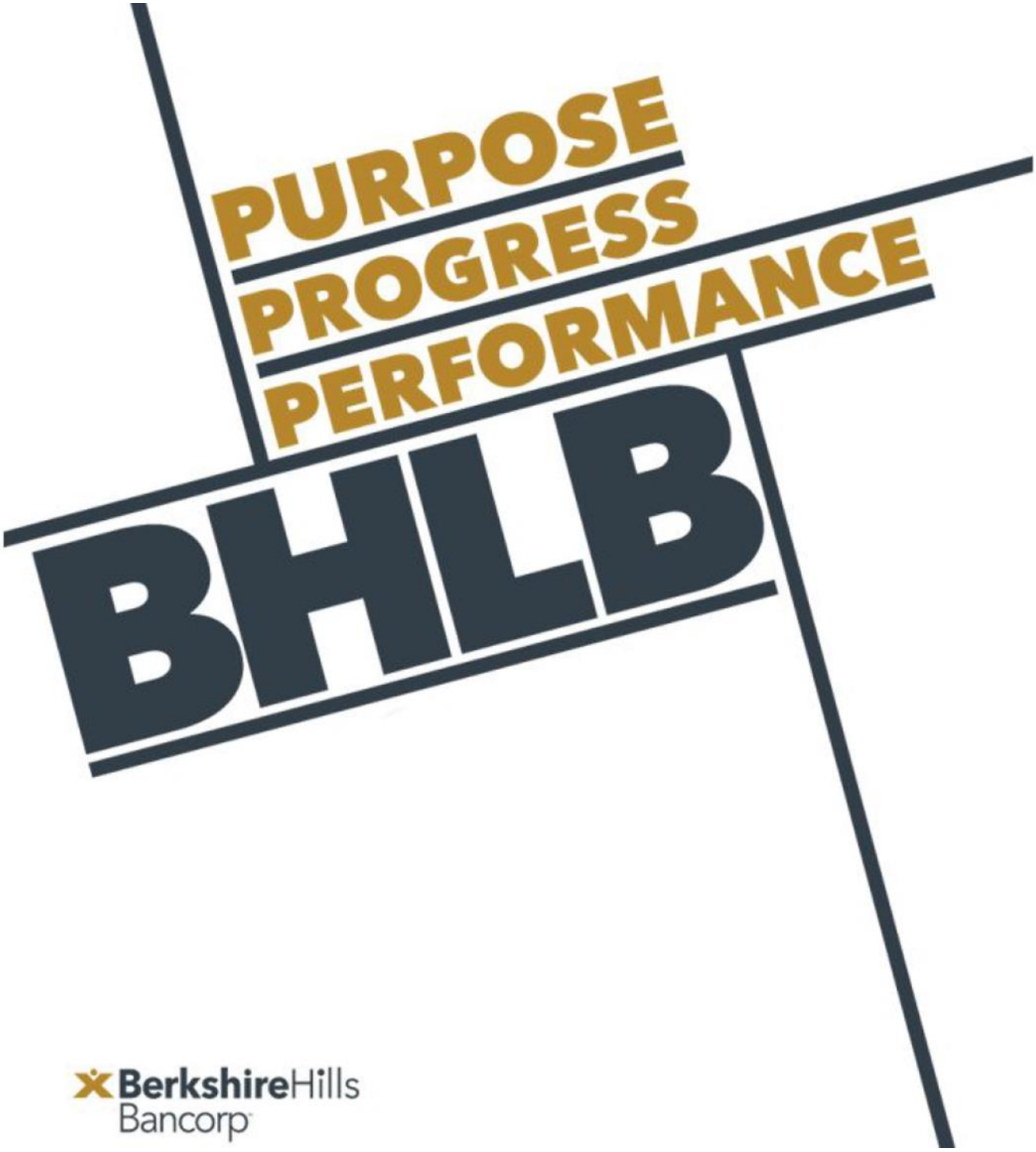
# 2Q23 BERKSHIRE HILLS BANCORP EARNINGS CALL TRANSCRIPT
# JULY 20, 2023



# Berkshire Hills Bancorp, Inc. NYSE:BHLB

*Earnings Call*

*Thursday, July 20, 2023 3:00 PM GMT*


| | |
|---|---|
| CALL PARTICIPANTS | 2 |
| PRESENTATION | 3 |
| QUESTION AND ANSWER | 8 |

# Call Participants

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*President, CEO & Director*

**R. David Rosato**
*Senior EVP & CFO*

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# Presentation

**Operator**

Good morning, ladies and gentlemen, and welcome to the Berkshire Hills Bancorp Second Quarter 2023 Earnings Conference Call. [Operator Instructions] This call is being recorded today, Thursday, July 20, 2023.

I would now like to turn the conference over to Kevin Conn. Please go ahead, sir.

**Kevin Conn**
*Senior Vice President of Investor Relations & Corporate Development*

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

Our remarks will include forward-looking statements and refers 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. Good morning, everyone. I'll begin my comments on Slide 3, where you can see the highlights for the second quarter.

We continue to make steady progress and are thankful that the heightened market uncertainty, which began on March 8, has subsided significantly in the second quarter. We are encouraged by our deposit durability, strong liquidity and capital position. We'd also encourage by our continued disciplined credit management with charge-offs declining $1.1 million linked quarter, while we added $2.2 million to our loan loss allowance commensurated with loan growth.

Fee revenues were up versus first quarter, providing a modest offset to the decline in net interest income from rising funding costs. While we intend to provide our outlook once a year on our fourth quarter earnings call each January, we've included an updated 2023 outlook slide given the meaningfully different operating environment. David will review that in a few minutes.

Operating net income of $23.9 million declined 14% linked quarter and was up 1% year-over-year. Operating earnings per share of $0.55 declined 13% versus first quarter and was up 8% year-over-year. Operating return on tangible common equity was 8.27%, a decline versus first quarter and down 21 basis points year-over-year.

Deposits were stable in the second quarter. On an end-of-period basis, deposit balances were flat to first quarter and down 1% on an average balance basis. As a comparison, Fed [ HA ] data shows small banks ending deposit balances were down 1% and average deposit balances were down 3%. While we're not immune to the funding cost and mix pressures facing the industry, we believe our deposit base is relatively stable, given our history and long-term relationships with clients in smaller cities across New England market.

Average loan balances were up 3% linked quarter, with commercial loan balance growth of 2% over that period. We recognize that while many banks may be pulling back or even cutting lending, we continue to serve our customers' borrowing and banking needs prudently and to that extent, we expect continued loan growth, albeit at a slower pace in the second half of the year. Longer term, we're targeting to have about

65% to 70% of our loans book in commercial and 30% to 35% in consumer loans. On an average balance basis, commercial loans were 66% of loans this quarter.

Our balance sheet remains strong. We ended the quarter with a common equity Tier 1 ratio of 12.1% and a tangible common equity ratio of 7.9%. Given macroeconomic trends, it remained vigilant on credit even as our asset quality continues to remain strong. Provision expense for this quarter was $8 million. Our allowance to loans ended the quarter at 113 basis points, in line with our guided range of 110 to 120 basis points.

A year ago, we decided to derisk the balance sheet and run off nonstrategic loan books, including Upstart and Firestone. We continue to do so and have included updated data on those runoff books in an appendix page, which provides more details. We have also updated the appendix page that provides details on our office portfolio, which highlights how our portfolio mix is geographically diverse, granular and resultantly less risky. David will cover some of these metrics in more detail in a few moments.

On the best strategy front, this quarter marks the second year anniversary of our 3-year plan. I'll provide more details on the overall progress of the program on the next slide, but the couple of additional highlights to note are: We completed the allocation of our $100 million sustainability bond in this past quarter, resulting in creation of 330 units of affordable housing with more than 200,000 square feet of green building development. A detailed report on this is available on our website.

Slide 4 shows our BEST program's overall progress on 5 key performance metrics. As we've said in the past, the path to our targets will not be a straight line. We are near the low end of our target range on return on assets at 78 basis points and a return on tangible common equity at 8.3%. Our quarterly PPNR annualizes to $143 million.

We've been tracking our customer Net Promoter Score through customer surveys that J.D. Power helped us design and administer. Our Net Promoter Score or NPS for the quarter came in at the highest ever level of 56.7% versus 52.8% in the first quarter and was significantly higher than our full year score of 44%. I want to use this opportunity to thank all of my 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 over the past 2 years.

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

**R. David Rosato**
*Senior EVP & CFO*

Thank you, Nitin. Slide 5 shows an overview of the quarter. As Nitin mentioned, operating earnings, which matched GAAP earnings were $23.9 million or $0.55 per fully diluted share, down $0.08 linked quarter and up $0.04 year-over-year. Net interest margin was 3.24%, down 34 basis points quarter-over-quarter and up 13 basis points year-over-year.

Our June NIM was $3.19, and we believe the worst of the NIM compression is behind us. Net interest income declined $4.8 million or 5% linked quarter and was up $11.4 million or 14% year-over-year. Noninterest revenues were up $488,000 or 3% linked quarter and up $743,000 or 5% year-over-year. Operating expenses were up $2 million or 3% linked quarter and up $5.6 million or 8% year-over-year.

Average loans increased $276 million or 3% linked quarter. Average deposits decreased $108 million or 1%. Provision expense for the quarter was $8 million at the midpoint of our January guidance and down $1 million from the first quarter. Net charge-offs were in line with expectations at $5.8 million or 26 basis points of average loans, and we increased our allowance for credit losses by $2.2 million.

Slide 6 shows more detail on our average loan balances which were up $276 million or 3% linked quarter. Growth in residential mortgage was offset by a modest decline in our consumer book, driven by a $13 million reduction in our Upstart portfolio.

CRE loans were up $117 million or 3%, and C&I loans were down $31 million or 2% linked quarter. Total commercial loans were up $86 million or 2%, below the first quarter pace of 5% as we continue to be more selective with clients.

Slide 7 shows our average deposit balances. Total deposits declined $108 million or 1% in the quarter and declined $187 million or 2% year-over-year. Broker deposits on an average balance basis increased $168 million to $321 million linked quarter and are just 3% of average total deposits.

End-of-period deposits in the second quarter were flat to the first quarter. 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 were 27% in the second quarter versus 28% in Q1. As expected, time deposits were up 26% versus the first quarter, and we expect growth in time deposits to continue.

Deposit costs were 150 basis points, up 42 basis points from the first quarter. The total deposit beta for the second quarter was 89%, and the cumulative deposit beta is 28% through 500 basis points of total Fed tightening. We continue to anticipate that the cumulative total deposit beta will approach 40% through the rest of 2023.

Turning to Slide 8. We show net interest income. Higher loan volumes provided a lift to second quarter net interest income while higher funding costs contributed to the $4.8 million or 5% decrease in net interest income. The $11.4 million or 14% year-over-year growth in NII was primarily a function of higher loan volume and higher interest rates.

Slide 9 shows fee income, which was up $488,000 or 3% linked quarter. Deposit-related fees were up $260,000 or 3%, driven by higher commercial cash management fees. Loan fees and other were up $720,000 on higher swap income, but I'd caution that swap income is a volatile line item. Gain on sale of 44 BC SBA loans were up $416,000 versus the first quarter on increased balances sold. Wealth management fees were down $156,000 linked quarter, primarily due to seasonal tax prep fees in the first quarter. The decline in other fee revenues mostly reflects annual credit card revenue fees of $600,000 paid in the first quarter.

Slide 10 shows our expenses. Expenses were up $2 million or 3% from the first quarter and at the high end of our January guidance. Compensation expense was up $889,000 or 2% linked quarter from new hires and from sales incentive compensation. Occupancy and equipment was down $409,000 or 4%, reflecting continued expenses from office and branch consolidation.

Technology and communications expenses were up $994,000 or 10% versus the first quarter as we continue to invest to digitize the bank, which is a strategic priority for us. Technology spend will normalize over the back half of the year as we complete our digital banking conversion. The increase in other expenses largely reflects increases in deposit insurance premiums. The balance of the increase in other expenses is spread over several small items.

I'd like to talk about our expense base for a moment. Since joining in February, I've spent considerable time working to understand our expense base. We are committed to managing expenses with discipline and transparency. And we will continue to identify opportunities for expense reduction and reinvest part of those saves in our franchise, frontline and support teams to grow revenue organically. Including the opportunities to attract new talent stemming from market disruption, we will manage to a quarterly run rate of $73 million to $76 million, while carefully evaluating every dollar of expense.

Slide 11 is a summary of our asset quality metrics. Nonperforming loans were up $1.4 million from the first quarter and stand at 32 basis points of total loans. Net charge-offs of $5.8 million were down $1.1 million or 16% from the first quarter. Net charge-offs mostly consisted of C&I charge-offs of $4.2 million and consumer loans of $2.3 million. We had a net recovery of $664,000 in CRE. While current credit quality metrics are benign, we recognize that economic uncertainties exist and we are monitoring both of our originations and portfolios very carefully.

As Nitin mentioned, we updated the page in the appendix on our office portfolio. As noted last quarter, the weighted average loan-to-value ratios are approximately 60%, and a large majority is suburban and Class

A space. Last quarter, we mentioned that lease maturities for our larger office loans are not significant until 2027.

I'd also note that CRE nonperforming loans to end-of-period loans were 3 basis points in the second quarter, down from 21 basis points a year ago. We've added a page in the appendix, which shows our net loan charge-offs as a percentage of loans versus all FDIC banks. We have generally outperformed peer banks over a long time frame. Our long-term net charge-offs to average loans averaged 38 basis points from the year 2000 to today, versus 83 basis points for all FDIC-insured banks. This data, of course, includes the Great Financial Crisis. Over the last 10 years, as the prior slide shows, our net charge-offs have averaged 27 basis points of loans.

Slide 12 shows our returns over the past 5 quarters on a GAAP and an operating basis. As you know, the current operating environment is presenting many headwinds, but we remain focused on improving our long-term performance.

Slide 13 shows details of our liquidity and capital positions. In the second quarter, we unwound the excess liquidity we prudently built in the first quarter. FHLB borrowings at quarter end were $674 million, down $230 million from March 31. As a reminder, from our last call, we held excess liquidity on the balance sheet. We held that liquidity from March 8 through June 15, following the resolution of the debt ceiling. Our average FHLB balance was $1.1 billion in the quarter.

The loan-to-deposit ratio at period end was 88% versus 86% in the first quarter, and our TCE ratio ended the second quarter at 7.9%, roughly flat to the first quarter and included an AOCI mark of $186 million on an after-tax basis, which was up $22 million. Tangible book value per share ended the quarter at $21.60, down 1% versus the first quarter and flat to the second quarter of 2022.

The chart on the bottom right shows stability in our tangible book value per share and an improvement in 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 stock price. In Q2, we repurchased a little over $12.2 million of stock at an average cost of $21.16. We believe Berkshire stock is undervalued, given our growth potential and the low-risk business model we employ. Our preferred use of capital remains to support organic loan growth, and we will continue to opportunistically repurchase stock.

Slide 15 shows our updated 2023 outlook. Our refreshed outlook echoes what many banks have already reported in the second quarter. We see modestly lower loan growth and stable deposits versus the first half of the year and lower net interest income on funding mix changes. We also expect expenses to be between $73 million and $76 million per quarter for the second half of the year versus $71 million to $74 million prior guidance.

Given lower expected pre-tax income, we expect our tax rate to be 14% to 16% for full year 2023. We also expect second half fees to be around first half levels. We have no change to our outlooks for expected credit provision or share repurchases and we plan to provide our '24 outlook on our fourth quarter call in January.

With that, I'd like to 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, the industry and our positioning. We're fortunate to be operating in the stable New England market, which continues to be on a solid footing. The sector issues of the first quarter have by and large passed, and we're prepared to face typical banking industry cyclicality issues such as NIM compression from the inverted yield curve and the credit cycle tightening.

While we expect credit costs to increase through the cycle, we believe that they'll be significantly better than the losses during the GFC cycle. We also believe that the increased regulatory costs will impact the industry but are likely to impact larger regional banks more versus community banks like Berkshire. While

we can't control the macro environment, we are focused on controlling what we can and have several levers, including opportunistic hiring, derisking our balance sheet and prudent expense management.

Finally, as I mentioned earlier, we have a strong capital and liquidity position and are positioned to benefit from the market disruption in our footprint. We remain focused on selective, 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. Operator?

# Question and Answer

**Operator**

[Operator Instructions] Your first question will come from Dave Bishop at Hovde Group.

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

Nitin, maybe sort of like a holistic question here. I appreciate the growth in the residential mortgage segment here, but it appears like those average loan yields are pretty sticky, maybe up 30 basis points on a year-over-year basis and becoming a bigger part of the loan portfolio. Just curious how those are positioned to maybe reprice or maybe reprice upward. It looks like they're impacting the margin, which is obviously impacting profitability. Just curious maybe just the decision making there to grow that as fast as these lower yields. Are we missing something in terms of the repricing and yield benefit there?

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

Yes, sure, Dave. Great question, great observation. I think the guiding factor here is the commercial consumer mix. We stated that we would like it to be 65% commercial, this quarter was 66%. So we continue to manage that at the highest level. And then the other part is, it's a smaller portfolio, which had lower portfolio yields. The new book that we're getting for the quarter had about 5.5% yield and the applications are about 6% yield. So I think that's slowly improving the portfolio yields, but it takes a while.

I think what comes with it is high-quality relationships that are new customers to the bank. And I think what's even more important, that's not maybe visible, is a tremendous amount of infrastructure has now been put in place to selling, conforming production that comes through. So that's going to generate higher fee income in the second half of the year. But I think the overall governor here is we want to maintain our commercial consumer mix at 65% plus. And in fact, as David stated, we're looking to make that 65% to 70% commercial.

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

Got it. So could there be select portfolio sales to generate fee income in the second half of the year 2024?

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

Yes. I think just the originations, we would be -- we're looking to sell about 20% to 25% of production starting pretty much the next quarter.

**R. David Rosato**
*Senior EVP & CFO*

Yes. Dave, it's David. It takes time to transition. Gain on sale was up linked quarter. It's the relatively modest numbers. It's not something we would large enough to call out. But we expect further improvement in the back half of the year, and we're actively talking with the business managers about how we can generate a bit more gain on sale.

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

Got it. And then just lastly -- yes.

**R. David Rosato**
*Senior EVP & CFO*

I was just going to say, just to add to Nitin's comments, the quality of that portfolio from an LTV, from a FICO perspective, the 50% risk-based capital perspective. It's capital-efficient, it's lagging in the portfolio repricing. A lot of that is legacy purchases, that predates most of the people sitting around this table, but it's on our books. But the new volume that's been generated each quarter is going on at healthy spreads. And as Nitin said, we're approaching -- just right now in the current environment, we're approaching 6% yields.

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

Got it. And then in terms of the guidance, in terms of the back half balance sheet growth relative to stability in deposits, the funding of loan growth, is that going to be from securities cash flow or borrowings? Just curious how should we think about the balance sheet mix and shift into the second half of the year?

**R. David Rosato**
*Senior EVP & CFO*

Sure. And that's the money question for 2023. I would start by saying -- and I said this last quarter, I believe, was a newcomer to the bank, very impressed with the retail and commercial deposit franchise. I said that 3 months ago, and I would say that again, and I'd say it even a little bit stronger today as of what happened in the last quarter, that our deposit base really performed nicely. And the mix is changing. It's changing for us, it's changing for everyone. But we had strong -- we still have strong noninterest-bearing deposits. There was just very little slippage there as a percent of total deposits.

So it is a challenge because loans, even in year-to-date and in our guidance, are growing faster than deposits. So we need to fund that. And we will fund that how we did in the last quarter, which is partially with broker deposits, partially with home loan advances but also continuing to fight tooth and nail for consumer and commercial deposits. And I caught out a little bit in my expense comments around working hard on the expense front, but still making the comment around reinvesting in the franchise and some of the hires that we're doing. Those are frontline bankers that are generating deposits as well as loans.

So we continue to invest to build the business and our deposit base has stood up really well, but I also believe it's going to -- when the environment gets a little better, we'll continue to grow reasonably and we will get more into balance over time.

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

Got it. And then just one final question, Dave, for you, I think. I noted the -- I appreciate the color in the average flow of advances versus of the peers. Any color you can give in terms of maybe average rate just versus maybe what the end-of-period borrowing rate on advances were? Was it materially different given the late quarter pay down?

**R. David Rosato**
*Senior EVP & CFO*

No, it really wasn't. So back in April, the funding turmoil around First Republic and Silicon Valley, et cetera. It was starting to abate, but we were really early in that process. So I remember calling out, we had ballooned up the balance sheet just to harbor liquidity. And I said we would bring that down by about 1/3. So that's what we did. However, the only -- what we didn't know back then that we experienced in the quarter was the debt ceiling turmoil. So we wound up holding that liquidity, call it, 3 weeks, maybe longer than we thought we would have, pretty marginal impact in the grand scheme of things, especially on net interest income. But that's about the only color. The rates in the short end of the curve are not that differentiated. So average rate versus ending rate really not material.

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

Got it. That's what I thought. I just wanted to confirm.

**Operator**

Your next question will come from Bill Young at RBC Capital Markets.

**Bill Young**
*RBC Capital Markets, Research Division*

Can you hear me okay?

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

Yes, Billy. Great Billy.

**Bill Young**
*RBC Capital Markets, Research Division*

Great. First, I just want to apologize if I maybe missed this in your comments. What is your outlook or your guidance currently assuming in terms of Fed actions?

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

Well, you didn't miss it because we didn't say it -- share it. So it's really not inconsistent or it is -- I should have better said, it is consistent with market forwards. So one more move higher and then an easing cycle beginning in March of next year, market forwards have about 125 basis points build in. And we don't really have a view different from that.

**Bill Young**
*RBC Capital Markets, Research Division*

Okay. Got it. Got it. And I guess just switching over to just kind of loan growth. Could you just kind of maybe speak high level to, I guess, what kind of economic scenario we could be in that would maybe make you more comfortable in terms of pushing or achieving loan growth at the higher end of your $9.4 billion range. I think that's maybe about 6%.

**Kevin Conn**
*Senior Vice President of Investor Relations & Corporate Development*

Sure. I just if you think -- we were all together 3 months ago, right? And the difference from an economic perspective is the possibility of a recession at the end of '23 is now pretty much off the table. It's been pushed out. You've seen the equity market respond quite strongly. The -- you've seen interest rates up as well. So the -- I would never say we're not concerned about a downturn. But I would say if the data that's come in, it feels like it's been pushed out.

What I would say is in our collective management of the balance sheet, there's 2 high-level drivers that govern almost all of our thinking. One is the economic outlook that you're referencing, but the other is just funding, funding cost and then the ability to fund loan growth. And as Nitin talked about in his comments, we -- so our originations are down linked quarter. Our pipelines are reduced a bit linked quarter. We're being more selective, but we are -- we want to service our customer base, especially our existing customer base. So -- but it -- under that overlay of what if the economic scenario gets worse, what if the Fed overtightens? And how are we going to fund it?

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

Billy. I think one more thing I would add is the other part of it is relatively less controllable to the extent that what do the customers want? And I think we've seen the line utilization, for example, go down significantly in the second quarter. And depending on the needs of the consumers, that might ramp up and that might show up in the balances, especially in the C&I and ABL segment.

**Kevin Conn**

*Senior Vice President of Investor Relations & Corporate Development*

Yes. Nitin, that's a really good point. The -- so our line utilization was down 5% in the quarter. We called out, muted even down C&I books. And we had an elevated level of payoffs in our ABL book. And it's mostly around customers who are paying on a floating rate basis, doing everything to maximize -- to minimize their interest expense, right? They're maximizing their cash utilization. They're paying down lines when they can.

**Bill Young**
*RBC Capital Markets, Research Division*

Got it. And just to kind of follow up on that, the 5% down utilization rate, what is that at quarter end versus what it was in the first quarter?

**R. David Rosato**
*Senior EVP & CFO*

It was 38%, yes, on the round.

**Bill Young**
*RBC Capital Markets, Research Division*

Got it. Got it. And just one, I guess, housekeeping question. Just the $9.2 billion to $9.4 billion loans, that end up period, right, not average?

**R. David Rosato**
*Senior EVP & CFO*

Yes, that's ending.

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

And Billy, just more color on that is the -- Billy, the delta between second quarter to the end of the year, that $9.2 billion to $9.4 billion roughly about 70% to 75% of the growth would come from commercial.

**Bill Young**
*RBC Capital Markets, Research Division*

Understood. I appreciate that color. And just one final question and I'll step back. Just following up on David's expense base comment. Are you perhaps signaling maybe some more additional cost savings actions you might take in your future in terms of branch consolidation or headcount reduction?

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

We're certainly looking at avenues and the levers. Within expenses, we have internally a big counsel to look at all of expenses and resource and projects kind of management and prioritization. So there are different levers. There's levers in procurement, leverage in real estate, and there's also levers in managing to the staff growth. So I think we're looking at everything. And some of those will also come through some completion of the projects that David talked about.

When we complete digital banking, for example, we'll start seeing offsets coming through in the second half of the year because we'll be managing to a lower-cost platforms while providing better delivery to the customers.

**Operator**

Your next question will come from Mark Fitzgibbon at Piper Sandler.

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

First question I had, David, I heard your comments about the margin with the worst being behind, but it sounds like we'll see some additional compression in the margin. Based on the forward curve and your modeling, when do you think the margin bottoms? And do you think it can stay above 3%?

**R. David Rosato**
*Senior EVP & CFO*

So I'll limit my comments to 2023. The -- so in the first half of the year, we were 3.58%, 3.24%, down 34 basis points, but an average of 3.41%. We think the margin will be down in Q3 and in Q4. And that range in the back half of the year is probably 3.15% to 3.20%. So we don't see our -- we don't see enough deposit pressure and based on forward curves right now, so there's no easing in 2023. We should be well above 3% full year margin and back half of the year margin.

My comment was really mostly in reference to the delta between first and second quarter. We don't think we're going to see that type of pressure again.

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

Okay. And then next, on the buyback program, you guys have obviously been very aggressive with it over the last several quarters. Given the economic uncertainty and the fact that your capital ratios have now gotten sort of more normalized or a little bit thinner, how aggressive are you all likely to be with the buyback program, say, the next couple of the quarters?

**R. David Rosato**
*Senior EVP & CFO*

So I wouldn't use the word aggressive, Mark. We're -- we've been -- we'd like to think we've been really thoughtful around this. So we talked about this a little bit last quarter where we did nothing prior to the turmoil at the end of March. So -- and we bought -- just bought a few shares, it was $1.2 million in the first quarter. So we executed on about $12.2 million, $12.3 million in this quarter where I would -- it's the word aggressive when I think about what we bought and the change in our capital levels, there was really no change in our capital levels. So we didn't bring capital down, we bought shares, we earned money, we retained that capital.

So you're looking for what we're going to do in the back half of the year quarter-by-quarter. And we don't want to over signal, but our thought process is going to be consistent. Economic uncertainty, the worse it is, the more capital we should hold versus the opportunity to buy our stock back at basically tangible book value.

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

Okay. And then last question I had, Nitin, for you. Your best program goals in terms of ROTCE and ROA are pretty significantly below what peers are generating today. And you guys are a fair way below those goals. I guess the question I'm wondering, do you think you need to take more extreme kind of actions to drive profitability higher in the quarters ahead, maybe like selling off additional pieces of the business to try to get profitability levels over time up to something close to a peer-like level?

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

Mark, I think I mentioned in my remarks, we completed second year of the program, entering into third year and where we were when we started to where we are, I think we are on the trajectory that kind of matches the run rate. We're pleased but not satisfied, as I say internally all the time. So yes, we'll continue to manage and accelerate that journey.

I think the aggressive part of the actions will most likely come from how tightly we manage our expenses going forward while continuing to part invest into our revenue generation activities that support the

growth. I think that's where -- we're not talking about any aggressive portfolio or business sales at this point of time. We're looking at more expense, revenue and efficiency initiatives as the acceleration path.

**R. David Rosato**
*Senior EVP & CFO*

I would just add one thought to that, Mark, which is those goals were set in an economic environment and an outlook of an economic environment that's now very different from what we're dealing with. The actions, the thought process, the goals are all the same. It's just there's a lot more headwinds than when they were set.

**Operator**

Your next question will come from Chris O'Connell at KBW.

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

So just wanted to start off on some of the expense stuff in the items that you mentioned as far as frontline hires. And have you maybe walk us through the frontline hires that you've made so far, perhaps in the last quarter and if you've been able to take advantage of the M&A disruption in your markets? And then how many frontline hires do you think there's an opportunity to add going forward? And what type of hires you'd be looking to make?

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

Yes, Chris, great question. I'll go back to what we started out when we announced the BEST program. We did say our frontline folks, frontline teams outside of our branch network, we want to grow by about 40%. And that's roughly translated to about 4% to 5% a quarter. We did hire about 7% in the second quarter in 2023. So we're managing to that run rate and net of attrition, I think we're continuing to grow. We'll probably be at the same pace.

What we're seeing increasingly, however, is the more incoming calls. And our Head of Commercial, Jim Brown, for example, who ran the commercial banking for Boston Private. He knows the -- pretty much the -- all of the producing bankers in the Boston Private, Silicon Valley Bank, First Republic. So we will get more swings at the plate, and we believe that there'll be more opportunities to hire selectively folks that bring in good client base and books. So that might accelerate a little bit, but we're maintaining the overarching momentum that we signed up for.

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

Got it. And for the ones that you hires...

**Kevin Conn**
*Senior Vice President of Investor Relations & Corporate Development*

I was just going to say, and it's across wealth management, private banking and commercial banking, and within commercial, a bit more emphasis on deposit generators. People who have just had a track record of large deposit books.

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

Got it. And I was just going to ask for the ones that you have hired particularly from the Boston Private to be our FRC recently, better deposit focused. Any sense of the size of their books at the prior institution that they can maybe get to over the long term?

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

Chris, we won't put those in the names and books sizes on the call, but suffice it to say that they're really talented high-quality producers with outstanding relationships in the market. So we're hopeful that, that comes with customers and books over time. And it's relatively new hires, so it takes time to build that pipeline.

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

Great. And then I may have missed it if you mentioned earlier in the yield discussion. But where are the commercial origination yields coming on?

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

The new business for commercial?

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

Yes.

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

Yes, that is roughly about those 7%, 7.3-ish.

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

Great. And for the securities portfolio, it seems like in the near term, still some opportunity to run off. But on the yield, which has remained relatively stable here in the past few quarters, any sense of where that securities yield could migrate to by year-end?

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

Yes, good question. It's relatively static. It's a fixed rate portfolio. So the yield is not going to change. It's -- this is another one of these fundamental questions, right, which is the -- we haven't bought a bond in that portfolio for a long period of time, and it's way underwater basically like almost every other bank in the country. The -- you've started to see some people talk about the accretion back of AOCI and laying out those cash flows, which is a really important concept.

The -- so I can't tell you what those numbers are yet. Honestly, we haven't done the work, but the -- we did see a tick up surprisingly in prepayment activity linked quarter. It's modest. But the -- we will probably share that next quarter, our cash flow expectations and AOCI build out of that. And obviously, there is a static view there, and then there's -- if rates fall like forward suggest, it's going to accelerate dramatically in 2024. But specifically, your question is, will the yield change in the back half of the year from the front half of the year. Very marginally because it's a fixed rate portfolio.

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

Okay. Got it. Just circling back on the resi -- [ RE ] growth in selling off 20% to 25% going forward. Is there any thought as to selling off more of that production just given the marginal cost of funding versus the marginal yield of what's coming on the balance sheet there?

**R. David Rosato**
*Senior EVP & CFO*

It's a little bit more complicated than that. The -- so we're really good at originating and a lot of it is in some of our markets higher balance loans, so jumbos. And that's a harder product to sell. We do sell some

of that. There are outlets to sell some of that, but that's a harder sell than conventional Freddies and Fannies to the agencies, right?

So part of it is generating the right product and having the geography to do conforming loans and sell to the agencies, which we already do, we just want to do a bit more of that. And then while there's funding pressures do put a little bit slow down some of the originations that hit our balance sheet, but we have to give our business people time to do that.

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

Yes. I think the shorter version of the answer would be, Chris, yes. I think the business leader in managing that group is working on improving the mix so that it's more conforming to that extent. Yes, 20%, 25% is the current target. If we can sell more, we will sell more in the secondary market.

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

Great. And then just lastly, if you could provide any additional color as to the allocation of the $100 million sustainability bond. I mean is that backward looking? Or is that commitments going forward? Just yes, any additional color there?

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

Yes. I think the typical models that are out there for issuance of these bonds and how the procedure allocated, they typically give you a minus 2, plus 2 kind of construct whereas you look at what you did 2 years prior to the issuance and how you deploy the proceeds in the 2 years.

And the reason why we reported this on the call is we were successful in deploying all of it within the first year, which actually we're very proud of. And so it's all done. And a big chunk of it, as I said, was 200,000 square feet of green building development, affordable housing and the rough mix was 41%-ish about affordable housing, 33-ish percentage for green building development in another quarter, for about financial inclusion and access to projects in LMI neighborhoods.

**Operator**

At this time, there are no further questions. So I will turn the conference back to Nitin Mhatre for any closing remarks.

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

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

**Operator**
Ladies and gentlemen, this does conclude your conference call for this morning. We would like to thank you all for participating and ask you to please disconnect your lines.