Berkshire Hills Bancorp

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Berkshire Hills Bancorp, Inc.

Third Quarter 2022 Earnings Release Conference Call

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CORPORATE PARTICIPANTS

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Gregory Lindenmuth, *Chief Risk Officer*

Steve Finocchio, *Treasurer*

Sean Gray, *Chief Operating Officer*

CONFERENCE CALL PARTICIPANTS

Bill Young, *RBC Capital Markets*

Mark Fitzgibbon, *Piper Sandler*

David Bishop, *Hovde Group, LLC*

Laurie Hunsicker, *Compass Point*

Christopher O'Connell, *KBW*

PRESENTATION

Operator

Hello everyone, and welcome to the Berkshire Hills Bancorp Third Quarter 2022 Earnings Conference Call. My name is Nadia, and I will be coordinating the call today.

I will now hand over to your host, Kevin Conn, Investor Relations Officer, to begin. Kevin, please go ahead.

Kevin Conn

Good morning, and thank you for joining Berkshire Bank's third quarter earnings call.

My name is Kevin Conn, Investor (audio interference) and Corporate Development Officer.

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Our news release is available in the Investor Relations section of our website, berkshirebank.com, and will be furnished to the SEC. Supplemental 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; Sean Gray, our Chief Operating Officer; Brett Brbovic, our Chief Accounting and Interim CFO; Greg Lindenmuth, our Chief Risk Officer; and Steve Finocchio, our Treasurer.

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

Nitin Mhatre

Thank you, Kevin, and good morning, everyone.

I'll begin my remarks with the financial performance and highlights of the quarter, followed by an update on the CFO departure, before coming back to the highlights for the balance sheet and the progress on the best strategy in the quarter. I'll begin my comments on Slide 3, where you can see the highlights of the quarter.

Overall, this was a strong quarter with continued improvement across all key financial metrics. Adjusted revenues were up 10% quarter-over-quarter and 17% year-over-year, driven by strong net interest income growth. Revenue growth was driven by growth in loan balances and improved margins, which more than offset the headwinds in the non-interest income.

Adjusted expenses were up modestly quarter-over-quarter and year-over-year and were around the high end of the range we provided as guidance in July, resulting PPNR was up 28% quarter-over-quarter and up 53% year-over-year. Adjusted earnings per share of $0.62, was up 21% quarter-over-quarter and up 18% year-over-year.

This quarter was our highest quarterly adjusted earnings per share since 2019. Adjusted return on tangible common equity improved to 9.92% and adjusted return on assets was 99 basis points. Matrix nearing the (audio interference) for our 2024 best targets.

Before I comment on the balance sheet and the best progress, a quick update on the people front. As you may have seen from our press release last week, CFO Subhadeep Basu, has resigned earlier this month for personal reasons and to pursue other opportunities. Subhadeep has been a key member of my team since he joined us 18 months ago, and I'm appreciative of his efforts and important contributions.

As this was a strictly personal decision, out of respect for Subhadeep's privacy, I won't make any further comments about his departure itself, but will add that he has agreed to help us in a consulting capacity through the year end. The Board of Directors and I thank Subhadeep for the service and wish him success and happiness for the future.

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I also want to reiterate that there are no accounting improprieties or disagreements regarding financial reporting related to Subhadeep's departure and we remain confident about our 2022 guidance that was provided at our previous earnings call.

As stated previously, we will provide 2023 guidance during the fourth quarter earnings call in January 2023. We have retained a leading executive search from (audio interference) Stewart to do a nationwide search for the CFO position.

Our Chief Accounting Officer and Interim CFO, Brett Brbovic, will cover the financial details of today's presentation. Brett joined us 10 years ago from KPMG and was promoted to the Chief Accounting Officer position in 2015. Both Brett and Stephen Finocchio, our Head of Treasury and Planning, will be available to respond to the questions following our remarks. We are blessed to have a deep bench strength in our finance team. Collectively, the totality of Berkshire team is enthusiastically marching forward on our journey ahead.

Coming back to the highlights of the quarter on Slide 3. On capital front, our balance sheet remains strong. We ended the quarter with a common equity Tier 1 ratio of 12.7% and a tangible common equity ratio of 8.1%.

We have ample capital to both fund growth and continued stock repurchases. This past quarter, we returned about $26 million of capital via dividends and stock repurchases and over time we expect to resume the growth of our dividend.

Our credit matrix remained strong in the third quarter, thanks to the tremendous work by Berkshire team members across front line to the workout group. Brett will review our credit matrix detail in a moment. Greg Lindenmuth, our Chief Risk Officer, is on the call to assist on any credit-related questions.

On the BEST strategy front, we continue our optimizations, including realization and consolidation of five branches in the quarter. We continue to make steady progress against our ESG priorities.

You may recall that we issued $100 million sustainability bond this summer, and we've been actively deploying those proceeds within our sustainable financing framework into projects in renewable electricity, green buildings, and affordable housing.

As I always do, I would 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 ongoing and accelerating performance improvement and progress.

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

Brett Brbovic

Thank you, Nitin, and good morning, everyone.

Slide 4 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 10% quarter-over-quarter and about 17% year-over-year. Net interest income grew 13% sequentially due to loan growth, increased asset yields and stable funding costs. Fee revenues were

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down about 3% versus the second quarter, and I'll speak to those in more detail in a moment. Expenses were up low single-digits on both a quarter-over-quarter and year-over-year basis, and close to the higher end of the $68 million to $70 million quarterly range we've guided to in the past.

Our efficiency ratio was 62% in the quarter, (audio interference) above our best target of 60% for 2024. We recorded restructuring charges of $11.5 million pre-tax and $8.7 million after-tax, or approximately $0.20 per share due to the consolidation of five branches and Firestone (audio interference).

At this time, we do not anticipate any material restructuring charges in the fourth quarter. We had a provision expense of $3 million this quarter, and our credit allowance remained relatively stable at $96 million. Adjusted after-tax income rose about 19% and 9% quarter-over-quarter and year-over-year respectively. We also had positive operating leverage quarter-over-quarter and year-over-(audio interference).

Slide 5 highlights the changes in our earning assets. As Nitin mentioned, we had another quarter of loan growth, with a 5% increase in average loans with growth across most of our business lines. Residential mortgage balance growth continued even in a difficult environment, largely driven by new loan officers hired over the last few quarters. Loan yields rose 55 basis points versus the second quarter as a result of the rising rate environment and the shift in our balance sheet from lower-yielding cash investments to higher-yielding loans, which also drove the growth in our NIM and NII.

Slide 6 shows our average liabilities. Total deposits declined 1% and 3% quarter-over-quarter and year-over-year, respectively. Non-interest-bearing deposits were flat both quarter-over-quarter for year (phon). Our cost of deposits was at 33 basis points, up 16 basis points from the second quarter. The Fed raised rates by 150 basis points in the quarter, so our deposit beta for the quarter was about 12.

While our deposit costs have remained relatively stable due to high deposit market share in relatively less competitive markets, we do expect deposit cost to increase over the coming quarters. We still expect deposit betas through the cycle in the 30% to 40% range.

Slide 7 shows more detail on our net interest income and margin. Net interest income grew 13% and 29% quarter-over-quarter and year-over-year, respectively. While we were pleased with the lift in our NIM, we expect a relatively modest lift going forward in the fourth quarter.

Turning to Slide 8, we show our fee revenues, which were down about 3% versus the second quarter. Strength in deposit-related fees and other fees, which includes (audio interference) adjustments, were offset primarily by declines in loan fees and wealth management fees. Deposit-related fees were higher on more consumer activity and interchange income, and loan fees were down on lower SBA gain on sale and lower swap fee revenues, which are currently running well below our normal run rate.

On Slide 9, we show our expenses, which were up low single-digits, both quarter-over-quarter and year-over-year. We continue to benefit from expense (audio interference) management, branch consolidations, and other real estate optimization efforts, which have resulted in lower occupancy and equipment costs. Compensation was up mid-single-digits on modest wage inflation and commission expenses related to sales and origination activity.

Slide 10 is the summary of our asset quality metrics. Our credit quality remains solid. Delinquent and non-performing loans were down 16% versus the second quarter and flat year-over-year. Delinquencies at 74 basis points of loans remain well below our long-term historic range of 85 to 115 basis points. The increase in nonperforming loans and the $6 million in net charge-offs primarily reflect a small number of isolated (audio interference).

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While we are monitoring credit closely, we are not seeing any broad-based portfolio credit deterioration and are encouraged that accruing delinquent loans or early-stage delinquencies were down 51% versus the second quarter.

Slide 11 shows details of our liquidity and capital positions. Our loan-to-deposit ratio was 80% this quarter. Our common equity Tier 1 capital ratio ended the quarter at an estimated 12.7%.

Our TCE ratio ended the quarter at 8.1, and included cumulative OCI bond marks of $183 million on an after-tax basis. The cumulative bond marks include $61 million booked in the third quarter. We believe our bond marks have been in line with peers and those bonds will post par over time, and the marks are not included in our regulatory capital ratios.

Our tangible book value per share ended the quarter at $20.4, and I want to be clear that this is a non-GAAP adjustment. But excluding the AOCI mark, the total tangible book value per share would increase by $4, making it the highest TBV per share historically for Berkshire at $24.5. We provided a GAAP to adjusted TDV reconciliation in the appendix.

Our top priority is to deploy capital to support organic growth. We are biased to opportunistic stock repurchases given our relatively low stock valuation and tangible book value. We repurchased about 705,000 shares for $20.2 million in the second quarter. As Nitin mentioned, we also expect to grow our cash dividends over time.

Finally, we're going through our annual budgeting process over the next month or so, and we'll share 2023 guidance on our fourth quarter call in January.

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

Nitin Mhatre

Thank you, Brett.

On Slide 12, we have our BEST program North Star chart, which shows our progress on five key performance metrics. As you will see, our financial metrics of ROTCE and ROA are just below the low end of our stated three-year goal. We're also encouraged that our annualized PPNR was $154 million, well above the $102 million in 2021 and heading towards our $180 million to $200 million BEST target in 2024.

Our ESG score remained in the top quartile at 23rd percentile nationally and we've enhanced our NPS score measurement processes through JD Power to provide us with a Net Promoter Score directly through our surveys. With an increased sample size, we hope to have our relative ranking versus New England banks by first quarter 2023.

On Slide 13, you can see some examples of how we are reinvesting our expense through best optimization initiatives in people and technology. On investments in people front, we continue to complement our strong existing team of frontline bankers with new bankers with solid experience in the market who want to join our purpose-driven transformational journey.

We have benefited from the disrupted market environment with high-quality talent across our business lines; Commercial, 44 BC, Wealth Management, Private Banking, Retail and Mortgage Lending from a

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broad spectrum of banks. We have also made significant investments in coaching and promotions of our bankers.

Technology investments front, the right-hand side of this slide highlights how we are bringing our Digi-Touch architecture to life. What that essentially means is we are well on our way to create a top-notch digital experience offered by large banks, while creating an ability to retain the personal touch of a community bank. (Audio interference) possible because the investments made in the foundational elements with best-in-class partners and platforms, which include data warehouse through Snowflake; middleware integration through MuleSoft; digital acquisition and onboarding through Narmi; CRM and sales platform through Salesforce.com, etc.

We truly believe that in medium term, our technology solutions will become a differentiating moat for Berkshire Bank.

I'll close my remarks with comments on the economy. As the Fed raises rates to battle inflation, we are seeing a wide dispersion of outlooks for near to medium term. The equity market seems to be pricing in a hard landing. We are fortunate to be operating primarily in the steady-eddy New England market, which remains on a solid relative footing.

As we talk to our customers, we are seeing a bit more caution, driven by (audio interference), inflation, and supply chain concerns, but the (audio interference) and corresponding demand still seems to be supported by the recovery on the pandemic dollars. We're also supporting the comeback for various communities across our footprint and are highly encouraged by the initiatives by local leaders in those markets.

In markets like Syracuse, we're excited about investments being made through local government and private companies like Micron, (inaudible) we're investing over $100 billion in creating one of the largest microchips plants in the nation.

We are and will continue to remain vigilant and stand ready to navigate through the changes in the micro (phon) environment, while providing exceptional service to our customers, and continue our progress towards becoming a high-performing, leading socially responsible community bank.

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

Operator

Thank you. Our first question today comes from Billy Young of RBC. Billy, Please, go ahead. Your line is open.

Billy Young

Hey, good morning, guys. How are you?

Nitin Mhatre

Good, Billy. How are you?

Billy Young

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Good. I might have missed the comment on what some of the drivers were for the higher NPAs and NCOs this quarter, so I apologize if I missed this. But did you disclose what types of credit fees were?

Brett Brbovic

Yes. Billy, this is Brett. Those were primarily related to C&I (phon). Greg, I don't know if you want to provide any additional color.

Gregory Lindenmuth

Yes, absolutely. Thanks, Brett. Yes, the NCOs for the quarter were really episodic in nature. Some were driven by C&I loans on the portfolio. But I think it's also important to note that Management was also proactive in its credit risk management practices. We took advantage of a very attractive market to sell troubled assets this quarter.

Roughly about $1 million of the charge-offs do relate to problem loan sales that we took advantage of at almost higher than $0.90 on the dollar for those loans. Some of that is a proactive decision on the part of Management.

Billy Young

Any particular sectors that these credits (phon) were exposed to and it sounds like these may have been known issues?

Gregory Lindenmuth

Yes. All were known issues and included in our prior classified criticized balances, which we do expect to trend lower.

Billy Young

Thank you. I appreciate that. Then can you maybe elaborate a little bit on the expectations—or your expectations for the modest lift in 4Q spread revenues? Do you expect to see more of a bigger step-up in deposit betas versus the pretty low levels today?

Nitin Mhatre

Billy, the short answer would be yes. (Audio interference) the betas to grow as compared to third quarter. But like Brett said in his remarks, I think we're blessed to have good market share in a relatively less competitive market. We've been able to contain our beta as well. Our beta for the quarter was about 12, and our cumulative beta so far in the cycle is about six, and I think that's a reflection of the fact that the markets that we are in and all the programs that our retail team has put together to proactively manage the customer relationships.

Billy Young

Got it. Lastly, just a quick question on loan activity and growth. Obviously, bottom line trends were solid and consistent with your outlook. It seems most of the growth this quarter was driven by Resi Mortgage side, and it seems like there are a little bit more pressures on Commercial.

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Could you just speak to maybe some of the drivers of growth in general over the next few quarters and what you're seeing in commercial? Does mortgage perhaps drive a bigger piece of growth in the near-term with your expanded mortgage team?

Nitin Mhatre

Sure. Billy, we couldn't hear you well, but I think I got the gist of the question. The quarter was relatively soft on the Commercial originations, but the pipeline has built by the end of the quarter, so we expect to have a stronger quarter for Commercial going into the fourth quarter. The Residential quarter would be similar to the levels that we saw in the third quarter.

The overall fourth quarter should be stronger than the third quarter, and we're pleased with the momentum that we're seeing across the Board.

Billy Young

Okay. Thank you for taking my questions.

Nitin Mhatre

Thanks, Billy.

Operator

Thank you. Our next question goes to Mark Fitzgibbon of Piper Sandler. Mark, please go ahead. Your line is open.

Mark Fitzgibbon

Hey, guys. Good morning. I wondered if I could follow-up on one of the...

Nitin Mhatre

Good morning, Mark.

Mark Fitzgibbon

Good morning, Nitin. I wondered if I could follow-up on one of the last questions about the C&I delinquencies. I'm not sure, Greg, you had answered that in terms of which sectors of the C&I portfolio were negatively impacted by or shut up in delinquencies there, any particular industries, any particular geographies or types of C&I lending?

Gregory Lindenmuth

No, actually. It's just a one-off transactions, not related to any portfolio or segment deterioration whatsoever. It's very specific to the borrowers in question.

Mark Fitzgibbon

Okay. Then secondly, Brett, I wondered if you could share with us, if you have at your fingertips, what the spot deposit rates today are?

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Brett Brbovic

Yes, I don't think I have those right in front, I can get back to you on that.

Nitin Mhatre

Are you talking about the cost of deposits, Mark?

Mark Fitzgibbon

Yes, today. Currently.

Nitin Mhatre

Yes. Today, I think we ended the quarter at about 33. I think today's spot would be about 41, 42.

Mark Fitzgibbon

Okay, great. Then I know you had said there would be no more charges in the fourth quarter, but do you have plans for more branch consolidations maybe in early ‘23 or beyond?

Nitin Mhatre

We were used to be—you'll recall, Mark, you've been tracking us for a while, we used to be about 130 branches network. We've been proactive and the network is now close to 100. We believe the overall number will be relatively steady. I think we might still have some consolidations and relocations, but there will be a wash. We don't expect the number to change now in terms of the branch count.

I think branches will continue to play an important role to us as a community bank. The roles of the bankers have changed from being transaction processing to solutions providers and digital ambassadors. We believe that we're pretty much very close to that inflection point.

Mark Fitzgibbon

Okay. Then lastly, Nitin, given that the bank has continued to see some turnover in recent years, I wondered if you could comment on what sorts of things the organization is doing to stem that?

Nitin Mhatre

Yes. We've done a tremendous number of things in terms of employee engagement, and starting with different types of engagement activities, town halls, communications, keeping a real good mix of folks with institutional knowledge and the new folks that are coming in, and how do we (audio interference) ability for them to interact in this relatively hybrid work environment that we are in. We actually just completed our employee engagement survey (audio interference).

We're actually waiting to see what that shows us. We ended up last year at about 68% employee engagement rate. Typically, if you're 70% and above, it's viewed in the top quartile. We're hoping that we'll get there this year.

It's a wide slew of our activities. The team is pretty energized about the future.

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Mark Fitzgibbon

Thank you.

Operator

Thank you. Our next question goes to David Bishop of Hovde Group LLC. David, please go ahead. Your line is open.

David Bishop

Yes. Good morning. How are you, Nitin?

Nitin Mhatre

Good morning, Dave.

David Bishop

Hey, a quick question. I noticed the past couple of quarters from a funding perspective it looks like you're leaning on the securities book to fund loan growth and some of the deposit outflows. Do you expect that, the overall balance of securities, to continue to trend into the fourth quarter, maybe into next year? Just curious how you're thinking about funding incremental loan growth?

Stephen Finocchio

Yes, David, this is Stephen Finocchio. Yes, I think that part of the strategy is let the loan portfolio continue to run down, obviously that pace has slowed down. That portfolio has obviously slowed down a little bit, but we continue to use that as part of the strategy in the short run.

David Bishop

Do you know what the cash flows are per month?

Stephen Finocchio

About $25 million a month.

David Bishop

Got it. Then just looking, turning back to the margin discussion, noted what you said in terms of the deposit front. But, circling in on the loan yields, I noticed residential mortgage loan yields were down, and obviously mortgage rates are trending up. Anything driving that phenomenon where we're seeing a decline or decrease in residential mortgage yields?

Brett Brbovic

This is Brett. What we actually noticed was last quarter we had a little higher than normal deferred costs, late charges and purchase loan accretion in Q2 that did not reoccur in Q3.

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David Bishop

The expectation is you think that trends up over time now? Just curious what—and maybe dive or review the types of mortgage loans you're putting on the book, the tenor, duration, yields? Thanks.

Brett Brbovic

The residential loans were currently on around, I believe (audio interference).

Nitin Mhatre

David, the third quarter about the brand (phon) originations, that invariably has a LIBOR about four handle. The fourth quarter should have five to six handle.

David Bishop

Got it. Then just in terms of the movement in the deposit rates there, are you seeing—I should say a dichotomy in terms of rates across maybe your core Massachusetts footprint and Upstate New York. Just curious if there's a big differential in terms of deposit pricing within those markets.

Nitin Mhatre

Yes. I think our core markets in Central Mass, the Rooster (phon), the Worcester, Springfield, yes, they're relatively less competitive, and we have the flexibility to then price them accordingly while managing the customer relationships. The ultra-competitive markets, whether it's Boston and New York, we are staying competitive. But I think the focus is on relationships. I think our Retail team, Commercial Team is doing a great job of managing that. Commercial team is also focused on getting operating accounts every time we have lending conversation.

All of that is helping us. We expect and we feel reasonable that our betas will continue to be lower than the market.

David Bishop

Got it. Then one final question for me. I think you noted the preamble. (Inaudible) run rate, probably near the top end of the guidance for the quarter at a little bit above $70 million. Any thoughts in terms of where we should be thinking about the expense run rate moving forward off this level? Thanks.

Brett Brbovic

Hi, this is Brett again. I think we're comfortable with the guidance that we provided last quarter. I think we expect to see expenses in that range.

David Bishop

That's the $68 million to $70 million range, correct?

Brett Brbovic

Correct.

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David Bishop

Got it. Thank you, I'll hop off.

Operator

Thank you. Our next question goes to Laurie Hunsicker of Compass Point. Laurie, please go ahead. Your line is open.

Laurie Hunsicker

Great. Hi. Thanks. Good morning. Wondered if we could start with the $11 million of restructuring charges you took. What was the breakdown between Firestone write-down and the five branch closings? How did that break out?

Brett Brbovic

The Firestone was about $2 million, split between lease terminations and severance and the remaining was primarily related to the five branches.

Laurie Hunsicker

Got it. Okay, that's helpful. Then can you just give us a refresh on specifically Upstart and Firestone in terms of where they are on a non-performing loan balance and also charge-offs in the quarter? I'm just looking, obviously, and I think others have asked this question, but linked quarter, your C&I non-performers went from $5 million to $21 million, and your C&I charge-offs in the quarter went from $200,000 last quarter to $4.9 million.

I think a lot of it is there, but can you help us think about specifically what the dollar amount of non-performers are in both of those categories and then the charge-offs in the quarter?

Kevin Conn

Hi, Laurie, this is Kev. We're not sharing any of the delinquency or non-performing loan data on either of those books because they're not—the books are in really good shape. They continue to run down. We're happy to share exposure data on loan buckets, because I know you usually have questions on many loan buckets. But for any of the buckets, we're not going to share delinquencies or charge-off numbers or anything like that at this time.

Laurie Hunsicker

Okay. Well, then maybe can you comment specifically on the jump in C&I linked-quarter nonperformers and charge-offs? What was that? How should we be putting that in terms of loan loss provisioning?

Brett Brbovic

Hi, Laurie, yes, again, just a handful...

Nitin Mhatre

Brett?

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Brett Brbovic

Yes. Thanks, Nitin. Hi, Laurie. Again, Laurie, just a handful of one-off C&I credits, that's related to that we've previously identified as problem assets.

Laurie Hunsicker

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

Kevin Conn

Thanks, Laurie.

Operator

Laurie, I'm going to reopen your line now.

Laurie Hunsicker

Great. Sorry. One last question. Can you just refresh us on your total SBA and what the unguaranteed piece of that is? Thanks, again.

Kevin Conn

Laurie, I've got 15 loan buckets of exposure that we can share with you; that is one that we do not share. But Sean can provide some color commentary on that one.

Sean Gray

Sure. We've had strong historic performance. I do think it's important to note, we booked the unguaranteed portion at fair value. Good recovery history and we can pro rata apply that to the stuff (phon). Weighted average coupon, 10 plus 2.25, and 40% of this is secured by (phon) Real Estate.

Laurie Hunsicker

Great. Thanks for taking my question.

Nitin Mhatre

Thank you, Laurie.

Operator

Thank you. Our next question goes to Chris O'Connell of KBW. Chris, please go ahead. Your line is open.

Christopher O'Connell

Good morning. Just wanted to start off on the deposit flows, and if you guys could give an update on what the overnight payroll deposit balances were at the end of the quarter?

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Brett Brbovic

End of the quarter, they were approximately around $1 billion and that's generally in line with what we've seen (inaudible).

Christopher O'Connell

Yes. Moving forward, do you expect that book to be more stable?

Brett Brbovic

I would say the payroll always has a little bit of lumpiness to it. However, we've (audio interference) around the $1 billion, $1.1 billion range most quarters.

Nitin Mhatre

Yes, Chris, I would say, first quarter there was an upward spike. But outside of that, I think your end-of-period's typically about $1 billion, and the average is $750 million (phon), and that's been consistent over pretty much last eight quarters.

I think we've seen maybe marginal improvement just as the more workforce I think comes back into the labor market. But otherwise, it's been relatively steady.

Christopher O'Connell

Got it. Then on the margin guide for next quarter, wondering if you could provide a little bit of detail around what exactly like modest lift is encompassing given how large the increases have been the past couple of quarters? Then what exactly the sub-debt impact of the redemption is on the margin for next quarter?

Nitin Mhatre

Yes, I think, Chris, I won't give specific NIM guidance, but I'll say it will be higher. It won't be higher at the same clip as we saw in the second and third quarter, but we expect it to continue because the loan betas will continue to outpace the deposit betas. What we could say from a modeling perspective is the combination of balance will continue, albeit at a slower rate, and the margin expansion fourth quarter (audio interference) income could be higher in fourth quarter compared to third quarter by 3% to 5%.

Christopher O'Connell

Got it. Just, given those comments around the margin, in the reaffirmation of the overall guidance provided last quarter, it seems like the NII guide should be moving higher given what you guys have already put up for this year and the 9% to 11% GAAP growth for the year. Any updates on that NII guidance?

Nitin Mhatre

Yes, I think we will refresh the guidance, Chris, as we said, in January 2023 as we give the full year guidance for 2023. I think you will certainly hear at that point of time. We would complete our internal budgeting process by then. For fourth quarter, like I said, we expect a further 3% to 5%.

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Christopher O'Connell

(Multiple speakers) 2022 guide. Okay. Yes.

Brett Brbovic

Chris, I believe you asked on the sub-debt?

Christopher O'Connell

Yes.

Brett Brbovic

I believe we called the sub-debt—the $75 million sub-debt in September, about a $1.25 million expense for the quarter.

Christopher O'Connell

Great. On the fee guidance for the year, just wondering what you think the swap and loan fees will do from here based on the customer activity that you're seeing and if you see a substantial up-tick in the overall fee levels to get to the adjusted 10% to 15% guide?

Nitin Mhatre

I think fees are under pressure, especially with our loan fees, swap fees and wealth management, all of them have the macro headwinds. But even within that context, I would say we expect, just based on the pipeline, a modest up-tick on the loan fees and swap fees. It should be relatively similar quarter, in the fourth quarter, maybe modestly higher.

Kevin Conn

Chris, I don't know if it's helpful. Some of the line items in that loan fee and revenue are running at well below normal levels. If you look at the last eight quarters, we average about—something around $7 million in that line item. Obviously, we're running about half of that this quarter.

We do expect—there's nothing broken. It's just macro impacting wealth management the SBA gains on sale book. There are definitely a few line items in there that are running below normal.

Christopher O'Connell

Great. On the loan yields, the up-tick in CRE was fairly substantial. Anything unusual or one-off driving that up-tick this quarter? Then if you could provide the entirety of the loan portfolio that's percentage-wise, that's floating or variable?

Brett Brbovic

I don't think there was anything that stood out from that side, nothing significant. We are currently booking somewhere in the mid (audio interference) for the commercial loans. Then to answer your second question, we're about $3.2 billion and three-month adjustable, which is mostly in debt.

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Christopher O'Connell

Great. Then lastly, I think you guys had mentioned on last quarter's call that, all else equal, you intended to finish off the current buyback authorization by the end of the year. I believe you have around $35 million left. Any change in that outlook?

Nitin Mhatre

No, Chris. We're going to continue to manage through the authorization opportunistically in the quarter.

Christopher O'Connell

Great. That's all I had. Thank you.

Nitin Mhatre

Thank you, Chris.

Operator

Thank you. We have no further questions. I will now hand back to Nitin Mhatre, CEO, for any closing remarks.

Nitin Mhatre

Thank you, all, for joining the call today and thank you for your interest. Be well.

Operator

Thank you. This now concludes today's call. Thank you all for joining. You may now disconnect your lines.

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