Earnings Call
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Presentation

Operator

Good morning, ladies and gentlemen, and welcome to the Berkshire Hills Bancorp First Quarter 2024 Earnings Conference Call. [Operator Instructions] Also note that the call is recorded, Thursday, April 18, 2024.

And I would 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 first 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 first quarter. Overall, it was a solid quarter.

Operating net income of $20.9 million and operating EPS of $0.49 were both up 4% linked quarter, supported by a reduction of noninterest expenses of 4%. ROTCE was 8.73%, down 17 basis points versus fourth quarter. We are encouraged by the trends in key performance metrics, especially credit and expenses.

Credit costs continued to trend down, with net charge-offs declining by 9% linked quarter to $4 million. This is the fifth consecutive quarter of declining net charge-offs, while we increased our loan loss allowance by 1 basis point to 1.18% of loans, the fifth quarter in a row of building up our loan loss reserve.

Our continued expense optimization focus is gaining traction. Expenses of $72.4 million were down 4% linked quarter, reflecting lower technology and professional service expenses, and were below the midpoint of our quarterly run rate guidance provided in January.

Our previously provided guidance for expenses reflected flat year-over-year expenses for full year 2024, compared to low to mid-single-digit expense growth guidance by peer banks. And we continue to look for opportunities for further efficiency improvement while self-funding deposit generation and growth initiatives.

Our balance sheet remains strong. We ended the quarter with common equity Tier 1 ratio of 11.6% and a tangible common equity ratio of 8.2%. We repurchased 182,000 shares in the first quarter for $4.3 million. Net interest margin was up linked quarter. And while we expect continued funding cost pressure, we believe that the worst of the NIM compression is behind us. Average deposits were up modestly linked quarter and were up 3% year-over-year.

Average loan balances were up less than 1% linked quarter and up 6% year-over-year. We could potentially grow loans at a faster rate, given that the larger banks have reduced their lending appetite, but we've opted to extend credit selectively while continuing to serve our clients and deepen relationships.

We've updated pages on our overall commercial real estate and office portfolio and now have added a new slide detailing our exposure to our multifamily properties. Those slides highlight that our portfolio is granular, geographically diverse and resultantly less risky. We continue to make steady progress on our strategic priorities [through optimized] real estate, branch network and balance sheet.

We announced the sale of 10 branches in New York, which tightens our footprint further and enhances the efficiency and profitability of our network. We remain fully committed to our remaining presence in New York. We sold securities to offset their deposits sold with the branch sale.

You may recall, we sold 8 branches in the Mid-Atlantic region 3 years ago. The New York branch sales similarly aligns with the strategy of tightening our footprint and improving our focus and profitability.

I'd note that we intend to consolidate 3 additional branches in the second quarter, bringing our total branch count to 83. We believe we are now close to the right size of our branch network. David will cover the details of the transaction and corresponding security sales in more detail in a moment.

Lastly, we're honored to be recognized by Newsweek as one of the Most Trustworthy Companies in America for a third consecutive year. We were ranked #10 in the country for Most Trustworthy Banks in the country.

We are grateful to our customers for their vote of confidence and to our bankers who deliver exceptional service and advice to our clients every day. We have moved our best target slide to the appendix for this quarter as we come close to the end of our 3-year program. We are near the low end of our target range for operating return on assets at [71] basis points and our operating return on tangible common equity at 8.7%.

PPNR was $33 million or $132 million on an annualized basis. Our ESG score remains in the top quartile, and our first quarter Net Promoter Score improved further to 54. I want to use this opportunity to thank all of my Berkshire Bank colleagues for their continued hard work and commitment to the bank. Through this difficult external environment and corresponding changes being made internally, their commitment to our strategy and dedication to our customers and all stakeholders is what brings us together and truly sets us apart.

We intend to self-fund investments in strategic priorities that support our vision to be a high-performing, relationship-driven community bank.

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 4 shows a summary of our branch sale transaction. We sold branches in the western part of the franchise, including Syracuse and locations north and south of Albany. The sale includes $485 million in deposits and $58 million of loans.

The sale avoids real estate closure costs, ensures employment of Berkshire employees and reduces expenses, going forward.

We expect annualized revenue loss of $4.3 million, an expense reduction of $6.4 million post the transaction. We expect the branch sales to close in the third quarter and the approximate pretax gain to be $19.3 million. We recorded restructuring expenses in Q1 related to the branch sale, of $2.8 million after tax or $0.07 per share.

Slide 5 shows details of the securities sale. We sold $362 million of market value of securities and incurred an after-tax loss of $38.3 million or $0.89 per share. We sold securities to offset the mismatch between the amount of deposits and loans that we sold and to reduce below-market assets on the balance sheet.

Slide 6 shows an overview of the first quarter. As Nitin mentioned, operating earnings were $20.9 million or $0.49 per fully diluted share, up $0.02 linked quarter. Net interest margin was 3.15%, up 4 basis points

linked quarter, and net interest income of $88.1 million declined $281,000 or less than 1% linked quarter. Operating noninterest income was $17.3 million, up 4% linked quarter.

Operating expenses were $72.4 million, down 4% linked quarter. Average loans increased $69 million, and average deposits increased $42 million.

Net charge-offs were $4 million or 18 basis points of average loans and were down 14 basis points year-over-year. Provision expense for the quarter was $6 million, as credit trends remain positive. We increased our allowance for credit losses by $2 million in the quarter, bringing our allowance for credit losses to 118 basis points of loans.

Slide 7 shows more detail on our average loan balances, which were up $69 million linked quarter or 1%, primarily driven by modest growth in CRE. The modest decline in consumer balances reflects the continued runoff of the Upstart portfolio.

Slide 8 shows average deposit balances. Average deposits increased $42 million linked quarter. The deposit mix shifted with the decline in noninterest-bearing deposits and an increase in money market and time deposits. Noninterest-bearing deposits as a percentage of total deposits were 24% in Q1 versus [25%] in Q4.

Deposit costs were 229 basis points, up 18 basis points linked quarter. Our cumulative total deposit beta is 41% through 525 basis points of Fed tightening.

Turning to Slide 9, we show net interest income. Net interest income was flat linked quarter and down 10% year-over-year. The net interest margin was 3.15%, up 4 basis points linked quarter. Given the sale of lower-yielding securities, we expect our NIM to increase by 5 basis points in the second quarter and to remain relatively flat for the rest of the year.

Slide 10 shows operating fee income, up $636,000 or 4% linked quarter. Loan-related fees were up $605,000, driven primarily by higher swap fees and commercial loan servicing fees. Wealth management income was up $490,000 on higher seasonal tax preparation fees and market appreciation. Gain on sale of SBA loans were down $683,000 due to lower premiums in the market and some of Q1 production sliding into Q2.

Recall, we had a fair value gain on securities in the fourth quarter, and we swung to a modest loss in the first quarter. Other fees reflect changes in PAM accounting, which lowered tax credit amortization expense and lower BOLI income linked quarter.

Slide 11 shows expenses. Operating expenses were down 4% linked quarter to $72.4 million. Recall, there was a fourth quarter technology expense true-up of $800,000, so normalized fourth quarter expenses were closer to $74.5 million.

The expense decline this quarter was driven by lower technology and professional services expenses, partially offset by increased compensation and occupancy expenses. Compensation includes seasonally higher payroll taxes, which were about $1.2 million above normal quarterly run rates. Other expenses, which is a number of smaller items, declined, driven by lower loan workout expense and lower [stationery] and postage.

GAAP expenses of $76 million included $3.6 million of pretax restructuring costs or $0.07 per share related to the branch sale. As I've said before, we are committed to managing expenses with discipline and transparency. The granular approach we are taking is starting to reduce our expense base. We remain committed to ensuring that every dollar we spend is thoughtful and necessary to run the bank efficiently or to grow revenue and earnings.

Slide 12 is a summary of asset quality metrics. Nonperforming loans were flat linked quarter and down 20% year-over-year. Net charge-offs of $4 million or 18 basis points of loans were down $400,000 linked quarter and down $2.9 million year-over-year.

I'd note that our 10-year average charge-offs to loans is 27 basis points. We've included a chart in the appendix with Berkshire's net charge-off rates [for] the industry since the year 2000.

Slide 13 shows that our CRE book is well diversified in terms of geography and collateral type. The credit quality of the CRE portfolio remains solid, with nonaccrual loans at 11 basis points of period-end loans.

Slide 14 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 believe our office portfolio is well underwritten, diversified, and the asset quality of this portfolio remains solid.

Slide 15 shows details of our multifamily portfolio. The Multifamily portfolio is $618 million or 7% of loans. The book is well diversified across our footprint. We currently have no nonperforming loans or net charge-offs, and criticized assets are 1% of the total book. While current credit quality metrics are positive, we recognize that economic uncertainties exist, and we are monitoring both new originations and existing portfolios very carefully.

Slide 16 shows returns over the past 5 quarters on a GAAP and on an operating basis. As you know, the current operating environment is presenting headwinds, but we remain focused on improving medium-term performance and look forward to a more normal operating environment.

Slide 17 shows our available liquidity versus uninsured deposits. Coverage of uninsured deposits was 134% at the end of the first quarter.

Slide 18 shows capital ratios. The common equity Tier 1 ratio was 11.6%, and the TCE ratio improved [20] basis points to 820. Our top capital management priority is to deploy capital to support organic loan and deposit growth.

Secondly, we remain biased to stock repurchases, given that our stock price is trading below tangible book value per share. In Q1, we repurchased $4.3 million of stock at an average cost of [$22.14].

In terms of the outlook, we expect the branch sale, combined with this quarter's security sale, to be effectively neutral to 2024 earnings outlook, which was provided in January.

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

Nitin J. Mhatre
President, CEO & Director

Thanks, David. The operating environment for our banking industry continues to be challenging, given the historic increases in interest rates to quell inflation. The yield curve hit its longest inversion of record this March at 21 months, exceeding the previous record of 624 day inversion in 1978. And the expectations for the Fed pivot to lower rates has been extended even further.

While we can't control for the macro environment, we are intently focused on controlling what we can and have several levers, including rigorous expense management, opportunistic hiring for deposit and loan growth and proactive asset quality management. We look forward to a more normal banking environment in late 2024 and into 2025. In the meanwhile, we remain focused on selective, responsible and profitable organic growth.
With that, I'll turn it over to you operator for questions. Operator?

Question and Answer

Operator

[Operator Instructions] And your first question will be from David Bishop at Hovde Group.

David Jason Bishop
Hovde Group, LLC, Research Division

Just curious, you've seen in the press release in terms of some of the senior talent, you've been able to hire as of late year. Is that starting an impact in terms of, number one, reported loan growth? Or number two, is that starting to bleed into the pipeline for both loans and deposits?

Nitin J. Mhatre
President, CEO & Director

Yes. Dave, the short answer is yes. We are seeing the pipelines build up both for deposits and the deeper relationships that we're building with the existing clients. And in fact, some of the -- the benefit of new hires is also showing up in our wealth management group, where the number of referrals is at its highest level.

So yes, we're beginning to see results, and the pipelines are built up. And pipelines for both the deposits and loans are up year-over-year on both sides of the balance sheet, partly driven by those hires.

David Jason Bishop
Hovde Group, LLC, Research Division

And any segments in terms of those hires that they specialize in? Or is it just sort of broad-based commercial banking?

Nitin J. Mhatre
President, CEO & Director

It is a little more targeted, Dave. It's highly targeted towards the professional segments and CPAs and law firms and not-for-profits. And I think that's where most of the hires that have joined us have specialized in. So we are beginning to see new types of clients and higher-value clients that we previously didn't have as much access to.

R. David Rosato
Senior EVP & CFO

David, this is David. The only thing I would add to that is the focus for us is more on the deposit side than the loan side. We have really strong existing loan origination capabilities. It's -- while these individuals are -- do both sides of the balance sheet, they -- our interest is to lead on the deposit side.

David Jason Bishop
Hovde Group, LLC, Research Division

Got it. And then, I always appreciate the disclosure on the capital side there. Nitin, just curious from a holistic basis, obviously, a little bit more growth year. On 100% risk weighting categories, CNI leading growth; risk-based capital, I think, about 11.6, 11.7.

Are there any sort of internal targets you're sort of guiding or managing to, don't want to go below on the risk-based capital perspective?

Nitin J. Mhatre
President, CEO & Director

No, not really. I think we're pleased with where we are in terms of our capital metrics. We don't have a specific target for where we would like our risk-weighted assets to be at. We do manage internal kind of guardrails around the low point, at the high points, and we're operating well within those ranges.

David Jason Bishop
Hovde Group, LLC, Research Division

Got it. And then final question, just credit bumping along fine. It looks like Upstart continues to drive the bulk, I guess, of the majority of credit losses. Is there a time here where maybe you could pursue a bulk sale in that portfolio and clean up credit even more? Just curious, just -- I know it's a small part of the portfolio, but just -- are we just going to continue to see that slowly tripped off the balance sheet?

Nitin J. Mhatre
President, CEO & Director

Yes, Dave, I think you're right. It is less than 1% of the portfolio. It's been on runoff mode for about 5 quarters now, and it continues to run off at the pace we anticipated, and our teams with our partners to manage and monitor the portfolio tightly to improve its current performance.

But we're also looking at opportunities to accelerate that runoff, including the opportunities to divest. So I think all options are on the table, but our current focus is to manage, monitor and contain the curve there.

Operator

Next question will be from Mark Fitzgibbon of Piper Sandler.

Mark Thomas Fitzgibbon
Piper Sandler & Co., Research Division

First question I had is on the fee line. Your guide previously for the full year '24 was $76 million to $78 million. And if you sort of annualize this quarter's run rate, you come up pretty far below that.

So I was wondering if you could help us think through what some of the big changes are likely to be that will get you closer to that guide number? Is it SBA, loan sale gains? Or are there some other items in there that we should look for a pretty good uptick during the course of the year?

R. David Rosato
Senior EVP & CFO

Yes. Mark, fees were a little light in the first quarter. There's SBA I called out, it was down a little less than $700,000 linked quarter. What I tried to say in the comments was the sum of what we thought would hit in the first quarter wound up close -- is pushed to the second quarter. That line has been down for about 3 quarters in a row.

Over the last couple of quarters, it's been lower premiums. Premiums are starting to recover. So we're feeling better about that line item as the year unfolds. The -- I also called out just what I would call noise is just fair value adjustment on the securities line or fair value adjustment on securities, just bounces around. There's a few items that we mark to market that will bounce back as well.

We had a really good quarter for swaps, which have been light for a couple of quarters now and on other loan-related fees, meaning servicing fees, some syndication fees. So the only other things I would point out is the PAM accounting had a onetime small impact on -- a negative impact on the fee income, so that will fall out.

So we -- admittedly, while light, I think I'm not really worried about the fee line and think we'll see better fees in coming quarters.

Mark Thomas Fitzgibbon
Piper Sandler & Co., Research Division

Okay. Great. And then secondly, David, are we likely to see any more security sales? Or was this kind of a onetime deal in conjunction with the branch sale that just kind of made sense and kind of cleaned up the portfolio, the point that you wanted it to be?

R. David Rosato
Senior EVP & CFO

Yes. I think we're essentially done for now. I'd call it [2] and done, since it's been 2 quarters in a row. But clearly, the second one was linked to the branch sale. Our securities are now down to about 10%, just under 10% of the balance sheet.

On the low end of the peer group, we still have pledging requirements for some of our municipal customers. So I think we're -- I don't anticipate any further box security sales like we've had the last 2 quarters.

Mark Thomas Fitzgibbon
Piper Sandler & Co., Research Division

Okay. And then, Nitin, in your opening comments, you referenced the fact that you felt like at 83 branches, you were sort of close to the right size of the branch network. I guess, it surprised me because it still feels like your franchise is pretty geographically spread out, and the 10 branches that you sold didn't really pull in the reins very much.

Given that you're getting close to that June target date for the best program and you're still a decent amount below the financial goals that you set, I guess I'm wondering, wouldn't it make sense to take some more draconian actions to try to maybe shrink the footprint and improve the profitability?

Nitin J. Mhatre
President, CEO & Director

So Mark, I would say we used to be a really sprawling geography-based network, which we had Mid-Atlantic and all the way going into Syracuse on the western part of the geography, which has been tightened now.

We were about 130-plus branches network. And if you look at the peer groups, that's about mid-70s, and that's the reference to saying we're coming close to the right size in terms of where the peers are.

This is not going to stop our teams to evaluate opportunities to consolidate or swap locations and things of that nature. That's always determined by the footprint and the footfalls in those branches and the business that's coming in.

What we have today are all profitable branches. And the part of the geography that's our core geography, we continue to hold on to the high market share that we have while investing in the new markets, where we anticipate new growth.

So I think it's not to say, we're done, but it's to say that it's becoming pretty close to what we believe to be the right-sized network, with the caveat that we'll continue to look for opportunities to consolidate and swap as the opportunities arise.

Operator

Next question will be from Laurie Hunsicker at Seaport Research.

Laura Katherine Havener Hunsicker
Seaport Research Partners

Hoping we could just start back with the security sales. David, can you just remind us what was the date on when those were sold, and what was the yield, approximate in the quarter? I assume it was March, end of March, but ...

R. David Rosato

Senior EVP & CFO

Yes. So we started a few days after the announcement. So security sales occurred throughout the month of March. And in the slide, you see the average -- we were just under 2% on the market yield [1.98%].

Laura Katherine Havener Hunsicker
Seaport Research Partners

[1.98%], great. And then do you have the spot margin for the month of March?

R. David Rosato
Senior EVP & CFO

Sure. Spot margin for March was [3.14%]. So if you're -- I'm not exactly sure where you're going, but what my comment around the [3.14%] would be the impact of the security sale very similar to the discussion we had 3 months ago, talking about the December security sale, was it, was not -- it's not fully reflected in the March spot.

Laura Katherine Havener Hunsicker
Seaport Research Partners

Okay. Makes a lot of sense. Okay. Good. And then just around your comments, I guess Nitin, too, and David, the 3 additional branch closures coming up in 2Q, where are those located? And do you have the charges? And are you expecting to retain all the deposits and loans? How are you thinking about that?

Nitin J. Mhatre
President, CEO & Director

Yes, they're all based in Connecticut, Laurie, and we have had conversations with our key clients there, and they are pretty comfortable kind of managing the transition through our -- MyBankers and private bankers there. So we feel pretty good about retaining those deposits while kind of consolidating those locations. On the charges, I think ...

R. David Rosato
Senior EVP & CFO

Yes. No, we don't have a number yet, Laurie.

Laura Katherine Havener Hunsicker
Seaport Research Partners

Okay. Okay. And then what about the cost saves? What are you expecting there?

R. David Rosato
Senior EVP & CFO

Not significant. I mean one is a very small limited service branch. The other 2 are consolidation. So I wouldn't pencil in too much for that at this point. I'd focus on how well expenses were controlled this quarter, especially with the seasonal uptick in payroll. And I'd focus on our comments around what we're doing trying to change focus of expense management in the company. That's the real message.

Laura Katherine Havener Hunsicker
Seaport Research Partners

Absolutely. And yes, just to that point, yes, your guidance last quarter, expenses for this year, [$293 million to $297 million], you're clearly coming in way below that, which is great.

I just want to make sure I'm thinking about this the right way. So if I look at your expenses for this quarter, [axing] out the mergers, [axing] out the FICA, you're at around $71 million, you get another $1.6 million or so down just the expense reduction associated with the 10 branches. Maybe just [tying] a bit on the 3 closures.

Is there any spending that you're going to be -- is there any additional sort of significant spend that you're doing in -- as we had -- obviously, we're only a quarter away through this year. But as we head into next year, how should we be thinking about that? Are you really kind of at a quarterly run rate of $69 million, $70 million? Or is there any other spending coming down the [pipe]? How should we think about that? Is it all dropping through? Or what else are you tightening?

Or may be a better question is -- yes. Or maybe just help us think about as we look to fourth quarter when everything should be largely pretty clean, what should we expect on a fourth quarter, just dollar expense run rate? How should we think about that?

Nitin J. Mhatre
President, CEO & Director

Laurie, I'll give David a minute to think through that. But just on a strategic level, what we will continue to do is invest in the opportunities to grow deposits, as David highlighted earlier, and also deepen relationships with the clients that we have.

So if you asked about things that we're looking to invest in, I think it's going to be investments in finding more frontline bankers, especially in the commercial private banking, cash management types of areas, where we get larger deposit relationships and opportunities for fees.

We're also looking to continue to improve our digital platform. We've launched our online and mobile platform. We're looking to do our public website refresh. So I think there's going to be a little bit of investment there. We're also looking to do a swap location within Boston.

So I think those are the elements that are ensuring that we also invest in the future. So those would be the types of investments that will continue to go on improving banker experience, client experience and our technology stack.

Laura Katherine Havener Hunsicker
Seaport Research Partners

Got it. Okay. And so really -- yes, go ahead.

R. David Rosato
Senior EVP & CFO

No. I was going to answer kind of in the context of the full quarter, the full year and the guidance we put out in January. And at a high level, what are the goods and what are the bads, right? So we are light on NII, and we were light on fees, as Mark was questioning earlier. We were better on credit, and we were better on expenses.

Project A, we made the point, we caught out the cost saves, and the income give up, but we made the point that no change to '24 earnings from Project A, right, because that's inclusive of the security sale.

So while where you're going is, yes, we are light on expenses to the guidance that we gave, we're not at this point because of the -- all the investments that we continue to make in conjunction with all the expense controls we have, we're not ready to take the expense guide down yet. We're only through one quarter of the year. We'll probably have this discussion midyear.

Operator

Next question will from Chris O'Connell of KBW.

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

Just want to start off for the -- on the average balance sheet, I know they are truncated in terms of the held-for-sale amounts on there. Are the yields there good in terms of the [$572 million] loan yield and the [$275 million] deposit cost? Is that reflective -- or is it a little bit skewed due to the short duration that they were on the averages there?

R. David Rosato
Senior EVP & CFO

So if you're talking the margin, we tried to call this out on the margin page in the press release, Chris. So the short answer, are the numbers good, yes. The -- what we tried -- there's a big difference between endings and averages related to loans and deposits associated with Project A. And that shows up on -- I'm sorry, I think I said Page 7, on Page 10 of the press release.

So you see low average balances, for example, for loans that we sold of only $18 million in the quarter. The footnote tells you the day that we moved them out of the regular portfolio into a held-for-sale portfolio. Does that answer your question?

Nitin J. Mhatre
President, CEO & Director

Yes, just one thing I noticed you said at $544 million and [$275 million]. I think it's [$544] million for earning assets and [$245 million] for total liabilities, just to -- for apples-to-apples.

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

No, I was just referring to the held-for-sale yields.

R. David Rosato
Senior EVP & CFO

Yes. Just the -- and just the nuance there, Chris, so the [$572 million] is the loans impact on the quarter. If you look carefully, you can see that we broke out the deposits between interest-bearing and noninterest-bearing as well. So the $275 million is just the interest-bearing piece.

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

Great. And then -- so just wanted to talk to the impact on the margin once the actual sale occurs there, I mean you seem to indicate in the commentary that the NIM going into 3Q should be fairly flat to 2Q. So there's really -- you're expecting not much of an impact once the transaction occurs?

R. David Rosato
Senior EVP & CFO

Yes. So it's complicated, admittedly. So the point I was making with Laurie is the spot NIM in March really not reflecting the security sales. So you have security sale in Q2 helping the margin, you have deposit sale in Q3 going the other way.

Our interest rate risk position is neutral. I think that's -- we haven't been asked that yet, but that's probably important in the context here. We're -- 3 months ago, we were talking about 4 to 5. Some people were talking about 6 Fed moves. Now we're talking about 1. And now at September, a month ago, it was July, and there were 2.

So that's an incredible amount of noise around interest rates. For us, we basically have a neutral balance sheet, which is the good news. So all the market gyrations aren't moving our NIM all over the place. At the end of the day, the one thing. And from my perspective that's going to drive margins this year is deposit cost. And deposit costs are the competitive pressure of how we all behave.

The deposit costs were up 18 basis points, Q4 to Q1. Not great news. But the good news is the prior quarter, they were up 30 basis points. In the quarter before that, they were up 30 basis points. So the -- while deposit costs are going up, the pressure is abating. We're all generally behaving as an industry, and the CD books that we all have for about a year, and they're all -- almost all rolled over.

So we're not going through that very low old rates to market rates. They're now kind of close to market rates to close to market rates. That's why the pace of increase, the second derivative is slowing down. But

ultimately, the assumptions that we make around our cost of deposits for the balance of the year is the #1 issue that's going to drive our margin and everyone else's.

So our asset yields are really quite steady, and then we've improved them with the security sales. But we can lose all that benefit on the deposit side if deposits get much more aggressive pricing from competitors.

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

Got it. That's helpful. And is the plan to keep cash somewhat elevated here until the time of the transaction in the third quarter and then bring that down?

R. David Rosato
Senior EVP & CFO

Yes, two comments there. So we do have some more wholesale borrowings that will come off in the second quarter. It's a little less than $200 million, if memory serves. So that will take some of that cash balance down.

Some of it is just excess liquidity we're holding. So expect it to come down, but not significantly. I don't think we'll wind up cutting it in half until after the transaction settles. So you're really talking end of the third quarter into the fourth quarter.

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

Got it. Okay. Great. And then as far as the buyback appetite from here, you guys did $4 million here. You have a [$40 million] authorization. And you're now trading at [touchwood], a little bit below tangible book. Do you expect to get a little bit more aggressive throughout the year, especially with the upcoming gain?

R. David Rosato
Senior EVP & CFO

Yes. I would say market dependent, Chris, but we've been under -- just under tangible book value for quite a while now. I would point out, in Q1, we blacked ourselves out because of Project A. So Q1 was a little lighter than it otherwise would have been.

Operator

Thank you. At this time, I would like to turn the call over back to Mr. Mhatre. Please go ahead.

Nitin J. Mhatre
President, CEO & Director

Thank you, Sylvie, and thank you all for joining us today on our call and for your continued interest in Berkshire. Have a great day, and be well.

Operator
Thank you, sir. Ladies and gentlemen, this does indeed conclude your conference call for today. Once again, thank you for attending. And at this time, we do ask that you please disconnect your lines.