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PRESENTATION

Operator

Good morning. My name is Ian, and I will be your conference operator today. At this time, I would like to welcome everyone to the Opus Bank First Quarter Earnings Conference Call. (Operator Instructions)

Brett Villaume, Director of Investor Relations, you may begin the conference.

Brett Gerard Villaume - *Opus Bank - SVP and Director of IR*

Thank you. Good morning, and welcome to Opus Bank's Investor Webcast and Conference Call. Today, I'm joined by Paul Greig, Chairman of the board, Interim Chief Executive Officer and President; Brian Fitzmaurice, Vice Chairman and Senior Chief Credit Officer; and Kevin Thompson, Executive Vice President and Chief Financial Officer.

Our discussion today will cover the company's performance during the first quarter of 2019 and information contained in the earnings press release issued earlier this morning. A slide show presentation that accompanies today's call is available on the Opus Bank investor webpage at investor.opusbank.com.

Today's discussion may entail forward-looking statements, which are intended to be covered by the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. You'll find a discussion of these forward-looking statements in our recent FDIC filings and on Page 6 of this morning's release.

Today's call will include a question-and-answer session following the discussion. (Operator Instructions) Now I'll turn the call over to Paul Greig, Chairman, Interim CEO and President.

Paul G. Greig - *Opus Bank - Chairman of the Board*

Thank you, Brett, and good morning to everyone listening to our first quarter earnings conference call. For the first quarter of 2019, Opus reported net income of $10.9 million or $0.28 per diluted share compared to a net loss of $6.9 million or $0.20 per diluted share in the fourth quarter. As you may recall, last quarter, we incurred a $20 million pretax restructuring charge that impacted our reported earnings per share by $0.47. This charge was related to initiatives and actions intended to make Opus more profitable and efficient over time.

Our first quarter earnings included approximately $1.4 million of expense related to the settlement of a legacy legal matter that originated way back in January 2013 and was finally resolved as well as a $489,000 charge related to the exiting of our broker-dealer Opus Financial Partners. Opus Financial Partners has not achieved adequate performance results and is not considered an effective use of capital. Excluding these expenses, our first quarter earnings per share would have been $0.32, an improvement from an adjusted $0.27 in the prior quarter.

Our first quarter results saw core earnings growth driven by higher net interest income, solid loan growth and continued improvement in our credit quality. Kevin Thompson, our CFO; and Brian Fitzmaurice, our Senior Chief Credit Officer, will go into details of our financials and credit statistics in a moment.

Overall, I am pleased with the earnings results for our first quarter 2019. Regarding the Board of Directors' efforts in finding a permanent Chief Executive Officer, we have made significant progress over the past few months. We have performed a thorough evaluation of a number of candidates, and the process is now nearing completion. We plan to make an announcement about the hiring of a new CEO in the near future.

I will now turn the discussion over to Kevin Thompson to go into more detail on our financial performance. Kevin?

Kevin L. Thompson - *Opus Bank - Executive VP & CFO*

Thank you, Paul. Turning to Slide 4. Loans increased $296 million from the prior quarter driven by new loan fundings of $538 million offset by loan payoffs of $196 million.

Our loan growth was primarily driven by growth in multifamily loans which increased $324 million, and loan fundings were primarily weighted towards the end of the quarter. Following the success we've experienced in reducing our exposure to enterprise value loans over the past couple of years and with an optimistic view of Opus' strategic direction, we felt comfortable taking advantage of the opportunity to build upon our high-quality multifamily portfolio.

Normally, our strongest quarter of loan production is the fourth quarter. In the fourth quarter, we had fewer fundings than expected due to market turmoil and saw some of those fundings move to the first quarter. We observed that some of our competition was not as active in the multifamily space in the first quarter. We redoubled our efforts on our loan-retention program and were more successful than in the past. Loan prepayments were much lower than we have seen recently although we do not necessarily expect this to be a trend. Finally, during the first quarter, we slightly adjusted our pricing from what I would characterize as high middle of competitor rates, the middle or lower middle of the range. Small changes in our loan pricing can and did have a meaningful impact on our ability to attract and retain quality clients. Our Commercial and Specialty Banking division originated $87 million of loans in the first quarter. We continue to see progress from the build-out of this important initiative that began in 2018. The number of new business relationships increased 30% from the prior quarter. Total loan yield increased 11 basis points in the first quarter to 4.42%, primarily driven by the benefit from loan repricing to fewer days and higher interest recovered on nonaccrual loans during the quarter.

On Slide 5, we show the balance of cash and investment securities, which increased $179 million during the first quarter. The balance of investment securities increased $12 million and totaled $1.1 billion, while cash increased $167 million, largely due to FHLB borrowings that occurred near the end of the quarter. The yield on investment securities increased 61 basis points to 3.16%, largely due to the benefit of repositioning our securities portfolio during the fourth quarter of 2018 as well as fewer prepayments in the quarter.

Turning to Slide 6. Total deposits increased $125 million in the first quarter or 2% driven by growth in non-interest-bearing deposits, money market accounts and time deposits. During the first quarter, we added $46 million in brokered deposits as rates moved favorably in this funding source compared to some alternatives. Brokered CDs made up only 0.8% of total deposits at the end of the quarter. And inclusive of our FHLB borrowings, wholesale funding sources comprised less than 6% of total liabilities. Our cost to deposits rose 13 basis points to 0.92% as we responded to continued competitive rates being offered by our peers. Also, with the backdrop of strong loan growth, we made pricing adjustments to certain deposit categories. We remain focused on developing our relationship approach to manage deposit pricing. We note that our cumulative cycle-to-date deposit beta is only 20%. Our loan-to-deposit ratio increased to 89.9% at the end of the first quarter from 86.8% previously.

Turning to Slide 7. Net interest income increased 0.7% during the first quarter to $50.8 million driven by higher interest income on both loans and investment securities, but largely offset by higher interest expense. Our loan interest income increased $1.3 million from the prior quarter benefiting from higher average balances of interest-earning assets, the Fed rate increase in December as well as higher interest covered on nonaccrual loans. Securities saw a $1.6 million increase in interest income driven by higher-yielding securities added in the fourth quarter and lower-premium amortization due to fewer prepayments.

Net interest margin increased 8 basis points from the prior quarter to 3.15% as earning asset yields outpaced our funding costs.

Proceeding to Slide 8. Noninterest income was 11.9 -- $11.1 million and included an impairment charge on a sublet property of $489,000 related to the exiting of Opus Financial Partners. Our diverse sources of noninterest income provided continued stable contribution, including $6.7 million in trust administrative fees from PENSCO and $1.4 million from our Escrow and Exchange division. Noninterest income comprised 18% of total revenues.

Turning to Slide 9. Our noninterest expense totaled $45.4 million. Included in noninterest expense was a $1.4 million legal settlement mentioned earlier. Excluding the legal settlement this quarter and $10.5 million of expenses related to the restructuring charge we incurred last quarter, noninterest expense increased 2%, and this was largely due to seasonally higher first quarter employer tax. Our efficiency ratio was 70.6% compared to 81.5% in the prior quarter.

In the first quarter, we began calculating our efficiency ratio exclusive of amortization of other intangible assets and any sale-related gains or losses and using tax equivalent net interest income, which is industry standard. Adjusting for the legal settlement expense and lease impairment charge this quarter, our efficiency ratio would have been 67.9%. And adjusting for the restructuring-related charges in the fourth quarter, our efficiency ratio would have been 65%.

On Slide 10, we show our regulatory capital ratios at quarter end, including Tier 1 leverage, which increased to 9.86% and our total risk-based capital ratio, which decreased slightly to 14.85%. Tangible book value per common share increased $0.19 to $17.96.

Going forward, we will be reporting tangible book value per common share without considering the impact of convertible preferred stock, which is industry standard. Additionally, the board has approved the payment of an $0.11 dividend per common share payable in the second quarter, which is unchanged from the prior quarter.

On Slide 11, we display some of our asset liability metrics, which include the duration of key balance sheet items and our simulation of net interest income, assuming an instantaneous parallel shift in interest rates. The anticipated duration of our assets and liabilities has increased slightly as a result of the changing interest rates environment. We continue to closely assess our position to determine the appropriate path given our balance sheet movement, our outlook for rates and the market pricing of our loan and deposit offering.

I will now turn the discussion over to Brian Fitzmaurice to go into more detail on our loan portfolio and credit metrics.

Brian Fitzmaurice - *Opus Bank - Vice Chairman & Senior Chief Credit Officer*

Thank you, Kevin. This morning, I will review our first quarter credit performance, which I view favorably based on our reduction in enterprise value loan of $17 million, a $4.7 million or 17% decrease in nonaccrual loans, $1.6 million in net recoveries and $13.2 million or 32% decrease in special mention loan, which was tempered by a $15.4 million increase in substandard loan, resulting in a $2.2 million or 1.5% (sic) [1%] increase in total criticized loans.

We expect our enterprise value loan portfolio to continue to reduce over time. In fact, as of today, the EV portfolio has declined further to $97.4 million compared to $122 million at the end of the fourth quarter. And please note, this decline was not achieved through charge-offs. This represents a 20% reduction from 2018 year-end levels.

There were no new nonaccrual loans or charge-offs in the enterprise value loan portfolio during the first quarter, and total criticized classified EV loans were flat versus the prior quarter at $33.5 million, although the percentage increased as the size of the EV portfolio decreased. Regarding the loan growth in the first quarter, which predominantly occurred in our multifamily portfolio, Kevin described our view of market conditions for the quarter. To assess the credit quality of the quarter's production, we compared the credit statistics of loans originated in the fourth quarter of 2018 to the first quarter of 2019. And the common underwriting metrics, without exception, were equal to or more favorable than the fourth quarter metrics. These metrics included the average debt service coverage ratio, average loans to value, percentage of loans with an interest-only period and the percentage of recourse loans to total loan production, evidencing our continued disciplined approach to underwriting.

We recorded a provision for loan losses of $2.2 million compared to $7.6 million provision expense last quarter. The material factors driving the provision this quarter were risk rating migration of $4.4 million, $3.4 million for changes in portfolio mix and quarterly new funding and additions to specific reserves of 94,000 -- $945,000. These were partially offset by a decline in reserves due to loan exits of $4 million, net recoveries of $1.6 million and a decrease of $786,000 (sic) [$797,000] due to lower loss factors.

As of March 31, 2019, our allowance for loan losses totaled $58.5 million or 1.07% of total loans, an increase of $3.8 million or 1 basis point from the prior quarter. And we had $5.3 million of specific reserves or 23% of nonaccrual loan compared to $4.3 million or 16% in the fourth quarter of 2018.

Along with general reserves on C&I loans of $29.9 million, the reserve coverage ratio was 3.62% on our total C&I portfolio at quarter end.

I continue to be optimistic that our credit performance for fiscal year 2019 will be favorable to both 2017 and 2018 and that our credit metrics will continue over time to align with peer-bank performance. Please remember, that notwithstanding our continued reduction in enterprise value loan, we could still incur losses in that portfolio.

I'll now hand the discussion back over to Kevin

Kevin L. Thompson - *Opus Bank - Executive VP & CFO*

Thank you, Brian. On Slide 14, we present a summary of our outlook for the future. We assume a continuation of the current economic and interest-rate environment. The conditions in our markets remain solid despite some uncertainty in the overall economy. Incorporating the loan growth we had in the first quarter into our modeling, we have adjusted our estimated loan growth for the full year 2019 to rate in the low double digits to mid-teens. This assumes solid growth for the remainder of the year, but also, the expectation of loan prepayments and competitive pressure will return to the levels we have experienced over the past few years. Deposit rates are expected to continue to increase, largely due to competitive pressures in the near term.

We believe with the Federal Reserve potentially taking a pause, the deposit cost could moderate later in the year. We estimate our net interest margin for the full year 2019 will be in the low-3s, revised from the previous estimate of 3.10%, due to the impact of higher deposit cost and the lack of repricing benefits we would experience in our loan portfolio in an increasing rate environment.

We continue to anticipate elevated prepayments of flat yield curve and competitive deposit and loan pricing in the coming quarters. We are very focused on disciplined expense management and revenue growth initiatives to increase our operating leverage. We expect that our efficiency ratio for the full year 2019 will be approximately 68%, with quarterly levels gradually decreasing throughout the year.

We expect full year core operating expenses to be flat to those in 2018.

Regarding credit quality, we expect net charge-offs to decrease in 2019, and net credit metrics will be more aligned with peer-bank performance in the coming year. We remain focused on maintaining a strong risk management infrastructure, including preparing for the implementation of CECL. We anticipate that our effective tax rate will be approximately 24% for the full year 2019.

Finally, as stated previously, our Board of Directors approved the payment of a quarterly cash dividend of $0.11 per common share. We do not target a specific payout ratio but evaluate our dividend based on earnings, our risk profile, capital levels and market conditions.

This concludes our prepared remarks. I'll now hand the floor back over to Brett.

Brett Gerard Villaume - *Opus Bank - SVP and Director of IR*

Thank you, Kevin. And thank you all for joining our earnings conference call today.

Operator, please open the line for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from the line of our participant (inaudible).

Matthew Timothy Clark - *Piper Jaffray Companies, Research Division - Principal & Senior Research Analyst*

Matthew Clark, if this line's open. Can you give us the contribution of lower premium amortization in the margin this quarter?

Kevin L. Thompson - *Opus Bank - Executive VP & CFO*

Yes. If you actually turn to slides that we provided. Slide #7 provides kind of roll forward of that. So you can see that from a percentage basis, I guess, we didn't break that out specifically, but it is about $1 million incremental benefit quarter-over-quarter and less premium amortization.

Matthew Timothy Clark - *Piper Jaffray Companies, Research Division - Principal & Senior Research Analyst*

Okay, great. And then what do you think about deposit growth this year relative to your updated loan growth expectations? Just trying to get a sense of where that loan-to-deposit ratio might go.

Kevin L. Thompson - *Opus Bank - Executive VP & CFO*

We have a number of efficient sources of funding that we can tap into. And we have good client relationships. We have the commercial team growing deposits over time. We also have access to the wholesale markets and have done so on a limited basis this quarter due to the benefits of different durations and pricing at different points of time. So we feel that we shouldn't have a problem, Matt, in our loan growth. And I wouldn't say that our loan-to-deposit ratio will need to get too much higher.

Paul G. Greig - *Opus Bank - Chairman of the Board*

Deposit attraction is a very important initiative. Each line of business and each specialty unit has very specific deposit attraction goals. So we remain very focused on deposit growth from an organic perspective, core deposit growth.

Matthew Timothy Clark - *Piper Jaffray Companies, Research Division - Principal & Senior Research Analyst*

Okay. And then just on the loan yields, more on an organic basis, excluding the runoff of the acquired portfolio, do you happen to have that organic loan yield excluding interest income reversals and any purchase accounting?

Kevin L. Thompson - *Opus Bank - Executive VP & CFO*

Yes. Excluding all those items, the organic where on loans was 4.344% in the quarter.

Matthew Timothy Clark - *Piper Jaffray Companies, Research Division - Principal & Senior Research Analyst*

Okay. And then on the efficiency ratio guidance. Is that on an adjusted basis excluding CDI amortization? Or is that including?

Kevin L. Thompson - *Opus Bank - Executive VP & CFO*

It excludes.

Operator

Your next question comes from the line of Jackie Bohlen of KBW.

Jacquelynne Chimera Bohlen - *Keefe, Bruyette, & Woods, Inc., Research Division - MD, Equity Research*

Following up on Matthew's question, I'm looking at the adjusted efficiency ratio, the guidance of approximately 68% for the full year and then expecting it to gradually decrease. We were roughly there in the first quarter. So what events you expect to impact that ratio for the remainder of the year?

Kevin L. Thompson - *Opus Bank - Executive VP & CFO*

For the remainder of the year, we continue to face headwinds of prepayments. So we did have low prepayments in the quarter, and we're excited to see that, but we don't know that, that is necessarily a trend yet. So we may have benefited from, which we have seen in the past, certain quarters have lower prepayments. Deposit cost pressure amongst our peers continues. And so we expect that to continue and hopefully moderate near the end of the year. We don't have -- we're not expecting any Fed rate increases for the rest of the year. And with our asset-sensitive balance sheet, we do benefit from repricing in our portfolio when there's a Fed rate increase, so we don't expect that as well. So there is upside and downside in those metrics. But at this point, from a kind of baseline perspective, that's what we expect.

Jacquelynne Chimera Bohlen - *Keefe, Bruyette, & Woods, Inc., Research Division - MD, Equity Research*

Okay. So it sounds like the net interest margin and maybe loan growth, just based on what those prepayments would do, have the impact on forward earnings estimate internally.

Kevin L. Thompson - *Opus Bank - Executive VP & CFO*

That's right. Among other things, but yes, that's one of the biggest drivers.

Jacquelynne Chimera Bohlen - *Keefe, Bruyette, & Woods, Inc., Research Division - MD, Equity Research*

Okay. And then when I think about the NIM, which obviously performed very well in the quarter and then look at that versus the roughly 3% guide for the full year, is that largely a function of deposits repricing without getting the benefit of loan yield? And then as a follow-up on that, what impact did all the multifamily generation had in the quarter -- have on forward loan yields, especially given how you change pricing on that portfolio?

Kevin L. Thompson - *Opus Bank - Executive VP & CFO*

Yes. And really the answer is very similar to the last answer. So the go-forward NIM impact is really based on prepayment, the impact of deposit costs, the lack of repricing during the year, all those, of course, go into our NIM. And then when it comes to multifamily loan funding, yes, you're correct. Our pricing changed in the quarter, really mostly driven by the LIBOR curve. So our multifamily loans, really on the West Coast, the pricing highly correlated with the 3- to 5-year LIBOR rate. In the first quarter, the average 3- to 5-year LIBOR rate was down about 43 basis points, and that impacts our multifamily yield. So we told you in the call last quarter that we were funding around the 4.60s. And now we're funding more around in the 4.20s and 4.30s in the multi portfolio, mostly driven by that LIBOR curve. If this -- the inverted to flat yield curve continues, then we'll continue to see some compression in our net interest margin. When it rightsizes, there is a lot of upside as well.

Jacquelynne Chimera Bohlen - *Keefe, Bruyette, & Woods, Inc., Research Division - MD, Equity Research*

Okay. So most of it had more to do with yield curve than -- and I apologize if I've misunderstood or misheard what you said in the prepared remarks, but from the movement, from the high middle of competitive range to the low middle, so that didn't have much of an impact.

Kevin L. Thompson - *Opus Bank - Executive VP & CFO*

That had some impact, but to your point, mostly driven by the LIBOR curve.

Paul G. Greig - *Opus Bank - Chairman of the Board*

And Jackie, customer behavior is surprisingly sensitive to just several basis points of pricing change.

Operator

Your next question comes from Christopher York of JMP securities.

Christopher John York - *JMP Securities LLC, Research Division - MD & Senior Research Analyst*

So I just wanted to focus on core fees this quarter as trust fees were down. I think it was about 4% year-over-year and then showing a little bit of softness over the past couple of quarters. So could you describe what drove the decline? And then maybe step back and update us on the state of PENSCO and the growth in assets under custody?

Kevin L. Thompson - *Opus Bank - Executive VP & CFO*

No problem. Can you repeat your second part of the question?

Christopher John York - *JMP Securities LLC, Research Division - MD & Senior Research Analyst*

The second part was just an update on the state of PENSCO today and then the growth in assets under custody.

Kevin L. Thompson - *Opus Bank - Executive VP & CFO*

You bet. The first part of your question, the change in the noninterest income base. It's just there's no incremental thing happening with PENSCO. It continues as a great source of income for us. And that can be somewhat volatile. And so I would say there is no systemic process happening on an underlying basis. We do see some movements in the underlying number of accounts, and that is the real driver of our fees, and that can change over time.

In terms of the assets under custody. That can change over time based on customers that come in or leave but also based on valuations in that these are self-directed IRAs that may have underlying sources, such as private equity, real estate and other types of nontraditional IRA accounts. And the valuation of those over time can impact that amount.

Christopher John York - *JMP Securities LLC, Research Division - MD & Senior Research Analyst*

Right. So is it safe to kind of maybe read between the lines to say that maybe the volume of clients was a driver to the year-over-year decline?

Kevin L. Thompson - *Opus Bank - Executive VP & CFO*

In expense?

Christopher John York - *JMP Securities LLC, Research Division - MD & Senior Research Analyst*

In the fee side, the trust.

Kevin L. Thompson - *Opus Bank - Executive VP & CFO*

I wouldn't say that. I would say, yes, it's timing. It's based on a number of factors, and we don't expect it to continue declining over time. On average, we expect it to be very consistent.

Christopher John York - *JMP Securities LLC, Research Division - MD & Senior Research Analyst*

Okay. Fair enough. And then commercial business loan funding was one of the lowest on record despite a significant investment the bank made in growing up that business with hires over the last few years. So could you explain what drove the light production there?

Paul G. Greig - *Opus Bank - Chairman of the Board*

Yes. Let me take that. The thing that is very difficult to estimate quarter-to-quarter is the number of accounts that will come in, in a quarter and whether or not those customers will be borrowers, or significant borrowers. The actual number of accounts that -- relationships that were generated by Commercial Banking as mentioned in the prepared remarks, was up 30% quarter-over-quarter. A number of those relationships were very well-capitalized companies with credit extension, such as lines of credit that were not used. We anticipate that the progress in this business is going to continue evolving over the next several quarters and that lines of credit will be utilized as time goes on.

Christopher John York - *JMP Securities LLC, Research Division - MD & Senior Research Analyst*

Great color. Helpful. And then a clarification. I did hear the new yield on multifamily loans, but I think like 4.20 to 4.40. And forgive me if I missed this, but what was the weighted average of our total new loan fundings for the quarter?

Kevin L. Thompson - *Opus Bank - Executive VP & CFO*

Total loan fundings for the quarter was in the mid-4.30s.

Christopher John York - *JMP Securities LLC, Research Division - MD & Senior Research Analyst*

4.30, okay. And then last question, and I'll step back. It's been, I think, maybe 5 months since Stephen resigned as CEO. And obviously, investors understand that this search process will take time, finding the right leader for growth is incredibly important. So Paul, maybe, can you elaborate on the health of the search process? And maybe the type of experience that the board is looking for to lead the bank forward?

Paul G. Greig - *Opus Bank - Chairman of the Board*

Yes. As I commented in my prepared comments, a lot of progress has been made. I made the comment that the process is nearing completion and then an announcement will be forthcoming shortly. Rather than talking about the characteristics of general candidates, I think it'll probably be better to wait for that announcement, and you'll see the characteristics of the chosen individual.

Operator

Your next question comes from the line of Tim O'Brien of Sandler O'Neill + Partners.

Timothy O'Brien - *Sandler O'Neill + Partners, L.P., Research Division - MD of Equity Research*

First question, just a little more color on multifamily growth outlook here going forward. Obviously, you guys had phenomenal production this quarter. As far as contribution to the overall loan book and percentage of total loans that, that might come to reflect, what are your thoughts there?

Kevin L. Thompson - *Opus Bank - Executive VP & CFO*

A lot of the loans funded near the end of the quarter. And so we'll see -- that's a onetime impact to the balance sheet. We'll see some benefits of that to the income statement over time. I don't necessarily see much of a change in mix going forward for the rest of the year from the first quarter's mix.

Timothy O'Brien - *Sandler O'Neill + Partners, L.P., Research Division - MD of Equity Research*

Okay, great. And then separately moving on to the P&L. Compensation costs in the first quarter were $2.6875 million, and that included some seasonal accruals for payroll taxes and other -- and the like. Where do you see that number hitting here through the remainder of the year?

Kevin L. Thompson - *Opus Bank - Executive VP & CFO*

It was about $1 million higher than usual due to the payroll tax.

Timothy O'Brien - *Sandler O'Neill + Partners, L.P., Research Division - MD of Equity Research*

So it could dip down below $26,000 here pretty easily?

Kevin L. Thompson - *Opus Bank - Executive VP & CFO*

Yes, it could. And that, of course, depends on a number of factors, with loan fundings and the FAS 91 offset, et cetera. But directionally that seems correct, yes.

Timothy O'Brien - *Sandler O'Neill + Partners, L.P., Research Division - MD of Equity Research*

So volatility in that line. And then last question, just do you happen to have the FTE headcount at quarter end versus -- and also just for comparison to (inaudible) quarter was at the end of the year?

Kevin L. Thompson - *Opus Bank - Executive VP & CFO*

Yes, it was 760 at quarter end. At the end of the year, it was 794.

Timothy O'Brien - *Sandler O'Neill + Partners, L.P., Research Division - MD of Equity Research*

Is that -- is it possible that, that will move some more here? Obviously, it's going to move 1. But beyond that here in the second quarter and beyond -- in near term?

Kevin L. Thompson - *Opus Bank - Executive VP & CFO*

Those numbers are really -- the initiatives we take but also as a result of attrition in the company. I don't expect that moving. I think we're at a really good spot when it comes to our workforce.

Operator

Your next question comes from the line of Kevin Swanson of FIG Partners (sic) [Hovde Group].

Kevin William Swanson - *Hovde Group, LLC, Research Division - Director & VP*

It's Kevin Swanson, Hovde Group. For the EV loans, I think in the presentation, and just under $100 million. Obviously, that number has stepped down quickly over the past year. How do you see kind of the time line for the last mile or the last full stretch of the loans there?

Brian Fitzmaurice - *Opus Bank - Vice Chairman & Senior Chief Credit Officer*

It's Brian. I think that'll continue to increase at a pretty good pace and then I think it will get to a point that it slows down. So we have a criticized classified, those are going to be harder to exit in those companies that are taking actions on their own. They're either refinancing, or they're selling themselves, or they're next round of capital raise. And so we push hard on us on the problem side, and then those companies will take whatever steps fit their business model.

Kevin William Swanson - *Hovde Group, LLC, Research Division - Director & VP*

Okay. And then, obviously, to asset quality. I mean, in terms of problem loans to total loans, that's more than half -- less than half of what it was a year ago. Maybe, just kind of talk about broadly how you see that progressing and then maybe kind of the current credit environment just in your current markets, please?

Brian Fitzmaurice - *Opus Bank - Vice Chairman & Senior Chief Credit Officer*

Obviously, on the real estate side of the house, especially since we play in multifamily, that continues to be very strong. We're seeing an increase in NOI. And over the last couple of years, we've obviously worked through a significant amount of our issues in the C&I. So I said in my comments, I see it favorably to -- we'll have problems that come and go, but we have virtually no inflow, in fact 0 inflow, in special mention this quarter. And so I think we'll kind of just migrate to the norm of -- at points in time, customers have problems.

Paul G. Greig - *Opus Bank - Chairman of the Board*

But the statistics Brian are mentioning suggest that the economy in our markets continues to be very strong -- stable and strong.

Brian Fitzmaurice - *Opus Bank - Vice Chairman & Senior Chief Credit Officer*

Yes. I would say that whenever we see a problem, it's a problem to a particular company. It's not driven by any -- it hasn't been driven by any macro event.

Operator

(Operator Instructions) Your next question comes from the line of Matthew Clark of Piper Jaffray.

Matthew Timothy Clark - *Piper Jaffray Companies, Research Division - Principal & Senior Research Analyst*

Brian, just curious with the increasing classified assets this quarter, the $15 million, what drove that just in terms of the types of credits underlying?

Brian Fitzmaurice - *Opus Bank - Vice Chairman & Senior Chief Credit Officer*

Yes. Approximately, 15% of that was simply the migration of an EV loan from special to [sub]. So that's 50% of it. And the other was kind of a mixed bag. No correlated reason. In one case, for instance, it's an SBA 504. We get financials once a year. So it was, as I kind of indicated for the rest, just kind of event driven at company-specific clients. No macro reason.

Matthew Timothy Clark - *Piper Jaffray Companies, Research Division - Principal & Senior Research Analyst*

Okay. And then on the outlook for the margin kind of beyond this year, just knowing that you guys are positioned to be asset sensitive still, are you guys doing anything to adjust the balance sheet to reduce that asset sensitivity, assuming the Fed's on hold from here?

Kevin L. Thompson - *Opus Bank - Executive VP & CFO*

We're watching that very closely. Yes, we are asset sensitive. And the probability of rates coming down goes up every day as almost as much as rates going up. So we are very strategically looking in that and making sure that we're well positioned in the future for both an upside and downside in Fed rate.

Operator

There are no further questions over the phone lines at this time. I turn the call back over to the presenters.

Brett Gerard Villaume - *Opus Bank - SVP and Director of IR*

Thank you very much for joining today's conference call, and we look forward to speaking with you again soon.

Operator

This concludes today's conference call. You may now disconnect.
