1Q23 BERKSHIRE HILLS BANCORP EARNINGS CALL TRANSCRIPT
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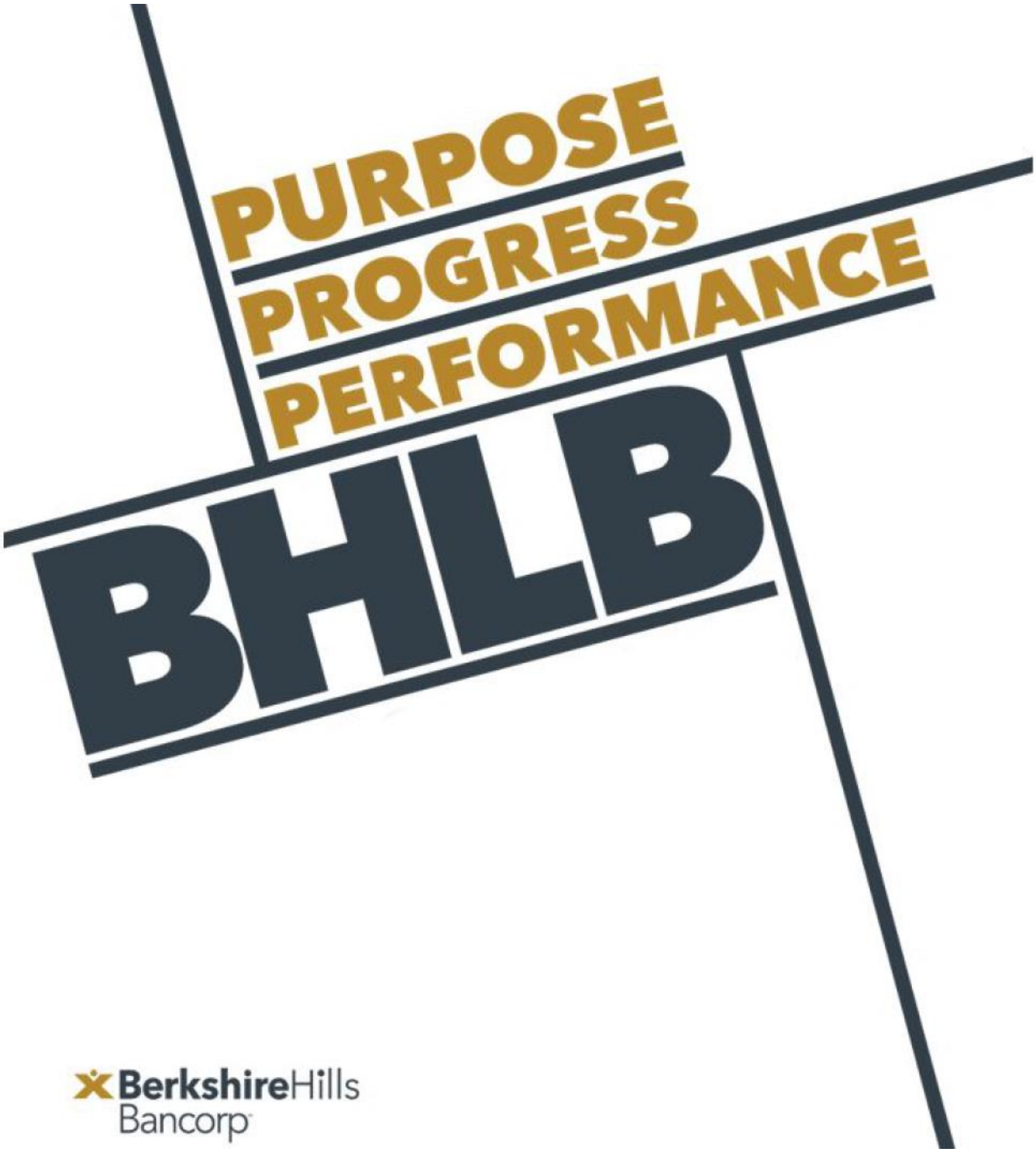

Call Participants

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Presentation

Operator

Hello, everyone, and welcome to the Berkshire Hills Bancorp First Quarter 2023 Earnings Conference Call. My name is Charlie, and I'll be coordinating the call today. [Operator Instructions] I will now hand over to our host, Kevin Conn, Head of Investor Relations and Corporate Development, to begin. Kevin, please go ahead.

Kevin Conn
Senior Vice President of Investor Relations & Corporate Development

Good morning, and thank you for joining Berkshire Bank's first quarter earnings call. My name is Kevin Conn, Investor Relations and Corporate Development Officer. Here with me today are Nitin Mhatre, President and Chief Executive Officer; David Rosato, Chief Financial Officer; and Greg Lindenmuth, Chief Risk Officer.

Our remarks will include forward-looking statements and refer to non-GAAP financial measures. Actual results could differ materially from those statements. Please see our legal disclosure on Page 2 of the earnings presentation, referencing forward-looking statements and non-GAAP financial measures. A reconciliation of non-GAAP to GAAP measures is included in our news release.

At this time, I'll turn the call over to Nitin. Nitin?

Nitin J. Mhatre
President, CEO & Director

Thank you, Kevin, and good morning, everyone. I'll begin my comments on Slide 3, where you can see the highlights for the first quarter.

Overall, we made steady progress, despite the market turmoil and headwinds in March, and remain on solid footing overall. EPS, or earnings per share, of $0.63 in the quarter was our highest ever GAAP EPS in any first quarter.

Net income of $27.6 million declined 2% linked quarter and was up 33% year-over-year. Operating earnings per share of $0.63 declined 1% linked quarter and was up 45% year-over-year, highlighting the momentum of our franchise.

Return on tangible common equity was 9.59%, a modest decline linked quarter and up 210 basis points year-over-year.

In response to the market events, we took many actions to prudently fortify our liquidity position further in March. Resultantly, our cash and borrowing capacity as a percentage of uninsured deposits at the end of the quarter closed at 117%.

Average loan balances were up 5% linked quarter, primarily driven by diversified organic growth and lower paydowns in the quarter. Average deposit balances were down by less than 1% in the quarter.

And on end-of-period basis, total deposits were down less than 3% linked quarter, below our expectations at the beginning of the year, but in line with the total industry deposit outflows and relatively better than small bank deposit outflows of 4.6% per the most recent Fed H.8 report data for the quarter. The loan-to-deposit ratio was 86%, up from 81% in the fourth quarter.

Given macroeconomic trends, we remain vigilant on credit, even as our asset quality continues to remain strong. Provision expense for this quarter was $9 million, at the high end of our guidance range, primarily to build reserves for loan growth.

Our allowance to loans ended the quarter at 113 basis points, in line with our guidance range of 110 to 120 basis points. Our balance sheet remains strong. We ended the quarter with common equity Tier 1 ratio of 12.1% and a tangible common equity ratio of 7.91%.

We continue to derisk the balance sheet and run off the nonstrategic loan books, including Upstart and Firestone. Runoff and credit in both of these books is tracking as expected, and we've included data in an appendix page, which provides more details.

Given the market trend related to remote work and its associated impact on the commercial real estate office segment, we've also included 2 pages in the appendix that provide more details on our 3 office portfolio, which highlights how our portfolio mix is relatively different and diversified and resultantly less risky. David will cover some of our metrics in more detail in a few moments.

On the BEST strategy front, we made steady progress in the first quarter. Our ESG score in the quarter was at 19th percentile nationally, well above the BEST 2024 full target of 25th percentile.

A critical part of any transformation is how the employees and customers respond to it. We mentioned on our last call that we recorded our highest employee engagement scores in 2022. In the first quarter, we also received recognition by Newsweek as one of America's most trustworthy banks and by Forbes Magazine that listed us amongst America's Best Mid-sized Employers.

Our customer Net Promoter Score hit its highest point this quarter at 52.8%. We hired several new executives in the first quarter, as highlighted in the last earnings call, and we continue to hire talented bankers across the bank as part of our BEST plan.

We also continued our Board enhancement with the addition of 2 prominent and well-respected Board members. Karyn Polito joined the Board in February, and Eric Rosengren joined the Board in April.

Karyn brings broad expertise from both public and private sector, including as the Lieutenant Governor for Commonwealth of Massachusetts and as Principal of Polito Development Corporation.

Eric has been at the Federal Reserve Bank of Boston since 1985. And most recently as the President and CEO from 2007 to 2021. Eric will bring us the insights on the banking industry, economic trends and regulatory environment and further strengthen our enterprise risk management program oversight. Welcome about Karyn and Eric.

Slide 4 shows our BEST programs, North Star chart, which details our progress on 5 key performance metrics.

We are near the low end of our target range for return on assets and return on tangible common equity. Our quarterly PPNR annualizes to $169 million and was at low end of our 2024 BEST target of $180 million to $200 million. Our ESG ranking nationally was at 19th percentile this quarter, above our stated goal of reaching top 25% by mid-2024.

We're still working with J.D. Power to get a competitive NPS score versus our peers in our footprint. In the meanwhile, we have been tracking our customer Net Promoter Score through customer surveys that J.D. Power helped us design and administer.

As I mentioned earlier, our NPS score in the first quarter came in at its highest-ever level of 52.8%, in which was significantly higher than our full-year 2022 score of 44%.

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.

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

R. David Rosato, *Senior EVP & CFO*

Thanks, Nitin. Slide 5 shows an overview of the quarter. As Nitin mentioned, operating earnings, which matched GAAP earnings, were $27.6 million or $0.63 per fully diluted share, down a $0.01 linked quarter and up $0.20 year-over-year. Net interest margin was 358 basis points, down 26 basis points linked quarter and up 97 basis points year-over-year.

Net interest income declined $4.6 million or 4% linked quarter and was up 41% year-over-year. Noninterest revenues were up 7% quarter-over-quarter and down 22% year-over-year. We maintained our spending discipline, with operating expenses down 1% linked quarter, while they were up 5% from Q1 '22.

Average loans increased $433 million or 5%, driven by diversified organic loan growth and fewer loan paydowns. Average deposits decreased $55 million or less than 1%.

Provision expense for the quarter was $9 million, at the high end of our January guidance, driven by loan growth. Net charge-offs were within our expected range of $7 million or 32 basis points of average loans, and we increased our allowance for credit losses by $2 million.

Slide 6 shows more detail on our average loan balances. Strength in CRE, residential and commercial portfolios, was offset by modest weakness in our consumer book, which was driven by a decline in our Upstart portfolio.

We've enhanced the appendix page on our loan runoff books by adding balanced data over time, yields and credit data. All runoff book metrics are within expectations.

Slide 7 shows our average deposit balances. Average total deposits declined $55 million or less than 1% versus the fourth quarter and $360 million or 4% year-over-year. End-of-period linked quarter deposits declined by $260 million, of which about half of the decline moved into money market products in our wealth management business. As expected, the deposit mix shifted with a modest decline in noninterest-bearing deposits and an increase in time deposits.

Noninterest-bearing deposits as a percentage of total deposits remain above 25%. Deposit costs were 109 basis points, up 40 basis points from the fourth quarter. The deposit beta for the first quarter was 47%, and the cumulative deposit beta is 21% through 475 basis points of total Fed tightening.

Turning to Slide 8, we show net interest income. Higher loan volumes provided a meaningful lift to the first quarter net interest income, while higher deposit costs and higher borrowing amounts contributed to the $4.6 million or 4% decrease in net interest income. The 41% year-over-year growth in net interest income was primarily a function of higher loan volume and higher interest rates.

Slide 9 shows fee income, up $1.1 million or 7% linked quarter, largely driven by a $484,000 increase in wealth management fees and a $752,000 increase in other fees. Wealth management revenue was helped by higher net asset flows and higher market values. I'd like to note that tax prep fees, a seasonal item in wealth management, added about $300,000 to wealth management revenue in the quarter.

Other revenues included $600,000 of debit card revenue sharing, which typically occurs in the first quarter. Year-over-year loan fees were driven by unusually high swap fees in the first quarter of last year and Other was impacted by higher credit -- tax credit amortization this quarter.

Slide 10 shows expenses. Expenses are down $640,000 versus the fourth quarter and just below the midpoint of our January guidance on continued strong expense control. Increases in compensation expenses were offset by lower occupancy and equipment, technology and other expenses.

I'd note that other expenses were down $1.6 million on lower loan workout expense, and we had an $850,000 increase in the provision for unfunded commitments in the fourth quarter of last year.

Slide 11 is a summary of our asset quality metrics. We've added lines to show 10-year averages for several metrics for perspective. Nonperforming loans were down $4.1 million versus the fourth quarter and stand at 31 basis points of total loans. Net charge-offs of $6.9 million mostly consisted of C&I loan charge-offs of $5.7 million.

While current credit quality metrics are benign, we recognize that economic uncertainties exist, and we are monitoring both our originations and our portfolios very carefully.

There's been a lot of interest in CRE and in particular, office exposures, given the increase in remote work. As Nitin mentioned, we included 2 pages in the appendix on our CRE and office portfolios. Office balances totaled $558 million in the first quarter, with weighted average loan-to-book value ratios of approximately 60%.

We believe our office book is well positioned. About $390 million or 70% are suburban properties, and $132 million or 24% are in central business districts. The majority of our office portfolio is in Class A office space. About 80% of our larger office loans have leased maturities beyond 2027.

I'd also note that overall CRE nonperforming loans to end-of-period loans were 6 basis points in the first quarter, down from 24 basis points a year ago.

Slide 12 shows our returns over the past 5 quarters on a GAAP and operating basis. We see a solidly improving trend over the last 5 quarters, which we will continue to work on.

Slide 13 shows details of our liquidity and capital positions. Like most banks, we spent time in March prudently bolstering our liquidity position. We had no borrowings from the Fed funds market, the discount window or the Fed's Bank Term Funding Program.

Cash and borrowing capacity at the end of the quarter was $4.9 billion. I'd note that our FHLB borrowings at quarter end were $904 million and $425 million on an average balance basis for the quarter.

Nitin shared that our cash and liquidity was 117% of uninsured deposits. Adjusting uninsured deposits for collateralized municipal and certain other deposits would increase that ratio to 140%. Our TCE ratio ended the quarter at 7.91% and included an AOCI mark of $159 million on an after-tax basis, an improvement from the fourth quarter's $181 million mark, given a modestly lower rate environment.

Including the HTM Mark of $50 million after tax, our TCE ratio would drop to 7.5%, a very modest 40 basis point impact. Our tangible book value per share ended the quarter at $21.91, up 4% versus the fourth quarter.

The chart on the bottom right shows continued improvement in both tangible book value per share, intangible book value and tangible book value per share, excluding AOCI.

Our top capital management priority is to deploy capital to support organic loan growth. Secondly, we remain biased to opportunistic stock repurchases, given our current stock price compared to intrinsic value. In Q1, we repurchased $1.2 million worth of stock at an average cost of $25.17.

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

Nitin J. Mhatre, *President, CEO & Director*

Thanks, David. I'll close my remarks with comments on the economy, recent industry volatility and our positioning.

We're fortunate to be operating primarily in the steady-Eddie New England market, which remains on relatively solid footing. In markets like Syracuse, we're excited about the investments being made through local government and private companies like Micron that be investing over $100 billion in creating one of the largest microchip plants in the nation.

The banking industry has experienced a lot of volatility over the past several months. The current industry issues are significantly different than the Great Financial Crisis. Banks are in a much better capital and liquidity positions, and the incremental regulatory reform will likely be more focused on SIFI and large regional banks than community banks like Berkshire.

Problems with customer concentration, long-dated held-to-maturity securities and liquidity appear to be isolated to a few larger regional banks with unique business models.

We have a strong capital and liquidity position and are positioned to benefit from the market disruption in our footprint. We remain focused on responsible and profitable organic growth and are confident that we will get bigger while getting better.
With that, I'll turn it over to the operator for questions. Charlie, please open the line for questions now.

Question and Answer

Operator

[Operator Instructions] Our first question comes from Billy Young of RBC Capital Markets. Please go ahead.

Bill Young
RBC Capital Markets, Research Division

First, I guess, maybe you could just start on the FHLB borrowings. What's the thinking of the strategy around holding these borrowings on the balance sheet in the near term? Do you have expectation of paying it off sooner rather than later?

R. David Rosato
Senior EVP & CFO

Sure, Billy. It's David. Great question. So post Silicon Valley turmoil, we, as we've called out in the comments, bolstered our liquidity position. And we primarily did that in the second week of March by tapping the home loan bank borrowings.

So internally, we decided to target much higher levels of cash balances. We ended the quarter, as I said in my comments, at a little over $900 million of home loan advances.

As what -- I would suggest that we will, in the second quarter and assuming we're all past the crisis, which it certainly feels like it is, we will probably bring that number down by about 1/3. So ballpark about $300 million and reduce the excess liquidity on the balance sheet.

The amount will still be up versus fourth quarter of last year, and that's really more of a reflection of the competition in the deposit market and the growth in the quarter of loans outpacing deposits.

We're very proud of our deposit performance in the quarter, though, from -- it shows the diversified funding base of the institution as a pleasant surprise from -- as a newcomer to the bank to see the depth of the quality -- depth and quality of our customer relationships, both on the retail side as well as commercial and private banking.

Bill Young
RBC Capital Markets, Research Division

Appreciate that. I guess, I appreciate that you typically don't provide additional quarterly guidance updates beyond what you established in January. But can you just comment on management's confidence level on achieving the mid-teens NII guide that you established for the year?

R. David Rosato
Senior EVP & CFO

Sure. So that was a non-FTE guide of 15% to 16%. The -- what I would say is it's clear that the pressure is downward, not upward, on margins and noninterest and -- interest income, clearly.

But we're not going to be adjusting that guidance, where if you annualize Q1, we're a little below. We do pick up day count, as you know, as the year unfolds. And we remain optimistic that, that guide is still achievable at this point.

As I said, the pressure is clearly down, not up, on net interest income. So if we need to, we will wind up trying to offset some of that headwind on the expense side, while still being very careful about making sure we make the right investments in technology and people that Nitin and the team have been talking about over the last several -- last 2 years.

Bill Young, *RBC Capital Markets, Research Division*

Got it. And then just one last question, and I'll step back. Just on the loan growth outlook, you laid out a mid-single-digit period-end growth target this year, and you're essentially there today and just appreciating your comments you made earlier about responsible growth and monitoring new origination activity.

Kind of what should we think about your appetite to kind of grow and take on additional credit from here?

Nitin J. Mhatre
President, CEO & Director

Yes, Billy. I'll take it. This is Nitin here. I think you're right. The loan growth is moving faster than the original guidance, but it's really a function for the quarter, was the pipelines in the fourth quarter that kind of came through in the quarter. We expect that to slow down. The pipeline at the end of the quarter is modestly lower than what we had at the previous quarter.

So we expect that run rate to slow down, and yet we continue to serve our clients. We continue to monitor quality of new originations. So we expect that the overall loan growth will be modestly higher than what we had in the original guidance. While the guidance on the deposit, we might end up being slightly lower.

So I think with the offset of those two, going back to the point David made earlier about, we feel good about the NII guidance. On the loan growth, we might end up having slightly higher growth than what we had anticipated. But we would do that judiciously. We're being more selective. We're getting more and improved pricing opportunities and relationship opportunities along the way.

Operator

Our next question comes from Mark Fitzgibbon of Piper Sandler.

Mark Thomas Fitzgibbon
Piper Sandler & Co., Research Division

Guys, good morning. Nitin, just wanted to follow up on a question that you and I have talked about in the past. Do you worry about growing loans as fast as you are, given how late we are in the economic cycle?

I know that spreads look better, but do you worry that perhaps really pedal to the metal on loan growth right now is ideal from a credit perspective?

Nitin J. Mhatre
President, CEO & Director

Yes, Mark, great question. No. And you're right, there's no -- not pedal to the metal here. We had actually slowed down originations. We've ended up potentially saying "no more" in the last quarter than we probably have in the last year or so.

We are being selective. We recognize that we've got to keep the focus on the long term. We want to serve our clients. We want to take care of the customers that are currently with us. as well as some of the new prospects that come with relationships.

So we are slowing down. And in fact, our originations in the first quarter were roughly about a quarter lower than the previous quarter, right? So I think -- and we expect that to slow down further. So we are actually slowing down.

And yet, as a function of the fact of the market disruption and the distractions that some of our competitors have, we're getting more swings at the plate, so we get better opportunity to be selective, better pricing, better relationship, like I said earlier. So no, it is -- originations are slowing down.

The other part of this is the prepays are slowing down as well. So I think that's creating the balanced growth. This growth is not driven by originations, they're actually going to be lower this year than last year. It's really the CPRs that go down.

Mark Thomas Fitzgibbon, *Piper Sandler & Co., Research Division*

But a 4% growth -- you grew 4% in the first quarter. That's a pretty aggressive growth rate, no? I mean it's certainly well above what the market is growing and your peers are growing.

Nitin J. Mhatre
President, CEO & Director

Yes, it's really the strong pipeline that we have in the fourth quarter. That's now down 25% as we get into the next quarter. So the origination slowdown, the rate of growth slows down correspondingly.

And yes, Mark, I think we also recognize that this is also a great time and opportunity for us to provide lending to our customers that continue to perform well, and we don't want to turn them away in this kind of scenario.

Mark Thomas Fitzgibbon
Piper Sandler & Co., Research Division

Great. And then, I wonder if you could update us on your thinking around sort of the franchise footprint. It's geographically -- obviously, your footprint is pretty spread out. Is there more potential to sell or shrink parts of the franchise?

Nitin J. Mhatre
President, CEO & Director

We have looked at it, Mark. And as you know, we got out of Mid-Atlantic. We've reduced our branch footprint by about 25% to 30% over the last 3 years.

We continue to look for it, but we're comfortable where we are, especially given the fact that we've found a lot of new bankers that are able to serve customers in those markets over the last couple of years.

And we see significant opportunity for deepening relationships in those markets. So I think at this point of time, we're not looking at any further consolidation of geography of branches outside of tactical opportunities that come along the way.

Mark Thomas Fitzgibbon
Piper Sandler & Co., Research Division

Okay. And then last question. Your BEST goals are in [sight] here. I guess I'm curious, at what point would you consider raising them to something closer to sort of peer levels of profitability?

Nitin J. Mhatre
President, CEO & Director

Great question, Mark. And we will do that as part of our next year's guidance when we -- I think our BEST targets, we call it BEST 1.0 now, that was scheduled to be done by mid-2024. So our guidance in January 2024. We will also have the BEST 2.0 guidance.

Operator

Our next question comes from David Bishop of Hovde Group LLC.

David Jason Bishop
Hovde Group, LLC, Research Division

Nitin or Dave, just curious, it sounds like in the preamble, there might have been some noises that may be temporarily or abnormally deflated operating expenses in the first quarter.

Just curious if you can go over them again, and how we should think about a good run rate in the second quarter into the second half of 2023 from a holistic basis, what you're targeting in terms of total operating expenses?

R. David Rosato,
Senior EVP & CFO

Yes. Dave, it's David. I wouldn't really say there was noise in the first quarter. We caught out a little bit in Other. But we also -- Q1 have, as you know, employee benefit costs go up with the return of tax payments and FICA, et cetera.

Our -- what's been impressive to me is the steady-state run rate here on expenses. And we're right on -- right within guidance. We expect that to continue. So really, no, from our perspective, no real noise in the first quarter. It's a good run rate.

David Jason Bishop
Hovde Group, LLC, Research Division

Got it. And then Greg, I appreciate the disclosures, updated disclosures on of the office CRE. Outside of that, within the commercial real estate portfolio, any other areas you're monitoring for heightened monitoring here, where we might see some stress or slippage here that maybe is not on anyone else's radar screens at the moment?

Gregory D. Lindenmuth
Senior EVP & Chief Risk Officer

No, not at all.

Nitin J. Mhatre
President, CEO & Director

Go ahead, Greg.

Gregory D. Lindenmuth
Senior EVP & Chief Risk Officer

No, not at all. We're not seeing any weaknesses develop out of any other portfolios right now. And it's really reflective really in the strong performance of the overall portfolio that you're seeing. But I will say, we continue to really remain focused on credit management regardless to any type of cycle.

David Jason Bishop
Hovde Group, LLC, Research Division

And then, Greg, just curious, maybe from an origination loan yields, what you're seeing within the first quarter in terms of new loan origination deals? What you're [onbordering] this quarter versus last -- now a couple of years, at least in the Southeast are starting to see credit spreads [winding] in over so far in LIBOR?

Nitin J. Mhatre
President, CEO & Director

Yes, Greg, I can take that. Dave, the yields on the new production were closer to 6%, 5.85%, 5.86%, so closer to 6% in the quarter. And that's a almost a 50 basis points improvement over the previous quarter. And I think the portfolio -- as a result, the loans portfolio went up by 29 basis points in portfolio yields.

David Jason Bishop
Hovde Group, LLC, Research Division

Got it. And then just a housekeeping, make sure I heard you right. I hear that 1.2 million shares were repurchased this quarter under the current authorization?

Gregory D. Lindenmuth
Senior EVP & Chief Risk Officer

No, in dollars. So modest share repurchases in dollars.

David Jason Bishop, *Hovde Group, LLC, Research Division*

Got it. Okay. Yes, I was going to say, I was trying to fit to that -- okay, that makes more sense. Yes. Okay. Great. I'll stop there and get back in the queue.

Operator

Our next question comes from Chris O'Connell of KBW.

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

I was hoping to follow up on the prior question on the origination yields on the loan portfolio. I mean the portfolio yields are like 588, I think, right now. So the -- do you expect that the increase -- or sorry, 557. Do you expect that increase in the loan yields, going forward, to kind of moderate a bit from here?

Nitin J. Mhatre
President, CEO & Director

Chris, they did go up 29 basis points. I think the beta was 29 on loans. I think we expect that to go up because the new production that we've seen so far this quarter still has improved yields. So by natural extension, we expect the portfolio yields to go up in the quarter, yes.

Gregory D. Lindenmuth
Senior EVP & Chief Risk Officer

Yes. Chris, I would just chime in and say, about 60% of the aggregate loan book, so across commercial as well as retail, is floating or adjustable rate. So you have two components, right? You obviously have 60% in the book that's moving with Fed funds changes as well as we're seeing better spreads across the books.

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

Okay. Got it. And then on the deposit side, the CD growth is pretty robust this quarter. Do you expect that to be one of the primary drivers in the near term of deposit growth? And what are the -- like the spot rates that you guys are putting on right now for CDs?

R. David Rosato
Senior EVP & CFO

Yes, good question. That's the money question, right, for banks this quarter and probably for this year. The -- so yes, we're going to -- I think the whole industry is going to continue to see noninterest-bearing and low interest rate paid, meaning [now] and legacy money markets move to both CDs as well as any money market specials that might be run.

The good news there, from my perspective, is still seeing good account openings in noninterest-bearing DDA, new relationships, people banking with us. That only moves the needle so much against industry headwinds. But the -- that will play out more over time.

But there's definitely -- interest rates have reached the level, and there's enough competition now that we're competing with money funds. And it's impacting. It's impacting the whole industry, as we all know.

We're competitive in CD offerings relatively short terms, meaning 6 months out to 13 months, at about 4.5%, 4.25%, 4.5%. And the good news there, from my perspective, is we know we can drive growth with price. Not that you want to do that, and you got to be careful about internal movements of funds, but we're seeing it just as everyone else is.

Nitin J. Mhatre
President, CEO & Director

If I may add, Chris.

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

Yes, go ahead.

Nitin J. Mhatre
President, CEO & Director

Yes, I was just going to add. I think the point David made is very important. I think our deposit production, and these are activities that we had been planning over the last quarter or so, are translating into good results.

Our DDA production, for example, is up by 35% year-over-year. And as those balances season, we expect to kind of see that flow into that bucket as well.

So while there will be campaigns on -- promotional campaigns on CDs and money market, we are also pushing on the DDAs. And we have a laundry list of new segments that we're going after, that we could serve better, and those will be less price sensitive.

And then the other thing that goes in our favor, which you already know, Chris, is 6 out of 8 markets that we operate in are in Tier 2 towns, where we have been a bank for them for over 175 years. And it helps us to that extent, kind of relatively insulate ourselves from the pricing pressure. So I think all of those combined, we hope to outperform the peer banks.

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

Yes. I appreciate the color there. And I guess just one more on the deposit side. I think in the prepared comments, you mentioned a lot of the flows this quarter were into the wealth side of the business to money market type of funds there.

Have you seen some of that transfer off balance sheet into the wealth business slow as we've gotten into the second quarter here?

R. David Rosato
Senior EVP & CFO

Yes, absolutely. I mean there was a flurry of activity in that week to 1.5 weeks period of time. But it was kind of amazing to me how quickly things settled down. And we spent a lot of time internally as we were thinking about this is this happened within the context of heightened competition for deposits as well, right?

We had a crisis within a tough environment for deposit anyway just because of the Fed's tightening actions. But the "crisis" for us really didn't last very long at all. And was looking back now for a relatively short period of time, it was very quick live.

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

Yes. Got it. And just kind of putting it all together here with the margin, I mean given the expectation for cash and borrowings to come down pretty substantially in the second quarter, I know a lot of it will depend on timing, and I know you guys have the NII guide out there, but can you help us think about how you're thinking about the trajectory into the second quarter and then going from there?

R. David Rosato
Senior EVP & CFO

Sure. You used the word 'substantially'. I use the word 'about 1/3', so we can decide if that's substantial or not. My 'about 1/3' was referencing the roughly $900 million increase in home loan.

And that, when I say we're backing that down 1/3, that will be $300 million less of on-balance sheet liquidity we plan on carrying, going forward. Getting back to normal levels pre-SVB is the way we're thinking about it.

So that liquidity did drag on our margin in the first quarter. I would -- we would put that about 3 to 4 basis points, really driven by just carrying higher average balances on the balance sheet. Back to my kind of comments on net interest income, the pressure is certainly downward, not upward, on the margin.

So as you know, we don't give margin guidance, but the 358, there will be pressure on that in the second quarter and realistically, into the third, and then a lot of it's going to have to do with what the Fed winds up doing. It market forwards around the Fed tightening cycle being over or not is it winds up being true.

So we've got a few tools to try to offset some of that. But we're not immune to what's going on in the markets and in particular, in the deposit market. I think we'll see loans reprice up. We've been continuing to shrink the cash flows off the portfolio that's providing a little funding for loan growth. But we have to remain competitive on the deposit side and work through this cycle.

Nitin J. Mhatre, *President, CEO & Director*

Chris, I would just add, and I think I'm connecting your question back to the question, the first question in the queue as well, I think there are levers that David just highlighted, I think that we have in the toolbox, we still expecting to meet the NII guidance. The NIM is relatively less controllable, but the NII is, and we're still focused on staying with that guidance.

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

Yes. I appreciate the color there. And last one for me. How are you guys thinking about utilizing the buyback, going forward? Obviously, the shares are down, and it looks more attractive probably to use, but it's a difficult market environment. So yes, I mean, do you guys intend to be active in the near term or pause a bit here and kind of make some decisions as the environment progresses throughout the year?

R. David Rosato, *Senior EVP & CFO*

Yes, Chris, it's David. So we were -- we had very moderate activity in Q1. Let's say, the quarter prior to SVB stock price -- our stock price was obviously higher than in the last 3 weeks of the quarter. You can -- based on the average price we paid, you can probably figure out when we bought those shares.

But it was -- they were modest. I would suggest that we'll be in the market in the second quarter and then in the back half of the year.

The real -- we're in an environment where capital is highly important, right, because economic uncertainty is there. But we're also trading at 1.1x tangible book value. So we think our stock is very compelling.

So we're balancing the desire to buy a lot versus the need to harbor capital for economic uncertainty. And then that's an active discussion that we have internally and we have with our Board as well, as you can imagine.

Operator

At this time, we have no further questions. I'll hand back over to the management team for any closing remarks.

Nitin J. Mhatre, *President, CEO & Director*

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

Operator
Ladies and gentlemen, this concludes today's call. Thank you for joining. You may disconnect your lines.