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Q2 2020 NBT Bancorp Inc Earnings Call

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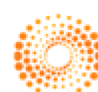

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PRESENTATION

Operator

Good day, everyone. Welcome to the NBT Bancorp second quarter 2020 financial results conference call. This call is being recorded and has been made accessible to the public in accordance with the SEC's regulation FD.

Corresponding presentation slides can be found on the company's website at nbtbancorp.com.

Before the call begins, NBT's management would like to remind listeners that, as noted on slide 2, today's presentation may contain forward-looking statements, as defined by the Securities & Exchange Commission.

Actual results may differ from those projected. In addition, certain non-GAAP measures will be discussed. Reconciliations for these numbers are contained within the appendix of the presentation.

At this time, all participants are in a listen-only mode. Later, we will conduct a question and answer session. Instructions will follow at that time. Anyone requiring operator assistance can press the "star" key and then "0" on your touchtone telephone. As a reminder, this call is being recorded.

I would now like to turn the conference over to NBT Bancorp President & CEO John H. Watt, Jr, for his opening remarks. Mr. Watt, please begin.

John Watt ***NBT Bancorp Inc. - President & CEO***

(...) CFO John Moran and our Chief Risk & Credit Officer, Amy Wiles, will join me in reviewing the highlights for the quarter with you, and then we will take your questions.

The second quarter was an extraordinary quarter for NBT, our employees, our customers and our communities. We manage for the long-term, as you all know. We are open for business and we are lending. Our strong balance sheet allows us to do so.

Through the rising storm of the pandemic at the beginning of the quarter and through the reopening in most of the markets we serve, NBT performed very well.

The COVID impact in markets we serve, which are relatively less dense, allowed for reopening to begin in early May.

During the quarter, we leaned into the SBA's Paycheck Protection Program, funding 3,000 loans to customers across many segments that helped preserve over 60,000 jobs.

As a function of our participation in the PPP, we crossed the $10 billion threshold early in the quarter. John Moran will talk about that later in this call. We thoughtfully and cautiously reopened our branch lobbies in mid-June.

We are optimistic but realistic about inviting our team members back to our facilities and are comfortable with the resiliency of our IT infrastructure to support our current remote work environment.

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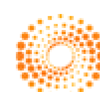

Finally, on April 1, in our retirement plan services administration line of business, we closed the acquisition of Peoria-based ABG to further strengthen that platform.

Let me review certain financial highlights for the quarter. Net income was $24.7 million or $0.56 a share after a CECL provision in charge-offs. Observed asset quality remained strong, and we will hear more about that from Amy this morning.

We opportunistically topped off our total capital when we raised $100 million in sub-debt in June, which has been substantially downstreamed to the bank. Under almost any scenario this gives us maximum flexibility and optionality to pursue our strategies and to take advantage of new opportunities. Our current capital ratios are disclosed in the earnings report.

Finally, yesterday, our board approved a $0.27 dividend payable on September 15th. The board also reaffirmed our dividend strategy for the rest of the year which, of course, will be governed by the impact of the virus on our economy in the back half of the year and beyond.

So, with that said, at this time, I'll turn it over to our Chief Financial Officer, John Moran, who will provide some greater detail on the second quarter financial performance. John, I'll turn it to you.

John Moran ***NBT Bancorp Inc. - EVP & CFO***

Yes. Thanks, John. So, following along, turning to slide 4, as John highlighted, our second quarter GAAP earnings per share were $0.56. Modest securities gains were offset by $650,000 of real estate repositioning charges. That's recognized down in the other line.

Together, those items netted to about a penny for the quarter, putting core operating EPS at $0.57 per share. As you can see, the provision for loan losses while down from first quarter levels did remain elevated as compared to 2019.

Similar to the first quarter, our underlying operating performance continued to hold in very well. Pre-provision net revenue of nearly $51 million was 13% higher linked quarter, 8% higher year-over-year and our PPNR return on average assets held fairly steady at just over a 190 basis points.

The results were driven by lower expenses and higher spread revenue on a larger balance sheet. We generated over 400 basis points of positive operating leverage year-over-year and we demonstrated good expense flexibility during the quarter.

Tangible book value per share was up 2.6% and our CET1 ratio improved 44 basis points as compared to the first quarter, underscoring that our strong PPNR generation provides a buffer for future provisioning needs.

Turning to slide 5, you can see trends in outstanding loans. End of period loans were up just over $380 million. That was driven by $510 million of net PPP loans. Excluding PPP, our core loans decreased $130 million or 2% mostly on managed run-off in our indirect auto book.

We also saw a decrease in commercial line utilization, and that was really driven by excess client cash as well as a handful of larger pay downs. Commercial activity has reset lower as compared to the robust levels that we experienced in last year's fourth quarter and the first two months of this year. And you can see that slowdown reflected in our quarterly commercial originations, which decreased $20 million from the first quarter's levels, excluding PPP. That said, we are continuing to see some early signs of increased activity and substantially all parts of our footprint continue to reopen more fully.

As John pointed out, we do operate in markets that are less dense and relatively less COVID-impacted certainly as compared to downstate Metro New York, and we're cautiously optimistic around the return to a new "business as usual" in the coming weeks and months.

Shifting to loan yields, the full impact from the change in short-term rates can be seen in the relatively sharp decline in portfolio yields during the quarter, and the gradual rollover of fixed rate assets, which is obviously more sensitive to the belly of the curve, would be

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expected to continue to pressure asset yields in the back half of the year.

Moving to slide 6, deposits stood at $8.8 billion, which was up nearly $1 billion point-to-point for the quarter. This increase came despite $135 million of runoff in the CD book, and non-interest-bearing deposit growth was especially robust, up approximately $685 million from the prior quarter. Deposits were boosted by the increased liquidity associated with funding PPP loans and various other government support programs.

We have continued to actively manage our deposit costs both in our exception price book and in rack rates, and those actions combined with the higher levels of demand deposits are evident in the decline in total deposit costs to a low 23 basis points.

Looking only at the cost of interest-bearing deposits, we were able to drive a 50% decrease from 1Q levels to 34 basis points. We continue to evaluate additional pricing adjustments and have some opportunities remaining in the back book around exception pricing and CDs.

Core deposit funding has obviously long been a hallmark of the NBT franchise, and we're really pleased with the results of our active repricing strategy, which has driven a meaningful reduction in deposit cost in a short period of time while maintaining our client base.

Next on slide 7, you'll see the detailed changes in our net interest income and margin. Earning assets increased during the quarter driven by PPP loans and a meaningfully higher overnight cash position.

As you'd expect, the net impact of these assets was margin dilutive. NII dollars were up despite 14 basis points of margin compression, and the net drag from excess cash and PPP was responsible for approximately half of that decrease with core underlying margin compression at approximately 7 basis points, and what you see there is a drop in asset yields partially offset by lower funding costs.

As you look to the third quarter, in addition to the asset yield dynamics that we spoke to earlier, we would remind you that our recent sub-debt issuance is expected to negatively impact quarterly margins by approximately 5 basis points over the near term.

Slide 8 shows trends in non-interest income. Excluding modest securities gains and losses, our fee income decreased $1.4 million from last quarter and was stable from last year.

More broadly, non-spread revenue remained 30% of our total revenue and continues to be another key strength for NBT as compared to peers.

On retail banking fees, a slowdown in transactional velocity and higher cash balances resulted in notably lower service charges although ATM and debit card fees demonstrated better resilience than we would have expected.

The RPA line benefited from the first quarter of our recent ABG acquisition and new business pipelines for EPIC remain robust.

Wealth was soft on market volatility and limited retail cross-sell via the in-store channel and insurance demonstrated typical Q2 seasonality. Swap fees remained a strong contributor to the quarter.

Turning to noninterest expense on slide 9, excluding the $650,000 of real estate repositioning charges in other, our total operating expenses were just under $65 million for the quarter, down more than $5 million.

As a reminder, last quarter was somewhat elevated due to normal seasonality on the comp line, and we did have a $2 million increase in first quarter's other expense for unfunded commitments under CECL that was not repeated this quarter.

Our net overhead ratio improved to a low 111 basis points, and while we're very pleased with that outcome, we continue to think through the appropriate level of operating expense as we adjust to the new economic reality of a COVID world.

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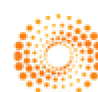

Over the last five years, we've consolidated 12 branches and realized several million dollars in cost saves while continuing to show growth in retail deposits. As client and associate behavior continues to evolve, we remain focused on opportunities to optimize both our retail and our corporate real estate portfolios. Consolidation of a handful of branches later this year is expected to result in slightly over $1 million in annual savings next year.

On slide 10, we provide an overview of key asset quality metrics. As you can see, we remained in very good shape this quarter. Excluding the impact of PPP, net charge-offs were 30 basis points. That's down from 32 basis points last quarter. Favorable migration trends in nonperformers were driven by the resolution of a single larger $4.2 million commercial credit that we had referenced last quarter.

Both NPLs and NPAs have returned to year-end 2019 levels in dollar terms, and there continues to be only one relationship in the bank above $1 million in nonperforming status.

We believe that the diversity and the granularity of our loan portfolios, our long-established track record of conservative underwriting, and the less dense nature of our upstate New York and New England footprint should help us weather the current environment better than most.

On slide 11, we provide a walk-forward of our second quarter reserve build and the reserve allocations by loan category. A full reconciliation of our allowance from year-end 2019 is provided in the appendix of today's presentation.

Loan loss provision was $19 million for the quarter, which took reserves to just under 160 basis points of period and non-PPP loans. That's an increase of 21 basis points linked quarter, and it's up 57 basis points from end of year.

A quick word on the CECL models themselves. The key macroeconomic variables used were derived from the Moody's June baseline forecast. I think everybody on the line is probably familiar with what's in that forecast at this point. I would just kind of point out there is still a great deal of uncertainty around the path of the economy, the ultimate path of the pandemic, and future government actions. But the model assumptions are now fairly well aligned with the observed economic reality.

If the current outlook more or less holds, we would expect that the path of charge-off activity and our balance sheet growth are going to be the heavier factors in future provisioning needs versus model-driven reserve build per se.

Lastly, before we turn it over to Amy on the credit side, I'll just provide some quick updated thoughts around the $10 billion cross.

Obviously, total assets finished the quarter closer to $11 billion than they did to $10 billion. And while we continue to maintain significant liquidity and flexibility on the asset side of the balance sheet, our optionality on the right-hand side has become more constrained given unprecedented levels of deposit inflows, and we would now expect to remain over $10 billion at year-end. Because we've prepared for this over the course of many years, we would not expect any material increase in operating expense as a result. However, and as a reminder, we will absorb a 50% reduction in Durbin-related revenue, which works out to approximately $5 million pre-tax in the back half of next year and approximately $10 million on a full-year basis beginning in 2022.

PPP lending fees are clearly going to be a meaningful offset and expected to accelerate later this year and into next. And then also natural growth in transactions and the shift from cash could reasonably be expected to provide a partial offset.

Finally, we intend to deploy excess cash into more productive earning assets over the next year. We will continue to evaluate fee-based acquisition opportunities and, as the dust settles around credit, would look to reengage more actively in selective whole bank M&A.

With that, I'll turn it over to Amy Wiles, our Chief Credit and Risk Officer, for some additional details on the credit front. Amy?

Amy Wiles ***NBT Bancorp Inc. - EVP, CCO & CRO***

Thank you, John. In terms of deferrals, we've been working very hard on these and we've seen significant progress.

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Our deferrals across all lines of business, they peaked in May where we flattened the curve and, roll forward to today, we've seen over $475 million in customers returning to payment or over 40% reduction from peak.

As of July 22, total deferrals stand at $622 million or 8.8% of total loans, down from close to 15%. And the reductions continue to trend downward and currently we're down to $608 million.

We have reached 56% of initial loan deferral maturities, and we're seeing strong results with an average 74% returning to pay bank-wide, which demonstrates strong resiliency. And, as you can see on the slide, we're seeing similar returns to pay in all lines of business.

As this was a name-by-name effort with strong outreach of each of our lenders with their customers, we also worked to strengthen our positions where we could, and we were able to shift P&I deferrals from 55% of total deferrals to 39%, which means 61% were principal-only deferrals and returned to paying interest.

In our commercial businesses, those industries that did not return to pay requiring an additional 90-day deferral are centered in high-risk industries that are shown on the next slide.

As we know, certain segments have been impacted to a greater degree than others -- specifically, hotels, restaurant and entertainment, healthcare, general retailers and auto dealers. These industries have experienced a disproportionate impact.

For us, the overall exposure to these industries remains low overall at 9.6% of total loans. In terms of total deferrals, these industries represent $191 million or 31% of total deferrals and only 2.6% of total loans.

Hotels are our largest exposure with $88 million on deferral, representing 48% of our exposure to this industry on deferral down from 69% at peak. We have seen improvement as the number of customers in our footprint have vacation and drive-to destination and are seeing high bookings closer to pre-COVID levels. Also, most of these sit in legacy markets with strong sponsors, seasoned properties, low loan-to-value and strong debt service coverage. So, while some will take longer to turnaround to normalize operations, we have solid loan structures and strong performers pre-COVID. And we've always had a conservative posture in underwriting on these high-risk industries.

Similarly, as you can see on the slide, we've seen progress in all of our higher risk sectors as things open up in the economy, the impact of PPP money and other fiscal stimulus have taken effect.

Just a final thought. The nature of our footprint, our conservative lending policies and our diversified portfolios help us with resiliency, and let me give you a few examples. Multi-family in our markets is generally mid-level properties with high occupancy, so rent collections and leasing had continued strong with a low percentage on deferral today versus luxury projects in urban markets where oversupply and absorption may be an issue.

Our retail CRE is primarily small strip centers in our communities with essential business as anchor tenants such as grocery and drugstores with great resiliency versus big box. Our history and strategy has been to build strong long-term multi-faceted relationships with clients that we know well and have performed through the cycles.

And it's worth mentioning that we don't do leveraged finance and generally avoid deals with equity sponsors, so we know our customers well, which helps us navigate and make informed decisions. We don't have exposure to oil and gas or oilfield service companies.

And finally, from a COVID perspective, all states in our footprint are in the reopening phase so far and overall had had fewer cases, which has also helped. With that, I'd like to turn it back to John to wrap.

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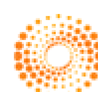

John Watt ***NBT Bancorp Inc. - President & CEO***

Thank you, John. Thank you, Amy. As we begin to take your questions, I want to make you aware that our Chief Accounting Officer, Annette Burns, joins us as does our Corporate Treasurer, Mark Mershon, and our Financial Planning & Analysis Manager, Bill Whitaker. Operator, I'll turn it back to you for questions.

QUESTIONS AND ANSWERS

Operator

Thank you. (Operator Instructions). Our first question comes from Alex Twerdahl with Piper Sandler.

Alexander Twerdahl ***Piper Sandler & Co. - Analyst***

Good morning.

John Watt ***NBT Bancorp Inc. - President & CEO***

Good morning, Alex.

Alexander Twerdahl ***Piper Sandler & Co. - Analyst***

First question. I appreciate your comments around the $10 billion threshold and crossing it and intending to stay above it. But, correct me if I'm wrong, over the last couple of years you guys have had some strategies in place to kind of focus more on sort of more profitable lending areas, including things like the planned run-off of the auto portfolio, which you cited in the press release. But now that you're above $10 billion, does some of those strategies shift and potentially will allow for loan growth to pick up a little bit more? Obviously, once the environment normalizes.

John Watt ***NBT Bancorp Inc. - President & CEO***

So thanks, Alex, and you're absolutely right. As you know, we were optimizing our performance last year and the prior year knowing that we were in the $9 billion to $10 billion range, and growth in certain of our businesses was probably more muted than it needed to be as a function of making sure that we were prepared to cross.

Now that we have crossed, as you know, we have a very diverse portfolio of businesses with opportunity to grow. And that's a function of, in this rate environment, an analysis of what kind of yield we can squeeze out of those businesses and also the risk environment we're in. But I think you can expect to see that on the consumer side, in our mortgage business and in our indirect auto business, that we'll continue to allocate capital and grow. On the commercial side, you'll also see that we'll continue our growth in New England. We have opportunity in Connecticut. As you know, we've hired a team of bankers there that are ready to go and are coming out of the COVID crisis in Connecticut ready. We've also hired bankers in Western Massachusetts. And we're seeing in our core markets C&I opportunities present themselves as well. So, we feel pretty good about our ability to continue to organically grow. John talked about the capital raise, and our ability to deploy that capital in whole-bank acquisition as well as fee-based businesses.

Anybody who's followed us knows that we're very disciplined about that. But when we determine to execute, we do execute, and we think that there is opportunity there for us as well.

So, I said it up front, we plan for the long-term, we have a long-term strategy, we pull different levers at different times, and we'll continue to execute on that strategy and drive the growth in an appropriate way in the environment we're in. So, thank you.

Alexander Twerdahl ***Piper Sandler & Co. - Analyst***

Right. Appreciate that answer. Just as a quick follow up, when you said M&A opportunities and you guys have been a good acquirer in the past, do you feel like you can do due diligence in this environment? Or do you have to wait for the next six months to sort of play out and sort of see how the economy reopens or sort of what happens with the pandemic, et cetera? Before you can actually go into a bank and kind of get really comfortable with its loan book.

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John Watt ***NBT Bancorp Inc. - President & CEO***

So again, I think you're absolutely right. It's a little early to suggest that we have the opportunity to understand a potential partner deeply enough to come to a valuation that makes sense and understand all the risk, but that doesn't mean we can't be relationship building in the short-term. And then, after the storm passes, be in a position to execute. And that's probably what will happen here. As we said in the past, we're more interested in smaller bite-size opportunities. This is not an environment nor do we have an interest in doing something transformational. And those opportunities, the smaller ones, exist and relationship building continues, virtual as it is. And once the rain stops and it clears a little bit, we'll be able to get in and have more meaningful opportunity to understand the potential partner more deeply.

Alexander Twerdahl ***Piper Sandler & Co. - Analyst***

Perfect. Thank you for taking my questions.

John Watt ***NBT Bancorp Inc. - President & CEO***

Sure.

Operator

Our next question comes from Collyn Gilbert with KBW.

Collyn Gilbert ***Keefe, Bruyette & Woods Inc. - Analyst***

Thanks. Good morning, guys.

John Watt ***NBT Bancorp Inc. - President & CEO***

Good morning, Collyn.

Collyn Gilbert ***Keefe, Bruyette & Woods Inc. - Analyst***

Maybe if we could start, John Moran, on the OpEx discussion. Obviously, some improvement there this quarter.

Kind of how do you -- and you've sort of alluded to it in your opening remarks that the potential there to always be looking at that, you guys have obviously consolidated branches in the past -- but just trying to get a sense of maybe what you see is kind of the near term OpEx trend and then longer term maybe what -- where you see potential levers to pull there?

John Moran ***NBT Bancorp Inc. - EVP & CFO***

Sure, yes. Morning, Collyn. Thanks for the question. So yes, if you look at 2Q levels, obviously, we benefited a little bit from two things. One is there's some seasonality in 1Q. 1Q tends to run a little bit high for us both on the comp line and on the occupancy line because it gets cold and snows where we operate. So, we had a little bit of a tailwind coming into 2Q to begin with. And then with shelter-in-place and some of the changes in operating model that we ran through a good chunk of April/May, you see some of those lines down more than they might otherwise have been. I think that will kind of normalize a little bit. So, I don't view 2Q in the very near term as a sustainable run rate. I think we'll have a little bit of lift as we get the branches more kind of fully open and things a little bit more back to business as usual. We did say real estate repositioning charges. We've identified a handful of branches that we'll take a look at and that should drive some saves into next year.

I think longer term clearly there could be an opportunity to kind of address some of that. We operate -- with somewhat greater branch density, certainly, as compared to peers. I think it's something that we have done a good job at over time. It's sort of business as usual to continue to kind of look at that network and figure out with changes in customer behavior, how many do we need, where do we need them? And then I think the longer term sort of interesting compelling opportunity on the corporate real estate side could materialize. We sent 90% of the bank home, and things have gone pretty well. And so, I think we've learned a lot from that experience, and we'll revisit corporate real estate over time. That's probably a more three- to five-year kind of opportunity for us though.

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Collyn Gilbert ***Keefe, Bruyette & Woods Inc. - Analyst***

OK. OK, that's very helpful. And then just in terms of the liquidity situation here. As you had indicated, I mean, you guys dropped your funding costs to the floor, you had mentioned some maybe exception pricing you can do. But overall it doesn't seem like there is nearly as much to do there. So, managing that asset side is going to be key. How do you sort of see sort of the liquidity deployment evolving? And again, kind of sort of near-term and then longer term there, which then ties into I guess the question of where you see maybe organic loan growth going in the back half of the year and then maybe as it normalizes next year?

John Moran ***NBT Bancorp Inc. - EVP & CFO***

Sure. Yes. So, on liquidity, $1.2 billion of deposits have come into the bank from the end of last year. Certainly, when we drew up 2020, we wouldn't have imagined that.

I think the interesting thing is that shows no real sign of leaving. And so, some portion of that I think we'll be really careful around because, as PPP kind of winds down and those funds get spent, I think it's reasonable to expect that a portion of that ultimately leaves the bank, particularly in parts of the footprint where we don't have sort of dominant market share, right? But in terms of redeployment opportunity, securities are certainly an option and that would be 90 to a 100 basis points of sort of yield pick-up versus 10 basis points in cash. And then John I think did a good job alluding to some of the opportunities we see in front of us on the loan side.

I'd agree with your comment. There's some levers left on the funding side, but there's not a ton of juice there. I mean, we've got 250 million bucks in higher cost CDs that will roll the balance of this year. Those are 150 basis points or so today. I think the highest CD rate that we pay in the bank is some 50 basis points today, so we'll certainly pick up something there. But the funding side, not as much juice there. If you think through asset yields, I think security is every bit of 150 basis point lower. And then, depending on the loans that we're putting on, those are kind of coming in with spreads that are a little bit below book yields today.

Collyn Gilbert ***Keefe, Bruyette & Woods Inc. - Analyst***

OK. OK, that's helpful. And then just also sort of tied to that. I know it's hard to project but just as you guys are looking at it internally for modeling and for us on this side, how should we think about the forgiveness schedule on the PPP loans do you think?

John Moran ***NBT Bancorp Inc. - EVP & CFO***

Yes. I think that will start to -- so the SBA is opening up a portal here in a couple of weeks early August. I think that'll start to clean up in 3Q, I think we'll start to get more of that in 4Q. But initially we were kind of thinking that most of that was gone by end of year.

I think under the way that the program has sort of shifted a little bit, our expectations are ultimately that drives larger amounts of total forgiveness, but it's going to stretch out a little bit longer than what we would have anticipated. So, we would think that a portion of that program kind of stays with us over year end and then kind of cleans up in 1Q and 2Q.

Collyn Gilbert ***Keefe, Bruyette & Woods Inc. - Analyst***

OK. That's great. And then my last question is for Amy, perhaps the hardest. But just to tie into your point, John, as kind of your -- as we think about the reserve, right? So future provisioning is going to be more about loan growth and charge-offs.

So Amy, for what you see today, right, and the deferral trends that you're seeing -- which was great detail on those slides, thank you -- any sense of where you think that net charge-offs could go in the next few quarters?

And I know there's so many uncertainties but I guess -- just based on what you see in your book today and kind of what you know about your borrowers, and maybe the stress testing you've done and kind of collateral tests you've done -- any range you could offer us there on that?

Amy Wiles ***NBT Bancorp Inc. - EVP, CCO & CRO***

I'll speak to that a little bit and maybe speak a little bit how I think things are going to cycle through. We will expect some increase in charge-offs in the second half of the year relative to the first half of the year. It'll cycle through first with our consumer businesses. And because of deferrals, our delinquencies and charge-offs were lower in the second quarter than normal, so we would expect an increase at

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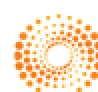

the end of the deferral periods, which is largely by the end of Q3 and Q4.

We've been very encouraged by the high return to pay we've seen on the deferrals, particularly in the consumer book, when you see where those are running in the 3% range overall. And as the economy reopens and the stimulus money has had an effect, that's kind of how we see it cycling on the consumer side. But the exact levels in terms of giving you a range are still so uncertain depending on employment levels and the conditions in the economy in Q3 and Q4.

On the commercial side, we see credit losses similarly higher in 2020 than 2019, which were, as you know, at very historical lows. But we see any potential losses there really cycling in late Q4 and into 2021. We do feel that we've identified what is most vulnerable so far, but it's really too early to determine a specific forecast so far. But again, similarly as to consumer, we're further ahead than we thought in terms of the deferrals.

Collyn Gilbert ***Keefe, Bruyette & Woods Inc. - Analyst***

OK. OK, that is helpful. I will leave it there. Thanks, everyone.

Operator

(Operator Instructions). Our next question comes from Matthew Breese with Stephens Inc. Your line is open.

Matthew Breese ***Stephens Inc. - Analyst***

Good morning.

John Watt ***NBT Bancorp Inc. - President & CEO***

Good morning, Matt.

Matthew Breese ***Stephens Inc. - Analyst***

Hey. I thought it was notable on page 11 that the commercial real estate reserve next to other consumer is now the highest of all the buckets. And so, I was hoping you could talk about the portfolio a little bit in terms of LTVs and debt service coverage ratios and then, especially within that the higher-risk categories, maybe provide the same metrics for hospitality and retail?

Amy Wiles ***NBT Bancorp Inc. - EVP, CCO & CRO***

Sure, Matt. In terms of the hotels, generally speaking as I've mentioned, we've got long-standing relationship. These are seasoned properties so the loan to values are low.

They're typically -- having amortized down in the 50% range on average -- of course, that varies across the portfolio. So, pre-COVID, debt service coverage, very strong properties. And generally within there, as I mentioned, it's really a mix of different property types and some we're seeing come back and do very well that are within state, that are drive-to and vacation. So, it's really the business side that are near the airports and support those customers. And coming in, typically we had guarantees where we could -- not in every case -- but we had strong underwriting. So, we feel we're reasonably well positioned there. On the CRE retail side, that's not a large component. You can see I think in the appendix that's 16% of our non-owner occupied CRE, and we do track large tenants. And typically what we see, as I mentioned, is they're strip centers with essential business, home centers, gas stations, C-stores are the other area in terms of general retail on the C&I side where we have exposure. So, we're in good shape. Typically, on the CRE retail side we have guarantees from strong sponsors, and we have essential businesses as anchor -- pharmacy, grocery that kind of thing. So, they're seeing good collections holding up and they're not a large category in terms of our deferrals.

Matthew Breese ***Stephens Inc. - Analyst***

And then I just wanted to confirm. Did you say that, of the loans coming off deferral or coming to the end of their 90 days, 74% of those are returning to pay? Was that accurate?

Amy Wiles ***NBT Bancorp Inc. - EVP, CCO & CRO***

Yes.

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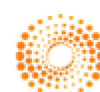

Matthew Breese ***Stephens Inc. - Analyst***

Okay.

Amy Wiles ***NBT Bancorp Inc. - EVP, CCO & CRO***

That's an average across bank-wide, and what I said prior to that is that we're a little more than halfway through the first deferral period at 56%. And what we're seeing is, on average, 74% returning to pay.

Matthew Breese ***Stephens Inc. - Analyst***

And just thinking about that 74%. As you look at the loans and the customers that require an additional 90 days, do you think that 74% is a good cure rate for the second batch as we get into the fall and those loans come off their second 90 days? Could you give me some of the puts and takes around that?

Amy Wiles ***NBT Bancorp Inc. - EVP, CCO & CRO***

So we're still working through the first deferral phase and that will still take us through August or so. So, we're encouraged by what we've seen so far, and we'll continue to monitor that. I really wouldn't want to forecast that. But we'd like to think things will continue in a similar vein, but we'll just see really how that comes forward. So that -- we're doing well.

When we get to the end of the deferral period, I think is what you're asking is when we through the second deferral, round of deferrals, most of those sit in the high risk, more sensitive industries, and it really is a function of the reopening and the performance. Most are trending better than they were, but we'll have to see where we are at the time. And we'll be able to come back and speak to that.

Matthew Breese ***Stephens Inc. - Analyst***

I appreciate that. That's all I had. Thank you.

John Watt ***NBT Bancorp Inc. - President & CEO***

Thanks, Matt.

Operator

(Operator Instructions) I'm not showing any further questions. I will now turn the call back to John Watt for closing remarks.

John Watt ***NBT Bancorp Inc. - President & CEO***

Thank you, Operator. So, thank you all for participating in this reformatted earnings call. Little bit of life in the age of corona here with our technology, but we're used to that.

I want to just finally state that 2020 obviously is going to be a very different year than we expected. But it's all about our team, it's risen to the challenge, it's there to support our customers, our communities and importantly to position NBT to take advantage of new opportunities as we discussed here.

So, we again appreciate your participation and, if there's any follow up, you all know to reach out to John one-on-one. Thanks, everybody. Be safe.

Operator

Thank you to everyone who participated on this conference call for your interest in NBT Bancorp. This concludes today's program. You may disconnect. Have a great day.

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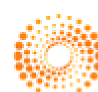

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