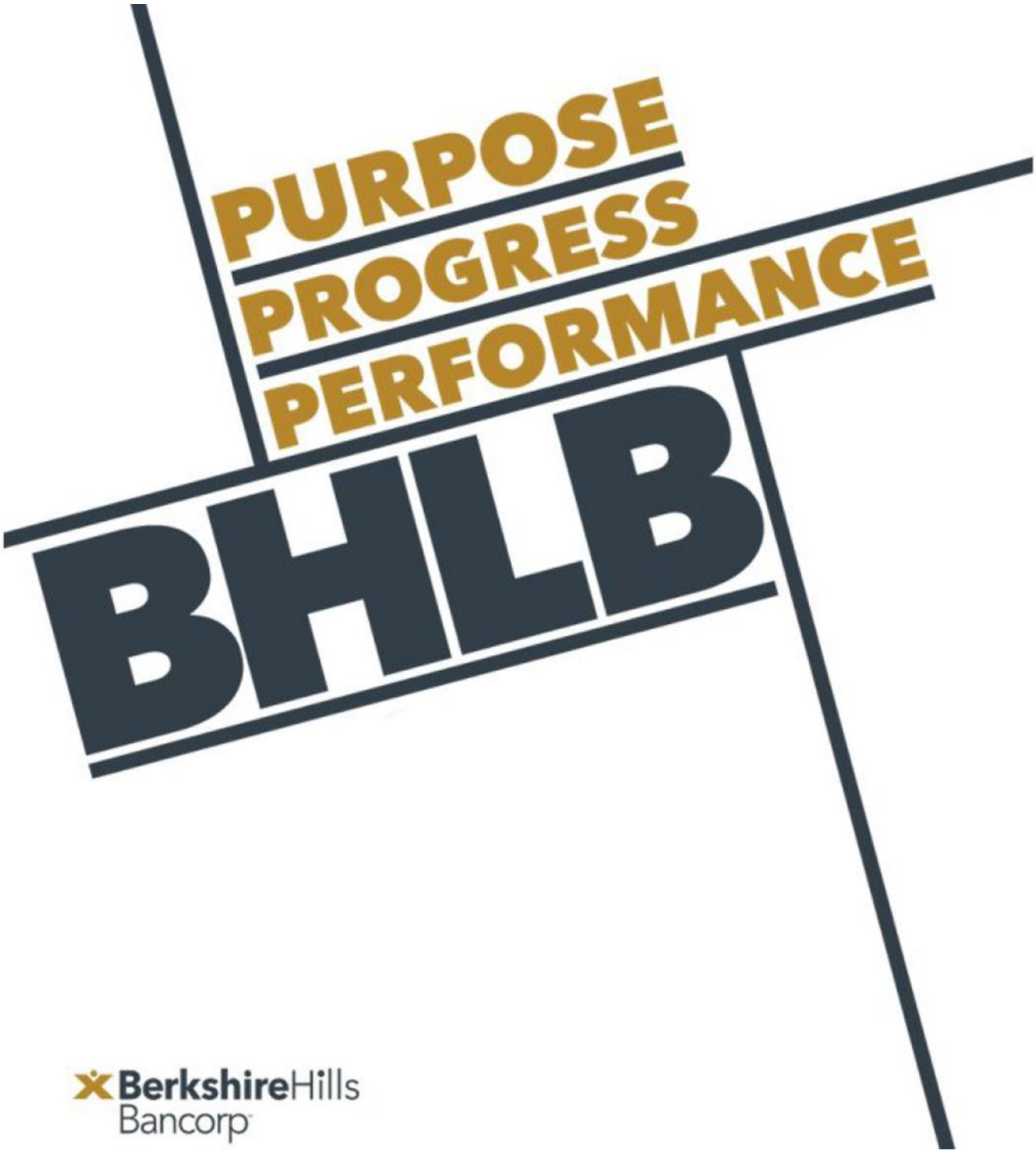
3Q23 BERKSHIRE HILLS BANCORP EARNINGS CALL TRANSCRIPT
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Berkshire Hills Bancorp, Inc. NYSE:BHLB

Earnings Call

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Presentation

Operator

Good morning, ladies and gentlemen, and welcome to the Berkshire Hills Bancorp Third Quarter 2023 Earnings Conference Call. [Operator Instructions] This call is being recorded on Friday, October 20, 2023.

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

Kevin Conn
Senior Vice President of Investor Relations & Corporate Development

Good morning, and thank you for joining Berkshire Bank's third 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 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. Good morning, everyone. I'll begin my comments on Slide 3, where you can see the highlights for the third quarter. While the rate environment remains challenging for Berkshire and the overall banking industry, we are encouraged by the trends in our margin that reflects a deceleration in NIM compression. We're also encouraged by the trends in asset quality and deposit durability. While expenses were flat quarter-over-quarter, given the challenging macroeconomic environment, we will have heightened focus on rationalizing expenses. Some of these initiatives have already begun, and we are exploring all other avenues to create a sustained long-term efficiency improvement.

David will discuss this in more detail in his remarks. Credit is trending in line with expectations. Charge-offs declined linked quarter and loan loss reserves increased modestly. Operating net income of $21.5 million and operating EPS of $0.50, both declined 9% linked quarter, primarily from a decline in net interest income. Year-to-date EPS of $1.67 is up by 7% year-over-year.

Deposits were stable in the third quarter, up 1% linked quarter on an average balance basis, and down 1% on an end-of-period basis. 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 our markets.

Average loan balances were up 2% linked quarter, with balanced growth across commercial and consumer loans. 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 7.67%. We've added a page in the appendix on our overall commercial real estate portfolio and updated the appendix page that provides details on our office portfolio, both of which highlight how our portfolio is granular, geographically diverse 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 start of year 3 of our 3-year BEST program. We continue to rationalize our real estate footprint, including the consolidation of 4 branches and sale of 1 office building this past quarter. In continuation of our digitization journey, we launched our new mobile banking app and online banking platform towards the end of the third quarter.

The disruption in our markets has enabled us to opportunistically hire deposit and relationship-focused frontline bankers. We're also delighted that Mary Anne Callahan has joined our Board of Directors. We've included a page with Mary Anne's bio in the appendix. Welcome aboard Mary Anne.

Slide 4 shows our BEST program's 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 for operating return on assets at 73 basis points and our operating return on tangible common equity, or ROTCE, at 9.27%. We've added a new ROTCE calculation to be more consistent with our peers, which David will review in his remarks.

Our quarterly PPNR annualizes to $136 million, and our ESG score remains in the top quartile at the 19 percentile nationally. Our Net Promoter Score in the third quarter came in at 54, significantly higher than our full year 2022 NPS score of 43.

I want to use this opportunity to thank all of my Berkshire Bank colleagues for their continued hard work and commitment to our vision to be a high-performing relationship-focused community bank. Their commitment to our strategy and dedication to our customers and communities is what brings us together and sets us apart.

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 were $21.5 million or $0.50 per fully diluted share, down $0.05 linked quarter and down $0.12 year-over-year.

Our net interest margin was 3.18%, down 6 basis points linked quarter and down 30 basis points year-over-year. Net interest income declined $2.4 million or 3% linked quarter and was down $1.8 million or 2% year-over-year.

Operating noninterest income was up 2% in the quarter and up 7% year-over-year. Operating expenses were flat versus last quarter and up $3.7 million or 5% year-over-year. Average loans increased $161 million or 2% linked quarter, while average deposits increased $62 million or 1% from the second quarter.

Provision expense for the quarter was $8 million at the midpoint of our July guidance and flat to the second quarter. Net charge-offs were in line with expectations at $5.4 million or 24 basis points of average loans. We increased our allowance for credit losses by $2.6 million in the quarter.

Slide 6 shows more detail on our average loan balances which were up $161 million or 2% linked quarter. We had balanced growth across our commercial real estate and residential mortgage books with modest declines in C&I and consumer.

Slide 7 shows our average deposit balances. Total deposits increased $62 million or 1% in the quarter and were essentially flat year-over-year. 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 average deposits were 26% in the third quarter versus 27% in Q2.

Our deposit costs were 181 basis points, up 30 basis points from the second quarter. Our deposit beta for the third quarter was 112% and our cumulative beta is 32% through 525 basis points of Fed tightening. Borrowings stood at 9% of total funding on an average balance basis, down from 12% in the second quarter and up from 3% in third quarter of 2022.

Turning to Slide 8, we show net interest income. Higher loan volumes provided a lift to the third quarter, while higher deposit costs contributed to the $2.4 million or 3% decrease in net interest income. The $1.8 million or 2% year-over-year decline in net interest income was primarily driven by higher deposit and borrowing costs.

Slide 9 shows fee income, which was up $371,000 or 2% linked quarter. Deposit-related fees were up $221,000. Loan and other fees were down $310,000 in the second quarter. Gain on sale of SBA loans were

down $362,000 versus the second quarter due to lower premiums in the market. Wealth management fees were down $102,000 linked quarter. Other fees, which include a securities fair value adjustment of negative $467,000 were higher, primarily driven by the reversal of tax credit amortization.

Slide 10 shows our expenses. Expenses were flat linked quarter and are closer to the lower end of the guided range of $73 million to $76 million per quarter. Modest increases in compensation and technology expenses were offset by declines in occupancy and equipment, professional services and other expenses. GAAP expenses of $76.5 million include $2.6 million of restructuring charges, primarily driven by branch consolidations. Expenses year-over-year were up $3.7 million or 5%, largely driven by higher compensation and technology expenses. The increase in other expenses was primarily driven by higher deposit insurance premiums and loan servicing expense.

As we said last quarter, technology spend will normalize over the coming quarters as we reduce cost related to our legacy digital platform. We are committed to managing expenses with discipline and transparency. We have instituted biweekly meetings in which every vendor expense of $25,000 or more and every request for new hires as well as replacement hires above a preset grade level. This granular approach to expense management is starting to have the desired impact of reducing our expense base This strategy will ensure that every dollar is thoughtfully spent and is necessary to run the bank efficiently or to grow our revenue and earnings.

Slide 11 is a summary of asset quality metrics. Nonperforming loans were down $1.8 million linked quarter and $11.3 million year-over-year. Net charge-offs of $5.4 million or 24 basis points were down $300,000 in the second quarter -- first the second quarter. In the top right chart, you can see that Berkshire's 10-year average net charge-offs to loans averages 27 basis points, and we are currently operating around that normalized level. Net charge-offs included commercial loan charge-offs of $3.2 million and consumer loan charge-offs of $2.2 million. We've included a chart in the appendix with Berkshire's charge-off rates versus the industry since the year 2000.

As Nitin mentioned, we've added a page in the appendix on overall CRE exposure. The CRE book is well diversified in terms of geography and collateral type. Credit quality of this portfolio remains strong with nonaccrual loans at 12 basis points of total loans. We also updated the page in the appendix on the office portfolio. As noted last quarter, the weighted average loan-to-value ratios are approximately 60%, and a large majority is in suburban and Class A office space. While current credit quality metrics are benign, we recognize that economic uncertainties exist, we are monitoring both new originations and our existing portfolios carefully. We have modestly increased our reserves commensurately.

Slide 12 shows returns over the past 5 quarters on a GAAP and an operating basis. As you know, the current operating environment is presenting headwinds, but we remain highly focused on improving our medium-term performance. I want to highlight several new rows we've added to the financial tables at the beginning of the earnings release this quarter. We have been reporting return on tangible common equity with a denominator that excludes the negative AOCI mark from our AFS securities portfolio.

We are now also reporting ROTCE with a denominator that includes the negative AOCI mark, which lowers the denominator and increases proxy. Most of our peers calculate return on tangible common equity this way, and we'd encourage you to consider ROTCE figures on an apples-to-apples basis. We are not moving the return on goalposts, but are simply aligning part of our reporting to be more consistent with both peers and larger banks.

Slide 13 shows capital ratios. Our top capital management priority is to deploy capital to support organic loan growth. Secondly, we remain biased towards stock repurchases given our stock prices below tangible book value. In Q3, we repurchased $3.9 million of stock at an average cost of $20.01.

We believe Berkshire stock is undervalued given our growth potential and low-risk business model. We will continue to opportunistically repurchase stock.

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

Nitin J. Mhatre
President, CEO & Director

Thank you, David. I'll close my remarks with comments on the economy, the industry and our positioning. We are fortunate to be operating in the relatively stable markets in the Northeast, which continue to remain on solid footing. We're facing typical banking industry cyclicality issues such as NIM compression from the inverted yield curve and normalization of credit cycle.

Banks do adjust, and we expect margin compression to decline over the next few quarters. While we expect credit costs to increase modestly, they will be significantly lower than the losses during the GFC cycle. We also believe that increased regulatory costs will impact the industry, but are likely to impact larger regional banks or money center banks much more than community banks like Berkshire. While we can't operate or control the macro environment, we are focused on controlling what we can and have several levers, including opportunistic hiring for deposit growth de-risking the balance sheet and rigorous expense management.

When I started as CEO in early 2021, we faced declining loan balances that we steadily turn into loan growth. We will similarly overcome the current challenges, especially deposits growth and expense management. 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 for questions. Jerry?

Question and Answer

Operator

Ladies and gentlemen, we will now begin the question-and-answer session. [Operator Instructions] Our first question comes from Billy Young of RBC Capital Markets. Please go ahead. My apologies. We seem to have an issue there. So we'll go to the next question from the line of Mark Fitzgibbon of Piper Sandler.

Mark Thomas Fitzgibbon
Piper Sandler & Co., Research Division

First question I had, should we expect more branch consolidations and restructuring charges associated with that in coming quarters?

Nitin J. Mhatre
President, CEO & Director

I think the short answer, Mark, could be, yes. We constantly monitor our geography and opportunities for consolidation while retaining our clients and bankers. So that process will continue. And to that extent, you should continue to expect that.

Mark Thomas Fitzgibbon
Piper Sandler & Co., Research Division

Okay. And then how about balance sheet restructuring in the fourth quarter, given that it looks like rates are going to stay up here for a while. Is that something that you're contemplating?

R. David Rosato
Senior EVP & CFO

Mark, it's David. Yes, we are constantly thinking about the logic of restructuring the securities portfolio. We're very similar to a lot of banks where the whole portfolio is underwater. It's primarily mortgage-backed securities, some of the durations have lengthened out a little bit. So as you know, very clearly, it's just taking that equity hit to create a much better run rate going forward. The things that we think about mostly is the future path of the interest rates, and we're constantly trying to think through whether we're close to the turn in rates; and if so it's probably not the best strategy because that equity hit is large. But it could happen or could not happen in Q4 or even into 2024 at this point.

Mark Thomas Fitzgibbon
Piper Sandler & Co., Research Division

Okay. That's a fair answer. And then I guess at a macro level, can you share with us how you're thinking about either growing or shrinking the tax credit investments over time and maybe what the implications might be for the effective rate going forward?

R. David Rosato
Senior EVP & CFO

Yes, that's a really good question. So we actually have a really nice high-quality tax credit portfolio. It consists of low-income housing tax credits, historic tax credits, has a few new market tax credits in it, and then solar tax credits. The interesting thing is that the accounting is going to change coming the first of the year and which will drive up our effective tax rate, but will no longer require us to amortize the expense of the amortization. We put those numbers in the financial tables to be very clear about the positive impact of the programs we run. But the accounting will change going forward. The economics do not change, which is important to know. But the effective tax rate will rise upon the purchase of what's called PAM accounting.

Mark Thomas Fitzgibbon
Piper Sandler & Co., Research Division

So where would you expect the effective rate to settle out?

R. David Rosato
Senior EVP & CFO

We're still working through that. We will have a lot more clarity in January when we give guidance. And the only reason I'm pushing that to January is, some of our credits reside in the state of New York, which may not allow the adoption of PAM accounting, which means we're still working through that minor issue, which will drive the final effective tax rate.

Mark Thomas Fitzgibbon
Piper Sandler & Co., Research Division

Okay. And then lastly, I think last quarter, David, you said you thought the NIM would sort of bottom out in the 3.15 to 3.20 range in the second half of the year. Given what you see today with funding challenges, do you still feel like that's a reasonable range for the fourth quarter?

R. David Rosato
Senior EVP & CFO

Yes. So the answer is yes, let's think about the NIM a little broader, though, I want to stop short again of talking too much about 2024. But what I would point out is the 6 basis point reduction in NIM this quarter relative to the 34 basis point reduction last quarter. So the real positive message and news is the pressure. While the pressure remains on the competition around deposits, and we have about half of our loan portfolio is variable rate, mostly so far at this point, but prime as well. What I would characterize this quarter as mid single-digit decline in the NIM. As we look forward, I think that number is going to go to low single-digit declines, as we start to think about 2024.

So I think there's a really good message embedded in that about the overall margin for our company. The only other nuance to that is, that's really based on forward rates, which of course, has one easing today built into the back half of next year.

So those comments are prefaced on the current rate environment, which has an end to the tightening cycle. But there's good news embedded in what I'm trying to say.

Operator

Our next question comes from the line of Billy Young of RBC Capital Markets.

Bill Young
RBC Capital Markets, Research Division

Sorry about that technical difficulties. Just to start, maybe just a follow up on Mark's last question. I know you don't want to give much guidance for 2024. But you kind of -- David alluded to low single-digit declines in the NIM as we go into next year. I guess just why is that if we kind of think that -- if we assume the Fed's kind of done or close to done -- kind of where is that incremental pricing pressure coming from that will kind of offset asset repricing opportunities going into next year?

R. David Rosato
Senior EVP & CFO

It's more on the liability side. Just when you think about the role of the CD book, it takes a little bit of time for all of that to roll over. So we have roll -- I mean, we've got most of the fourth quarter, and what I was telegraphing was the easing that's built into the market doesn't actually occur until the beginning of the back half of next year. So unless the market sniffs that out earlier, economic weakness and forwards come down more, you've got essentially almost a full pricing of the CD book that's going to -- has a lag effect. It had a lag effect on the way up, will have a bit of a lag effect on the way down.

Until that happens, banks are still competing for deposits. And we see in our markets, we see some fairly aggressive pricing from -- interesting to me, both larger and smaller banks. The -- so it's simply that.

Bill Young
RBC Capital Markets, Research Division

Understood. That makes sense. That makes sense. Okay. And then just on maybe loan growth, maybe a 2-part question here. First, your thoughts on whether the $9.2 billion to $9.4 billion in the back half of the year, is that still a good number for you in terms of a target? And then on C&I, balances have been under pressure for the last couple of quarters. I guess what are you hearing or seeing from customers here? How does that impact your thinking on the growth mix in the near term because I know it was -- I think it was 70%, 75% commercial, was kind of the target for where you're gaining your growth from.

Nitin J. Mhatre
President, CEO & Director

Yes. So Billy, I'll give a high-level overview and then David could give more specifics. So I think specific guidance, the number that you pointed to, $9.2 billion to $9.4 billion. I think we might be on the lower end or even slightly lower than the lower end at this point of time. We see the slowdown in the pipelines across all books. So that's going to show up in the Q4. We did -- I think David did provide guidance for the second half of growth of 7% to 11%. And again, I think it will be on the lower end of that or even slightly short of that. And I think that's a good thing in the environment that we are in.

The second part of your question is, yes, we do expect that the commercial book goes from 65% to 70% over time. And our teams are doing a fantastic job, managing the balance sheet and even on a residential book, we've slowed down, we pretty much stopped third-party originations. We've slowed down on the originations and have improved our ability to do secondary market sales, which were more than 20% last quarter. So I think it's a mix of activities in kind of accordance to the market environment.

R. David Rosato
Senior EVP & CFO

The only thing I would add to that is our -- when Nitin says our pipelines are slower or lower, that's by design, okay? So we certainly have the ability to land more than we're lending, but we're repositioning under the leadership in commercial of Jim Brown to work to lend and create deposits, which is a modest or a change in our philosophy. So fuller both sides of the balance sheet relationships is what we're going after rather than just extending high-quality credit. And I think we'll be very successful with that.

Over time, it takes time, Nitin referenced in his original comments that the industry disruption has allowed us to hire deposit-focused commercial bankers, and we will continue to try to do that. So that's the real color behind what we're trying to achieve here.

Nitin J. Mhatre
President, CEO & Director

Hope that helps, Billy.

Operator

Our next question comes from the line of Dave Bishop of Hovde Group.

David Jason Bishop
Hovde Group, LLC, Research Division

Just curious, obviously, there's been some maybe year-over-year pressure on data processing technology and communication costs and you noted the sort of the revamp of the digital banking platform. Just curious maybe is there a potential to enumerate what the savings are once that's implemented and maybe what -- how much of that year-over-year pressure has been related to sort of that initiative?

Nitin J. Mhatre
President, CEO & Director

Yes. Dave, I'll ask Sean to talk about the technology kind of outlook here, Sean.

Sean A. Gray
President & COO

Yes, there is opportunity. It's a lower unit cost going forward. So we anticipate very low single-digit reduction off of where we are today.

Nitin J. Mhatre
President, CEO & Director

Okay, what is the second question again?

David Jason Bishop
Hovde Group, LLC, Research Division

Yes. And that second question, Nitin, obviously, with expenses in the crosshairs. And maybe this is something you've thought about or pursued and just doesn't make sense in the current environment. But I appreciate the disclosures around the runoff portfolios, Upstart and Firestone. Any potential for maybe a bulk sale there or partial bulk sale, just accelerate the reduction of some of those noncore portfolios and maybe the expenses attributed with them?

Nitin J. Mhatre
President, CEO & Director

I would say, Dave, the -- we're looking at everything, right? So I think you started with expenses. So all options on the table, real estate, procurement, suppliers, org structures, discretionary. So that's on the expense side. Similarly, on the balance sheet side, to your question, yes, we're looking at every optionality we have to improve the balance sheet mix. So yes, everything is on the table.

R. David Rosato
Senior EVP & CFO

And Dave, I would just go back, I thought I had said this last quarter. So last quarter, we were calling out the double technology expense, so to speak, because of the [Indiscernible] conversion that we talked about. And I mentioned that in our comments today about the reduction in our legacy deposit system. That's about $0.5 million a quarter or so. So that has not come out of the run rate yet, but it will as we go through this quarter and into next year. The problem with technology expenses, there's always more around the corner. And that's what we have to be diligent around.

David Jason Bishop
Hovde Group, LLC, Research Division

Got it. Then one final question. Just curious, Nitin or David, just new commercial origination yields where you're onboarding new commercial loans?

Nitin J. Mhatre
President, CEO & Director

Yes, they're about closer to 8%, I think 7.75% to 8%.

Operator

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

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

So I wanted to talk about the share repurchases. This quarter, it was a little bit less than half or so. It seems like of the repurchases last quarter. And I believe this plan that you're currently on ends at the end of this year. Just wanted to know what your appetite was going into the fourth quarter, whether you think it will look a little bit more like 3Q levels or 2Q and whether you intend to re-up the plan as we move into 2024.

R. David Rosato
Senior EVP & CFO

Sure. So 2-part question. So our approach in the third quarter was, the equity markets fell a little whiffy to us, especially in the sector that we all travel in. So the average price our share traded at in the third quarter was $21.40. We have a tangible book value at the end of the quarter, $21.23. So our approach in the third quarter, which was mostly around price discipline.

So we bought stock at $20.01, so we were a bit more focused on price and the discipline. And a lot of that was just concerned about how our sector is trading. But in my comments, I did very clearly state that our stock is undervalued. The question is, it may -- our stock and our -- all of our peers, they stay undervalued for a period of time. So that doesn't give you a lot of color to Q4, but I think we would have liked to have bought more stock at that price in the third quarter, it just wasn't available.

The second part of your question was this one -- this does expire and will we come up with another program? The most likely answer to that is yes. Yes, we still have to socialize that with the Board and go through the normal regulatory protocols. But that would be our intention as long as our Board is supportive.

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

Great. And just on the balance sheet on the cash levels. you guys are still, I think, a little bit elevated to historical levels today. Do you see an opportunity to kind of bring that down in the coming quarters to help out either fund some loan growth or reduce some higher-cost fundings?

R. David Rosato
Senior EVP & CFO

Yes, probably. As you mentioned, we brought it down quite a bit from where we were in the first half of the year. In Q2, it was a little elevated when we were going through the government shutdown business, we wanted to have a more liquid balance sheet. Who knows if we're going to be dealing with that again or not. But aside from that, generally -- we would generally concur there's the ability to bring cash levels down.

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

Okay. Got it. And then just thinking about bigger picture here as we move into year 3, and you guys are moving towards those BEST targets, where do you think you have the both stability or levers to pull in order to trend and get towards those targets. Obviously, a little bit of margin compression, but is it a balance sheet growth, expense management or any fee income opportunities, where do you see the biggest bright spots?

Nitin J. Mhatre
President, CEO & Director

Yes. I think it's kind of a different order, but you spelled out the 3 components. I think expenses will be a big component of it. Balance sheet, mix change and growth will be the other part. And I think historically, if you look at the 10-year average, our margins used to be 27%. I think we believe there's an opportunity to have much higher margins. So there is a little bit of that margin play as well. And we continue to get opportunities through the disruption that's going on in the market and for our ability to hire -- client books and the bankers with deposit-oriented relationships, we've seen good success constantly, and I think that will get accelerated as we go into next year.

R. David Rosato
Senior EVP & CFO

I think we also have opportunities on the fee income side. I mean, it's -- those are really good businesses. They take time to scale. You need the right people in the right positions. But I do think we have opportunities there over the next couple years.

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

Great. And then lastly, I know you guys gave a lot of detail in the deck with regards to this. But just any internal outlook or updates on your thoughts on the overall office portfolio and just the general kind of market conditions in your areas?

Gregory D. Lindenmuth
Senior EVP & Chief Risk Officer

Sure. Yes, our overall outlook for the portfolio is still consistent with what we've seen in the past. Obviously, we're familiar with what other banks are going through and some of the risks in the industry, but the portfolio performance still remains solid, and we will continue to look at opportunities to revisit renewal opportunities and whether we decide to renew credits in the future or not, we think it's a very good time as we experience some of the maturities over the next year or 2 to rebalance the portfolio.

Nitin J. Mhatre
President, CEO & Director

And I would add that, Chris, that we're also, as part of slowing down of some of the originations, we've also seen a decline in that portfolio, roughly 5% quarter-over-quarter. So the portfolio is performing well, and it's not growing at a fast pace. So I think that kind of bodes well for asset quality for us in this environment.

Operator

Our next question comes from the line of Laurie Hunsicker of Seaport Research.

Laura Katherine Havener Hunsicker
Seaport Research Partners

I wanted to go back to your branches that you fettered. The 4 branches were any of those in Boston? Or where were they located in Massachusetts?

Nitin J. Mhatre
President, CEO & Director

Yes, they were not in Boston, 2 West and 2 East of the footprint.

Sean A. Gray
President & COO

Laurie, really west of 495 in Massachusetts.

Laura Katherine Havener Hunsicker
Seaport Research Partners

Okay. And then as you think about your 96 branch footprint, if you were to look a year out, how do you see that? Is that 96 going to 90? Is it 96 going to 80? How do you think about that?

Nitin J. Mhatre
President, CEO & Director

Yes. No, we can't give a specific number, Laurie, but as we said in the earlier question as well, we constantly evaluate our branch footprint and [Indiscernible] business and her team is constantly also looking at customer foot traffic and servicing patterns and where you could actually serve those clients better. We have channels like MyBanker that are unique to us, whereby we go to the client as opposed to clients having to come to the branch. So I think all of that is baked into the equation. We do believe based

on what we see that there is an opportunity for further consolidation. We just can't spell out a specific number at this point.

Laura Katherine Havener Hunsicker
Seaport Research Partners

Okay. Okay. And then $2.6 million of onetime charges, what are the cost savings you're getting with these closures? And was that any of that reflected in 3Q. And how do you think about how much of that drops to the bottom line versus a franchise reinvestment?

R. David Rosato
Senior EVP & CFO

Yes. Laurie, it's David. There's -- it's a modest number that drops to the bottom line on a go-forward basis. I think of these branch -- some of these branch closures as cleanup, meaning they were -- 2 of them were closed branches, there was an operating near term or current period operating expenses. It was real estate cleanup and then two were operating branches. So it's a relatively modest number.

Laura Katherine Havener Hunsicker
Seaport Research Partners

Okay. Got it. And I know you're hesitant to sort of talk about this going forward, but do you think we're going to see more branch closures in the fourth quarter? Or you're looking further out in terms of rationalizing expenses?

R. David Rosato
Senior EVP & CFO

I think it's yet to be determined, but more likely to be into 2024 than fourth quarter.

Laura Katherine Havener Hunsicker
Seaport Research Partners

Got you. Got you. Okay. That's helpful. Okay, and then going back to office here. It looks like you had a really nice drop linked quarter. You went from $523 million in the investor book down to $479 million. Was that a sale? Or was there a reclassification there? How should we think about what that was? I mean you didn't really have any commercial real estate charge-offs to speak of in the quarter. So I'm just trying to understand -- I'm just trying to understand that movement.

Nitin J. Mhatre
President, CEO & Director

It's a combination of both, Laurie. I think one part was the reclassification of companies that supply to the office space versus actual office space itself. I think that brought some of the number down. But even if you normalize for it, as I mentioned earlier, to the other question, our balances in the office portfolio went down roughly by 5% and or $25 million.

R. David Rosato
Senior EVP & CFO

We had some in our first iteration of going through the portfolio. There were some suppliers to office buildings that were included. So that should not have been included originally. So we made that change this quarter. But as Nitin says, more importantly, on normalizing for that the portfolio still was down 5%, and it was not through sales or charge-offs. It was simply majorities.

Laura Katherine Havener Hunsicker
Seaport Research Partners

Got you. Got you. Yes, your CRE in your office slides in the deck are very helpful. So on office, I know you've got another, I don't know, 360-some-odd million that are lapped. Can you talk a little bit about -- that's not included in that number, is that the right number? Is there a better number? And just I guess,

specifically, how medical is holding up very well. Lab is starting to see a little bit of weakness. Are you seeing anything there that's concerning you? Or how is that portfolio looking?

Nitin J. Mhatre
President, CEO & Director

Yes. No concerns that we've seen so far. Greg, if you would like to provide any more color?

Gregory D. Lindenmuth
Senior EVP & Chief Risk Officer

No, Laurie, we're not seeing any like early signs of weakness in the portfolio, no increases in criticized or classified. And you can see some of our NPL and NCO rates on the portfolio and even some of the early stage, we're not seeing anything there.

Laura Katherine Havener Hunsicker
Seaport Research Partners

Okay. And then $360 million, is that the right number for Office lab? Or is there a better number?

Kevin Conn
Senior Managing Director - Investor Relations & Corporate Development

No, you mean office lab. Laurie, what specifically?

Laura Katherine Havener Hunsicker
Seaport Research Partners

Yes, correct.

Kevin Conn
Senior Managing Director - Investor Relations & Corporate Development

Are you asking about education and medical Laurie?

Laura Katherine Havener Hunsicker
Seaport Research Partners

I don't know. I was under the impression you had about $360 million of office lab -- last I chatted with you, but maybe I got that firm incorrect, you had...

Gregory D. Lindenmuth
Senior EVP & Chief Risk Officer

Yes, the education and medical exposures were $350 million at the end of the second quarter and dropped 9% to $318 million at the end of the third quarter.

Laura Katherine Havener Hunsicker
Seaport Research Partners

Great. And then I guess just sort of very high level, can you talk a little bit about -- and I realize you haven't provided 2024 guidance, but can you talk a little bit about what would be your sort of first plan of attack as you derisk the balance sheet just in near-term quarters? How we should be thinking about that? When you talk about that priority.

Nitin J. Mhatre
President, CEO & Director

You broke up a little bit. You said, first, your plan of attack to do what? Derisk the balance sheet?

Laura Katherine Havener Hunsicker
Seaport Research Partners

Derisking the balance sheet -- Yes, you mentioned that was a priority. Can you just -- in coming quarters, very generally talked about sort of -- what is your first plan of attack as we look for the next couple of quarters on the derisking strategy there.

Nitin J. Mhatre
President, CEO & Director

I think I'll leave that when we provide the guidance because we would have better line of sight, Laurie. But I think broadly speaking to the question I answered earlier, we're looking at all components of the balance sheet and opportunities that are embedded within it. But beyond that, I think we'll have better clarity as we go forward. In the meanwhile, I think the teams are doing a fantastic job monitoring the existing portfolios, working with the clients and keep the credit quality as pristine as we can.

R. David Rosato
Senior EVP & CFO

And if I could just jump in for a second. So I really think Nitin's comments were in response to Dave's question. As a relative newcomer here, I would just say that the balance sheet isn't necessarily in need of derisking. I wouldn't brought that impression out there that we feel we need to derisk our balance sheet. I see -- and look, Laurie, I think this was before you started re-covering us. So I probably said it in my first conference call, if I remember correctly, my initial impressions -- still my impression, as I get to understand the company better is we have a really strong credit process -- very well developed, especially when I think about the size of the organization, the reporting, the quality of the discussions around the risk that we have, the risk that we take and manage.

So there's -- there's a few portfolios that are in runoff mode, but they're not necessarily in runoff mode because of credit per say. So and those are a very small component of the loan portfolio. When you think about C&I portfolio, the ABL portfolio, our residential mortgage portfolio, our commercial real estate portfolios where the big numbers are. The point I'm trying to convey is we have very solid risk management practices around the core of the business.

Operator

There are no further questions at this time. Please proceed.

Nitin J. Mhatre
President, CEO & Director

Thank you all for joining the call today and for your interest in Berkshire Bank. Have a good one.

Operator
Ladies and gentlemen, this concludes your conference call for today. We thank you for participating and ask that you disconnect your lines.