Transcript of the Federal Home Loan Bank of Pittsburgh
Second Quarter 2021 Member Conference Call
Aug. 3, 2021, at 9 a.m. EDT

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[Operator introduction of call and of Mr. Watson]

WINTHROP WATSON

Good morning. This is Winthrop Watson and thank you for joining us.

Slide 2 contains the agenda for today's call including items that will be covered by Ted Weller, our Chief Accounting Officer, and Dave Paulson, our Chief Operating Officer. Together, we will discuss the Bank's performance for the quarter and six months ended June 30th.

On slide 3, please note that elements of this call are forward-looking, based on our view of prevailing housing, financial and other market conditions, and our business as we see it today. These elements can vary due to changes in the business environment and market conditions. Please interpret today's call in that light.

Also note that a transcript will be available tomorrow on our website.

On Slide 4, I'll begin with an overview of the current state of the Bank.

As a continued result of COVID-19 government actions, deposit levels at our member institutions remain strong. Consequently, the need for advances – as anticipated – has remained low, and advance levels continued to decline throughout the quarter. Given this, financial performance was lower and commensurate with the Bank's current business activity. Letter of Credit and the Mortgage Partnership Finance® Program volumes have remained largely consistent.

As announced last week, we declared and paid our second-quarter dividend of 5.25% and 1.25% annualized for activity and membership stock, respectively. As anticipated, this level is lower than the previous quarter and includes greater differentiation between the activity and membership stock types. Users of the Bank's products receive the benefit of the higher activity stock dividend rate.

The Bank's overall capital position remains strong and we will continue to assess the impact of market and business conditions on the Bank's financial performance. Later in the call, Dave will discuss in greater detail specific drivers that are impacting the Bank's performance and outlook.

As always, the Bank remains focused on serving our membership. We also stand ready with on-demand access to liquidity to meet member needs as market conditions change.

Finally, we've implemented a voluntary, incremental return to the office and we're planning a full staff return on a hybrid basis for September. However, we're closely monitoring developments that could impact our plans.

With that, I'll now turn the call over to Ted to review our financial performance.

TED WELLER

Thanks Winthrop, and good morning.

I'm glad to be with you today to provide an overview of our financial results and the key drivers behind them.

On slide 6, you'll note that the Bank recorded net income of $49.8 million in the first six months of 2021 compared to $96.2 million for the first six months of 2020. This decrease was primarily driven by lower net interest income partially offset by higher other non-interest income.

For the first six months of 2021, net interest income was $96.9 million, a decrease of $101.6 million compared to $198.5 million for 2020. The year-over-year decrease was primarily due to lower interest rates and a decrease in outstanding average advance and investment balances.

The provision for credit losses was a benefit of $1.4 million for the first six months of 2021, compared to a provision of $4.4 million in the first six months of 2020. The change was primarily due to improvements in the Bank's assumptions, including forecasted housing prices, which are used to estimate expected credit losses.

Other non-interest income was $6.4 million in the first six months of 2021, compared to a loss of $31.2 million in the same prior year period. This $37.6 million increase was driven primarily by mark to market adjustments for derivatives and trading securities, which netted to a $7.0 million loss in 2021 compared to a $42.1 million loss in 2020. The mark to market activity is a non-cash item that largely reflects pandemic-related market volatility which was particularly significant in early 2020.

Other expense decreased $5.8 million in the first six months of 2021, to $49.1 million, compared to $54.9 million for the first six months of 2020. The primary driver of this decrease was the $4.8 million contribution that the Bank made in the second quarter of 2020 to its Home4Good community investment initiative – no such contribution was made in the first half of 2021.

These results have allowed the Bank to set aside $5.8 million for affordable housing programs.

The Bank's business model is designed to protect the net interest spread earned by the Bank and withstand fluctuations in both the level of interest rates and volume of business. As a result, although interest income and interest expense decreased, our net interest margin increased 4 basis points to 47 in the first six months of 2021, compared to 43 in the first six months of 2020. This increase was primarily due to advance prepayment fees, lower funding costs, and a higher percentage of MBS and MPF® Program assets which have wider spreads.

On slide 7, total average assets for the first six months of 2021 were $42.9 billion, down $51.4 billion, or 55%, from the first six months of 2020 primarily due to lower average advances.

Average advances were $19.1 billion in the first six months of 2021, a decrease of $40.1 billion, or 68%, from the same period in 2020.

As noted by Winthrop, federal government liquidity programs have continued to contribute to higher deposits at our members and decreased advance levels for the Bank. It's common for the Bank to experience fluctuations in our overall advance portfolio driven primarily by changes in member needs.

Average investments decreased $10.7 billion, or 37%, due to a reduction in short-term liquidity balances and paydowns on Agency mortgage-backed securities.

Retained earnings at June 30, 2021, totaled $1.4 billion, an increase of $10 million from December 31, 2020, reflecting earnings for the first six months of 2021 less dividends paid.

Slide 8 provides a summary of the Bank's capital requirements.

At June 30th, 2021, the Bank continues to be in full compliance with all regulatory ratios and permanent capital exceeds the risk-based requirement.

Also, at June 30th, 2021, the ratio of Market Value of Equity to Capital Stock was 220.5%; up from 188.2% at year-end 2020. This increase was primarily due to the decrease in capital stock balances resulting from lower advances.

This concludes my portion of the presentation. Dave Paulson will now provide our performance highlights and outlook.

DAVID PAULSON

Thank you, Ted.

Moving to slide 10, as Winthrop and Ted both noted, our results demonstrate financial performance consistent with the current business and operating environment.

As anticipated, we ended the second quarter with an advance balance of $15 billion. This represents a decline of more than $4 billion from the first quarter ending balance of $19.3 billion.

Members continue to actively use LCs and the MPF Program. LC balances were $18.6 billion at the quarter end and the MPF portfolio closed the quarter at $4.8 billion. Program fundings for the first six months were $781 million, with the addition of more than $350 million in volume for the quarter.

As noted on our last call, our Affordable Housing Program contributions will be lower in conjunction with reduced Bank earnings. For the quarter, we were able to set aside an additional $1.4 million for our 2022 AHP programs. Total contributions now stand at $5.8 million for the first six months of 2021.

Slide 11 shows historical trends for our advances, LCs and the MPF Program.

At the end of the second quarter, advances and the MPF Program portfolio make up approximately 36% and 12% of our balance sheet, respectively. While advances declined as discussed, LCs and our MPF Program balances have remained largely consistent over the last few years.

As Winthrop noted, we stand ready to support our members, through product and service offerings, when you need us.

On Slide 12, and looking forward, the performance drivers that have been impacting our business over the last few quarters remain. Low interest rates and low member advance demand will likely continue.

There is also potential for elevated mortgage-backed security and MPF Program paydowns.

With respect to dividends, which are always subject to market and business conditions, our desire is to maintain the current dividend levels through the October 2021 payment. The fourth quarter dividend, which is typically paid in February of the following year, may be lower.

As always, we will continue to assess the potential impact of all performance drivers on our business and we will communicate dividend expectations on future earnings calls.

As we have shared on previous calls, slide 13 shows the trendlines of both the Bank's historical dividend rate and the dividend spread to fed funds.

For the last several quarters, the low fed funds rate demonstrates that our current dividend rate remains attractive.

Let's move to Slide 14 for some key updates and milestones.

In June, we launched the new online banking application. The feedback we have received has been largely positive, and we continue to use your input to inform enhancements. If you would like to share your thoughts or experiences regarding online banking, please contact your business development manager or our member services staff.

For the remainder of this slide, I'll be sharing a few updates. We've bolded the dates for items that are still active for your consideration.

On Community Investment products:

- Our Affordable Housing Program, or AHP, funding round is currently open. Members may submit projects to be considered for funding until 5 p.m. on August 10, when the round closes.
- Our Banking On Business or BOB allocation for 2021 has been fully reserved. The round closed June 18.
- We still have funds available to members under our Community Lending Program. Advances issued under this program enable members to borrow at or near the Bank's cost of funds.
- The 2021 allocation for our first-time homebuyer program, First Front Door, has been fully allocated. The round closed on July 8.
- Details for our Home4Good program, targeting those experiencing or at risk of experiencing homelessness, will be announced in the coming weeks. We encourage all members to enroll in the program.

If you have questions about any of our Community Investment products, please contact your business development manager.

As a reminder, our second quarter Qualifying Collateral Report or QCR will be due on August 16.

During the second quarter, we offered two member-education webinars. We look forward to offering more throughout the remainder of the year and have one scheduled for August 17. In conjunction with Darling Consulting Group, we will be offering a program titled, “Reimagining ALCO: Balance Sheet Strategies for the Current Environment.” We are also planning an additional webinar for the third quarter focused on investment strategies specific to our insurance company members. We will announce details when they become available.

Prior to opening the call for questions, Winthrop will cover some details about our director election.

WINTHROP WATSON

Thanks Dave.

We just ended the nomination phase of our annual director election process. The balloting phase will open on October 1st and will run through 5 p.m. on November 10th. Your election contact will receive an email on October 1st that you will need to access the ballot. For this election, Pennsylvania members will be voting for two Pennsylvania member directors and all members will be voting for two district-wide Independent directors. We encourage all members to participate in the director election process.

With that, Catherine, let’s open the lines for any members to share questions or comments.

[Operator instructions]

Thank you Catherine.

I’d like to thank everyone for attending today’s call. On slide 16 we have included contact information for our leadership and business development teams. Please contact us at any time.

Enjoy the rest of your day, stay well and we look forward to seeing you soon. Thank you.