Berkshire Hills Bancorp, Inc.

Third Quarter 2021 Earnings Release Conference Call

October 21, 2021

CORPORATE PARTICIPANTS

Kevin Conn, *Senior Vice President, Investor Relations and Corporate Development*

Nitin Mhatre, *President and Chief Executive Officer*

Sean Gray, *Chief Operating Officer*

Subhadeep Basu, *Senior Executive Vice President and Chief Financial Officer*

Gregory Lindenmuth, *Senior Executive Vice President and Chief Risk Officer*

CONFERENCE CALL PARTICIPANTS

Mark Fitzgibbon, *Piper Sandler*

David Bishop, *Seaport Research Partners*

Steven Duong, *RBC Capital Markets*

Laurie Hunsicker, *Compass Point*

PRESENTATION

Operator

Hello, and welcome to the Berkshire Hills Bancorp Q3 Earnings Release Conference Call. My name is Emma, and I'll be the Operator for today's call.

It's now my pleasure to hand over to Kevin Conn, Investor Relations Officer. Please go ahead, Kevin.

Kevin Conn

Thank you, Emma. Good morning, and thank you for joining Berkshire Bank's Third Quarter Earnings Call. My name is Kevin Conn, Investor Relations and Corporate Development Officer.

Our news release is available in the Investor Relations section of our website, berkshirebank.com, and will be furnished to the SEC. Supplemental investor information is provided in an information presentation at our website at ir.berkshirebank.com, and we will refer to this in our remarks.

Our remarks will include forward-looking statements, and actual results could differ materially from those statements. For details, please see our earnings release and most recent SEC reports on Forms 10-K and 10-Q.

In addition, certain non-GAAP financial measures will be discussed in this conference call. References to non-GAAP measures are only provided to assist you in understanding our results and performance trends and should not be relied on as financial measures of actual results or future projections. A comparison and reconciliation to GAAP measures is included in our news release.

On the call today, we have Nitin Mhatre, President and Chief Executive Officer of Berkshire Hills Bancorp, Subhadeep Basu, our Chief Financial Officer, Sean Gray, our Chief Operating Officer, and Greg Lindenmuth, our Chief Risk Officer.

At this time, I'll turn the call over to our CEO, Nitin Mhatre.

Nitin Mhatre

Thank you, Kevin. Good morning, everyone, and welcome once again to Berkshire's Third Quarter Earnings Call.

I'll begin my comments on Slide 3, where you can see the highlights for the quarter. It was another solid quarter, with progress across four components, highlighted here, including financials, asset quality, capital and strategy.

In terms of financial results, we posted GAAP EPS of $1.31 in the quarter, an increase of $0.89 and $0.88 year-over-year and quarter-over-quarter, including one-time gains through strategic exits from insurance business and Mid-Atlantic market. Adjusted EPS was $0.53, up $0.09 quarter-over-quarter and unchanged from a year ago.

To provide more color on the financial results, and specifically about the balance sheet, I'd say that we're making tangible progress towards our high-performance goals overall. We're still in the getting-better-before-getting-bigger phase for the balance sheet. This is consistent with what we'd highlighted during our BEST program launch call on May 18 this year. Our deposits balance sheet is getting better in terms of its mix and corresponding cost of funds.

Our loan balances are declining, including runoff of non-strategic portfolios, but we're also seeing a reduction in the rate of decline in loan balances and should start seeing growth in those balances in the first half of 2022, as we reactivate the organic growth muscle through growth in productivity from existing bankers, addition of top-notch bankers, and adding new partners to grow loan originations.

Expenses were essentially flat on both quarter-over-quarter and year-over-year bases. Subhadeep will share more details on this in a few minutes, and I would reiterate that we are committed 100% to self-funding our BEST strategy. We will generate expense saves while reinvesting most of those saves to grow revenues and bottom line in coming years.

Adjusted return on tangible common equity, or ROTCE, for the quarter was 9.5% and adjusted return on assets was 0.86%, both of these metrics trending in the right direction, consistent with our BEST program three-year targets.

Switching to asset quality, as you will see from the charts in the deck and the appendix, our credit trends continue to improve rapidly across the board, as our risk management actions through the past year or more have paid dividends. Delinquency rates are around pre-pandemic levels of 0.87%, down 11 basis points year-over-year and five basis points quarter-over-quarter.

COVID loan modifications were down 85% year-over-year to $65 million, or less than 1% of loans portfolio. You may recall that our COVID deferrals had peaked in Q2 of 2020 at $1.6 billion, when our bankers ran towards our customers at the start of the pandemic versus running away from them, to give those borrowers the best chance to survive through the crisis.

Deferrals are now down by 96% from that peak, and we've been able to help many of our customers weather the storm effectively. Kudos to our lenders, portfolio managers, credit and workout teams for their customer focus and corresponding asset quality improvement.

Non-performing loans were down 22% and net charge-offs were down 66% year-over-year and 55% quarter-over-quarter. Marked improvement in asset quality supported provision benefit of $4 million in the quarter.

On capital, we returned over $54 million to our shareholders in the second quarter through share buybacks and dividends, representing about 210% of our adjusted net income in the quarter. Our capital ratios remain quite strong, relative to peers, with CET1 at 15.3% at quarter end, an increase of about 1% over previous quarter.

Our balance sheet strength gives us more than ample capital to both opportunistically repurchase stock, to improve shareholder value over the near term and to achieve expected loan growth targets in our BEST plan over the medium to long term.

On strategy front, we made great progress this past quarter on our BEST strategic plan. We streamlined our business model by selling non-core operations, including the sale of our insurance subsidiary and Mid-Atlantic franchise.

We announced our Berkshire Community Comeback initiative that highlights how our lending investments and philanthropic initiatives in the community will help our customers across the footprint, and specifically in the low to moderate-income neighborhoods. This is consistent with our BEST plan, as well as our vision to become the leading socially responsible community bank in New England and beyond.

As mentioned earlier, part of our growth strategy includes partnerships. These partnerships include like-minded fintech partners that are delivering exceptional customer experience. We just announced a strategic partnership with Upstart. Upstart is a leading artificial intelligence, or AI, lending platform, designed to improve access to credit digitally, while reducing the risk and cost of lending. Upstart will help us generate consumer loans in the footprint within our credit risk parameters.

We continue to build our firm with key hires, which I'll describe in more detail later. It's a great environment to hire bankers in our footprint, as there is significant consolidation going on. Our Board of Directors continues its refresh. We added Jeff Kip as a new Director, and Dave Brunelle was named as the Chair of the Board in the third quarter. Jeff's bio is attached in the appendix section.

Our heartfelt gratitude goes out to Bill Dunlaevy, who retired after 10 years of service on our Board, including the last two years as the Chair, during which time Berkshire made meaningful changes in both governance, executive leadership, risk management and strategy. Thank you, Bill. We appreciate your steady and prudent guidance during a challenging time.

With that, I'll turn the call over to Subhadeep to discuss our financials in more detail. Subhadeep?

Subhadeep Basu

Thank you, Nitin. A very good morning to everyone. I hope everybody's gotten over the bad overtime loss the Celtics suffered yesterday.

With that, let me get into the earnings in a little bit more detail.

If you could please turn to Slide 4, it captures our income statement. I would like to point out that our third quarter GAAP numbers include $52 million in pre-tax gains from the sale of Berkshire Insurance Group

and Mid-Atlantic businesses and net $1.4 million in restructuring charges associated with FHLB prepayments, real estate and severance. Please see the appendix for a reconciliation of GAAP and adjusted financials. My comments will be on an adjusted basis and not GAAP. We've also included non-GAAP views, excluding insurance and Mid-Atlantic businesses, to help with your analysis.

Revenues were down 5% both quarter-over-quarter and year-over-year, driven by a decline in net interest income. Excluding the sale of the insurance business, quarter-over-quarter, adjusted revenues and expenses were down 4% and 1%, respectively. Net interest income decline was driven primarily by runoff of PPP and non-strategic portfolios, sale of Mid-Atlantic businesses and lower loan balances. Expenses were essentially flat sequentially and year-over-year. I'll touch on expenses in more detail in a few minutes.

We had a provision benefit of $4 million this quarter, as the credit quality of loan portfolios continued to improve significantly. Including net charge-offs of about $2 million, the ACL decreased by $6 million. Our return on tangible common equity was $9.5%, up 145 basis points, versus the second quarter, and our return on assets was 0.86%, up 15 basis points from the second quarter. The core effective tax rate was at 12% for third quarter of '21, down from 24% in third quarter of '20. The lower tax rate was driven primarily by recognition of historic tax credits funded in the third quarter of '21.

Overall, our net income was down 3% year-over-year, but was up 16% quarter-over-quarter. Net interest margin was down six basis points, from 262 basis points to 256 basis points, primarily driven by a lower PPP income, purchase accounting attrition, partially offset by a reduction in wholesale funding.

Turning to Slide 5, let me address changes in our loan portfolios and earning assets. Our total average loan portfolio was down year-over-year, primarily driven by runoff of PPP and non-strategic portfolios, like indirect auto and aircraft, sale of Mid-Atlantic businesses, and lower loan balances for consumer and commercial portfolios. Excluding those portfolios, our loans were down 2% sequentially and down 14% year-over-year.

The bottom table shows average loans excluding PPP, Mid-Atlantic and non-strategic runoff portfolios. The Mid-Atlantic loans will be off the balance sheet as of end of third quarter of '21, and we expect the indirect auto and aircraft portfolio to decline by 50% by the end of 2022. The commercial real estate portfolio, which accounts for 51% of the total loan portfolio, has been stable at approximately $3.6 billion over the last three quarters. We expect the balance sheet to begin ramping up in the first half of 2022.

The investments portfolio is up 54% year-over-year. We're actively pursuing strategies to deploy cash into high-yielding securities to drive earnings growth, while retaining asset sensitivity and credit quality. We will share more details in subsequent quarters, starting with the fourth quarter of 2021.

If you could turn to Slide 6, Slide 6 shows our average liabilities. Our funding mix continues to meaningfully improve as lower cost of funding replaces higher cost funding. Non-interest-bearing deposits are up 13% year-over-year and, as of third quarter '21, accounts for 29% of total deposits, which is up from 24% in third quarter of 2020. Year-over-year, our cost of funds have dropped 42 basis points, from 73 basis points to 31 basis points. Also, year-over-year, our cost of deposits have dropped significantly, down 39 basis points, from 61 basis points to 22 basis points.

If you could turn to Slide 7, Slide 7 provides more detail on the unique improvement in our funding profile and future opportunities to further lower our cost of funds. Year-over-year, our retail CDs have declined by about $600 million, or 28%, with costs going down by 81 basis points, from 154 basis points to 73 basis points. Furthermore, $1.2 billion of our high-cost retail CDs will reprice over the next six quarters and continue to lower overall deposit costs.

We have also significantly lowered our reliance on wholesale funding. Year-over-year brokered CDs are down 61% and higher cost FHLB borrowings are down 67%. As part of our strategy to lower funding

costs, we have prepaid $94 million of FHLB borrowings in third quarter of ’21, and reduced FHLB borrowings to about $14 million at the end of third quarter. We expect our brokered CD borrowings to decline by over 75% by the end of second quarter of 2022.

Our borrowings also include $97 million of expensive subordinated debt, with a coupon of 6.875%. We plan to redeem it no later than third quarter of 2022. Overall, we believe that we are uniquely positioned to meaningfully lower the cost of funding and drive profitability as we grow our balance sheet over the course of the BEST plan.

Slide 8, turning to Slide 8, we show our fee revenues. I would like to note that our fee revenues for third quarter 2021 include only two months of insurance fee revenues, due to the timing of sale of the insurance business in third quarter of ’21. Excluding insurance, our fee revenues were up 11% year-over-year and 1% quarter-over-quarter.

We are encouraged that fee revenues are up 4% year-over-year, as the economy is recovering off pandemic lows. Deposit-related fees were up 8% year-over-year and 2% quarter-over-quarter, as consumer activity increased. Loan fees and revenue were up 66% year-over-year and 11% quarter-over-quarter, driven primarily by higher gain on sale from strong SBA lending and higher swap fees. The SBA lending business continued to exhibit strong performance and achieved historically high revenues in the third quarter of 2021.

Wealth management fees were up 15% year-over-year and 5% quarter-over-quarter, driven by market impact, new products and new relationships. Other non-interest revenue declined due to $1.6 million in higher amortization expenses related to a new tax credit investment project initiated in third quarter of ’21. However, this was more than offset by the $2.2 million increase in investment tax credit benefits that lowered the effective tax rate for third quarter of ’21.

Moving on to Slide 9, on Slide 9, we show our expenses. We continue to maintain expense discipline while we execute on our BEST strategy to self-fund; that is, reinvesting meaningful expense saves to drive growth while maintaining overall expenses at or near current levels. Adjusted expenses were essentially flat, quarter-over-quarter and year-over-year. Increases in compensation expenses year-over-year were offset by declines in occupancy and equipment and other expenses.

We are already benefiting from the expense saves from the branch consolidation that was done earlier in the year. Starting with fourth quarter of ’21, we’ll also benefit from the expense reductions from the sale of insurance business and Mid-Atlantic businesses. On other focus areas, like procurement and real estate, we continue to make good progress, driven by our newly formed procurement organization.

Moving on to the next slide, it provides a summary of our asset quality metrics. Strong improvements in credit quality across the board for third quarter of ’21, and, importantly, significant improvements for three quarters in a row. COVID loan deferrals are down 85% year-over-year and 34% quarter-over-quarter to $65 million, or 0.95% of loans. Net charge-offs are down 55% versus second quarter, to $2.1 million.

Allowance for credit losses to loans ex PPP essentially remain flat, driven by lower reserves, but compensated for by lower loan balances. Our COVID-impacted portfolios, including hospitality, restaurants, Firestone and nursing-assisted living, continued to significantly improve, with year-over-year deferrals declining between 68% to 100%. We have moved more detailed credit data for COVID-sensitive segments to the appendix, and happy to discuss in more detail.

Moving on to the next slide, Slide 11, on capital and liquidity, Slide 11 shows detail on our capital and liquidity positions. Our capital levels remain uniquely strong, our Common Equity Tier 1 capital ratio ended the third quarter at an estimated 15.3%. As Nitin mentioned, we returned $54.1 million of capital to shareholders this quarter via stock repurchases and dividends.

We also completed our last approved stock repurchase program for 2.5 million shares. We continue to stay focused on deploying capital to support balance sheet growth and returning capital to shareholders through opportunistic share buybacks and dividends. We can assure you that capital return is a key part of our three-year BEST strategy.

So, in summary, we had growth in fee income; decline in net interest income, principally driven by PPP and non-strategic loan portfolio attrition; we had flat expenses; meaningful improvements in credit quality, resulting in provision expense benefit of $4 million; significant improvements in funding costs; and very strong levels of capital and liquidity to support growth and capital return, as outlined in the BEST plan.

We also divested our insurance business and sold the Mid-Atlantic businesses, both of which were not part of our core growth strategy, and we executed on a share repurchase program of buying back 2.5 million shares. We also grew our tangible book value per share from $23.58, or 6%, versus third quarter of 2020.

I would like to close with comments on our outlook for the fourth quarter. We'll be providing 2022 guidance in January 2022. We are upbeat about the economic forecast and are encouraged by loan growth that the industry has started to experience.

We expect our loan portfolio to decline modestly. We expect our NIM to be stable for the fourth quarter of 2021. We expect our NII, our net interest income, to be down due to the impact of PPP, the sale of our Mid-Atlantic assets. We expect our funding costs to further decline in the fourth quarter. We continue to be asset-sensitive and expect to benefit from rising interest rates. Adjusted for insurance, we expect fee revenues to be flat to modestly lower for fourth quarter of 2021.

We expect a meaningfully improved credit environment over time, and we expect to get to Day 1 CECL reserves to loans on the existing portfolio between second quarter of 2022 and third quarter of 2022. I'd caution that our credits can be lumpy, so we don't expect a straight line on provision expense or charge-offs. We expect expenses for the rest of the year to be stable at about $68 million run rate. Tax rate for the fourth quarter is expected to be in the mid-teens and end at 18% to 20% for full year 2021.

With that, I'll turn it back to Nitin for further comments. Nitin?

Nitin Mhatre

Thanks, Subhadeep.

On Slide 12, we have our BEST North Star chart, which shows five key performance metrics for our BEST strategic plan. We are encouraged by our progress across financials, ESG and NPS front. We recognize that the progress won't be linear every quarter for every metric, but we're confident that, directionally, we'll be making forward progress towards our North Star objectives outlined, and we're committed to sharing the progress on an ongoing basis.

Slide 13 is a one-page summary of Berkshire Community Comeback initiative, announced last month. Over three years of BEST program, we plan to lend and invest over $5 billion into our local communities, which includes specific ESG targets for low-carbon financing projects, and lending in low and moderate-income neighborhoods in our footprint. As we invest in our communities, we will prove that a bank with a purpose can also deliver strong financial performance.

Turning to Slide 14, over the last few months, we have experienced renewed investor interest in our stock and, based on the discussions with them, here's how we believe our story is being perceived from outside in. Berkshire's being looked at as a unique comeback story. The key tenets of the comeback story are strong capital position that will enable loan growth and capital deployment to shareholders; combination of digitization, productivity growth and partnerships that will drive growth in originations as we reignite our

organic originations engine; outsized cost of funds reduction in coming quarters. As we indicated on this call, our cost of funds have reduced significantly faster than our peers, and we believe that this momentum will continue over coming quarters.

BEST is a self-help plan; that is, there is no rate hike benefit in the BEST plan core targets. We have unique ESG performance metrics and focus, which is consistent with 175 years of purpose-driven orientation of Berkshire Bank and our bankers. We have renewed focus on customer experience and NPS, which is aligned with financial performance objectives. Last, but not the least, we have a unique opportunity to hire talented, values-guided, community-dedicated bankers in our footprint from banks impacted by M&A, MOE, and other such activities.

Since our last earnings call, we've hired many frontline bankers, including senior bankers and leaders. For example, we hired Lucy Bellomia from Bank of America to run our retail banking business; we hired Ellen Steinfeld from TIAA to reinvigorate our consumer and home lending business; we hired Jeff Klaus, an experienced commercial banker, to build our loan book in the middle market in Connecticut.

We also added Steve Crowley and Karen Heston to our Wealth Management Team, and Marissa Ames and Lynne Singletary to our SBA Lending Team at 44 Business Capital. It will take some time for the new hires to build originations momentum, but we expect loan balances to stabilize and start growing in the first half of 2022.

In summary, a solid quarter across many fronts, improved financial results, growing checking and deposit balances, and stabilizing loan balances, moderate fee income momentum, good expense control and improving credit.

With that, I'll turn it over to the Operator for questions. Emma?

Operator

Thank you. Our first question comes from Mark Fitzgibbon of Piper Sandler. Mark, please go ahead, your line is open.

Mark Fitzgibbon

Hey, guys, good morning, and nice quarter.

Nitin Mhatre

Good morning, Mark. Thanks.

Mark Fitzgibbon
First question. Just to be clear, Nitin, I know you said that growth should resume in early 2022, but should we expect much more in the way of balance sheet shrinkage in 4Q?

Nitin Mhatre

I think in the guidance, Subhadeep did indicate that we'll have a modest decline, but the rate of decline is declining, as I mentioned in my comments, Mark, so it will be relatively flat to modestly down in the fourth quarter, and we'll begin to start seeing growth in the first half. So, I think we are consistent there.

Mark Fitzgibbon

Okay, great. Then, secondly, cash balances have built up quite a bit at Berkshire, as well as most banks. I guess, with sort of 18% of the balance sheet in cash, I'm curious what you think the right level of liquidity for your balance sheet at this point in time would be, and maybe how long it takes to get there.

Subhadeep Basu

Hey, Mark, this is Subhadeep. Good to hear from you.

As I mentioned in my prepared remarks, we are looking at different deployment strategies for that cash, including, obviously, moving into sort of high-yielding securities, and that's part of our overall BEST strategy, as well, coming to an optimal level. I think you've got to remember the liquidity use for multiple purposes. As we grow our balance sheet, we need to fund that balance sheet, as well. So, over time, we will come to sort of an optimal level, and we'll share more details around what that would be, and with more details in January of 2022, but, overall, you're going to see a reduction in that cash balance going forward, starting in fourth quarter.

Mark Fitzgibbon

Okay, great. Then, also, I wondered if you could share with us the size of the loan pipeline, what the mix of that looks like, and maybe your commercial line utilization rates, please.

Subhadeep Basu

Yes, Mark. Broadly speaking, the pipeline has grown, as compared to the end of second quarter, as well as end of third quarter, roughly about $300 million in commercial, line utilization about 47%.

Mark Fitzgibbon

Thank you.

Operator

Thank you. Our next question today comes from David Bishop from Seaport Research Partners. Please go ahead, David, your line is now open.

David Bishop

Yes, thank you. Good morning, gentlemen.

Nitin Mhatre

Good morning.

David Bishop

Good morning.

I'm curious about how we should think about return of capital as we enter into 2022. Obviously, the gain from the Mid-Atlantic branch system and the insurance subsidiary obviously bolstered overall capital levels, along with balance sheet attrition. I'm just curious, is there sort of a targeted level that you're thinking about between buybacks—the combination of buybacks and dividends paid into 2022 to 2023?

Subhadeep Basu

Hi, Dave, this is Subhadeep. No, great question.

I think that's one of the topics that there are a lot of discussions that we continue to have within Management, as well as with the Board. We are very, very focused, as both Nitin and I mentioned, on deploying the capital. Our deployment strategy is, obviously, threefold: help support the growth of the balance sheet over the course of the next two years; take our dividend yield where it should be, and obviously increasing it from where we are; as well as returning capital to shareholders via buyback. So, there are a lot of discussions happening, and we expect to provide more information relatively soon in terms of what are the strategies for capital return.

David Bishop

Got it. Then, you guys have been pretty active, obviously, in terms of adding lending talent here over the past several weeks and months here. I'm just curious, maybe when this talent achieves critical mass, what sort of a growth rate or volume of loans do you think they can bring on balance sheet into 2022? I don't know if you have that from a dollar perspective or a growth perspective, just how we should think about the growth opportunity of these new adds.

Nitin Mhatre

No, great question, Dave.

I think, broadly speaking, what we have embedded within the BEST plan—and you'll hear more details about it at the next quarter, when we break it by year, as opposed to doing mid-year—what we have baked into the plan is about 40% to 50% growth in our frontline bankers, and that requires us to be hiring at a certain clip, and we are at that run rate right now.

The hires that we made in the second and third quarter will start building their pipelines in this quarter and the next quarter, so we'll start really seeing the originations kick in from the second quarter, and that's when we also expect around that time the balance sheet to grow. Just broadly speaking, the overall growth in the frontline bankers that we have in the plan, that, itself, should be giving us about $0.5 billion to $1 billion of incremental originations, to your question.

David Bishop

Great, appreciate the color. Then one final question before I hop back into queue.

Remind us—I think you noted, Subhadeep, that you expect the allowance to trend down in the Day 1 CECL reserves. Just remind us what that number is.

Subhadeep Basu

Yes. So, I think around 100 basis points on our existing portfolio, Day 1 CECL reserves.

David Bishop

A hundred basis points, got it. Thank you.

Operator

Thank you. Our next question today comes from Steven Duong from RBC Capital Markets. Please go ahead, your line is now open.

Steven Duong

Hi, good morning, guys.

Nitin Mhatre

Good morning, Steve.

Steven Duong

Good morning.

First question, just on your rate sensitivity, you mentioned that you're asset sensitive. I guess, Subhadeep, can you speak to just how much sensitivity from 50 basis points or 100 basis points you can expect on your NII, and also just what the assumptions are going into that, in terms of deposit beta?

Subhadeep Basu

Hi, Steve. Good to hear from you.

As we've said, obviously, looking at our balance sheet and our cash positions, we are asset-sensitive. In terms of added data for sensitivity and where we stand to benefit from a 100-basis-point or a 200-basis-point lift, we'll add more color and details in our 10-Q.

Steven Duong

Okay, got it.

Then, just on the partnership with Upstart, I guess, can you guys just maybe give some more color on these loans? Are they kind of buy-now-pay-later types of loans, how big are they, the credit profile of the customer, and how much exposure you guys are willing to take on it?

Nitin Mhatre

Yes, happy to give you an overarching view, Steve. We could get into more details later, but, broadly speaking, Upstart is a program, and part of our program plans to partner up with like-minded fintech partners that provide easier access to credit for customers in our footprint, where we can build on to a larger relationship. It is an AI-based decisioning model, with about 1,500 factors, that help maximize the opportunity for customers to get access to that credit at the best available price.
We're going to stay in the prime space. FICO's well above 625. In terms of the originations, we expect that one partnership alone to be about $100 million of personal loan originations a year, but we will have more partners over time.

Steven Duong

Okay, perfect, thank you for that. Then, just on your SBA revenues, have you guys disclosed how much in SBA revenues you had this quarter, and what was it last quarter?

Subhadeep Basu

Hi, Steve. No, I don't think we separately disclose SBA revenues. It's included in one of our fee revenue lines.

Steven Duong

Okay, and then just a last one from me. Your ACL is 1.66% ex PPP. So, if we're assuming loss rates continue on at, I don't know, 20 basis points, somewhere around there, and you're looking to get a Day 1 CECL of around 100, 101.1, if you triangulate that, that would seem to mean that you have a lot of reserves to get off in the next three quarters or so. Is that fair to say?

Subhadeep Basu

Hi, Steve. I think, in terms of where we get to our ACL reserves, that's based on sort of our evaluation of the portfolio, and what we're looking at from a net charge-off perspective, and, as and when, sort of as our models determined based on our policy and guidelines, and our forecast for net charge-off rates, we make the determination to release reserves, as we did this quarter. I think it's fair to say that given the charge-off trend that we are looking at, and if this continues, likely to be more releases in the coming quarters.

Steven Duong

Okay.

Nitin Mhatre

Hey, Steve, to your question, just to add to what Subhadeep just said, that 100 to 110 basis points that you outlined, that's on the existing portfolio. We're also adding new portfolios along the way, and we would have to take incremental cover for that, as well. So, we will get to that Day 1 CECL for the existing portfolio by around that third quarter timeline that Subhadeep outlined.

Subhadeep Basu

(Multiple speakers).

Steven Duong

Yes, yes, it just seems like—yes, I'm sorry, go ahead.

Subhadeep Basu

Steve, I was just saying one quick correction on the comment around the SBA lending revenues. I think we don't have it explicit in our tables, but I think on our overall press release, you'll find the disclosure around SBA lending revenue of $5 million.

Steven Duong

Oh, great. So, that's $5 million this quarter; is that right?

Subhadeep Basu

Correct.

Steven Duong

Okay, great, and then just on your—back to the ACL, I guess you had the negative $4 million this quarter in the PCL, and that didn't really do much on your ACL, so it just seems that this would imply that eventually, by some time mid/late next year, you're really going to have to have a sizeable negative PCL, assuming loss rates continue on where they are, and so is that a fair way to think about it?

Subhadeep Basu

I think, Steve, as we reflected in our comments earlier on, I think the path to the next quarter is depending on sort of our portfolio performance and credit trends. You're going to see how that turns out in the next two to three quarters, but I think I would like to reiterate the comment that I made earlier about sort of the direct correlation of improving credit quality and potential for more reserve releases.

Steven Duong

Great. I appreciate you taking my questions. Thank you.

Subhadeep Basu

Sure.

Nitin Mhatre

Thank you, Steve.

Operator

Our next question today comes from Laurie Hunsicker from Compass Point. Please go ahead. Your line is now open.

Laurie Hunsicker

Yes, hey, thanks, good morning, and Bill Dunlaevy, I just want to say I'm wishing you well.

Nitin, Subhadeep, Kevin and Dave, I'm just wondering, can you circle back a little bit on Upstart and help us think about, you know—just to the earlier questions, can you help us think about how you see that line? In other words, a year from now, it's $100 million, a year from now, it's $200 million. Can you just help us think a little bit about that?

Nitin Mhatre

Yes, it's $100 million a year kind of momentum at this point of time, based on the credit parameters that we've outlined for ourselves.

Laurie Hunsicker

Okay, and then is it $100 million, and you're going to hold it flat and just see how it performs, see how the loss rate is going, or is the $100 million continuing to grow $100 million or so every year? How do you think about that?

Nitin Mhatre

Yes, we'll keep watching the performance. The great thing about programs like this, Laurie, is this gives us an ability, one, to partner up with true cutting-edge AI-based lending platform, that also looks at daily repayment of the customers and recalibrates its decisioning model. So, there is tremendous amount of AI-based intelligence that goes behind this, that helps us track the portfolio, and we get the benefit of that.

On the other side, it also gives us the ability to make sure that the portfolio is performing as we outlined it to be, and I think, to that extent, yes, we'll continue to just keep watching the portfolio as we build it and then if it performs as we expect it to, we'll continue to operate the program going forward.

Laurie Hunsicker

Okay, and I wanted to make sure I heard this right, the FICO, the average FICO is 625?

Nitin Mhatre

No, that's the minimum FICO. I think what you would end up getting, by and large, based on some of the experiences that we've heard from other banks, is about 700-plus as an average FICO.

Laurie Hunsicker

Seven hundred plus, okay. In other words—I'm just going to be use Lending Club here as an extrapolation. We just got off an earnings call where that's still a whole entire page of the slide deck that's the focus here. Lending Club was something that many banks got into, realized the loss rate was much more severe, and then subsequently got out of the Tranche C, or for that matter, then completely got out of it all together.

When you think about what you're adding here, is there—I mean, there's a big difference in unsecured consumer if you're 700-plus or 740-plus versus you're going down to 625. Can you help us think a little bit about that piece that's going to be sub-700, what you're going to see there?

Nitin Mhatre

Yes, I'll be happy to, Laurie, and we could also cover it offline, but at a high level, there's a big difference in a program where you purchase loans versus you originate loans based on your criteria, your credit box, your max APRs and your max DTI kind of scenarios. So, essentially, you're creating an originations engine through partnering up with fintechs, like AI, who have received real good kudos about how they've built that decisioning model. In fact, they have a three-year kind of a CFPB clean sheet on how their decision model works. I'm happy to share that in detail, Laurie. This is a different program than purchasing loans that some of the banks have done with likes of Lending Club.

Laurie Hunsicker

Okay, and what are you modeling in terms of the charge-off rate?

Nitin Mhatre

It's a range between 4% and 5%.

Laurie Hunsicker

Four to 5%, okay, and then what's the coupon?

Nitin Mhatre

On an average, it's going to be about 11% to 12%.

Laurie Hunsicker

Eleven to 12% coupon, okay, great. Then just one last thing. Is this a national book or is this…

Nitin Mhatre

So, it's in the portfolio, that's the difference, Laurie. This is in footprint, relationship basis, the customer is ours and we build relationship-deepening programs around these customers.

Laurie Hunsicker

Okay, great, thanks for that color. Then, I guess, Subhadeep, can you just give us what the PPP fees were, the forgiveness fees, this quarter into your net interest income?

Subhadeep Basu

Hi, Laurie. Good to hear from you. Yes, and good question. We anticipated that, anyways, but the last page of the deck, Slide 21, outlines the PPP impact. For third quarter of '21, we are around $2.1 million from that…

Laurie Hunsicker

Okay, great, and…

Subhadeep Basu

…which is down from second quarter sort of at $5.1 million.

Laurie Hunsicker

Okay, sorry, I missed that. Also, I probably missed this, too, it's somewhere in your slide deck, and I apologize, its earnings, but can you just help us think—or just give me an update on the accretion that was included in that interest income?

Subhadeep Basu

Yes, I think the accretion was, I would say, 50% over our consumer book, that includes both consumer and mortgages, and the rest, 50% is over our commercial loan book, and I think (multiple speakers).

Laurie Hunsicker

No, no, sorry, I mean, separately within your net interest income…

Subhadeep Basu

Sorry.

Laurie Hunsicker

…what was your accretion income? In other words, last quarter, it was $2.2 million, and I apologize…

Subhadeep Basu

Yes, it was, I think…

Laurie Hunsicker

…it probably is somewhere in your press release and I just haven't had a chance to find it yet.

Subhadeep Basu

Yes, and I think it's in our earnings tables, as well. I think the total dollar amount for—I'm sorry, I'm having a bit of trouble. Yes, I think it was $1.7 million.

Laurie Hunsicker

One point seven, great, thank you. I apologize that I didn't find that. So, I guess, when I'm looking at those two line items, or just even excluding the PPP fees, so your core net interest margin was down to 2.48, and it looks like PPP is basically gone. So, when we think about a forward-looking margin, putting some of these components together, and I guess one more question around that, the $94 million in FHLB borrowings that you prepaid, when did that happen in the quarter?

Subhadeep Basu

That happened at the very end of the quarter, Laurie, the last week. So, literally, the benefits of that, really, on a run rate basis, we're going to see it in the fourth quarter onwards.

Laurie Hunsicker

Great, okay, that's helpful. Can you help us sort of forward think a little bit—I realize you said the margin was stable, but you've certainly had outsized PPP fees that won't be there, so I guess where are you making up for that differential; in other words, when PPPs won't be there? So, somewhere, if margin is still trending at the 2.56% spot, it seems to me that there's still sort of almost a 10-basis-points delta happening there. Can you just drill…

Subhadeep Basu

(Multiple speakers).
Laurie Hunsicker

…down a little bit more on how we can—yes, go ahead.

Subhadeep Basu

Sure, sure, and I think—first of all, if you think about sort of our core NIM and where we ended up, that was, as you've said, rightly pointed out, on the negative side, there was a PPP impact, but on the positive side, there were sort of funding impacts on non-brokered deposit mix, that declining. The FHLB borrowing, which we didn't really get the benefit of that, that will be helping us in the fourth quarter, and then, secondly, our roll-on, roll-off portfolios and sort of the impact on that, from that perspective. So, I think, overall, that's probably what's going to guide sort of the stable NIM that I offered up in my guidance.

Laurie Hunsicker

Okay. Then, just in terms of your non-core portfolios, can you just update us now on the balance of where the indirect auto is and the balance of where the aircraft is?

Subhadeep Basu

Yes, sure.

Laurie Hunsicker

If you don't have those numbers (inaudible).

Subhadeep Basu

No, that's fine. It's on the footnoted table, as well. For indirect auto, and I'm quoting end of period, in our third quarter '21, we are about $120 million in balances, and then on the aircraft, I don't think we disclose that separately. We can call you later with that information.

Laurie Hunsicker

Okay.

Subhadeep Basu

Yes, I would say the low 40s, like mid to low 40s, like $45 million to $47 million.

Laurie Hunsicker

Okay, and then…

Gregory Lindenmuth

Subhadeep, it's Greg. It's roughly in the mid-30s in aircraft.

Laurie Hunsicker

Mid-30s, okay, that's helpful. Then, when do you expect both of those portfolios to be zero?

Subhadeep Basu

As part of our—I think in my prepared remarks, we said end of 2022, we expect that to decline by over 50%. I think the rest of the attrition will happen over the course of 2023…

Laurie Hunsicker

Okay.

Subhadeep Basu

…if the normal sort of our forecasted rate of attrition holds and the payment behavior that we're seeing.

Laurie Hunsicker

Okay, that's helpful. Then, just more broadly, on the restructuring charges, when do we see those go away? When are there no more restructuring charges? Are we at it, as we sit now, that we're going to have sort of a clean look in the fourth quarter? How should we think about that?

Subhadeep Basu

I think, Laurie, restructuring charges are based on, obviously, circumstances and events, and sort of how envision sort of planning and managing the business. At this point, we have what we have in restructuring charges. If there are future restructuring charges, we'll disclose that as part of our quarterly earnings.

Laurie Hunsicker

Okay, but as we sit today, looking forward, fourth quarter and beyond looks largely clean, shy of you all making another announcement. Am I think about that the right way?

Subhadeep Basu

I guess at this point, Laurie, I'm unable to offer a comment on that.

Laurie Hunsicker

Okay, okay, and then, I guess, just lastly, the gains that you pre-disclosed, I just didn't see an actual breakdown on the $51.85 (phon) million, what's insurance and what's the branch sale gains, if you could just bifurcate those? I think insurance was around $35 million, but if you have an exact number, and if you don't, I can follow up with you offline.

Subhadeep Basu

I think, overall, for the combined impact, I think it was 70 basis points on the impact of the two, and of that, I think insurance is about $37 million pre-tax.

Laurie Hunsicker

Okay. You know what, I'll follow up with you offline. I was just looking for exact—yes, we're chatting later in a bit. Okay, thank you, I will leave it there. I appreciate you taking our questions.

Nitin Mhatre
Thanks, Laurie.

Subhadeep Basu

Sure.

Operator

We currently have no further questions, so I'll hand the call back to Mr. Mhatre to close.

Nitin Mhatre

Thank you, everybody, and thank you for your interest, and have a good day. Be well.

Operator

This concludes today's call. You may now disconnect your lines.