C. Santarosa
Senior EVP & CFO

Thank you, Anthony, and good afternoon all. And for those on the call, I hope that you and your families are safe and healthy.

First off, in light of the new CECL accounting standard in the COVID-19 crisis, I'd like to begin with pretax pre-provision income for the first quarter. With net interest income of \$44 million, noninterest income of \$6.2 million and noninterest expenses of \$31.1 million, pretax pre-provision income was \$19.1 million, up 15.8% from the fourth quarter. This increase principally reflects the decline in noninterest expenses quarter-over-quarter.

Now beginning with net interest income, we posted \$44 million, basically flat to the prior quarter, driven by a 13.3% decline in deposit interest expense, partially offset by a 2.9% decrease in interest income from loans against the backdrop of an overall lower rate environment.

Other than yields on FHLB stock, average yields for all asset classes decreased in the first quarter, reducing total interest income by \$1.8 million sequentially, despite a relatively flat average interest-earning asset balance. Conversely, interest expense decreased 10.8% in the linked quarter to \$15 million from \$16.8 million, driven by the lower rates paid on interest-bearing deposits.

Net interest margin for the quarter increased by 4 basis points to 3.36%. The average yield on interest-earning assets fell by 9 basis points to 4.50%, with a corresponding 19 basis point decline in costs for interest-bearing liabilities to 1.70%. The cost of deposits lessened by 14 basis points to 1.11%, driven by the continued mix shift in interest-bearing deposits from time deposits into money market and savings accounts.

As of March 31, higher cost and time deposits represent 32.3% of total deposits, having decreased by 4.8% from the prior quarter, while money marketed savings accounts are 36% of total deposits, and noninterest-bearing demand deposits are 29.8% of total deposits, both of which are slight increases from the previous quarter. While deposits declined 2.5%

sequentially, the ongoing shift in deposit mix in conjunction with the lower rate environment were the 2 main drivers for our improvement in interest on deposits.

Moving next to noninterest income. We saw a decrease of 7.2% from the fourth quarter to \$6.2 million. Income from service charges on deposit accounts and trade finance and other service charges and fees, decreased by 7.3% and 22.2%, respectively.

In addition, gains from the sales of SBA loans fell 23.0% to \$1.2 million as sales volume decreased to \$18.2 million from \$25 million in the linked quarter despite an increase in trade premiums to 8.35% for the first quarter from 7.60% for the prior quarter. Partially offsetting these declines was an increase in servicing income of \$300,000 on lower servicing asset amortization.

And finally, noninterest expenses were \$31.1 million this quarter, an 8.9% sequential decline from \$34.1 million, driven mostly by the \$1.7 million impairment loss incurred last quarter, which did not carry over. Additional savings were realized from the prior quarter from declines in professional fees and advertising and promotion of 26.4% and 37.0%, respectively. Salaries and benefits were flat quarter-over-quarter while data processing expenses increased on higher investments.

Turning to our credit loss expense for the quarter. We adopted effective January 1, 2020, Accounting Standards Update 2016-13 otherwise known as CECL, which replaced the incurred loss methodology for estimating credit losses with a forward-looking current expected credit loss methodology. The adoption resulted in a \$17.4 million increase to the beginning balance of the allowance for credit losses, a \$300,000 decrease to the beginning balance of the allowance for off-balance sheet items and an after-tax charge of \$12.2 million to the beginning balance of retained earnings. In addition, as Bonnie described, we provided \$7.4 million for our estimate of the potential effects on borrowers arising from the COVID-19 crisis. This, together with the effects of the new accounting standard, resulted in a credit loss expense of \$15.7 million.

At March 31, 2020, the bank had \$300 million in borrowings from the FHLB with \$1.22 billion of remaining unused availability. As of the end of the first quarter, the bank had unused secured and unsecured facilities of \$165.6 million. In addition, the bank will participate in the Federal Reserve's Paycheck Protection Program liquidity facility in the 2020 second quarter. At quarter end, the company had \$20 million of cash on deposit with the bank. Hanmi believes it has ample liquidity resources to address the uncertainties of the COVID-19 crisis as they have unfolded to date and remains vigilant in assessing customer behavior and potential liquidity needs in this uncertain period. Tangible book value was \$17.67 per share at March 31.

With that, I will turn it back to Bonnie.

Bonita I. Lee
President, CEO & Director

Thank you, Ron. While these are difficult times, Hanmi is no stranger to successfully operating in a challenging environment, and I am proud of the bank's track record of preserving through periods of adversity. From the LA riots in 1992 to the financial crisis of 2008, we have demonstrated the ability to unite in support of our customers and local communities. As Hanmi has done many times before, I am confident that we will emerge from this crisis stronger than ever. I look forward to sharing our continued progress with you when we report our second quarter 2020 results in July.

Lasse Glassen
ADDO Investor Relations

That concludes our prepared remarks. Operator, we'd now like to open the call for questions.

Question and Answer

Operator

[Operator Instructions] And our first question comes from Matthew Clark of Piper Sandler.

Matthew Timothy Clark

Piper Sandler & Co., Research Division

I guess first question -- the first question is on the retail CRE exposure. Is there some portion of that, that we should isolate that's maybe tied to groceries and pharmacies? I'm just trying to hone in on kind of the more at risk piece of that retail CRE book if possible.

Bonita I. Lee

President, CEO & Director

These are true -- we categorize under retail. And I guess some of the concerns, I guess, in certain sectors are more in a restaurant type of businesses. Within that particular segment, we only have about \$45 million of restaurant portfolio and of even which if you carve out the first bit of trust restaurant type of loans, we only have about \$18 million outstanding.

Matthew Timothy Clark

Piper Sandler & Co., Research Division

Okay. And then is there anything of concern within the C&I services segment? Or not necessarily.

Bonita I. Lee

President, CEO & Director

Well, currently, looking at the modification request as of the date, we have received about \$32 million out of our \$472 million portfolio with C&I. So I'm not particularly concerned. But just like all across the sectors, our portfolio, most of the portfolios are impacted. So not a concern on C&I, given the size of the deferment request that we have received so far.

Matthew Timothy Clark

Piper Sandler & Co., Research Division

Okay. And then for the modifications, can you give us a sense for the terms that you're granting? Are they all P&I? Or is it in the time frame? And how you're expecting them to kind of re-up the loan once we get through this?

Bonita I. Lee

President, CEO & Director

So under the modification category, we categorize -- we can categorize under 2 different ways. One is a deferment, and most of the deferments are, whether it's C&I, we're granting once approved for about -- period of 3 months. And then we have payment interest or payment reduction categories, we would use interest-only program for about 6 months. So we plan to see that in terms of a 3-month deferment or a 6-month interest-only payment. We'll see how the economy recovers or the -- how the borrowers recover in each sector.

Matthew Timothy Clark

Piper Sandler & Co., Research Division

Okay. And then just on your CECL modeling assumptions, I assume you used a model that was as of kind of late March based on assumptions at that time and April obviously deteriorated since that time and even though there were some pretty dire assumptions. I guess what are your thoughts on reserve building from here? I would assume you'd see some additional reserve building here for the next 2 to 3 quarters. Is that fair?

Romolo C. Santarosa

Senior EVP & CFO

Matt, this is Ron. That's probably fair. As we pointed out in our prepared remarks and in the release, we did a qualitative adjustment for the COVID-19 by looking at the particular segments of the portfolio we thought were most vulnerable. We

are one of the banks that use Fed data, the Federal Reserve economic data. And so that data has not moved forward to the current environment. And so we used qualitative adjustments to approximate what we think might be happening.

That said, given all of the uncertainties, given the modifications and given that we're still at a stay at home, it would be fair to expect that credit loss expense will be a variable in each succeeding quarter until we get some stability in the environment.

Matthew Timothy Clark
Piper Sandler & Co., Research Division

Okay. And then just your latest thoughts on the dividend and dividend payout going forward, if we kind of have some outsized provisioning here?

Romolo C. Santarosa
Senior EVP & CFO

So the Board will be taking up that question. And we will probably have an announcement tomorrow on the dividend. That said, again, capital preservation, capital stewardship is very important. I think we have done a pretty good job of managing down our capital. We're just above the 9.5% tangible common equity idea. We probably want to stay at those types of levels in this period of uncertainty. So the Board will consider all of that information, where we're at, where we think we might be going and the uncertainties we're confronting in informing their dividend decision.

Operator

Our next question comes from Kelly Motta of KBW.

Kelly Ann Motta
Keefe, Bruyette, & Woods, Inc., Research Division

My first question was on SBA gain on sale. You mentioned in your release that the market is shut down for 2Q. Should we be thinking about returning in 3Q? Or I guess, when do you see the secondary market returning for that?

Romolo C. Santarosa
Senior EVP & CFO

Kelly, this is Ron. I -- we don't have a strong view. I think we have hope. We have hoped that the market start to turn towards the end of the second quarter, possibly the third. But SBA, as you know, has been inundated with the P3 program. And the marketplace has a lot to absorb. So when it does open, we will look in to participate. But the time line, I just -- again, I just don't think we have a firm view.

Bonita I. Lee
President, CEO & Director

And Kelly, in addition to Ron's comments, SBA 7(a) loan budget is within the PPP program as well. So availability of the fund is also a question when this is all done and finished.

Kelly Ann Motta
Keefe, Bruyette, & Woods, Inc., Research Division

Great. And then it's my understanding that the 7(a) and 504 will be -- the principal and interest payments are guaranteed by the SBA for 6 months. What's your on-balance sheet exposure, SBA exposure traditional?

Romolo C. Santarosa
Senior EVP & CFO

So we primarily have the unsecured -- the remaining unsecured portion of the SBA 7(a)s on our books. And on average, that's probably just under \$200 million. 504s just don't add up to very much, if any. The 7(a) production that we didn't sell, probably around \$2 million, maybe \$3 million idea at the end of the quarter. So the \$200 million notion is primarily unsecured -- the unguaranteed portion, I'm sorry. So I think collectively, we're around this \$200 million notion.

Kelly Ann Motta
Keefe, Bruyette, & Woods, Inc., Research Division

Okay. Great. And then I had a question about loan growth this quarter, and you mentioned in your prepared remarks that some of your production kind of fell out end of the quarter because things were withdrawn. How much of that was internally driven with kind of a tightening of standards before things closed, the COVID environment? And how much was borrowers just deciding not to take on extra leverage during this time?

Romolo C. Santarosa
Senior EVP & CFO

Well, it all depends on when and how the economy maybe reopen and recover. But my best guesstimate is about 50% to 60%. But we do have a healthy pipeline of \$250 million. And I do expect a lower level of payoffs in the second quarter.

Kelly Ann Motta
Keefe, Bruyette, & Woods, Inc., Research Division

Sorry, just to be clear. 50% to 60% was borrower driven or driven internally?

Romolo C. Santarosa
Senior EVP & CFO

It's more of 60% borrower driven.

Operator

Our next question comes from Gary Tenner of D.A. Davidson.

Gary Peter Tenner
D.A. Davidson & Co., Research Division

I had a couple of questions. Ron, I got cut off for a second when you were going through the deposit commentary. So I don't know if you put a number out in terms of the spot rate on deposit costs at the end of the quarter? And if not, if you could provide that?

Romolo C. Santarosa
Senior EVP & CFO

No. That was not part of my prepared remarks. And quite honestly, it's not top of mind right now, Gary. So I just don't have that number. But you would be correct in assuming that the spot is slightly lower than the average for the quarter.

Gary Peter Tenner
D.A. Davidson & Co., Research Division

Okay. On the PPP loans, where do you project the weighted average fee for that program?

Bonita I. Lee
President, CEO & Director

So depending on the loan amount, it varies, but it seems like the -- all the participating lenders, the average is coming out around 2.75% of the total PPP funded amount.

Gary Peter Tenner
D.A. Davidson & Co., Research Division

But you don't have that number specific for your production?

Bonita I. Lee
President, CEO & Director

Well, if we are all successfully finished what's in the pipeline of 3P program, we would expect anywhere from \$10 million to \$11 million of fees.

Gary Peter Tenner
D.A. Davidson & Co., Research Division

Okay. All right. And then so you said you had received about \$1.4 billion of modification requests and you're through about half of them or rather you've approved half of them to date. Is there a large portion that you declined for any reason? Is it just still working through the process? And I noticed secondarily to that, that about 2/3 of your hospitality portfolio you had request from. So could you talk specifically about the hotel portfolio, how many payments were made or not made on April 1? And how you're dealing with those modification requests?

Bonita I. Lee
President, CEO & Director

So in terms of hospitality, out of our \$621 million, the request that came in, we actually boarded about \$410 million of the loans -- of the hospitality loans.

Gary Peter Tenner
D.A. Davidson & Co., Research Division

Okay. And the ones that you didn't, did you just determine that they didn't qualify or they didn't need any sort of deferral or...

Bonita I. Lee
President, CEO & Director

Yes. So we're still going through the process. For the hospitalities, that we review each property's weekly manager's report for the last couple of weeks, and we also review the industry STAR report and then we have evidence of room cancellation report of -- or the groups that are canceling. So we go through somewhat of a due diligence process to accommodate the request.

Operator

Our next question is from Tim Coffey of Janney.

Timothy Norton Coffey
Janney Montgomery Scott LLC, Research Division

I had a follow-up question on the PPP program, and I apologize if I missed this earlier. But do you have any sense of timing on when those loans might move off your books?

Bonita I. Lee
President, CEO & Director

I think it's fairly difficult to -- it depends on the -- each customer. So it will be difficult to project. But this is virtually, my understanding, it's a 2-year loan. So -- but if actually each customer exhausts their funds, then we can take those loans out. But it differs from each customer. So it's difficult to project.

Timothy Norton Coffey
Janney Montgomery Scott LLC, Research Division

Yes. I guess a better way of asking that question is, do you have a preference? I would think that your presence wouldn't be to keep a 1% loan on the books for 2 years. That you would like your borrowers to actually get those loans forgiven. So I mean, do you have a preference for how long?

Bonita I. Lee
President, CEO & Director

But I don't think it's going to -- it doesn't matter what our preference is because I think it's individually customer-driven.

Timothy Norton Coffey
Janney Montgomery Scott LLC, Research Division

Okay, okay, Understand. And then, Bonnie, to follow-up on a comment you made just a little while ago about that -- are we saying that the PPP funds are drawn from the SBA's budget?

Bonita I. Lee
President, CEO & Director

Yes. So my understanding is the 7(a), the normal non-PPP program SBA loans are part of this budget that they set up.

Timothy Norton Coffey

Janney Montgomery Scott LLC, Research Division

Okay. Do you think that could create some headwinds to the SBA being able to fund additional 7(a) production for the rest of the year then?

Bonita I. Lee

President, CEO & Director

It could. And it depends on how much of the demands are still out there for the P3, that there's still a great deal of demand, so it could impact. But I think in addition to that, the availability of a secondary market. But -- and I do think come around the maybe third quarter, we might be able to see normal activities in the SBA. But sitting today, it's difficult to forecast when that could be, whether it's the second quarter or third quarter.

Timothy Norton Coffey

Janney Montgomery Scott LLC, Research Division

Okay. All right. No, I appreciate that. And then, Ron, a question on expenses for the year. I guess I had to kind of assume coming into the year that we've see modest growth in expenses, perhaps even flat for year-over-year. Is there an opportunity to actually bring them down given the potential revenue challenges that have shown up?

Romolo C. Santarosa

Senior EVP & CFO

We are looking, Tim, at opportunities to reduce expenses. We do have, though, the spend as it relates to personal protective equipment. We do have, particularly because of the P3 program, extensive hours and dealing with the applications and the funding. So there are a lot of cross wins with respect to our expenditures. But that aside, I think we can lower some. I just don't know where others might rise in respect to the COVID-19 crisis.

Operator

Our next question is a follow-up from Kelly Motta of KBW.

Kelly Ann Motta

Keefe, Bruyette, & Woods, Inc., Research Division

I just wanted to get a sense of where TCDs were coming on to kind of feel out if that -- if further deposit repricing could help stabilize them from here, if that's a good way to think about it?

Romolo C. Santarosa

Senior EVP & CFO

Let me start, and I'll turn it to Anthony. So your TCDs, you're talking about time certificate of deposit, correct, Kelly?

Kelly Ann Motta

Keefe, Bruyette, & Woods, Inc., Research Division

Correct.

Romolo C. Santarosa

Senior EVP & CFO

Yes. Again, our time book typically is 1 year CDs. There's almost a ratable positioning, about 25% would mature each quarter. And so yes, there is opportunities for further reduction in costs. So Anthony, the current rates?

Anthony I. Kim

Executive VP & Chief Banking Officer

Yes. Reflecting the FOMC 150 basis point cut, we did cut close to 100 basis points in March. So our growing CD rate is about 0.7% to 0.75%. And then in relations to CD maturity, in second quarter, we have \$222 million, maturing at 2.22%

average rate. So in consideration that we did replace the mature CD below 90 basis points in the first quarter, we do expect to replace the CDs much lower than 90 basis points, probably below 1%.

Kelly Ann Motta

Keefe, Bruyette, & Woods, Inc., Research Division

Great. And I apologize if I missed this, but do you have what percentage of your book floats, and how much of that hit floors this quarter?

Romolo C. Santarosa

Senior EVP & CFO

On the loan book?

Kelly Ann Motta

Keefe, Bruyette, & Woods, Inc., Research Division

Yes.

Romolo C. Santarosa

Senior EVP & CFO

About 25% of our loan book would adjust in a 3-month period. Most of that are true floaters. Another part of that would be the remaining unguaranteed portion of the SBA loans, which are tied to prime, and they move on kind of quarterly cycles. The floors that are -- they're just not -- we don't have that many of them. And so with the margins, et cetera, I don't expect that much downward pressure on the -- on our yielding assets for existing assets. The downward pressure would come from new fundings.

Operator

We have no further questions in the queue at this time. Please continue.

Lasse Glassen

ADDO Investor Relations

Thank you for listening to Hanmi Financial's first quarter 2020 results. We look forward to speaking with you again next quarter.

Operator

Thank you. Ladies and gentlemen, this does conclude today's teleconference. You may disconnect your lines at this time, and thank you for your participation.

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