S&P Global
Market Intelligence

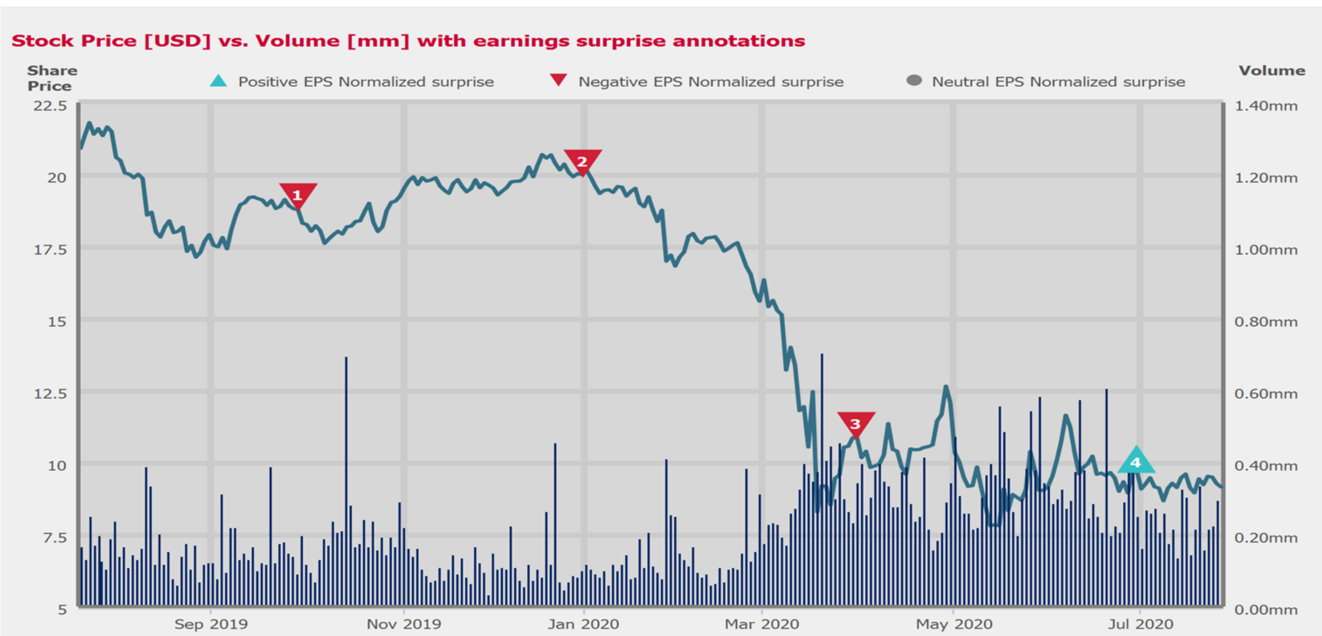
Hanmi Financial Corporation NasdaqGS:HAFC
FQ2 2020 Earnings Call Transcripts

Tuesday, July 28, 2020 9:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ2 2020-			-FQ3 2020-	-FY 2020-	-FY 2021-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.13	0.30	130.77	0.30	0.78	1.00
Revenue (mm)	49.58	65.37	31.85	53.62	207.32	203.65

Currency: USD
Consensus as of Jul-02-2020 11:31 AM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ3 2019	0.47	0.40	(14.89 %)
FQ4 2019	0.44	0.32	(25.00 %)
FQ1 2020	0.29	0.08	(72.41 %)
FQ2 2020	0.13	0.30	130.77 %

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Call Participants

EXECUTIVES

Anthony I. Kim
Executive VP & Chief Banking Officer

Bonita I. Lee
President, CEO & Director

Romolo C. Santarosa
Senior EVP & CFO

ANALYSTS

David Pipkin Feaster
Raymond James & Associates, Inc., Research Division

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

ATTENDEES

Lasse Glassen
ADDO Investor Relations

Presentation

Operator

Ladies and gentlemen, welcome to the Hanmi Financial Corporation's Second 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, sir.

Lasse Glassen
ADDO Investor Relations

Thank you, operator, and thank you all for joining us today. With me to discuss Hanmi Financial's Second Quarter 2020 Earnings are Bonnie Lee, President and CEO; Anthony Kim, Chief Banking Officer; and Ron Santarosa, Chief Financial Officer. Ms. Lee will begin with an overview of the quarter. Mr. Kim will discuss loan and deposit activities and Mr. Santarosa will then provide more details on our operating performance. At the conclusion of the prepared remarks, we will open a 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 this 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 10-Q. 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 second quarter of 2020, along with a 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 second quarter results. Overall, I am pleased with the team's consistent execution during this past quarter in what continues to be an extremely difficult and uncertain operating environment, resulting from the ongoing COVID-19 pandemic. Hanmi's performance in the second quarter was underscored by solid loan growth and strong deposit gathering activity. We also continue to diligently support our customers and our communities. In addition to our efforts under the Paycheck Protection Program or P3, we remain extremely focused on the management of our loan and lease portfolio by proactively providing individual life support to our customers to ultimately help them get through the crisis.

While we continue to face challenges imposed by the pandemic, the following are some of the key financial and operational highlights for the second quarter. Net income was solidly higher on both a sequential quarter and year-over-year basis. While credit loss expense arising from the pandemic increase, during the quarter, we benefited from gain on sale through the repositioning of our securities portfolio.

New loan production during the second quarter was strong and included significant P3 loan production while loan payoffs were very slight. As a result, loan receivable expanded nicely on both the sequential quarter and year-over-year basis.

Net interest income before credit loss provision increased slightly quarter-over-quarter despite a 21 basis point sequential quarter reduction in net interest margin that was driven in part by the lower-yielding P3 loans. Deposits increased sharply during the quarter led principally from increase in noninterest-bearing demand deposits. While portion of the increase reflects deposits from various government relief programs and a flight to security, I remain pleased with the strength of a Hanmi's deposit franchise. But perhaps most importantly, 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.

Looking in more detail at our second quarter results, we reported net income of $9.2 million or $0.30 per diluted share. This compares favorably to net income of $0.08 per share in the previous quarter and net income of $0.09 per share in the second quarter last year.

Net income in the second quarter continues to be impacted by uncertainties associated with the COVID-19 pandemic. Second quarter credit loss expense increased to $24.6 million, up from $15.7 million in the prior quarter. The second quarter credit loss expense includes a $21.1 million provision for loan losses and a $3.5 million provision for off-balance sheet items. The increase in credit loss expense reflects deterioration during the quarter in some of the assumptions used in determining the allowance for credit losses, including levels of economic activity and employment, among others. Without a doubt, this remains a very fluid situation, and we will continue to closely monitor the impact of the crisis on our portfolio.

Partially offsetting the credit loss expense was a $15.7 million gain on sale of securities recorded in the quarter. The gain on sale of securities reflect the repositioning of our securities portfolio to capture the high level of unrealized gains arising from the very low interest rate environment.

As expected, Hanmi did not sell any SBA loans during the second quarter because of the disruption in the secondary market, resulting from the COVID-19 crisis. We expect, however, to resume selling SBA loans in the third quarter. As a result, there were $17.9 million of the guaranteed portion of SBA 7(a) loans held for sale at June 30.

Let's now turn to asset quality. Nonperforming loans increased modestly to $58.3 million or 121 basis points of loans at quarter end compared with the first quarter 2020 nonperforming loans of $52.2 million or 150 basis points of loans. The increase in nonperforming loans reflects the addition of 3 loans, totaling $22.9 million and leases totaling $1.6 million, offset by the payoff of the $5.5 million film tax credit loan discussed on our call last quarter as well as the 2 other loans totaling $14.1 million returning to accruing status.

The COVID-19 pandemic caused a number of our borrowers to seek temporary modifications to their loan agreement. We approved in the second quarter over 2,000 applications for 90-day modifications, reaching $1.4 billion. Since then, we have kept in close contact with our borrowers and are guardedly encouraged that about 30% of our hotel, retail and other real estate secured borrowers may not seek an additional 90-day modification.

As many of you are aware, the circumstances facing our borrowers can change rapidly as the instance of the virus rises or fall. As we did last quarter, we will continue to work with our borrowers in these challenging times.

In terms of our underwriting, we remain committed to conservative disciplined credit criteria. For the second 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 [55.5%] and 1.7x, 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 second quarter were 48.7% and 1.9x, respectively. Anthony will provide additional detail on changes to underwriting in light of the COVID-19 crisis.

With that, I would like to turn the call over to Anthony Kim, our Chief Banking Officer, to discuss the second 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 deposits and gathering activities, and then turn it over to Ron Santarosa for additional details of our second quarter financial results.

Hanmi generated strong loan production volume through the second quarter. Total loan production was $534.1 million in the quarter and included $308.8 million of new PPP loans and $225.3 million of new loans and leases. We experienced growth across the all major categories except equipment leases, where volume declined as expected.

During the second quarter, we originated approximately one [indiscernible] of these volumes as compared to precrisis levels. More specifically, second quarter production consisted primarily of $129.4 million of commercial real estate loans. $328.3 million of SBA loans and $61.1 million of C&I loans. Rounding out second quarter production was $15.3 million of commercial equipment leases.

Newly generated loans and leases for the quarter had a weighted average yield of 2.35% and includes a lower-yielding PPP loans.

Excluding PPP loans in the quarter, the yield on new production was 4.20%, down 68 basis points from the previous quarter's weighted average yield on new production of 4.88%. Of note, commitments under commercial lines of credit increased nearly 10% over the prior quarter to $566 million. However, the commercial lines of credit balance at quarter end fell by nearly $40 million quarter-over-quarter, reflecting a second quarter utilization rate of just 40.5%.

Thanks to the solid loan production in the quarter, coupled with relatively low level of loan payoffs, loans receivable at the end of second quarter expanded to $4.83 billion, up 6.2% from the end of first quarter and up 5.9% from a year ago.

Similar to last quarter, I'd like to provide an update on our efforts to help our customers during this time of need. As of June 30, we have approved 2,443 requests for payment modification, totaling $1.4 billion of loans and leases, which comprises approximately 29% of our total portfolio. In addition, we have also been very active with the PPP loan production, as I noted earlier.

Suffice to say, we have been very engaged with our customers throughout the crisis and are working to help them weather the crisis.

Looking hard from the second quarter of 2020, we'll continue to prudently originate new loans. In light of the economic disruption caused by pandemic, during the second quarter, we tightened aspects of our underwriting, which includes limiting origination activities within certain high-risk industry. I do expect Hanmi will continue to observe this more stringent underwriting as we assess the impact of slowing economy on customers over the near term.

Deposits totaled $5.21 billion at the end of second quarter compared with $4.58 billion at the end of preceding quarter, representing an increase of 13.7%. Noninterest-bearing demand deposits, interest-bearing demand deposits and money market and saving deposits led this growth with increases of 36.5%, 11% and 10%, respectively. The increase in noninterest-bearing demand deposits for the current quarter was primarily due to the deposit increases from customers with the PPP as well as the overall liquid deposit market. Deposits held with customers with the PPP loans increased $201.1 to $408.7 million at June 30, 2020 compared with $107.6 million at March 31, 2020.

As a result of second quarter loan production and deposit gathering activities, our loan deposit ratio at the end of second quarter was 92.6% compared with 95.7% in the second quarter last year.

I would 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. Let's begin with pretax pre-provision income for the second quarter. With net interest income of $44.4 million, noninterest income of $20.9 million and noninterest expenses of $27.1 million, pretax pre-provision income was $38.2 million. Adjusting for security gains and the deferral of PPP loan origination costs. Pretax pre-provision income was $19.4 million, up 1.6% quarter-over-quarter.

Looking at net interest income, we posted $44.4 million, up 1.1% from the prior quarter driven by a 30.2% decline in deposit interest expense partially offset by a 4.4% decrease in interest income from loans against the backdrop of an overall lower rate environment.

Average yields for all asset classes decreased in the second quarter, reducing total interest income by $3.2 million sequentially, despite a 7.8% increase in average interest-earning assets. In addition, interest expense decreased 24.5% in the linked quarter to $11.3 million from $15 million driven by the lower rates paid on interest-bearing deposits.

Net interest margin for the quarter decreased by 21 basis points to 3.15% or 15 basis points when excluding the effect of PPP loans. The average yield on interest-earning assets fell by 55 basis points to 3.95% with a corresponding 47 basis point decline in the cost of interest-bearing liabilities to 1.23%. The cost of deposits decreased by 37 basis points to 0.74% driven by the lower interest rate environment and the continued mix shift in deposits.

As of June, relatively higher costing time deposits represented 27.5% of total deposits, declining 3.1% from the prior quarter while noninterest-bearing demand deposits were 35.8% of total deposits, rising 36.5% for the previous quarter.

While total deposits increased by 13.7% sequentially, the ongoing shift in deposit mix in conjunction with the lower rate environment were the 2 main drivers of the improvement in interest on deposits.

Turning next to noninterest income. We saw a significant increase in the second quarter to $20.9 million from $6.2 million for the first quarter. The increase was primarily due to the $15.7 million in gains on the sale of $479.9 million of securities. The gains on sales of securities reflect our repositioning of the portfolio to capture the high level of unrealized gains arising from the very low rate environment. Offsetting the increase for the quarter were lower levels of service charges and fees on deposits from lower activity and also from the fact that we did not sell any SBA loans during the second quarter.

By comparison, the gain on sales of SBA loans for the first quarter of 2020 was $1.2 million. Looking ahead, as Bonnie mentioned, we have resumed SBA loan sales, and we will have gains on sales of SBA loans [indiscernible] quarter.

And finally, noninterest expenses were $27.1 million this quarter, a 12.7% sequential decline from $31.1 million last quarter. This was primarily due to a $3 million decrease in salaries and benefits expense. Here, we see a $2.4 million increase in deferred loan costs, principally from PPP loans, and a $400,000 reduction in payroll taxes drove the decrease overall.

We also realized additional savings from the prior quarter from declines in professional fees and advertising and promotion of 19.3% and 37.8%, respectively.

At June 30, the bank had $150 million in borrowings from the FHLB with $1.4 billion of remaining unused availability. As of the end of the second quarter, the bank also had unused secured and unsecured facilities of $163 million. In addition, the bank did participate in the Federal Reserve's Paycheck Protection Program liquidity facility during the quarter with $101.8 million outstanding at the end of the second quarter. We've repaid this advance in July.

At quarter end, the company had $20.3 million of cash on deposit with the bank. And Hanmi believes it has ample liquidity resources to address the uncertainties of the COVID-19 pandemic as they've unfolded to date, and we remain vigilant in assessing customer behavior and potential liquidity needs in this uncertain period.

Tangible book value was $17.47 per share at June 30 while our tangible common equity ratio remained strong at 8.63%.

With that, I will turn it back to Bonnie.

Bonita I. Lee
President, CEO & Director

Thank you, Ron. As we begin in the second half of 2020, we continue to be keenly focused on operating efficiently, protecting our portfolio and maintaining a strong capital and liquidity position to effectively withstand this pandemic.

As we move forward, we remain committed to supporting our loyal customers and prioritizing the health and safety of our employees and communities to ultimately emerge from these uncertain times, well positioned and as a stronger company. I look forward to sharing our continued progress with you when we report our third quarter 2020 results in October.

Lasse Glassen
ADDO Investor Relations
Operator, that concludes our prepared remarks. We'd now like to open the call for questions.

Question and Answer

Operator

[Operator Instructions] Our first question is from David Feaster from Raymond James.

David Pipkin Feaster
Raymond James & Associates, Inc., Research Division

I just wanted to start on re-deferral rates. How are the early read-on modifications? I mean -- and then any details on the percentage of these that were 90-day versus 180-day interest-only versus full payment deferral? Just -- and then again, the early read on the re-deferral rates?

Bonita I. Lee
President, CEO & Director

Sure. Approximately 78% of our overall modification is on the payment deferral. And as we had mentioned, as of June 30, we have about $1.4 billion, representing 29% [of our portfolio] under modification. But most of these modifications were for the period of 90 days. So starting in the late June and also part of July, we are going through the second wave review of the modifications. And where we have individually contacted our customers and try to assess where they are on its loan relationship. So from that communication that, it's a bit of a -- based on the responses that we have received from the customer base, we think that the second wave of the deferment will be about 30% lower than what is in the focus on the current modification.

David Pipkin Feaster
Raymond James & Associates, Inc., Research Division

Okay. That's helpful. And then I guess as you grant these additional modifications, are you acquiring any additional collateral, personal guarantees? And then maybe just any downgrades to risk ratings or anything?

Bonita I. Lee
President, CEO & Director

As we speak, most of -- currently of the loans and the modifications, almost most of them have the guarantees in place to begin with. In terms of additional collaterals, we are reviewing in each individual cases. So far, most of them, we haven't had to ask for additional collateral.

David Pipkin Feaster
Raymond James & Associates, Inc., Research Division

Okay. And then I guess just the last one for me. Just how do you think maybe that translates into additional reserve builds? I mean it seems like most of the heavy lifting has been done, but just as some of these modifications come through and then maybe your negative credit migration, I mean, should we expect some modest reserve builds? Or just how do you think about that going forward?

Bonita I. Lee
President, CEO & Director

It's very difficult to say that on the each individual loans in terms of reserve impact on these loans because we still have the second wave of the modifications to review. So I think we can get a more clear number, I think, towards the -- maybe the end of the third quarter or even maybe the beginning of -- towards the end of the third quarter, at the beginning of the fourth quarter.

Operator

And our next question is from Kelly Motta from KBW.

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

Let's see, maybe switching to capital. Obviously, your regulatory ratios are still pretty healthy. But you did cut the dividend last quarter, and absent the securities gain this quarter, again, it would have been another lower quarter. So I'm just wondering how you guys are thinking about the dividend at this point if you feel the -- what you declared last May is something that can be sustainable as -- in this uncertain environment?

Romolo C. Santarosa
Senior EVP & CFO

So as you observed, Kelly, our capital ratios are fairly strong, and they even are stronger when you start to give effect to the bulge that the PPP program causes some of those ratios. That said, as you know, capital management as well as asset quality and liquidity are really important matters for both management and the Board. So the Board does deliberate on capital in each quarter's meeting. They will do so again. We think the dividend reduction in light of all the uncertainty was appropriate. How it will be determined next? I think we will let -- we will see shortly.

But I think where we're standing today, I think we feel good about capital. If you think about how the first half unfolded and the dividends paid in the first half, I think that demonstrates both being good stewards of capital for the shareholder, but also being good stewards of capital just to protect the institution. So the Board will meet and the Board will have its decision.

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

Okay. And maybe if I could switch back a bit to credit. I appreciate all the color around deferrals. And I understand that a lot of it was for a change in some qualitative factors you put forth under CECL. I was hoping you were -- you could kind of share what backdrop you've incorporated and kind of your modeling. And maybe the unemployment rate or GDP or whatever that went in, so we can have a better understanding of what you put out this quarter is factoring in.

Romolo C. Santarosa
Senior EVP & CFO

Sure. So as you know, in the first quarter, the onset of COVID and the adoption of CECL were on the heels of each other. We -- we're using economic data at that time from the Federal Reserve, the FRED it's called, Federal Reserve Economic Data. And they have not adjusted for what may be the COVID environment. In this -- and we provided for that idea through a qualitative adjustment in the first quarter.

In the second quarter, we've moved to looking at Moody's data. My recollection is that GDP is pretty much at a 1% or less notion in the forecast period, which for us is about a year. For unemployment, we're looking at probably numbers just below 8% for the 1 new horizon.

So if we look at those 2 drivers or at least those 2 elements to the calculation, we're probably approaching where maybe current consensus is today, although I've seen different views on that from even the members of the Fed when they deliberate where they think unemployment might be.

So it would be nice to say that we might be at a high point. I don't think so. I think we still need to see how the economy unfolds. What was promising initially was disappointing where we might have to have some resets. How that plays out, still not sure. But I'd like to say that the lion share of the reserve build is perhaps over with. But if you can tell me how this is going to turn out, I can give you a better sense of what that is.

Operator

And our next question is from Gary Tenner from D.A. Davidson.

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

Bonnie, I wanted to make sure that I heard your comment correctly in terms of the re-deferral rates. Did you say that the number of folks requesting a second referral was 30% of those that are expiring or 70%?

Bonita I. Lee
President, CEO & Director

So current -- as of June 30, we have about $1.4 billion. And from that original modification, about 30% of the modified customers from the first wave may not request the second additional 90-day modification. Is that correct?

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

Okay. So you're saying that you think 70% will request it?

Bonita I. Lee
President, CEO & Director

Yes. Yes.

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

Okay. Okay. That's quite a bit higher number. We've heard from other banks, obviously, with the hospitality and retail exposure, I'd imagine that there is probably an overweight amount of those borrowers that would be requesting the second round deferrals? Is that fair?

Bonita I. Lee
President, CEO & Director

Yes. I think among all the segments, the hospitality will be higher, yes.

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

Okay. Okay. And then the one line of credit pay downs this quarter, as I think you pointed out, I mean, a big source of kind of the -- kind of offset to your production for the quarter. I think $90 million of worth of decline in line utilization. It's also what the line utilization was at quarter end, and what your sense is of additional downward pressure in that portfolio.

Bonita I. Lee
President, CEO & Director

So second quarter and line utilization was 40%. In any given quarter, line utilization is -- will trade anywhere from 50% to 55%. So second quarter was much, much lower than our average. But I would presume that [indiscernible] for economic activity.

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

Right. Do you have expectations for that potentially getting down still further? I mean I've had some banks tell me their line utilization is sub-30% right now. Do you have a sense of how far that might?

Bonita I. Lee
President, CEO & Director

I would presume it will move from like a 40% to 45%. It may not quite reach to 50%.

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

Okay. So you're saying that's a little more stable from this level?

Bonita I. Lee
President, CEO & Director

Yes.

Operator

[Operator Instructions] Our next question is from Kelly Motta from KBW.

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

Just on the NIM. I was hoping to get some color on what new loan yields were looking like, and if the pressure there is potentially offset by the repricing of P3s roll off there.

Bonita I. Lee
President, CEO & Director

Kelly, new loan yields in the second quarter, excluding P3 loans, were about 4.2%. And that's partially offset by, obviously, repricing of the CD rate. Going into the third quarter, we have a little over $300 million in the CD that's priced over -- a little over 2%. And if we price it down successfully below 60 basis points -- 55 to 60 basis points, we'll have the savings there. In terms of new loan with the rate drop, there's definitely more competition, the pricing competition on the new loans. But looking at the -- just our pipeline, new loan yields are a couple of basis points lower and not too much compared to the second quarter. But we still -- we're at the beginning of the quarter, so we still have to watch how our pipelines goes up.

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

Great. And not to beat a dead horse with deferrals, but I did want to see if -- well, we've talked a lot about the re-deferral rate. If new deferrals, at least, have slowed or if there's additional borrowers coming in who may need some assistance beyond just kind of what you had at June 30.

Bonita I. Lee
President, CEO & Director

So we did not have a new deferral. It's pretty the same customer base that we had existing deferrals. So one positive is that, I said that no new customers are asking for a new deferral. And we're just trying to improve the -- from the existing customer base. So based on the communication that we had so far from the middle of June to today, what the customer has expressed is we think that there'll be about a 30% decrease in the second wave of the deferral.

Operator

And our next question is from Matthew Clark from Piper Sandler.

Matthew Timothy Clark
Piper Sandler & Co., Research Division

On the hospitality exposure, as you speak here to your customers, where occupancy rates look like of late? And any sense for breakeven levels? I know you're dealing with averages or medians, but any color there would be helpful.

Bonita I. Lee
President, CEO & Director

Sure. And so you know, we -- this is a portfolio that we are tracking on a -- almost on a daily basis, and we are tracking how the industry is performing overall [indiscernible] industry. So starting from April where the occupancy was down around 20 -- mid-20%, 24%, 25%. Now at the end of June and early part of July, the occupancy level has moved up to 45% to 50% level industry-wide. And our portfolio is actually tracking at slightly above the industry average. So I think it's a fairly good sign in terms of overall hospitality sector.

Matthew Timothy Clark
Piper Sandler & Co., Research Division

Okay. Great. And then on the 3 loans that moved into nonaccrual, the $23 million, excluding the leases, can you provide some color there on what drove that increase?

Bonita I. Lee
President, CEO & Director

Sure. One loan is it's a hotel construction loan. This is a loan that we mentioned, I think, the prior quarter, it's at $12.8 million. The challenge is that the customers and the general contractor are at odds. And so there's a delay in the construction portfolio. And the second one is actually another credit that we mentioned, I think a prior quarter, it's $8.7

million tax credit, a film financing deal. So -- and that one, we're just waiting for the court to approve the sale of the tax credit. And we have the ample value to pay us off.

Matthew Timothy Clark
Piper Sandler & Co., Research Division

Okay. Great. And then maybe on your deferrals, the $1.4 billion. Do you know how much of that amount got PPP?

Romolo C. Santarosa
Senior EVP & CFO

I would say that our PPP staffs, most of our credits were at the lowest tier. I think we only had 17 at the highest tier. And I know the 17 didn't participate because most of our hotel credits are pretty large nomination. So I don't -- I just don't think any received the PPP. But it really have to get very granular to take a look at some of the lower ones, but not in any large way, Matt.

Matthew Timothy Clark
Piper Sandler & Co., Research Division

Okay. I figure it's -- just checking. And then on the SBA volume going forward in the rush to get approved before, I think, the end of September to qualify to have 6 months basically covered. Are you going to participate in that type of activity? Should we expect kind of outsized gain on sale here in the third quarter and then maybe normalize after that or not?

Romolo C. Santarosa
Senior EVP & CFO

So just to be plain, when we're talking about gain on sale, we're talking about the traditional 7(a) loans, not the PPP loans, right? So we would expect activity through July, August than whatever is achievable through September. I know you're pushing up against the government's fiscal end year. So I don't think we will see anything unusual, but we have to see what September plays out because that's usually its own months with its own dynamic. And then the PPP side of life, if they should renew the program and things of that sort, now that's a whole different question. And quite honestly, I don't think we've taken a look at that. And we'll deal with, if and when it comes.

And then last with respect to the forgiveness element. Once they actually have life worked out on what the borrower needs to fill out in petition for that forgiveness, I think we will step up to that place. So traditional SBA will be back on in the third quarter and then likely in the fourth. The PPP program, I think that's -- as they unfold, we will address it.

Matthew Timothy Clark
Piper Sandler & Co., Research Division

Okay. And the 9% premium that you guys mentioned in the release, is that gross or net that we'll see kind of in the income statement? I just can't remember.

Romolo C. Santarosa
Senior EVP & CFO

Yes. That would be a gross trade premium.

Matthew Timothy Clark
Piper Sandler & Co., Research Division

Okay. So something closer to maybe 7 net?

Romolo C. Santarosa
Senior EVP & CFO

Yes. Typically, depending on the mix of loans, we have different types of percentage participations. But as a rule of thumb, maybe 75% of the trade premium would be a book gain.

Matthew Timothy Clark
Piper Sandler & Co., Research Division

Okay. And then just lastly on the expenses. Obviously, you need to adjust for the deferred origination cost for the PPP of just over $3 million. I guess how do you think about that run rate going forward and your ability to manage expenses from here?

Romolo C. Santarosa
Senior EVP & CFO

So we did in the end of the second quarter, trimmed some staff. We have addressed certain expenses. So that should allow us to see perhaps, a small drift downward. But we do have a spend going the other direction, not nearly as much, but we do have the spend relative to personal protective equipment that's now kind of ingrained in our run rate. So there are things that should benefit us. But to be conservative, I'd say it shouldn't be higher than the adjusted rate for the second quarter with everything that we know today.

Matthew Timothy Clark
Piper Sandler & Co., Research Division

Okay. And then I just forgot one more on other income, other noninterest income, it's been trending higher over the last 4 quarters. Is there anything unusual in there? Or is it sustainable?

Romolo C. Santarosa
Senior EVP & CFO

The 2 items that came into the second quarter. One, with respect to servicing income on our SBA loans. There was a, I'll call it, a pocket of fees that were due to us on some outstanding SBA loans that were -- of some conversation with the SBA, and they finally paid that in the second quarter.

And then in the second quarter, we also have about $0.5 million of fees on a net basis related to just under a $30 million notional of back-to-back swaps. So those 2 items probably won't repeat or are not necessarily repeatable. So we tried to identify that for you in the table and in the text so you could work out run rates.

Operator

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

Lasse Glassen
ADDO Investor Relations

Thank you very much for listening to Hanmi Financial's Second Quarter 2020 Results Conference Call. 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.