4Q23 BERKSHIRE HILLS BANCORP EARNINGS CALL TRANSCRIPT
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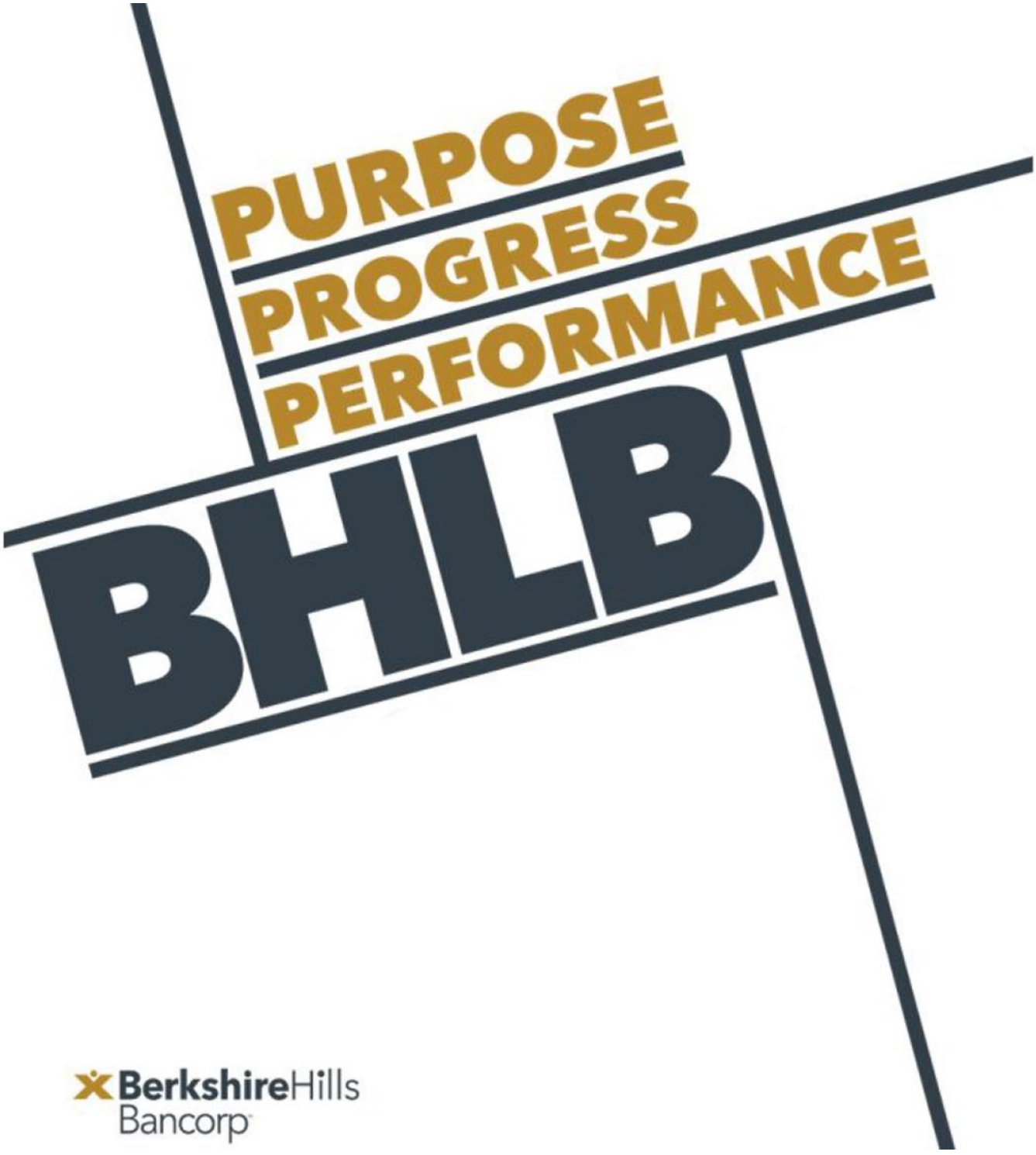

BerkshireHills Bancorp

Berkshire Hills Bancorp, Inc. NYSE:BHLB

Earnings Call

Thursday, January 25, 2024 9am Eastern

CALL PARTICIPANTS	2
PRESENTATION	3
QUESTION AND ANSWER	7

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Call Participants

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Presentation

Operator

Good morning, ladies and gentlemen, and welcome to the Berkshire Hills Bancorp Fourth Quarter 2023 Earnings Conference Call. [Operator Instructions] This call is being recorded on Thursday, January 25, 2024. I would now like to turn the conference over to Mr. 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 Fourth 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, and thank you for joining us today. I'll begin my comments on Slide 3, where you can see the highlights for the fourth quarter and the full year. While the rate environment remains challenging, we are encouraged by the early trends in deposit balances. We executed a security sale late in the fourth quarter and used those proceeds to pay down wholesale borrowings, eliminating the negative carry associated with those securities. We also incurred a severance charge of $3.7 million related to a workforce reduction across the organization. For 2024, expense optimization, deposit growth and credit management will be our top priorities. We intend to self-fund investments in strategic priorities that support our vision to be a high-performing relationship-focused community bank. David will review these items and our 2024 guidance in more detail in a few minutes.

Operating net income for the quarter was $20.2 million, and operating EPS of $0.47 declined 6% linked quarter, primarily from a decline in net interest income. Full year 2023 EPS of $2.14 was down 2% year-over-year. We are encouraged by the trends in asset quality and deposit growth in the quarter. Our credit costs have trended down, and our loan books are performing well. Nonperforming assets and net charge-offs declined 14% linked quarter, and we increased our loan loss allowance by 3 basis points to 1.17% of loans. Average deposits were up 3% linked quarter, largely driven by an increase in money market and time deposits. Our liquidity position is robust, and our available liquidity coverage of core uninsured deposits was 146%. We've included a page in the appendix with more details.

Our average loan balances were up 11% year-over-year and up less than 1% linked quarter given lower loan demand and disciplined underwriting. Our balance sheet remains strong. We ended the quarter with a common equity Tier 1 ratio of 12% and a tangible common equity ratio of 8%. We repurchased 328,000 shares in the fourth quarter and 1.1 million shares in 2023, which reduced our share count by 3% over the year. Our Board has authorized and regulators have approved a new share repurchase program of 40 million in 2024, and we expect to continue share repurchases opportunistically. We've updated pages in our earnings deck on our overall commercial real estate portfolio and the page that provides details on our office portfolio. Both of these pages highlight that our portfolio is granular, geographically diverse and resultantly less risky. David will cover some of these metrics in more detail in a few moments.

We continue to make steady progress on our strategic priorities. Optimizing real estate, branch network and balance sheet. In 2023, we consolidated 4 branches and exited 2 office buildings. We will continue to look for opportunities to lower our occupancy expenses further. Our team successfully converted our digital

banking platform for consumer and small business clients to improve the client experience and platform efficiency. Our employee engagement and customer Net Promoter Score were at their highest level in 2023, and we were recognized by Newsweek as one of the best regional banks in the country and we're the only bank headquartered in Massachusetts with an overall 5-star rating. The disruption in our markets has enabled us to opportunistically hire deposit and relationship-focused frontline bankers.

These bankers have strong deposit books and complement our existing team. Gaining even a small part of the opportunity presented by the market disruption would be meaningful for Berkshire. Slide 4 shows our progress on 5 key performance metrics. Our full year 2023, we are near the low end of our target range for operating return on assets at 79 basis points and our operating return on tangible common equity was 10.1%, above the lower end of our target range. Our full year PPNR grew to $142 million. Our ESG score remains in the top quartile nationally and our full year Net Promoter Score improved further to 45. We have made steady progress over the last 3 years and are energized about significant opportunities for improving our financial performance further. 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.

Through this difficult external environment and corresponding changes being made internally, their commitment to our strategy and dedication to our customers and communities is what brings us together and truly 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 2023, but I'll jump to Slide 6, which details the fourth quarter. As Nitin mentioned, operating earnings were $20.2 million or $0.47 per fully diluted share, down $0.03 linked quarter. Our net interest margin was 3.11%, down 7 basis points linked quarter, and net interest income declined $1.9 million or 2%. Operating noninterest income was $16.7 million, down 5% linked quarter. I note that several fee line items are below historic quarterly run rates and should recover over the coming quarters. Operating expenses were $75.3 million, up 2% linked quarter. Average loans increased $38 million linked quarter, while average deposits increased $306 million or 3% from Q3. Provision expense for the quarter was $7 million, at the lower end of our July guidance and down $1 million from the third quarter and down $5 million year-over-year.

Net charge-offs of $4.4 million or 20 basis points of average loans were down 38 basis points year-over-year. We increased our allowance for credit losses by $2.6 million in the quarter, bringing our allowance for credit losses to 117 basis points of loans. Slide 7 shows more detail on our average loan balances, which were up $38 million linked quarter. We had growth of $84 million in commercial real estate and $38 million in residential with a $69 million decline in C&I and a decline of $15 million in consumer, which reflects runoff of nonstrategic loan portfolios. Slide 8 provides details of our security sale. We sold $267 million of securities and incurred a pretax loss of $25.1 million or $0.44 per fully diluted share after tax.

Our earn-back period is about 3 years, and proceeds were used to pay down wholesale funding. FHLB borrowings were down $419 million and ended the quarter at $385 million, which was down 52% linked quarter. Our securities to total assets was 13% at year-end. Slide 9 shows our average deposit balances. Average deposits increased $306 million or 3% in the quarter. As expected, the deposit mix shifted with a modest decline in the noninterest-bearing deposits and an increase in money market and time deposits. Noninterest-bearing deposits as a percentage of total deposits were 25% in the fourth quarter versus 26% in Q3. Deposit costs were 211 basis points up 30 basis points from the third quarter. Our cumulative total deposit beta is 37% through 525 basis points of Fed tightening. Borrowings were 6% of total funding, down from 9% in Q3.

Turning to Slide 10, we show net interest income. Higher deposit costs contributed to the $1.9 million or 2% decrease in NII. Our net interest margin was 3.11%. Slide 11 shows operating fee income down $791,000 or 5% linked quarter. Loan-related fees were down $821,000 linked quarter, driven primarily by lower swap income that was about $600,000 below our normal quarterly run rate. Gain on sale of SBA loans were down $166,000 due to lower premiums in the market. A line item that is also running about

$900,000 below normal run rate. Other fees were up $594,000 from fair value adjustments on equity securities.

Slide 12 shows expenses. Operating expenses were up 2% linked quarter to $75.3 million. Importantly, there was a modest fourth quarter technology expense true-up so I'd encourage you to look at our '24 guidance for thoughts on run rate expenses. Compensation expense was flat to the third quarter and increases in technology and professional services expense were partially offset by declines in occupancy and equipment.

GAAP expenses of $79 million includes $3.7 million of severance charges or $0.06 per share after tax related to the aforementioned workforce reduction. As I've said previously, we are committed to managing expenses with discipline and transparency. We are taking a very granular approach to expense management that will have the desired impact of reducing our expense base. We are committed to ensuring that every dollar we spend is thoughtful and necessary to run the bank efficiently or to grow our revenue and earnings.

Slide 13 is a summary of asset quality metrics. Nonperforming loans were down $5.2 million linked quarter and $9.7 million year-over-year. Net charge-offs of $4.4 million or 20 basis points were down $1 million versus the third quarter and down $7.3 million year-over-year. We've included a chart in the appendix with Berkshire's net charge-off rates versus the industry since the year 2000. We've moved some of the credit pages from the appendix into the body of our deck.

Slide 14 shows that our CRE book is well diversified in terms of geography and collateral type. Credit quality of the CRE portfolio remains solid with nonaccrual loans at 10 basis points of period-end loans.

Slide 15 has more details on our office portfolio. As noted last quarter, the weighted average loan-to-value ratios are about 60% and a large majority of the portfolio is in suburban and Class A space. We have also shared more granular credit data for the office book. We believe our office portfolio is very well underwritten, diversified and the asset quality of this portfolio remains solid. While current credit quality metrics are benign, we recognize that economic uncertainties exists and we are monitoring both new originations and existing portfolios carefully, and we have modestly increased our reserves.

Slide 16 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 focused on improving our medium-term performance and look forward to a more normal operating environment. Recall, we added several new rows to the financial tables starting last quarter. Prior to last 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 ROTCE. Most of our peers calculate return on tangible common equity this way, so we have simply aligned our reporting to be more consistent with both peers and larger banks.

Slide 17 shows our capital ratios. With the decline in rates and our security sale, our AOCI improved by $75 million from a negative $218 million to a negative $143 million. Common equity Tier 1 declined 10 basis points to 12%. The TCE ratio improved to 8%, and our tangible book value per share increased 7% linked quarter to $22.82. Our top capital management priority is to deploy capital to support organic loan growth. Secondly, we remain biased to stock repurchases, given that our stock price is trading below intrinsic value. In Q4, we repurchased $6.6 million of stock at an average cost of $20.15 versus our ending tangible book value of $22.82 and in 2023, we repurchased $24 million of stock at an average cost of $20.85. We believe Berkshire stock is undervalued, given our growth potential and low-risk business model. We will continue to opportunistically repurchase shares.

Slide 18 shows our 2024 guidance. Our guidance incorporates 5 rate cuts. However, one of which is in December of 2024 and does not impact guidance which is in line with current Bloomberg and market consensus. We expect loan growth of 5% to 7% off end-of-period loans. Payroll deposits were elevated at year-end, so we'd encourage you to model deposits off an adjusted ending balance of $10 billion, which excludes payroll balances above normal run rates. We expect 2% to 3% normalized deposit growth.

Recall that we are also adopting PAM accounting for our tax credit business in 2024, which lowers the amortization expense impacting fee income, thereby increasing fees and increasing our effective tax rate.

Our 2023 fees adjusted for PAM would have been $75.9 million, and we expect growth of 0% to 3% off that base. We expect provision expense to be $33 million to $36 million, and expenses to be down 1% to up 1%. Our tax rate increases with the change in accounting, and we believe it will be in the range of 20% to 22%. Our Board is authorized and regulators have approved a new $40 million stock repurchase program, which we expect to use opportunistically.

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

Nitin J. Mhatre
President, CEO & Director

Thanks, David. 2023 proved to be a challenging operating environment for the banking industry, given the historic increases in interest rates to quell inflation. The industry proved resilient amidst the failures of 3 large banks, which had idiosyncratic business models. We expect that in 2024, the operating environment will continue to be challenging. While we cannot control the macro environment, we are focused on controlling what we can and have several levers, including rigorous expense management, opportunistic hiring for deposits and loan growth and derisking the balance sheet. We look forward to a more normal banking environment later in 2024 and into 2025. When I started as the CEO in early 2021, we faced rapidly declining loan balances that we steadily turned into loan growth. We will similarly overcome the current challenges, including deposit growth and expense management. We remain focused on selective, responsible and profitable organic growth.
With that, I'll turn it over to the operator for questions. Laura, please open the line for Q&A.

Question and Answer

Operator

[Operator Instructions] Our first question comes from the line of Billy Young from RBC.

Bill Young
RBC Capital Markets, Research Division

Can you hear me okay?

Nitin J. Mhatre
President, CEO & Director

Yes, we can.

Bill Young
RBC Capital Markets, Research Division

I guess let's just first start on NII and the margin. Can you elaborate first how much do you think the repositioning this quarter should benefit kind of 1Q and the run rate going forward?

R. David Rosato
Senior EVP & CFO

Yes. Well, it's about a 3-year payback on the securities transaction. It's worth about $7 million on an annualized basis increase in net interest income.

Bill Young
RBC Capital Markets, Research Division

Got it. That $7 million at beginning of 2024.

R. David Rosato
Senior EVP & CFO

Yes. Well, that's a full year number. But yes, so the security sale occurred very late in December -- third week in December. So it really had no impact of any significance in Q4 margin, which as reported was 3.11%. So we'll see a step-up from that. As you know, we don't provide margin guidance, but it's obviously in the NII guide.

Bill Young
RBC Capital Markets, Research Division

Understood. And then just to follow up on that theme. Kind of how does timing of the rate cuts impact your outlook if we start seeing more aggressive Fed rate actions earlier in the year versus if the Fed cuts rates less than the 5 being contemplated. Kind of how does that impact the NII trajectory?

R. David Rosato
Senior EVP & CFO

Sure. Let me -- so a couple of comments. The first is the transaction obviously occurred late in the quarter, it increased asset sensitivity for us because we paid down wholesale borrowings, which were short, had longer term securities. That's why you also see an elevated cash position at 12/31. You saw a large jump in cash on the balance sheet. That's not steady state, right?

So the transaction is accretive to the margin and net interest income dependent on where rates go over the course of 2024, we could put more securities back on the balance sheet. We've telegraphed rather consistently over the last year that were just have been plus or minus neutral from an asset liability perspective. So 3 rate cuts or 5, which is really only 4 from an NII perspective because the last one -- meeting on December 18, 2024, has a very modest impact on us either way, whether it's 3 or 5.

I think more importantly, you didn't ask the question, but when we think about the margin over the course of 2024, I think our work is basically in line with what we're hearing from a lot of other banks. We expect the margin to bottom into late in the second or in the third quarter of this year, and then you will see margin expansion. That's whether the Fed eases as telegraphed by them or weather a little bit more aggressively by what the market has priced in. So that's a real important message. I think Billy.

Bill Young
RBC Capital Markets, Research Division

I appreciate that. That was actually one of the follow-ups I had, but just I guess shifting gears to just expenses, I appreciate kind of the flat expense guide for this year versus last. Are there any additional efficiency actions being assumed within that guidance, firstly? And then secondly, is there a target efficiency ratio you'd like to exit this year at when all said done?

R. David Rosato
Senior EVP & CFO

Sure. Two questions there, one of which I'll answer in detail, one of which I'll not answer. The first part is the important part. So Nitin alluded to in his opening comments, our focus on expenses and other initiatives. So we had a modest workforce reduction, which was broad based across the organization at the beginning of this year. Going forward, we still recognize the need for expenses.

We should think about that in a more targeted manner as the year progresses. So thinking about how we do things and how we're staffed. So there it's technology, it's process, it's a lot more granular. And I think that the end resorts can be significant, but they take more time to achieve. So that's what we're focused on in 2024, that -- some of our thoughts around that is obviously embedded in the expense guide.

Holding expenses flat year-over-year when you think about merit increases and escalators in real estate contracts and other contracts, software contracts, et cetera, is a lot. And one of our focuses besides making sure that we continue to get more efficient and manage costs and I've talked about that every quarter since I've been here, the granular approach we're taking is to make sure we don't hurt the revenue generation capabilities of the company.

So we spend also a lot of time making sure as we continue to work on controlling expenses and lowering expenses that we don't damage the growth potential of the company. So Billy, so your second question was essentially a targeted efficiency ratio. I think at this point, we'll just decline to put that number out there. What I would say is our efficiency ratio has been going up. It went up in 2023. We're not excited at all about it. We need -- we recognize it needs to come down and improve, and we're very committed to that.

Nitin J. Mhatre
President, CEO & Director

Billy, if I may just add a little bit of comment, I think David laid it out well. And I just want to connect it to what you've heard us say before as part of our best plan where we talked about optimization as being our key lever and within those, we talked about -- we have -- we believe and we still do have significant opportunities on rationalizing real estate, procurement, optimizing our channels, processes and deploying business process automation to improve efficiency. So all of those levers have been deployed and will continue to deploy. So this is an ongoing thing. It's not a 1 activity, it's an ongoing activity at Berkshire.

Operator

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

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

I appreciate all the detailed guidance. I was hoping to just start off on the fees. For the tax credit fees and the change in accounting on a year-over-year basis, where do you think that just starts off for kind of averages out for the year on that line item within the fees on the counter item?

R. David Rosato
Senior EVP & CFO

I'm not exactly sure what you're asking, Chris. What I would just say 2 things. The economic effect, the EPS effect of the change in accounting is 0. It's just the geography between showing higher fee income, but also showing a higher tax rate. If you look back in the tables in the press release, we actually provide each quarter the details of the expense savings and the fee -- contra fee revenue that runs through the fee income line. And you'll see that, that business timing makes the numbers move around a little bit more, but the core is probably $600,000, $650,000 of positive economic benefit each quarter. So did I -- have I answered your question?

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

Yes, I'm all set. And then just following up on the expense discussion. I appreciate the full year guide in the comments that you guys made. Talk a little bit about just the cadence of that, given the charges that were taken in the fourth quarter, is that an immediate drop to start the year or is there some offsetting factors here in the first quarter?

R. David Rosato
Senior EVP & CFO

Well, as you know, the first quarter, usually the comp line runs high just because FDIC expense, 401(k) matches, et cetera. So that's just in the comp line. I guess the way I think about it is if you look at our numbers, the quarter-over-quarter, our comp line was actually marginally down and occupancy and equipment was down. That's to Nitin's comments around at the top where we talked about 2 office buildings and some branch consolidations. What was up linked quarter and which is where the opportunity lies, but where things take more time is technology and communication expense up $710,000 linked quarter and professional and other services, which was $994,000. So in professional services, we also have regulatory examination fees and FDIC expense. And everyone knows the pressure banks have been under on FDIC. But what's also in there is use of consultants outside help.

So that's where we're highly focused is core operating expenses and professional service expenses, that's changing the way we do things that's changing whether we do it internally or externally with partners, et cetera. That was the comment I was trying to make was there's opportunity there. It will improve our efficiency ratio to Billy's question. However, it's not just a quick fix.

Nitin J. Mhatre
President, CEO & Director

Chris, I would also add, David made that point earlier in his comments as well. Our outlook is calling for flat expenses like you pointed out. And I know I think the consensus was about 3% growth. So I think this is certainly better than that. And I think that's where maybe the industry will be. But for us, the most important is it's an ongoing focus. And secondly, we also self-fund the investments that we will continue to make, that will improve our revenue line as well. So that will cumulatively impact favorably our efficiency ratio.

R. David Rosato
Senior EVP & CFO

Yes. And just last comment, Chris, is I mean you did ask about essentially quarterly expenses and what is -- are they going up or going down, right? I would peg it as very steady, would be our thought. There may be $1 million plus or minus, maybe even $1.25 million variation quarter-to-quarter, that's kind of the way we see it, but nothing significant in that from our perspective.

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

Helpful. And just last one for me, if I could. Can you just remind us of the percentage of loans that are floating or would reprice immediately any Fed funds...

R. David Rosato
Senior EVP & CFO

Well, the whole book is 57% floating, 43% fixed. A vast majority of that 57% is SOFR and Prime. So almost immediately, right? So for it tends to be 1 month. There's a little bit -- there's a few hundred million dollars of 1-year T-bill based there. But for all intents and purposes, think of it as 1 month -- overnight to 1 month repricing on that 43 -- I'm sorry, 57%.

Operator

Our next question comes from the line of Mark Fitzgibbon from Piper Sandler.

Mark Thomas Fitzgibbon
Piper Sandler & Co., Research Division

David, in your comments, you said that you've been buying back the stock below your estimate of intrinsic value. Could you share with us what you perceive the intrinsic value of the company to be?

R. David Rosato
Senior EVP & CFO

I won't put a firm number on it, Mark. I mean, as you know, we all come up with different values, we all have different valuation techniques and methodologies. What I will say is we -- and I tried to say this in my comments around growth potential, low-risk business model. I really believe that. I think layered on top of that is a significant ability to -- there is an ability for us to continue to improve the efficiency of this company on the cost side. I have learned that we have a very resilient deposit base. That was proved back in March. I see opportunities in the Eastern mass market, and I think we will be effective as we get bigger and stronger in this large market. Remember, a lot of our markets are smaller towns and west of the population -- major population center of this state. When I put all that together and think about the next couple of years, we see our stock at much higher levels than where we're trading today. So that's my high-level definition of intrinsic value for you.

Mark Thomas Fitzgibbon
Piper Sandler & Co., Research Division

Okay. Great. And then you mentioned potential efficiency improvements. Can you help us think about what might be the bigger pieces of those, not necessarily the numbers, but what are kind of the pieces of the expense synergies that you see?

R. David Rosato
Senior EVP & CFO

Sure. I'll take a whack out and I'll give it to Nitin. So I think about the process -- there are certain parts of our organization that are very nimble and leading edge, the work long before I got here, that Nitin and Sean would talk about Narmi. You've heard that name. So our online consumer and business platform. Very leading that project allows us to get off the core, right? We still have to talk to the core every day via APIs.

But really nice platform that has led to decreases in operating expenses. I talked about this in the second and third quarter. So more things like that, where we go from the old way of doing business, more dependent on a large embedded provider to being more nimble, meaning customer centric to me, but also cheaper. So I see we have opportunities like that across the bank to make things faster, simpler, less paper-based. We just have to execute on them, and there are things that take a lot of work.

Nitin J. Mhatre
President, CEO & Director

Yes, Mark, I would just add on to that. You've heard us talk about this previously as well. We have unique opportunities for optimization. Through our legacy acquisitions, we do have excess real estate that I think we can easily rationalize. We have channels that we can rationalize. We have procurement opportunities

that we are exploring and deploying more technology in there. Automation opportunities that are kind of there for most organizations, we believe we have some of those as well.

And on a day-to-day basis, we have what I think David had referred to in the last quarter, an internal process. We call it EMRAC, it's an expense management and resource allocation kind of council that looks at every dollar of spend -- in pretty low thresholds that we track to make sure every dollar is spent thoughtfully and where there are opportunities to rationalize that and make it more efficient, the team is coming back with solutions to do that. So I think it's just the culture of efficiency that we're building. That's going to create more opportunities for us.

R. David Rosato
Senior EVP & CFO

I was just going to say the follow-up to what Nitin was saying, kind of tied into the point I was trying to make about we don't want a slash and burn expenses here and hurt the revenue momentum of the company. So that's what I was trying to allude to in the script about or thoughtful on expenses, but we're also going to be careful to make sure that the momentum that's happened over the last 3 years needs to not only continue, but it needs to accept.

Mark Thomas Fitzgibbon
Piper Sandler & Co., Research Division

Okay. And then it strikes me that one of the challenges on the expense side for you all is just the spread of the geography that you have branches in. Would you consider selling a piece of that geography or some branches in a particular area to try to create more density in the footprint and improve efficiency.

Nitin J. Mhatre
President, CEO & Director

Mark, the short answer would be yes. And I think that's been part of the ongoing process. We were a much broader network, as you know, which we have consolidated and we, as a team, continue to look at opportunities for footprint rationalization based on the customer footprint kind of footfalls and our ability to service them. And as we leverage more of digital services, I think that creates more opportunities. But we do that all with the lens of what's best value for customers and how they're getting serviced and then creating opportunities for consolidation and rationalization as it comes along.

Operator

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

Laura Katherine Havener Hunsicker
Seaport Research Partners

Just staying on expenses here. So your branch footprint it's currently 96. Is that right?

Nitin J. Mhatre
President, CEO & Director

Correct.

Laura Katherine Havener Hunsicker
Seaport Research Partners

Okay. And so, Nitin, when you think about that branch rationalization over the course of the next year, is that 96 going to 90, 96 going to 80, I mean how do we think about that a little bit to sort of Mark's question?

Nitin J. Mhatre
President, CEO & Director

Yes. I think the answer would be it will be fewer. And I think that's broadly through the entire sector, right? I think most of the branch networks if you think about how it will look like 2, 3 years down the line, it's

going to be fewer branches that will be more automated, more digitized and more advisory services. So we're no different there. We're not going to give a specific number. We can just tell you that it's going to be more consolidated as the opportunities get created. And we've done that, I think, over the last 3 years itself, we're down by about 25, 26 branches and we'll continue to look at opportunities.

Laura Katherine Havener Hunsicker
Seaport Research Partners

Okay. And then the tech true-up expense in the fourth quarter that you mentioned, how much was that?

R. David Rosato
Senior EVP & CFO

Yes. It was $800,000.

Laura Katherine Havener Hunsicker
Seaport Research Partners

Okay. And was that in that $3.7 million restructure number? Or was that separate?

Nitin J. Mhatre
President, CEO & Director

It was separate.

Laura Katherine Havener Hunsicker
Seaport Research Partners

Separate. Okay. Great. And then how should we be thinking about your restructuring charges going forward? When do we look to see that line item be closer to zero? How should we think about that?

R. David Rosato
Senior EVP & CFO

Well, I mean, the expectation today, that restructuring charge, as we said, was employee-driven across the company, a reduction in force we termed it. So there's no additional actions like that. So severance charges from that particular type of activity, we shouldn't see that going forward. Yes. What we were talking about, about how do we further improve efficiencies in the organization. As I said, some of that it's more detailed, it's systems, it's technology oriented. You try there -- I wouldn't say there won't ever could be or there won't be in 2024 further severance charges like that, but there's nothing anticipated today. Those types of projects are either the employee side is via attrition or redeployment into other parts of the company.

Laura Katherine Havener Hunsicker
Seaport Research Partners

Okay. That's very helpful. Okay. And then, David, the tax rate, I just want to make sure that I've got this right. So as we think about it, that line item in noninterest income that tax advantage commercial projects number that was $2.06 million, basically, that's going to be dropping down now to the tax line. Is that the right way to be thinking about this?

R. David Rosato
Senior EVP & CFO

Yes. Yes. So if you go to -- you got it. We tried to be crystal clear in the outlook, making the '23 adjustment for both fee income and the tax rate.

Laura Katherine Havener Hunsicker
Seaport Research Partners

That's great. No, that's more transparent. That's great. Okay. And then just going back to margin here, Billy's question. Do you have a December spot margin? And maybe also, do you have a December spot

margin if you appreciate that the restructure occurred in the third week here of December. I mean do you have a December spot margin? And do you have a December spot margin may be adjusted with the securities restructure?

R. David Rosato
Senior EVP & CFO

Honestly, I haven't bothered to do the adjustment. I've been so focused on 2024. So our December spot margin was roughly 3.10%.

Laura Katherine Havener Hunsicker
Seaport Research Partners

Was 3.10%. Okay. That's great. And then last question, Nitin for you or maybe David, whoever, can you just very high level, take us through your cannabis plans? I realize this is newer, but just how you're thinking about it and what the loan and deposit balances look like?

Nitin J. Mhatre
President, CEO & Director

Sure. Laurie, it's a deposit service really to support deposit generation activities. It's an early stage pilot. We're not doing any lending and the deposit balances are less than $10 million at this point.

Laura Katherine Havener Hunsicker
Seaport Research Partners

Okay. And any plans to do lending? Or is it just deposit only in terms of how you're looking at this?

Nitin J. Mhatre
President, CEO & Director

At this point of time, it's only deposits and cash management type of activities.

Operator

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

David Jason Bishop
Hovde Group, LLC, Research Division

I hopped on late, so I apologize for that. But you guys have been adding and augmenting the ranks of the senior executives, senior commercial lenders within the market, given the disruption. Just curious, are you starting to see green shoots or growth out of these hires either on the loan or deposit side or both? And are they contributing to the bottom line growth or the pipeline? Just curious sort of the impact they're having to date from the hires?

Nitin J. Mhatre
President, CEO & Director

Yes, Dave, we are. We clearly are and I think not only are we seeing significant improvement in the pipeline and the deposit and some of the loan balances that have come in, but the quality of client base is also changing, and we're bringing in a significant number of high-value relationships as a result of this transition. I think what's that doing is it's improving the overall quality of production that we've seen over the last couple of quarters, and we believe that it will accelerate as we move forward.

David Jason Bishop
Hovde Group, LLC, Research Division

Got it. And then are you seeing that on both sides of the house, too? Or are there fee income on the wealth management side, opportunities to cross-sell as well?

Sean Gray, *Chief Operating Officer*

Yes, Dave. As Nitin mentioned, the new hires are definitively focused on deposit generation, deposit acquisition, private banking, which blends very well with wealth management. They are green shoots right now, but we think there are future opportunities.

R. David Rosato
Senior EVP & CFO

I would obviously agree with everything that said, I think of this in a multiyear time frame, right? If we are successful in bringing in the right people, we are successful in a more balanced or even skewed towards deposit type of lift in activity that has huge long-term ramifications for us. And that opportunity is really looking out the window from this conference room. It's all the people, the economic engine of growth in the state is primarily in this market right here. We're Boston headquartered, but we need to be bigger in Boston than we are today. And that's what we're focused on. And that's not a tell me how much to take out Q1 earnings because of that. That's how do I think about Berkshire Bank over the next couple of years if they are successful.

Nitin J. Mhatre
President, CEO & Director

And Dave, you had asked us this previously as well. How large is this opportunity? We believe it's significant. I made that remark in my prepared remarks as well. So we have bankers that have been with us for a long period of time, have deep client relationships that we continue to harvest and now we're bringing in new folks that are coming to us through the market disruptions.

So the whole First Republic, Silicon Valley events have benefited us to that extent. We're bringing new players that are bringing new relationships that we didn't have before, and they're looking to grow it. And I think when we mentioned it at one point, it looked like significant about over $20 billion of deposit opportunity to be captured. So even if we get a fraction of that, it will help us quite a bit.

Operator

Thank you. There are no further questions at this time. I'd now like to turn the call back over to Mr. Mhatre for final closing comments.

Nitin J. Mhatre
President, CEO & Director

Thank you all for joining us today and for your interest in Berkshire. Have a good day and be well.

Operator

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

Nitin J. Mhatre
President, CEO & Director
Sure. Have a good day and be well.