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Berkshire Hills Bancorp, Inc.

Fourth Quarter 2022 Earnings Release Conference Call

January 26, 2023



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Call Participants

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Gregory D. Lindenmuth
EVP & Chief Risk Officer

Kevin Conn
Senior Vice President of Investor Relations & Corporate Development

Nitin J. Mhatre
President, CEO & Director

Stephen Finocchio
Senior VP & Treasurer

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Laurie Katherine Havener Hunsicker
Compass Point Research & Trading, LLC, Research Division

Mark Thomas Fitzgibbon
Piper Sandler & Co., Research Division

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Presentation

Operator

Good morning or good afternoon all, and welcome to the Berkshire Hills Bancorp Fourth Quarter 2022 Earnings Conference Call. My name is Adam, and I'll be your operator for today. [Operator Instructions]

I will now hand the floor over to Kevin Conn to begin. So Kevin, please go ahead when you are ready.

Kevin Conn
Senior Vice President of Investor Relations & Corporate Development

Good morning, and thank you for joining Berkshire Bank's fourth 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 and 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 Accountant 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?

Nitin J. Mhatre
President, CEO & Director

Thank you, Kevin. Good morning, everyone, and wishing all of you a happy new year.

I'll begin my comments on Slide 3, where you can see the highlights of the fourth quarter and full year 2022. Overall, this was another solid quarter, continuing the momentum and capping a strong year with robust improvement across all key financial metrics.

Adjusted revenues were up 8% quarter-over-quarter and up 31% year-over-year, driven by strong net interest income growth. This strong growth in revenues was driven by solid loan growth and improved margins, which more than offset the headwinds in noninterest income. Adjusted expenses were up 3% quarter-over-quarter and 6% year-over-year, resulting in positive operating leverage of 5% quarter-over-quarter and 25% year-over-year. Resulting adjusted PPNR of $45 million was up 16% quarter-over-quarter and up 112% year-over-year.

Adjusted earnings per share of $0.64 was up 2% quarter-over-quarter and up 52% year-over-year. This quarter was our highest quarterly adjusted earnings per share since 2019. Adjusted return on tangible common equity was 9.83% and adjusted return on assets was 100 basis points, both of which are close to the lower end of the BEST program targets we set for mid-2024.

On the capital front, our balance sheet continues to remain strong. We ended the quarter with a common equity Tier 1 ratio of 12.4% and a tangible common equity ratio of 8%. We continue to have ample capital to both fund our loan growth and continued stock repurchases. We increased our dividend in the fourth quarter by 50% from $0.12 to $0.18 and we'll target a prudent dividend payout ratio of 30% to 40% of

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net income over time. We returned about $28 million of capital to shareholders this quarter via dividends and stock repurchases and we have authorization for a new $50 million share repurchase program in 2023.

As we remain vigilant, our overall asset quality remains strong. Charge-offs and provision expense for this quarter increased primarily to absorb additional charge-offs from the same credit that we partially charged off in the third quarter. This was and remains annulated credit and does not reflect any broad deterioration in credit. In fact, most of leading indicators on credit are remarkably strong, and our loan delinquencies and classified assets to risk-based capital are at a 10-year low. Separately, and accelerated through our BEST program launch, we have been actively derisking the balance sheet for the last few years. We've continued to run off nonstrategic credit books, including indirect auto and aircraft lending, both of which are down 50% year-over-year.

At mid-last year, we also derisked the balance sheet further by announcing the runoff of Firestone and Upstart loan books. Credit in both of these books is tracking ahead of plan, and we've included data in the appendix page which details how we've derisked our loan book over the last several years.

While it is an uncertain environment, we feel reasonably good about credit for 2023 based on the leading indicators, proactive credit management and high quality of new originations in recent years. Brett will review our credit metrics and provide overall 2023 outlook in more detail in a moment.

On the BEST strategy front, we made significant progress in 2022. We continued optimization of our physical footprint, accelerated our programs to enhance our digital banking capabilities, tracked ahead of BEST Community Comeback program goals, issued a sustainability bond in the second quarter, and along with improvements in our financial performance have significantly improved our ESG ranking, customer experience and employee engagement.

We started the BEST plan with a guiding idea to get better before we get bigger. With resumed loan growth, we've now transitioned our guiding idea to getting bigger while getting better. What this means is we will not sacrifice credit or pricing to grow. We will continue to be focused on organic growth that is differentiated, profitable and responsible. Central to responsible growth is a durable lower cost deposit base. We are well positioned with very high deposit shares in 6 out of 8 of our MSAs and we are in many relatively less competitive, smaller city and rural markets.

As part of our BEST strategy, we also changed incentive plans to encourage deposit generation as well as loan generation. We also have several niche deposit strategies, including our MyBanker program and our digital banking platform enhancements. While it is an uncertain environment, we feel good about our relative deposit volumes and costs in the coming quarters.

We continue to add talented frontline bankers to bring new customers and relationships to us. We have also recently hired 3 seasoned executives to supplement our talented leadership team. David Rosato, who many of you may know, will join us as CFO in early February. David was on finance team at People's United for 15 years and served as their CFO for the last 9 years. Prior to People's, Dave was the Treasurer at Webster Bank for 8 years.

We also replaced 2 senior executives who have been planning on retiring. George Bacigalupo, our Head of Commercial Banking; and Georgia Melas, our Chief Credit Officer. We thank them immensely for their many years of service and significant contributions to Berkshire Bank and wish them the very best for their future.

Jim Brown has joined us as our Head of Commercial Banking. Jim successfully ran commercial banking at Boston Private, where he was instrumental in growing commercial banking business from less than $0.5 billion in loans and deposits to over $5 billion in loans and $6 billion in deposits. He brings over 30 years of commercial banking experience to Berkshire. Phil Jurgeleit has joined us as our new Chief Credit Officer, reporting to Greg Lindenmuth, our Chief Risk Officer. Phil also brings over 30 years of banking experience, including his last assignment as Senior Vice President of Creditors at Santander. We've included short bios in an appendix page for each executive. We're excited to have these seasoned executives join our

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leadership team. David, Jim and Phil, welcome to the Berkshire team.

Slide 4 shows our BEST program [north star chart] which details our progress on 5 key performance metrics. We're happy to report that we've achieved 3 of our 5 targets well ahead of plan. We're at the low end of our target range on return on assets at 100 basis points, and our fourth quarter PPNR of $45 million annualizes to $180 million, also at the low end of our 2024 target range. We've achieved our top quartile ESG score back in 2021 and ended 2022 in the 17 percentile, a steady improvement and solidly in the top quartile. We're just a bit under the lower end of our 10% to 12% ROTCE target this quarter at 9.83% and are encouraged by the momentum in this critical performance metrics.

As we mentioned on our prior earnings calls, we're working on our Net Promoter Score rating process with J.D. Power and expect to show improving NPS over time. In summary, we are pleased with our momentum through 2022 and are energized about the momentum that will drive further improvements.

As I always do, I would like to thank all of our Berkshire Bank colleagues for their continued hard work and 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 performance improvement and continued progress.

I would also like to thank Brett Brbovic for his 10 years of service at Berkshire and for his leadership of the finance team as the interim CFO during this transition.

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

Brett Brbovic
Senior VP and Chief Accounting Officer & Interim Chief Financial Officer

Thank you, Nitin.

Slide 5 shows our annual income statement. Please see the appendix for a reconciliation of GAAP and adjusted financials. My comments will be on an adjusted basis and not GAAP. 2022 revenues were up 9% versus 2021. Net interest income grew 18% due to loan growth, increased asset yields and modest growth in funding costs. Fee revenues were down about 22%, primarily driven by lower SBA gain on sale and lower wealth management fees driven by market declines. We maintained our spending discipline, with expenses flat year-over-year and improved our efficiency ratio to about 64%. Adjusted EPS was up 30% and average fully diluted shares declined by 7%.

Slide 6 shows our quarterly income statement. Revenue was up 8% quarter-over-quarter and 31% year-over-year as net interest income strength offset a decline in fee revenues. Expenses were up 3% quarter-over-quarter and 6% year-over-year. And as Nitin mentioned, we had positive operating leverage on both a year-over-year and quarter-over-quarter basis, and our efficiency ratio for the quarter was about 58%. Provision expense for the quarter was $12 million, and our credit allowance remained relatively stable at $96 million. I'll discuss revenues, expenses and credit in more detail in a moment.

Slide 7 shows our average earning assets. We had another quarter of broad-based loan growth with a 2% increase in average loans versus the third quarter and a 19% increase in average loans year-over-year. On an end-of-period basis, loans were up 5% quarter-over-quarter with strength in both commercial real estate and C&I, up 5% and 3%, respectively. Mortgage balances continue to grow even in a difficult environment, largely driven by the seasoned loan officers hired over the last several quarters. Loan yields rose 74 basis points versus the third quarter and continued to benefit from the shift in mix from lower-yielding investments into higher-yielding loans.

Slide 8 shows our average liabilities. Average total deposits rose 1% versus the third quarter and declined 2% year-over-year. Our cost of total deposits was at 69 basis points, up 36 basis points from the third quarter. Our total deposit beta for the fourth quarter was 25% and our cumulative total deposit beta is 15%. While we benefited from a strong deposit base in 2022, we do expect deposit cost to increase over the coming quarters, and we still expect total deposit betas through the cycle to be in the 30% to 40%

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range.

Slide 9 shows more detail on our net interest income and margin. Net interest income grew 11% quarter-over-quarter and 47% year-over-year. Our net interest margin was up 36 basis points versus the third quarter, and we're happy to report that our adjusted and reported NIM are essentially the same this quarter at 384 basis points.

Turning to Slide 10. We show our fee revenues, which were down 7% versus the third quarter. This is primarily due to the timing of tax credit deals, which closed late in the quarter, and accelerated the full amortization into the current period. This resulted in fee -- other fee revenues being down due to $2.4 million of tax credit amortization. This is a contra revenue item related to our tax credit business and is more than offset by the benefit received in our tax credit expense, which lowered our tax rate this quarter to about 14%. Loan fees were higher on [more] swap revenues, loan agent fees and a sequential improvement in our SBA gain on sale.

On Slide [7], we show our expenses. Expenses are up 3% versus the third quarter and 6% year-over-year. I'd note that compensation expenses benefited from 1 less working day in the quarter and a reduction to the acquired executive benefit plan expense. Occupancy and equipment was up seasonally on higher heating and snow removal expenses, and we continued to invest in technology, and as a result, the expense was higher as we continue to roll out our digital banking platform. Other expenses were up from increased reserve requirements for our unfunded commitment reserve, which is a function of doing more business. Finally, our merger and restructuring costs were a negative $2.6 million, which included a favorable reversal of a prior period expense as estimated lease termination costs were trued up. I'll share more on our expense outlook in a moment.

Slide 12 is a summary of our asset quality metrics. As Nitin mentioned, we had $11.7 million of net charge-offs this quarter, largely driven by 1 middle market loan to a corrugated box manufacturer that was impacted by custom receivable defaults and filed for bankruptcy in the fourth quarter. Including the prior quarter charge-off, we have charged off about 60% of this credit, and the remaining exposure of about $7 million is collateralized. We will continue to monitor this credit in 2023.

Delinquent and nonperforming loans were down 14% versus the third quarter and down 36% on a year-over-year basis. Delinquencies and nonperforming loans at 60 basis points of loans are at a 10-year low. While we are monitoring credit closely, we are not seeing any broad-based portfolio credit deterioration and are encouraged that our accruing delinquent loans or early-stage delinquencies are down 8% versus the third quarter and 55% on a year-over-year basis.

Slide 13 shows details of our liquidity and capital positions. Our loan-to-deposit ratio was 81% this quarter, below our BEST target of 90%. Our common equity Tier 1 capital ratio ended the quarter at an estimated 12.4%. Our TCE ratio ended the quarter at 8% and included a cumulative [OCI] bond mark of $176 million on an after-tax basis, an improvement to the third quarter, given a modestly lower rate environment.

The bond mark includes a $7 million after-tax improvement booked in the fourth quarter. Those bonds will pull to par over time, and the marks are not included in regulatory capital ratios. Our tangible book value per share ended the quarter at about $21. 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 about $4, making it the highest TBV per share historically for Berkshire at about $25. We provided a GAAP to adjusted TBV reconciliation in the appendix.

Our top priority is to deploy capital to support organic growth. Given our continuing excess capital position, we repurchased about 661,000 shares for about $20 million in the fourth quarter. We are biased to [opportunistic] stock repurchases given our relatively low stock valuation to tangible book value. As Nitin mentioned, we grew our cash dividends by 50% in the fourth quarter to $0.18 per share per quarter, and announced a new $50 million stock repurchase authorization.

Slide 14 shows our outlook for 2023. We plan to share guidance once a year on our fourth quarter call

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unless the operating environment changes meaningfully. As many banks do, we base our outlook on the Moody's baseline forecast, our outlook is based on Fed funds at 4.75% for most of 2023, which may be conservative and provide modest upside to our net interest income.

We expect average loan growth of 11% to 12% and average deposit growth of 3% to 5%. With a full year of higher rates in 2023, we expect the net interest income to be up 15% to 16%. Fee revenues are forecast to continue to face headwinds and be down 10% to 12%. But I'd note that of that decline, most of it is due to tax credit amortization. We are targeting $7 million to $9 million of credit provision expense per quarter, which is largely a function of our expected loan growth. For context, our 10-year average provision to loans is about 30 to 35 basis points.

We expect to maintain positive operating leverage with approximately 4% growth in expenses in 2023, driven by wage inflation, technology investment and higher deposit insurance costs. We believe this expense growth will still differentiate our disciplined expense management versus our peers. Our tax rate is expected to be about 17% to 19% and we expect to opportunistically execute on the new $50 million share repurchase plan.

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

Nitin J. Mhatre
President, CEO & Director

Thank you, Brett. I'll close my remarks with comments on the economy and our positioning. We are fortunate to be operating primarily in the steady Eddie New England market, which remains on a relatively solid footing. As we talk to our customers, we're seeing a bit more caution driven by tight labor market, inflation and supply chain concerns, but at the same time, activity levels and corresponding demand is supported by the recovery from the pandemic doldrums. In markets like Syracuse, we're excited about investments being made through local government and private companies like Micron that will be investing over $100 billion in creating one of the largest microchips plants in the nation.

As I said at the beginning of the call, we are well positioned to navigate through an uncertain environment. We are focused on responsible and profitable growth and are confident that we'll get bigger while getting better.
And with that, I'll turn it over to Adam for questions. Adam?

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Question and Answer

Operator

[Operator Instructions] And our first question comes from Bill Young from RBC.

Bill Young
RBC Capital Markets, Research Division

Good quarter here. First, I guess, can we kind of speak to the drivers of your deposit growth and your outlook. I know you mentioned a little bit of it in your prepared remarks, but...

Nitin J. Mhatre
President, CEO & Director

Yes. I would say, broadly speaking, the growth was broad-based. Our interest-bearing deposits relatively remained at the same levels at that 28% to 30%. The growth predominantly came through NAV accounts and money market. And we expect to continue that trend. We do believe that the CDs will probably grow at a faster rate in the coming months and quarters. But we are -- beyond that, I think we are satisfied with the momentum.

Operator

Next question comes from Mark Fitzgibbon from Piper Sandler. [Operator Instructions]

We go on the next question is from David Bishop from Hovde Group.

Nitin J. Mhatre
President, CEO & Director

Adam, I don't think we can hear the questions on the line. It looks like it's gone silent.

Operator

[Operator Instructions] Apologies for the issue there. We will return to our previous Q&A order. So Mark Fitzgibbon from Piper Sandler.

Mark Thomas Fitzgibbon
Piper Sandler & Co., Research Division

Guys, can you hear me okay?

Nitin J. Mhatre
President, CEO & Director

Yes, we can now.

Mark Thomas Fitzgibbon
Piper Sandler & Co., Research Division

Okay. Super. First, I wonder if you could just add any color on that 1 commercial credit that filed for bankruptcy this quarter. Is that completely charged off? There's no residual exposure there? And maybe what happened that caused the company to end up filing for bankruptcy?

Nitin J. Mhatre
President, CEO & Director

Yes, Mark, yes, it's the same credit that we partially charged off in the third quarter and now have charged off more in this quarter. So we've written it down to its collateralized value at this point of time. So it's

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40% residual. So that's about $7-ish million that's left on the books. And what caused it is there's a disruption in the business model that this customer is experiencing and it's linked in some ways to supply chain, in some ways it's not, but it's a fluid situation. We're tracking it. But we're being proactive and marking it down based on the facts on the ground.

Mark Thomas Fitzgibbon
Piper Sandler & Co., Research Division

Okay. Great. And then, Nitin, in terms of those merger restructuring charges, both positive and negative, are those pretty much behind at this point? Should we expect that to be gone in coming quarters?

Brett Brbovic
Senior VP and Chief Accounting Officer & Interim Chief Financial Officer

Yes. This is Brett. We may say a little bit, but I would expect the majority to be -- the significant piece to be gone right now.

Mark Thomas Fitzgibbon
Piper Sandler & Co., Research Division

Okay. Super. And then can you help us think about the trajectory of the margin over the next couple of quarters?

Nitin J. Mhatre
President, CEO & Director

Yes, Mark, I think we did post a 384 as NIM this quarter. For next year, on an average basis, we believe that NIM would be modestly higher. We do believe that somewhere in the first half, the NIM will peak.

Mark Thomas Fitzgibbon
Piper Sandler & Co., Research Division

Okay. And then lastly, in -- do you worry about growing loans at a double-digit rate this year and what arguably will be a deteriorating economic environment? I guess, how do you get comfortable with doing that, putting that much in loan growth on?

Nitin J. Mhatre
President, CEO & Director

Yes. No, great question. I think the reason why we're comfortable is because we haven't changed our credit box at all. In fact, we've tightened it a little bit in some pockets. And the momentum that we're seeing is really a reflection of the investment that we started making back in 2021 in terms of the producers and the productivity measures and the incentive plan. So it's really reflected in that. Our credit quality remains strong as we talked about, our delinquencies and [credit size and classifieds] are at historic low levels, which is a reflection of some of the new originations that we've seen. So we feel good about where we are. And as I said in my remarks, we will continue to stay vigilant, but just the trajectory on the new originations remain strong.

Operator

The next question is from Billy Young from RBC.

Bill Young
RBC Capital Markets, Research Division

Can you hear me okay?

Nitin J. Mhatre
President, CEO & Director

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Yes, we can. Billy, before we start, I just want to make a correction. I think we lost to half way to your questions, and I was talking about how we are at 28% to 30% on noninterest bearing. I hope you heard that right.

Bill Young
RBC Capital Markets, Research Division

I didn't catch your answer actually, but I can always follow up on the transcript. So I appreciate that. I guess just to kind of follow up on Mark's question on loan growth. Kind of how do we think about -- where do you think your primary drivers are for growth for this year? Obviously, resi mortgage has been a big driver of growth in the last few quarters, but you did see a nice bounce back in CRE this quarter. So how should we think about the composition for 2023?

Nitin J. Mhatre
President, CEO & Director

Yes. I think the composition is going to be similar, we will see a balanced growth. We would see commercial growth and resi growth in parallel. The growth rate percentages might differ because the baselines are different for both of these portfolios, but we expect to keep the similar mix, commercial as a percentage of total loans in the low 60s. So that mix doesn't change significantly.

Bill Young
RBC Capital Markets, Research Division

60 is perfect. And just switching over to [expenses]. The outlook looks pretty controlled from here compared to what we've seen from peers this quarter. I guess, can you just speak to some potential -- where do you see some potential pressure points on cost for 2023? What are your expectations from hiring going forward given all you've done in the last few months, and also your confidence in your ability to kind of hold the efficiency ratio at these levels going forward?

Brett Brbovic
Senior VP and Chief Accounting Officer & Interim Chief Financial Officer

This is Brett. Yes, I think we're expecting to see in technology, and we continue to reinvest in our digital platform. We are expecting to see some increases in deposit insurance expense as well. I think those are going to be primarily our drivers.

Nitin J. Mhatre
President, CEO & Director

Yes. And I would say the compensation technology like Brett talked about, and there are some that continue in the bucket of optimization that was part of the BEST program. So there is items related to occupancy, equipment, real estate and some elements of technology that actually improves our run rate. So those will be the offsetting factors, but it still leads to about 4% growth in overall expense, while maintaining a good positive operating leverage.

Operator

The next question is from David Bishop from Hovde Group.

David Jason Bishop
Hovde Group, LLC, Research Division

Just a housekeeping point. The guidance -- the loan guidance, that's for average loans, correct, that 11% to 12%, not end of period?

Nitin J. Mhatre
President, CEO & Director

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Correct.

David Jason Bishop
Hovde Group, LLC, Research Division

Got it. Got it. So that probably implies mid-single-digit growth rate, which I think has been your sort of expectation or guidance for the past couple of quarters, if I'm correct?

Nitin J. Mhatre
President, CEO & Director

Yes, yes, correct.

David Jason Bishop
Hovde Group, LLC, Research Division

Got it. A question. I appreciate the color on the new hires. A lot of good New England banking experience. Just curious, as they hit the ground there, does that make you change or does that provide any opportunities to start banking any new loan niches or geographic expansion or maybe the types of commercial credits you could target? Just curious if there's -- do you foresee any change in the strategic outlook for the company with the new personnel on board?

Nitin J. Mhatre
President, CEO & Director

Yes. No, I think the geography doesn't change. I think we stay within the areas that we operate in, but it will potentially create more opportunities or increasing our strength into some of the specific sectors, [not-for-profit] is being one of them. There is some more leverage or experience that we would get through private equity venture capital sponsored deals. And there's also a family business kind of vertical that we're looking at. So I think on the margins, yes, there will be some new areas. But otherwise, we remain consistent with the strategy of going after high-quality clients, and more importantly, addressing the needs of the existing clients, which is where still about 60% of our business comes from.

David Jason Bishop
Hovde Group, LLC, Research Division

Got it. I don't know if you have this number disclosed. The numbers of new relationship or lender hires this year, do you know that? And maybe what you're budgeting for 2023?

Nitin J. Mhatre
President, CEO & Director

Yes, I don't have it in front of me, Dave, but we did say that on a gross basis, we were looking to hire about 40% as compared to the baseline that we had in pre-BEST and we're tracking to that number at this point of time.

David Jason Bishop
Hovde Group, LLC, Research Division

Got it. And then you noted the capacity on the balance sheet still relatively low loan-to-deposit ratio. As you look at the balance sheet, given the competitive pressures on deposit pricing, just curious how you're thinking of funding loan growth? Is it a combination of deposits and borrowings or maybe use some of the cash flow from the securities portfolio?

Nitin J. Mhatre
President, CEO & Director

Yes, Dave, I'll ask Stephen to take that question.

Stephen Finocchio

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Senior VP & Treasurer

Yes. It's Stephen. So I think broadly, we'll continue to work on deposits. We do have a little bit more -- we tend to have a little bit more wholesale funding next year, but not a lot, opportunistically be in that market on more of a latter basis as opposed to having to jump in later on. So I think we'll obviously watch the loan growth versus the overall deposit growth. I don't -- I think we're still at a good spot around where we are right now and probably will grow a little bit on the loan-to-deposit ratio during the year.

Operator

The next question is from Laurie Hunsicker from Compass Point.

Laurie Katherine Havener Hunsicker
Compass Point Research & Trading, LLC, Research Division

Just hoping that you could give a little bit more color here on the charge-offs. So the $11.8 million you had in charge-offs, I guess how much of that was commercial? How much of it was C&I versus CRE? And then what specifically was related to that one middle market loan C&I charge-off?

Nitin J. Mhatre
President, CEO & Director

This particular credit, Laurie, was about $7 million and the rest was distributed as part of the regular. I think our regular charge-offs historically have been around $5 million to $6 million. So if you take the commercial credit, that single credit out, we were at about $4.8 million, and that includes a mix of commercial and consumer.

Laurie Katherine Havener Hunsicker
Compass Point Research & Trading, LLC, Research Division

Got it. Okay. So on the credit, you charged off $7 million, and $7 million remain. Is that correct?

Nitin J. Mhatre
President, CEO & Director

Correct, correct. Little over 7...

Laurie Katherine Havener Hunsicker
Compass Point Research & Trading, LLC, Research Division

Got it. Okay. And then just to remind me, how big was the credit to start with? Is it like $20 million or something?

Nitin J. Mhatre
President, CEO & Director

No, it was $18 million, and we took about $4 million in the third quarter and $7 million in this quarter.

Laurie Katherine Havener Hunsicker
Compass Point Research & Trading, LLC, Research Division

Perfect. Perfect. Okay. Great. And then sorry to ask this granular detail. But some of the [indiscernible] loan categories, and I really appreciate the disclosure that you give on Page 17 of the deck, where you give some of the balances. But I'm looking for charge-offs and nonperformers in those categories, namely Firestone, $133 million, what were charge-offs this quarter, and nonperformers, Upstart, you give $140 million, what were charge-offs and nonperformers. And then if you could give an update on 2 more categories, office and then unguaranteed SBA.

Nitin J. Mhatre
President, CEO & Director

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Yes. So we could -- I don't have it in front of me, but we could provide those numbers. But they are performing better than what the expectations of the model numbers were. And Upstart is about 134 basis points of loss rate annualized.

Laurie Katherine Havener Hunsicker
Compass Point Research & Trading, LLC, Research Division

That's 134 basis points for this quarter annualized.

Nitin J. Mhatre
President, CEO & Director

No annualized, yes, for the full year.

Laurie Katherine Havener Hunsicker
Compass Point Research & Trading, LLC, Research Division

Got it. Okay. And so do you know what the charge-offs were for this quarter?

Nitin J. Mhatre
President, CEO & Director

If you annualize, it was $1 million.

Laurie Katherine Havener Hunsicker
Compass Point Research & Trading, LLC, Research Division

$1 million. Great. Got it. Okay. And then I'm so sorry, what about Firestone?

Nitin J. Mhatre
President, CEO & Director

Firestone, I don't have that number with me. Greg, do you happen to have that Firestone number?

Gregory D. Lindenmuth
EVP & Chief Risk Officer

I do have that. Laurie, $100,000.

Laurie Katherine Havener Hunsicker
Compass Point Research & Trading, LLC, Research Division

$100,000. Okay. Great. And then do you have any details around office, the last office refresh I had was a year ago, you had office that ran numbers $850 million or so, of which that $400 million piece was the lower risk sort of education, healthcare medical. Do you guys have a refresh on that.

Nitin J. Mhatre
President, CEO & Director

Yes, Greg?

Laurie Katherine Havener Hunsicker
Compass Point Research & Trading, LLC, Research Division

And maybe why you're...

Gregory D. Lindenmuth
EVP & Chief Risk Officer

Sure, absolutely. Yes, you've got it, Laurie. It's -- on our commercial office space is $548 million ex education and medical.

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Laurie Katherine Havener Hunsicker
Compass Point Research & Trading, LLC, Research Division

$548 million. Okay. And just remind me, how much of that is in downtown Boston.

Kevin Conn
Senior Vice President of Investor Relations & Corporate Development

And Laurie, this is Kevin -- sorry, Laurie, this is Kevin. On the office exposure, I just point out that 70% of it is suburban office space. So it's not a central business district. And with the central business district space is predominantly Class A space.

And also, just 1 other point on office. About 65% to 70% of the office portfolio, the leases don't expire until after 2025. So it doesn't -- who knows, it's a very uncertain environment on office, but -- so the book position relatively involved given that's in the marketplace.

Laurie Katherine Havener Hunsicker
Compass Point Research & Trading, LLC, Research Division

That's super helpful. Okay. And then 1 last question, just shifting gears totally back to margin. Do you guys have the December spot margin?

Nitin J. Mhatre
President, CEO & Director

No, we don't. But the trend, along with the rates has been going up. And as I said in my, I think, one of the response earlier, we expect the full year average margins to be higher next year, but the NIM to peak in the first half.

Laurie Katherine Havener Hunsicker
Compass Point Research & Trading, LLC, Research Division

Got it. And just 1 more funding question. So sorry, and then I'll leave it here, brokered CDs. I had those at $164 million last quarter. Do you have a number for this quarter and just maybe how you're thinking about using those?

Brett Brbovic
Senior VP and Chief Accounting Officer & Interim Chief Financial Officer

Yes. Right now, the end-of-period balance for brokered CDs is about $120 million, and on average, it was about $136 million.

Operator

Our final question today comes from Chris O'Connell from KBW.

Christopher Thomas O'Connell
Keefe, Bruyette, & Woods, Inc., Research Division

I was hoping to circle back to the loan portfolio. And I wonder if you could just provide what the origination yields coming on like the resi consumer versus the commercial buckets at this point are? And then if you could also provide what the current yields are on those 4 runoff portfolios. And maybe just an update on the expected timeline of the runoff there.

Brett Brbovic
Senior VP and Chief Accounting Officer & Interim Chief Financial Officer

Sure. I can -- I'll take the first part for the -- we're seeing commercial coming on about 60 basis points higher than prior quarter with a 6 handle. And then residential, we're seeing come on, again, about 50 basis points higher with the 4 handle. And I think you were looking for the yield on the Firestone and

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Upstart portfolios. Firestone was around -- had a 7 handle, and then Upstart was around 11.

Christopher Thomas O'Connell
Keefe, Bruyette, & Woods, Inc., Research Division

Okay. Got it. And if you guys could provide an update on how long those are expected to take before runoff?

Nitin J. Mhatre
President, CEO & Director

Yes. We have that in the schedule at the back, Chris. It's roughly about 6 to 8 quarters.

Christopher Thomas O'Connell

Keefe, Bruyette, & Woods, Inc., Research Division

Okay. Great. Great. And then what is the security portfolio? What is the monthly or quarterly cash flows coming off there?

Nitin J. Mhatre
President, CEO & Director

Could you repeat the question, Chris?

Christopher Thomas O'Connell
Keefe, Bruyette, & Woods, Inc., Research Division

The monthly cash flow off of the securities portfolio.

Stephen Finocchio
Senior VP & Treasurer

Yes. This is Stephen. It's about $20 million in the last quarter and per month, right, during the last quarter.

Christopher Thomas O'Connell
Keefe, Bruyette, & Woods, Inc., Research Division

Okay. Great. And then just on the fee guide down, it seems to be driven by the tax credit investment line. Does that -- how does that line look going forward? Is it mostly flat? Or is there going to be some movement into 2023?

Brett Brbovic
Senior VP and Chief Accounting Officer & Interim Chief Financial Officer

So with tax credits, it can be lumpy depending on when they close during the year or even during the quarter, depends on how much you're amortizing in over that period. So it can be lumpy. And we really...

Christopher Thomas O'Connell
Keefe, Bruyette, & Woods, Inc., Research Division

[indiscernible] material plan change in that number. Is this a good kind of starting point?

Nitin J. Mhatre
President, CEO & Director

It is. And I think the important point, Chris, there, I think that's where you're going is the core fee business actually goes up modestly. I think net of tax adjustments, I think it, noninterest income goes down, as we've outlined in the outlook. But the core business and the core fee income actually goes up in pretty broad-based sense.

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Brett Brbovic
Senior VP and Chief Accounting Officer & Interim Chief Financial Officer

And we really do love our tax credit business, and we're looking to expand in 2023 as well.

Operator

We have a follow-up from Laurie Hunsicker from Compass Point.

Laurie Katherine Havener Hunsicker
Compass Point Research & Trading, LLC, Research Division

Just wanted to circle back on this one item because I know you normally don't disclose it. SBA unguaranteed, what is that balance? And how are you guys thinking about growing that?

Brett Brbovic

Senior VP and Chief Accounting Officer & Interim Chief Financial Officer

So it was down about 1% year-over-year. The balances are $261 million in U.S. for charge-offs to 67 bps fourth quarter.

Laurie Katherine Havener Hunsicker
Compass Point Research & Trading, LLC, Research Division

Got it. Got it. And how are you thinking about growing that book going forward? Are you going to kind of hold the line? How do you think about that?

Brett Brbovic
Senior VP and Chief Accounting Officer & Interim Chief Financial Officer

I think we're holding line. I think this year is indicative of what we'll continue to do going into next year. And like I said, it was down about 1%.

Operator

Nothing further in the queue. So I'll hand back to the management team for concluding remarks.

Nitin J. Mhatre
President, CEO & Director

Thank you, Adam, and thank you all for joining us today on our call and for your interest and investment in Berkshire. Have a great day and be well. Adam, you can close the call now.

Operator
Thank you. This concludes today's call. Thank you very much for your attendance. You may now disconnect your lines.

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