Berkshire Hills Bancorp

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Berkshire Hills Bancorp, Inc.

Second Quarter 2022 Earnings Release Conference Call

July 20, 2022



CORPORATE PARTICIPANTS

Kevin Conn, *Investor Relations and Corporate Development Officer*

Nitin Mhatre, *President and Chief Executive Officer*

Subhadeep Basu, *Chief Financial Officer*

Gregory Lindenmuth, *Chief Risk Officer*

CONFERENCE CALL PARTICIPANTS

Mark Fitzgibbon, *Piper Sandler*

Bill Young, *RBC Capital Markets*

Christopher O'Connell, *KBW*

Laurie Hunsicker, *Compass Point*

PRESENTATION

Operator

Hello, and welcome to today's Berkshire Hills Bancorp Second Quarter 2022 Earnings Conference Call.

I would now like to turn the call over to Kevin Conn. The floor is yours. Please go ahead.

Kevin Conn

Good morning, and thank you for joining Berkshire Bank's second 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

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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, 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 second quarter earnings call. I'll begin my remarks on Slide 3 that captures the highlights of the quarter.

Overall, this was a strong quarter, with significant improvement in EPS and ROTCE quarter over quarter and year over year.

Revenues were up 9% versus the first quarter, driven by strong net interest income growth.

Loan balances growth was robust and net interest margin grew significantly, and those tailwinds more than offset the headwinds in fees.

Expenses were flat quarter over quarter and slightly lower year over year, as we continue to be disciplined on expense management while continuing to self-fund our BEST program.

Earnings per share of $0.51 was up 19% quarter over quarter and up 17% year over year.

Return on tangible common equity improved to 8.48%, an improvement of 99 basis points quarter over quarter and 40 basis points year over year.

On capital front, our balance sheet remains strong. We ended the quarter with a common equity Tier 1 ratio of 12.9% after returning about $61 million of capital to shareholders. We have ample capital to both fund the loan growth and continue stock repurchases.

Our credit metrics improved again in the second quarter, and thanks to the tremendous work by Berkshire team members across frontline to workout groups, our net charge-offs for the quarter were at historically low level of less than $0.5 million.

On a related note, in June, we announced that Moody's assigned us an investment-grade issuer rating of Baa3 with a positive outlook. The rating outlook is positive for both the holding company and the Bank.

On the BEST strategy front, we continue to make steady progress. We continued our optimization initiatives, including the consolidation of five branches scheduled for third quarter.

Getting better before getting bigger was an important part of our strategic focus in 2021, and now, even as we've begun to grow our balance sheet in 2022, we continue to look for opportunities to improve our balance sheet mix and align it better with our core strategy, and to that extent, we've decided to stop originating Firestone loans even to existing customers to have that portfolio run off in due course. Important to note that this is a strategic decision and not related to the performance of the portfolio, which

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is, in fact, quite strong, as non-performing loans were less than 1% of portfolio balances at the end of second quarter, loan deferrals were at zero, and we recorded net recoveries of $118,000 in the quarter.

Similarly, given the economic uncertainty, we will stop new originations from Upstart. Important to note that our experience with Upstart has been terrific. We are pleased with the quality and demographics of the customers acquired through that partnership and the corresponding opportunity to deepen banking relationships with those customers over time. Credit performance of this portfolio is strong and life-to-date annualized charge-off rate on that portfolio is about 35 basis points compared to our model 4% to 5% annual charge-off rate. That said, we believe that, given the economic uncertainty, taking a pause in new originations from this partnership is a prudent course of action and it will enable our teams to focus on the core business of the Bank that represents about 98% of loans that continue to grow and perform well.

On ESG strategy, we continue to improve our ESG program performance. Additionally, we became the first bank under $150 billion in assets to issue a sustainability bond through our issuance of $100 million of subordinated debt in the second quarter.

Our customer experience and net promoter score part of our BEST strategy, we continue to make good progress. Our mobile app rating on iOS improved further to 4.7 stars this quarter and our net promoter score, measured directly through J.D. Power, showed further gains in the quarter.

Slide 4 highlights the continued strength of our loan originations and balances.

As we reported in the previous quarter, Q1 ’22 was the inflection quarter where our total loan book started to grow again after a gap of six quarters. We’re pleased to see that the momentum continues with loan balances growth of 7% quarter over quarter on both average and end-of-period basis. Loan growth was driven by new loan originations that were up significantly year over year.

Our strategy to invest in our bankers, customer experience, and technology is helping us win business across the board.

Finally, I’d like to thank all of our Berkshire Bank colleagues for their continued hard work and passionate commitment to our vision of becoming a high-performing, leading, socially responsible community bank. Their commitment to our strategy and dedication to our customers is what is driving our improving performance and continued progress.

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

Subhadeep.

Subhadeep Basu

Thank you, Nitin.

Slide 5 shows our quarterly income statement. Please see the appendix for a reconciliation of GAAP and adjusted financials. My comments will be on an adjusted basis and non-GAAP.

Revenues were up 9% quarter over quarter and up 1% year over year.

Net interest income grew 18% sequentially given strong loan growth, increased asset yields, and stable funding costs.

Fee revenues were down 19% quarter over quarter. I'll speak to fees in more detail in a moment.

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Our continued expense discipline resulted in flat expenses quarter over quarter and down 1% year over year.

While we had a $4 million provision benefit last quarter, we recorded a provision expense of zero this quarter.

After-tax income rose 13% and 7% quarter over quarter and year over year, respectively. Our pretax pre-provision net revenue, PPNR, grew significantly and was up 38% quarter over quarter and up 4% year over year.

We also had positive operating leverage quarter over quarter and year over year.

Slide 6 highlights changes in our earning assets.

As Nitin mentioned, we had another quarter of robust loan growth: a 7% increase in average loans with loan growth across all business lines. The commercial loan portfolio, which accounts for about 70% of our loan growth, grew 5% quarter over quarter, with particular strength in asset-based lending.

Our loan yields rose sharply with higher interest rates, up 38 basis points versus the first quarter. Our short-term investments in securities book was down 20% as we deployed cash into higher-yielding loans. The mix shift in our balance sheet from lower-yielding cash and investments to high-yielding loans is driving growth in our net interest income and NIM.

Moving on to Slide 7, it shows our average liabilities.

Total deposits declined 3% and 2% quarter over quarter and year over year, respectively. However, excluding payroll deposits, which were unusually high in the first quarter, and broker deposits, our deposits were down 1% quarter over quarter and year over year.

Noticeably, our cost of deposits were unchanged at 17 basis points quarter over quarter, and our cost of funds increased one basis point versus the first quarter to 24 basis points. While our deposit costs have remained stable, we do expect deposit costs to increase during the second half of the year.

During the second quarter, we issued $100 million of subordinated debt that was also the first sustainable bond issued by a bank under $150 billion in assets. I'd note that in third quarter of 2022 we plan to redeem $75 million of subordinated debt with a coupon of 6.875%.

Moving on to the next slide, Slide 8 shows more detail on our net interest income and margin.

Net interest income grew 18% quarter over quarter, driven by loan balance growth, increased asset yields driven by the rate environment and stable funding costs.

Our reported NIM is up 49 basis points year over year. Our NIM, adjusted for purchase loan accretion and PPP impact, is up 65 basis points over the same period. While we were pleased with our lift in the NIM, we don't expect increases of similar magnitude going forward.

Turning to the next slide, Slide 9, we show our fee revenues, which were weaker than expected this quarter.

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Excluding securities gains and losses, our fee revenues were down 19% quarter over quarter and down 23% year over year. Excluding the impact of our insurance divestiture, fees were down 14% year over year.

Loan fees and revenue were unusually low this quarter, driven by lower interest rate swap revenues and fair market value adjustments on the swap portfolio driven by the rising rate environment. The decline in other fees, a line item that can be lumpy, reflect a large seasonal revenue sharing agreement in the first quarter. Wealth management fees and deposit-related fees showed good momentum.

On Slide 10, we show our expenses.

Continued expense discipline resulted in flat expenses quarter over quarter and down 1% year over year. I would like to point out that we have kept our expenses essentially flat for the last five quarters as we continue to self-fund our best strategy. We also continue to benefit from expenses from vendor management, branch consolidations, and other real estate optimization efforts, which have resulted in lower occupancy and equipment expenses.

Slide 11 is a summary of our asset quality metrics.

Our credit quality remained strong. Non-performing loans are down 44% year over year and 9% sequentially. Our net charge-offs dropped to historically low levels of two basis points. Continuing strong credit performance, offset by loan growth, led to zero provision expenses for the quarter. Our allowance for credit losses to loans ended the quarter at 1.27% of loans.

Moving to the next slide, Slide 12 shows details of our capital and liquidity positions.

Our common equity Tier 1 capital ratio ended the first quarter at an estimated 12.9%. Our top priority is to deploy capital to support organic growth. We are also biased to opportunistic stock repurchase given our low stock valuation, and repurchased about $55 million of stock in the second quarter.

We also expect to grow our cash dividends over time. I'd like to point out that like many banks, in the second quarter, we also recorded a negative bond mark to other comprehensive income in our equity account of about $45 million on an after-tax basis. I'd reiterate that the OCI bond mark does not impact our regulatory capital ratios, and we expect those bonds to pull to par over time.

In summary, a strong quarter, with robust balance sheet, net interest income, and net interest margin growth, strong capital position enabling us to continue returning capital to shareholders, ample deposits to fund future growth, and strong credit performance and expense management.

Now, I would like to close with comments on our outlook for the rest of 2022, which is depicted on Slide 13. We'll provide 2023 guidance in January.

We are clearly aware of the ongoing economic uncertainty, including the impact of higher rates, supply chain disruptions, and inflation. We are not seeing a meaningful slowdown in economic activity in the markets we operate. The labor market is still quite strong, and demand is still recovering from the pandemic.

We continue to closely monitor our asset quality. We have a strong balance sheet, differentiated strategies for organic growth, continued expense discipline, and multiple self-help levers. We are focusing on things that we can control.

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Consistent with our BEST plan, we expect 5% to 7% average loan growth for Full Year 2022 versus Full Year 2021. We now expect average deposits to be flat to down 2% for Full Year 2022 versus Full Year 2021.

Also recall that our net interest income guidance in April was for mid-single-digit growth of reported net interest income in 2021 of $291 million. It was based on a modeled year-end Fed funds rate of 1.75%. We are now modeling to a year-end Fed funds rate of 3.25%. We are also modeling deposit betas to be low near term and to be between 30% to 40% later in the rate hike cycle, and expect our deposit cost to increase for the second half of 2022.

We are raising our net interest income guide on a GAAP basis from mid-single digit to 9% to 11% and 17% to 19% on an adjusted basis.

We expect fees to be down 10% to 15% in 2022 versus adjusted 2021 fees. I would like to remind you that 2021 was a record year for our SBA lending business, and the slowdown is more than we expected. Our wealth management business is impacted by headwinds from weaker equity and fixed income markets. However, both franchises remain fundamentally healthy and present long-term growth opportunities for us.

Our asset quality remains strong. We expect credit provision expense to start to normalize in the second half of 2022. We expect ACL to loans to be in the range of 110 to 120 basis points for 2022. We expect to continue to focus on expense discipline and expect to maintain a quarterly run rate of $68 million to $70 million. However, expenses could be lumpy and at the higher end of that range. We estimate our effective tax rate to be in the range of 19% to 21% for 2022.

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

Nitin.

Nitin Mhatre

Thanks, Subhadeep.

On Slide 14, we have our BEST program North Star chart, which shows our progress on five key performance metrics. We've just finished the first year of our three-year BEST journey, and as you'll see, our financial metrics—ROTCE, ROA, and PPNR—continue to show steady improvement compared to the baseline and are headed in the right direction towards our stated three-year goals.

Our ESG score remained in the top quartile at the twenty-second percentile nationally.

We have enhanced our NPS score measurement process and have hired J.D. Power to provide us with a net promoter score directly through our customer surveys. We've seen steady improvement in the absolute net promoter score this quarter with an increased sample size. We hope to have a relative ranking versus New England banks at the year-end of 2022.

Our strategy is driving us forward towards becoming a high-performing, leading, socially responsible community bank in New England and beyond. Consistent with that vision, Slide 15 highlights the progress we've made in empowering community comeback and some of the external recognition that we received.

Over the last eight weeks, I've had an opportunity, along with my Leadership team, to participate in what we call as our BEST Community Comeback tour.

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Through this tour, we visited all nine markets across five states, covering 80 cities and meet over 80% of our employees and over 100 business customers and community partners. It was incredibly energizing to see how engaged our bankers are in our transformation, and we've committed to continue to listen to their feedback on an ongoing basis to get better every day in providing exceptional service to our customers.

Our BEST Community Comeback program is tracking well overall, and as part of that program, our wealth management group launched our Center for Women, Wellness and Wealth to provide women with tools to support financial stability and overall wellness. This initiative is in addition to the socially responsible investing program we'd launched earlier in the year in our wealth management division that has already generated over $40 million in assets under management program to date.

Issuance of sustainability bond that we mentioned earlier further enhances our Community Comeback program, and while all of this is creating a lot of energy internally, we're also excited about the external recognition that's coming our way. *Newsweek* ranked us number nine on their list of America's Most Trustworthy Banks in 2022.

We were also awarded Communitas Award for Leadership in Corporate Social Responsibility for BEST Community Comeback program. We ranked among the top 1% of all U.S. banks for ESG in Bloomberg this year, and while absolute ranking can change frequently, we were pleased to reach number one spot towards the end of second quarter on Bloomberg.

In summary, a strong quarter, with steady progress on our BEST plan, strong loan growth and net interest income and margin expansion, disciplined expense control, improved financial returns, along with solid progress on our ESG performance.

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

Elliot.

Operator

Thank you.

Our first question comes from Mark Fitzgibbon from Piper Sandler. Your line is open. Please go ahead.

Mark Fitzgibbon

Hi, guys. Good morning, and congrats on a good quarter.

Male Speaker

Good morning, Mark.

Male Speaker

Good morning, Mark. Thanks.

Mark Fitzgibbon

First question I had, I wondered how much of the payroll deposits left this quarter and how much you might—you expect those to return on the balance sheet in the third quarter, roughly.

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Subhadeep Basu

Mark, this is Subhadeep.

If you look at our second quarter numbers, I think our payroll deposits were unusually high in the first quarter. I think it was around $1.7 billion. I think, on a sort of normalized basis, I would put a range between $700 million to $1 billion.

Mark Fitzgibbon

Okay, so somewhere between $700 million and $1 billion you think will flow back on the balance sheet?

Subhadeep Basu

Yes, I think if you look at sort of historically where we have been, that's kind of the, I would say, is a average balances.

Nitin Mhatre

Hi, Mark.

Just to make sure I understand you correctly, though, you're saying will it flow back $700 million to $1 billion? I think what Subhadeep was saying is $700 million to $1 billion has been an average on a quarterly basis for the last, let's say, five quarters before first quarter. We ended this quarter at $1.3 billion. We think it's going to normalize around that $1 billion mark.

Mark Fitzgibbon

Got you. Okay.

Secondly, on wealth management fees, they were surprisingly good this quarter. I wondered if you could share with us what assets under management are and maybe what flows look like this quarter and market depreciation of assets?

Nitin Mhatre

I think, Mark, we will look into our disclosures around sort of assets under management, and potentially going to get back to you. However, I think this quarter, we had good inflows, and that was actually offset by weaker equity markets and fixed income markets, so I think that speaks to the resilience of the business so far. However, on a go-forward basis, we expect weakness to persist in the equity and fixed income markets, and do not expect wealth management to grow at the clip that you've seen this quarter.

Mark Fitzgibbon

Okay, and then I just want to touch on the Upstart relationship. You all had been pretty positive on it in past calls. Is there a conscious move away from third-party originated loans now, or was it more Upstart specific?

Nitin Mhatre

No, I think it's really just the fact that we anticipated to get those volumes through that partnership to about 3% of the total loans, and we feel, just given the environment that we are in and all the provisions

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that we have to build along the way, 2% is the right number to cap it at, and we've reached that volume, and as I said in my remarks, the performance of the portfolio is pristine. It's operating at 35 basis points of annualized loss rate compared to the 4% to 5% expected; so, no, it's not the quality of production or partnership. It's really limiting our exposure in the environment that we are in.

Subhadeep Basu

Hi, Mark, this is Subhadeep.

I just want to get back to you on your question around assets under management. We have $1.6 billion in assets under management for wealth.

Mark Fitzgibbon

Okay. Great, and then last question, I wondered if you could share with us what the loan pipeline looks like, and maybe any color on the mix would be great.

Thank you.

Nitin Mhatre

I would say, Mark, in the third quarter and pretty much the second half, we expect the volumes to slow down as compared to the first half, but the pipeline looks strong. It's not as high as it was at the end of first quarter, but it's significantly strong, and I think if we continue at the same clip, we should get to the growth numbers that Subhadeep outlined in his outlook.

Mark Fitzgibbon

Thank you.

Nitin Mhatre

Thanks, Mark.

Subhadeep Basu

Thanks, Mark.

Operator

Our next question comes from Billy Young from RBC. Your line is open.

Bill Young

Hi, good morning, guys. Great quarter.

I guess I just want to follow up on the Upstart loans. Just so I'm clear, is the partnership with Upstart terminated in its entirety going forward, or are you just only originating up to 2% of loans?

Nitin Mhatre

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No, we're pretty much reaching that—Billy, no, we're pretty much reaching that 2% cap in this—once we clear up the pipeline, so we're going to pause originations for the foreseeable period.

Bill Young

Okay. Okay, and then on the Firestone loans, how quickly do you expect those to kind of run off the balance sheet?

Nitin Mhatre

It will take about 10 to 12 quarters for it to fully run off. We're not going to originate new loans. I think at earlier stage we were originating to accommodate existing customers. We're going to stop doing that, so I think it'll go through a traditional CPR, which will take it to about 10 to 12 quarters.

Bill Young

Got it. Got it. Thanks for that.

And I guess just to touch on the loan/deposit ratio, there's a bigger step-up this quarter, close to 77%. I believe your three-year target for BEST is around 90%. I guess, if growth continues to remain good and we reach that 90% sooner rather than later, how does that impact Management thinking on funding longer term?

Subhadeep Basu

Hi, Billy. This is Subhadeep.

I think in terms of our BEST strategy and in terms of our balance sheet and (inaudible) and funding, at this point, we don't anticipate any changes. I think it's good that our loan-to-deposit ratio has increased. However, that also, if you take into account some of the payroll deposits moving out, and that has impacted the loan-to-deposit ratio, but we remain comfortable about our capacity to fund the growth in our balance sheet as targeted in BEST.

Bill Young

Got it. Got it. Okay.

And final question for me, I guess just more of a philosophical question, but in the last tightening cycle, your margin reached—approached a mid-3% level. Can you maybe speak to a little bit about how much your balance sheet has changed since that cycle and what that might mean for the margin this time in this cycle?

Nitin Mhatre

I think, as outlined in our BEST strategy, we have a goal of 70/30 commercial consumer and residential mix. In terms of our net interest margin, I would say that was impacted by three factors. Obviously, our asset sensitivity. Secondly, cash got deployed into loans and our deposit pricing remained surprisingly sticky, which we are happy about. I think on a go-forward basis, we don't expect a quarter of this magnitude for NIM increase. We do expect modest NIM increase throughout the rest of the year.

Bill Young

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Great. Thank you.

Operator

We now turn to Chris O'Connell from KBW. Your line is open. Please go ahead.

Christopher O'Connell

Good morning, gentlemen. Nice quarter.

Subhadeep Basu

Good morning, Chris.

Nitin Mhatre

Good morning, Chris.

Christopher O'Connell

Just wanted to start with the loan growth guidance and just confirm, the $7.3 billion average for last year, that includes PPP, I believe. Is the growth of 5% to 7% off of that $7.3 billion as an average for 2022?

Subhadeep Basu

Yes, Chris, hi, this is Subhadeep. Yes, it's based off the $7.3 billion number.

Christopher O'Connell

Okay. Great, and then I was just hoping to get a little bit of color as to what you guys are seeing in the updated pipeline in terms of rates for the different loan categories that you're putting on?

Subhadeep Basu

Hi, Chris. This is Subhadeep, again.

Yes, I can give you a little bit of color in terms of the new originations that are coming in. I would say commercial in the mid-4% yield range. Mortgages around, I would say, 4%.

Christopher O'Connell

Okay. Got it.

And then the residential portfolio growth this quarter is still particularly strong despite the macro environment becoming a little bit more negative for that market. How are you guys seeing the split of that growth going forward versus the commercial portfolio into the back half of the year?

Subhadeep Basu

Hi, Chris. This is Subhadeep, again.

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In terms of our overall guidance, we have factored in the resi portfolio growth. I think we are monitoring it closely. We are fully aware that in the rising rate environment that could potentially slow down, like what other banks are seeing, so we have factored some of that in; but if there is a change in terms of our guidance and the growth we are seeing in the book, we'll come back to you guys in the next quarter.

Nitin Mhatre

Hi, Chris.

If I could just add on that, I think you probably are looking at the mix as well. I think in terms of resi, we will see some growth. We're also in a different state of evolution in terms of how we're growing the organic growth muscle. As we talked about in the BEST program, we'd invested in the frontline bankers and the partnerships, so I think the book will continue to grow at a slower pace in the second half; but most importantly, the overall mix, today, commercial book is about 70%, and I think it's going to remain to be in that mid- to high 60s through the year and beyond.

Christopher O'Connell

Okay. Got it. That's helpful.

And then just given the moves in the balance sheet this quarter and what you guys are seeing for your deposit outlook, where is the eventual level that you want to get cash to as a percentage of assets, earning assets, given the deployment this quarter? And how are you thinking about utilizing cash and securities to fund loan growth going forward versus the deposit flows?

Subhadeep Basu

Hi, Chris. This is Subhadeep.

I think, standing where we are and looking at our balance sheet at this point, approximately cash to be like 5% of total assets. However, as the balance sheet grows, we continue to assess that number and sort of review that on an ongoing basis.

In terms of funding our loan growth, I think, looking at what we're expecting from a deposit trajectory perspective and the funding sources we have, we expect to be able to sort of fund our balance sheet and the growth that we expect in the foreseeable future through what we have today.

Christopher O'Connell

Okay, and then last one for me, just a couple of questions on the fee side.

One, how are you thinking about the contra tax line going forward? I know it's run a little bit lower in the past couple of quarters than it was during the back half of last year. And then also, how much of the loan fees this quarter was a drop in the swaps versus drop in SBA, and how are you thinking about how those rebound or how much they rebound by going forward as well?

Thanks.

Subhadeep Basu

Sure, so the first part of your question was, Chris, could you just repeat it, there was a bit of a sound?

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Christopher O'Connell

The contra tax line.

Subhadeep Basu

Yes. Right. Got it, so we have a reactive tax credit strategy, and I think you have seen our tax rate creep up marginally higher, and now you're seeing sort of lower impairments. We do expect to normalize around 19%, 20%, so that number will potentially grow as we deploy our tax credit strategy.

In terms of your question around loan fees and revenues, about that variance, about $3 million of it is related to swap valuations and swap fee declines. I would split it halfway between the two of those. Yes.

Happy to provide (multiple speakers)—

Christopher O'Connell

Okay, and how are you thinking about the outlook on the environment for maybe the swap fees or SBA fees for the back half of the year?

Subhadeep Basu

Sure, so first, let's talk about the SBA fees. The SBA fees actually grew marginally this quarter, but if you look on a year-over-year basis, it was quite a bit of a decline, and so the SBA business—and we are not unique in that position. I think the industry is experiencing a slowdown there. I think in the gain on sales and the premiums actually have declined, and the SBA guarantees—the guarantees that we have on those loans have fallen from 90% to 75%, so that's impacting the industry as well, so we are expecting slowdowns in sort of the SBA business.

Christopher O'Connell

Okay, great. That’s all I had. Thank you.

Subhadeep Basu

Thanks, Chris.

Nitin Mhatre

Thanks.

Operator

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

Laurie Hunsicker

Great. Hi. Thanks. Good morning.

Nitin Mhatre

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Good morning, Laurie.

Laurie Hunsicker

Super excited to hear your (audio interference). I think that's great. Can you just give us a refresh on the balances at Upstart? I had a 1Q '22 balance of $73 million. Where was it as of 2Q?

Subhadeep Basu

It was about $152 million.

Laurie Hunsicker

One-hundred and fifty-two million dollars. Okay, and then did you continue to add to Upstart in early July, or did you cease as of June 30?

Subhadeep Basu

No. We're ceasing as of now, so it'll get effective from here on, so whenever pipelines get cleared, and that's when we (multiple speakers)—

Laurie Hunsicker

Got it. Perfect.

Okay, and then can you just refresh us on what the loan yields are running at the moment in the Upstart book?

Subhadeep Basu

It's in the same range, Laurie, it's about 12%, 12.5%.

Laurie Hunsicker

Okay. Great.

Okay, and then same—and sorry, charge-offs in the quarter, what were Upstart charge-offs in the quarter in dollars?

Subhadeep Basu

I think, cumulatively, I think it's about 35 basis points. I don't know specifically for the quarter (multiple speakers). Yes, it was $30,000, so it's fractional, $130,000 in first quarter, $100,000 second quarter, so still well within—well below 0.5%.

Laurie Hunsicker

Got it. Okay, and then Firestone, what are the balances there? I had that as of $167 million as of 1Q? What was it as of 2Q?

Nitin Mhatre

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One-sixty-five.

Laurie Hunsicker

One-sixty-five. Okay.

Great, and then can you just give us a refresh on just some of the other categories that we watch? If we think about restaurants and hotels and leverage lending, do you just have those three categories? If not, I can follow up with you offline.

Subhadeep Basu

Hi, Laurie, it's Subhadeep.

Greg, can you answer some of those questions from Laurie?

Gregory Lindenmuth

Absolutely. Absolutely.

Hi, Laurie. Hospitality is 360

Laurie Hunsicker

Hi, Greg.

Gregory Lindenmuth

Hi, 360 in hospitality. Restaurants is 90, and leverage lending is really de minimis, just a fraction of a percent at 66.

Laurie Hunsicker

Okay. Great, and then just in terms of the criticized in those categories, if you have it.

Kevin Conn

Laurie, this is Kevin.

I think we've been really responsive in terms of credit data for everybody, especially recall, we did all the detail on the COVID-sensitive industries, so we're happy to share exposure data; but on further credit data, I would refer you to the Q that will come out in about 45 days or so.

Laurie Hunsicker

Yes. Okay. Okay. That works.

And just on loan balances, just to touch on, I think, some of the questions that Chris was asking, I mean, the resi book you added $250 million this quarter, 64% annualized, obviously not continuing at the same rate. Can you just help us think about—and then pretty remarkably strong, same with C&I. Is that purchased, or is that your team originating? Is that a combination? Is that all in footprint? Can you just

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help us think a little bit about those three categories in terms of how those loans actually came about, because I can't remember a time that we've seen this sort of strong growth from you guys?

Subhadeep Basu

Laurie, it's predominantly what we call as the retail production, which is what our mortgage loan officers produce, and supported through our correspondent partners, so that's the predominant (inaudible) of it, and purchase volume will pretty much go down to zero as we get into third quarter.

Laurie Hunsicker

Got it. Got it. Okay.

Buybacks, very, very active. Love seeing that. How do you think about that going forward?

Subhadeep Basu

Hi, Laurie, this is Subhadeep.

As you may recall, our Board authorized $140 million in buybacks. As of now, I think we have around $55 million remaining in that program, and we intend to execute on that through the remainder of the year; obviously, remain opportunistic and depending on share prices.

Laurie Hunsicker

Got it. Okay.

All right, and then Subhadeep, obviously, you had mentioned the $75 million sub debt that you plan to redeem in the third quarter. What about the $23 million of trust preferred? I think that was LIBOR plus 185 basis points. Is that also going to be redeemed, or are you hanging on to that?

Subhadeep Basu

At this point, we intend to hang on to it.

Laurie Hunsicker

Okay. Okay, and then the branch closures, so you're closing five. That takes you down to 100. How are you thinking about branch rationalization here in coming quarters and as we look forward to 2023?

Nitin Mhatre

Yes, Laurie. We looked at the branch as part of the whole BEST program, and if you recall, we talked about we felt there was potential opportunity for 5% to 8% that we could consolidate. That roughly translated to about five to nine consolidations. We've announced five.

We continue to look for opportunities, but our team is also looking at opportunities to enhance productivity and kind of find different locations where we could actually get better production, so I think we're coming closer to the finish line on the objective, and we announced five, and there might be a couple more that might come along; but then after that, we're going to focus on getting more production and productivity from the centers.

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Laurie Hunsicker

Okay. Great, and then just kind of last question on that, the one-time charges associated with that, what are those, and what's the geography on the branches you're closing?

Subhadeep Basu

Are you talking about the charges to the P&L, Laurie?

Laurie Hunsicker

Yes.

Subhadeep Basu

Yes, so those are mostly related to securities—related mark-to-marks. We have one holding, and then we have some other holdings related to CRA.

Laurie Hunsicker

No, sorry, the branch closure cost of five branches you're closing, are you not taking any one-time charges associated with that?

Subhadeep Basu

At some point, we will, but we don't intend to—we'll have more details coming in future quarters.

Laurie Hunsicker

Okay. Okay, and then, obviously, any cost savings there—I'm just looking at your expense guide, which is helpful, but any cost savings from those branch closures? I assume you're plowing those back into the business. We're not going to really see a drop to the bottom line. Am I thinking about that the right way?

Nitin Mhatre

That's the intent, Laurie, in tune with self-funding our BEST program.

Laurie Hunsicker

Okay. Great, and then just sort of one housekeeping. Your AOCI, do you have an actual as of June 30? In other words, the drag in terms of your tangible comment as of March 30 was $78.2 million.

Do you have an as of June 30 number there?

Subhadeep Basu

Yes. I think so. The mark for the second quarter was $45 million on after-tax basis.

Laurie Hunsicker

You mean $45 million plus the $78 million. Is that right?

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Subhadeep Basu

Yes. Yes, correct, so the end of June, I think you're looking at $121 million in cumulative mark.

Laurie Hunsicker

Perfect. Okay, great. Thank you. I'll leave it there.

Nitin Mhatre

Thanks, Laurie.

Subhadeep Basu

Thanks, Laurie.

Operator

This concludes our Q&A session. I will now hand over to Nitin Mhatre for final remarks.

Nitin Mhatre

Thank you all for joining the call today, and thank you for your interest. Have a good day, and be well.

Operator

Today's call has now concluded. We'd like to thank you for your participation.

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