Heartland Financial USA, Inc. (NASDAQ:HTLF) Q3 2022 Earnings Conference Call October 31, 2022 5:00 PM ET

Company Participants

Bruce Lee - President and Chief Executive Officer

Bryan McKeag - Executive Vice President and Chief Financial Officer

Nathan Jones - Executive Vice President and Chief Credit Officer

Conference Call Participants

Andrew Leisch - Piper Sandler

Terry McEvoy - Stephens

Damon DelMonte - KBW

Jeffrey Rulis - D.A. Davidson

Operator

Greetings, and welcome to the HTLF Third Quarter 2022 Conference Call. This afternoon, HTLF distributed its third quarter press release, and hopefully, you've had the chance to review the results. If there is anyone on this call who did not receive a copy, you may access it at HTLF's website at htlf.com.

With us today from management are Bruce Lee, President and CEO; and Bryan McKeag, Executive Vice President and Chief Financial Officer. Management will provide a brief summary of the quarter, and then we will open the call to your questions.

Before we begin the presentation, I would like to remind everyone that some of the information management will be providing today falls under the guidelines of forward-looking statements as defined by the Securities and Exchange Commission. As part of these guidelines, I must point out that any statements made during this presentation concerning the company's hopes, beliefs, expectations and predictions of the future are forward-looking statements, and actual results could differ materially from those projected. Additional information on these factors is included from time to time in the company's 10-K and 10-Q filings, which may be obtained on the company's website or the SEC's website.

At this time, I will now turn the call over to Mr. Bruce Lee at HTLF. Please go ahead, sir.

Bruce Lee -- President and Chief Executive Officer

Thank you, Josh. Good afternoon, everyone. This is Bruce Lee, President and CEO. Welcome to HTLF's 2022 third quarter earnings conference call. I appreciate you joining us today as we discuss HTLF's continued strong performance. For the next few minutes, I'll discuss our third quarter highlights, then turn the call over to Bryan McKeag, Chief Financial Officer, for additional information around our results. Also joining us today is Nathan Jones, Chief Credit Officer, who can answer questions regarding our disciplined credit approach that continues to deliver excellent credit quality across portfolios.

HTLF had a strong, clean third quarter with $54.6 million of net income available to common shareholders and EPS of $1.28, once again exceeding expectations. We continue to see results from the ongoing execution of our strategy.

In the third quarter, organic loan growth, excluding PPP, totaled $255 million or 2% from the linked quarter and exceeding our guidance of $250 million. Our efficiency ratio decreased to 55.26, 512 basis points lower than a year ago. We are driving efficiency while strategically investing for growth. And our credit quality continues to be excellent, with only 26,000 in quarterly net charge-offs, and our delinquency remained near historic lows at 10 basis points.

Let's start with loan growth highlights. We saw continued strength in commercial loan portfolios. From the linked quarter, commercial and industrial increased $219 million or 7%. Owner occupied real estate increased slightly by $3 million. Construction increased significantly by $151 million or 18%. Nonowner occupied real estate decreased $102 million or 4%, and our ag portfolio decreased $55 million or 7% as customers used seasonal harvest to paydown their credit lines.

In the third quarter, we saw commercial loan growth in eight of our 11 banks. We added 353 new commercial relationships, representing $245 million in funded loans and $48 million of new deposits. On average, new originations were higher credit quality than the overall portfolio as measured by risk ratings and credit scores and 69% of these loans have variable rate structures compared to 66% from last quarter.

We have made significant investments in specialized industry verticals and capital markets expertise, including loan syndications, interest rate derivatives, trade finance and foreign exchange. We're driving business in fee-generating products such as our commercial card business, which generated $6.2 million in revenue, a 6% increase from the linked quarter. In our treasury management business where total deposit fees are up 14% year-to-date.

The depth and breadth of our product and services is opening new doors. Our commercial pipeline remains strong at over $1.5 billion, and we expect to grow commercial loans by $225 million to $250 million in the fourth quarter.

In our consumer loan portfolio, we saw solid growth of $31 million or 7% from the linked quarter and expect to grow consumer loans by $15 million in the fourth quarter. Residential mortgage increased $8 million or 1% from the linked quarter.

Turning to deposits. Non-time deposits were flat, while time deposits increased $44 million or 4% from the linked quarter. Overall, deposits grew to a record $17.3 billion, an increase of $42 million from the linked quarter, and our 14th consecutive quarter of deposit growth. We maintain our exceptional deposit mix. 93% of deposits are in non-time accounts. 38% of total deposits are in non-interest bearing accounts, positioning us well as rates continue to rise. Our deposit pricing strategy and favorable deposit mix continues to serve us well. Core deposit costs remained low at 21 basis points, along with total deposit costs at 35 basis points.

Late in the third quarter, we began to execute market specific deposit acquisition strategies. Additionally, our commercial teams are focused on attracting new relationships, including deposit only relationships. We are addressing overall price increases to maintain and grow our deposit base.

As I mentioned at the top, our efficiency ratio decreased 512 basis points from a year ago to 55.26. The significant decrease demonstrates we are executing our growth strategies, increasing revenue and reducing core expenses.

Competitive pressures remain for top talent and we're investing in our culture and our people. Wage inflation and demands for top talent continue to be high, but our employee retention strategy has been successful, and it's an area we continue to monitor closely.

Turning to key credit metrics. Our disciplined credit approach continues to deliver excellent credit quality across our portfolios. Delinquency ratio remains near historic lows at 10 basis points. Non-performing loans represented 60 basis points of total loans. Non-performing assets as a percentage of total assets remained low at 37 basis points. Non-pass rated loans decreased to 5.3% from 5.8% in the linked quarter.

Lastly, in the third quarter, we reported net charge-offs of only 26,000, which essentially rounds to zero. We'll continue to take a conservative credit approach given concerns around the current economic environment. Despite headwinds, we've sustained momentum and are well-positioned for continued growth and progress against our goals of organic loan growth, new customer acquisition, attracting and retaining talent, controlling expenses, branch and geographic optimization and maintaining strong credit quality.

We will also achieve growth through charter consolidation, creating operational and cost efficiencies that unlock capacity and support growth organically and through M&A. To date, we've successfully executed four bank charter consolidations, with our banks in Arizona, California, Colorado and Minnesota becoming divisions of HTLF Bank. We're pleased to report that transitions have been smooth, and the project continues on schedule and on budget. We expect to finish charter consolidation early in the fourth quarter of 2023, and deliver $20 million of annual savings and capacity after the project is complete. Bryan will share more details in his comments.

We also continue to optimize our branch network. Since the beginning of 2021, we have reduced our number of branches by 15% to 121 total locations. Our steadfast commitment to

improving the customer experience has been recognized by Coalition Greenwich as six of our banks have been named 2022 Customer Experience Leaders in the commercial small business banking or commercial middle market banking categories. To earn the recognition, our banks achieved scores that exceeded the industry benchmark by a specific margin and overall satisfaction, likelihood to recommend and ease of doing business. Congratulations to all the teams delivering best-in-class service to our customers.

HTLF's mission is to enrich lives one customer, employee and community at a time. Our employees live this mission daily, and I specifically want to recognize Tracy Bechen, Doris Hannan, Don Oky [ph], Michelle Shane and their teams for their hard work on charter consolidation and dedication to delivering strength, insight and growth to our customers, communities and each other.

I'll now turn the call over to Bryan McKeag, Chief Financial Officer, for more details on our performance and financials.

Bryan McKeag -- Executive Vice President and Chief Financial Officer

Thanks, Bruce and good afternoon. As Bruce just outlined, this was another solid quarter for HTLF with earnings per share of $1.28, loan growth of $255 million, excluding PPP; strong revenue growth; improved core expense levels; and stable, clean credit trends.

Included in this quarter's results were two large items. First, a $1.1 million loss on the sale of securities, and charter consolidation restructure costs of $2.2 million. Together, these items decreased pretax income by $3.3 million and earnings per share by $0.06. I would again remind you that both our earnings release and the third quarter investor presentation are available in the IR section of our HTLF website.

I'll start my comments, as I usually do with the provision for credit losses, which totaled $5.5 million, that's a $2.2 million increase over last quarter. This quarter, the provision was driven by loan growth that was heavily weighted towards C&I, elevated economic concerns and stable, healthy credit trends.

More specifically, after five quarters of decline, non-performing loans and related reserves rose just slightly this quarter, while loan delinquencies remained low at 10 basis points of total loans. Non-pass loans declined again this quarter to 5.3% of loans from 5.8% last quarter. And as Bruce already mentioned, net charge-offs were virtually zero this quarter.

At quarter-end, the allowance for lending related credit losses, which includes both the allowance for credit losses on loans and unfunded commitments, increased $5.5 million to $124.6 million or 1.14% of total loans. In addition, at quarter-end, unamortized purchase loan valuations on the balance sheet totaled $12 million or 11 basis points of total loans.

Moving to investments, which declined $300 million to end the quarter at $7 billion, representing 35% of assets, with a tax equivalent yield of 2.92% and will generate cash flows

exceeding $1 billion over the next 12 months. We continue to actively manage the portfolio by taking several actions during the quarter. First, in August, we moved $935 million of taxable munis with a market value of $748 million into the held-to-maturity portfolio.

Second, we utilized some of our strong revenue growth to take the opportunity to sell $60 million of securities yielding 2.3% at a $1.1 million loss and used the proceeds to purchase new AAA rated securities yielding 5.8%. And lastly, we utilized $125 million of cash flow this quarter to fund loan growth.

With regards to capital, HTLF's regulatory capital ratios remained strong with common equity Tier 1 at just over 11% and total risk based capital at 15%. The tangible common equity ratio decreased 62 basis points to 4.94% at quarter-end, and includes a 79 basis points decline due to the continuing decrease in market value investments, which was partially offset by higher retained earnings.

Moving to the income statement, starting with revenue. Net interest income totaled $155.9 million this quarter, which was $13.4 million higher than the prior quarter. The main drivers of the increase were strong loan growth, the Fed's short-term interest rate increases with only modest core deposit price increases. The quarter included $400,000 of PPP interest and fees, which is $1.4 million less than last quarter. We exited the quarter with just under $400,000 of unamortized PPP loans or fees remaining on our books.

Net interest margin on a tax equivalent basis rose 23 basis points quarter to 3.45%. Due to the recent rate increases and our asset-sensitive balance sheet, increased asset yields outpaced rising funding costs again this quarter as investment yields improved 46 basis points and loan yields were 36 basis points higher. Total interest bearing deposit costs were up 30 basis points. This quarter, the net interest margin includes 3 basis points of purchase accounting accretion, which was down 4 basis points from the prior quarter.

Non-interest income of $29.2 million was $5.4 million lower compared to the prior quarter. Excluding security gains and losses, core non-interest income was $30.4 million, which was just short of our $31 million to $32 million forecast. The main components of the reduction were a $3.1 million decrease in commercial swaps and syndication fees due to lower loan volumes this quarter compared to last quarter; weaker wealth management fees and mortgage banking revenue, which declined $500,000 and $1.1 million, respectively, due to the higher interest rate environment; and as you may recall, last quarter, there was a $1.9 million gain on the sale of Visa B shares. So, in total, revenue grew $8 million or 5%, exceeding expectations and will continue to grow into 2023.

Shifting to expenses. Non-interest expenses totaled $108.9 million this quarter. That's up $2.4 million from last quarter. Excluding restructuring, tax credit costs and asset gains and losses, the run rate of recurring operating expenses decreased $600,000 to $106 million compared to $106.6 million last quarter and came in within our expected range of $105 million to $106 million.

Most core expense categories were relatively flat or down this quarter, with the most significant improvement coming in salary and benefits expense, which decreased $1.4 million. The only category with a significant increase was other expenses, which was up just under $700,000. As a result of the strong revenue growth and core expense reductions again this quarter, the third quarter efficiency ratio continued to improve, down to 55.26% from 57.66% last quarter.

Looking ahead, HTLF's significant momentum will continue next quarter and into 2023, highlighted by loan pipelines, which as Bruce noted, remains strong and support our expected loan growth rate of 2% to 3% per quarter. Non-time deposit growth is expected to remain muted in the 1% range per quarter.

Assuming no additional Fed rate changes, net interest income is projected to grow low single digits on a percentage basis next quarter, reflecting continued loan growth and a full quarter impact from the September Fed rate increase, with some offset from mounting pressure on deposit pricing. The next expected Fed increase of 75 basis points is projected to increase net interest income by $8 million to $9 million on an annualized basis, assuming a normal deposit beta for us of 40%.

Provision for credit losses should remain in the range over the past few quarters of $3 million to $5 million, given projected loan growth and assuming net charge-offs and delinquencies remain near their current levels. However, further declines in economic conditions and projections could have a significant impact on future provisions should a strong recession begin to materialize.

Core non-interest income, excluding investment gains and losses, is expected to be in the $29 million to $30 million range per quarter with commercial deposits swap and syndication fees helping to offset lower mortgage banking and wealth revenue.

Recurring operating expenses are expected to remain in the $105 million to $106 million range. However, inflationary pressures, including wage inflation, remain challenging. Charter consolidation and restructuring costs are expected to be between $2.5 million and $3 million next quarter. In total, we estimate the remaining costs to complete the project will be $12 million to $13 million over the next five quarters.

Validation and branch optimization benefits are already beginning to materialize as evidenced by the 16 basis point reduction in our core expenses to average assets ratio since the beginning of the year, and additional benefits will continue to develop over the next 12 months.

We remain confident that the total consolidated benefits will reach $20 million on an annualized basis when the consolidations are completed in early Q4 of 2023. And finally, we believe a tax rate in the 22% to 23% range, excluding tax credits, is a reasonable run rate.

And with that, I'll turn the call over to Bruce for questions.

Bruce Lee

Josh, we can open up the lines for questions now.

Question-and-Answer Session

Operator

Thank you. We will now be conducting a Q&A, question-and-answer session. [Operator Instructions]

Our first question comes from Andrew Leisch with Piper Sandler. You may proceed.

Andrew Liesch -- Piper Sandler -- Analyst

Good afternoon, guys. Some questions here on the loan growth in the pipeline. I'm just curious like how much of this growth and how much of the pipeline consists of some larger syndicated loans that you participate out versus some of the more granular loans that you've historically originated?

Bruce Lee

I don't have the exact number, Andrew, but I would tell you that it's a much more granular -- it's more of a focus towards the granular loans and relationships that we would bring on our books versus larger syndicated relationships.

Bryan McKeag

And Andrew, we only had a small handful of syndicated loans this quarter and last quarter. So, most of that growth is our own.

Andrew Liesch

Okay.

Bruce Lee

And even in the syndication, we would be the primary bank and would just syndicate beyond our limits.

Andrew Liesch

Right. Right. And then just on this loan growth outlook, I mean, what are the thoughts on funding? It doesn't sound like non-TD growth or deposit growth going to be that much. So, should we just continue to look at it as the cash flows from the securities portfolio and then maybe some CDs added on top of that?

Bryan McKeag

Yeah. We would start with cash flow from the investment portfolio to fund any shortfalls. Obviously, we're working on trying to grow deposits. But as we all know, that's a tough order in this environment. I think we can get some, but we likely will have to use some investment cash flow to fund the loans, and we're willing to do that.

Bruce Lee

And we're able to do that, because we still have 35% of our balance sheet in investments. And as I mentioned in my comments, late in the third quarter, for the first time since the pandemic, we've actually initiated a consumer customer acquisition strategies in each of our markets.

Andrew Liesch

Gotcha. And then, just one question on that $8 million to $9 million of annualized spread income from the upcoming 75 bps hike. I mean, you mentioned that the normal beta of 40%. Is that reasonable? What have you guys seen so far as far as the beta is concerned?

Bryan McKeag

Yeah. Our betas have probably been half of that, if not leaving a little bit lower. So, we, like most other banks, have really been holding down the cost. That will probably change. We'll probably catch up a little bit even from this last move. There's probably still some pressure to move rates up. And then I would think going forward, we'll be in that 30 to 40 range, do what we need to do. 40 is pretty much our high when we're in a significant rising rate environment.

Andrew Liesch

Gotcha. All right. Thanks for taking the question here. I'll step back.

Bruce Lee

You bet.

Operator

Thank you. One moment for questions. Our next question comes from Terry McEvoy with Stephens. You may proceed.

Terry McEvoy -- Stephens Inc. -- Analyst

Hi. Good afternoon, everybody.

Bruce Lee

Hi, Terry.

Terry McEvoy

Maybe Bruce, you described the charter consolidation is smooth. That's what I've got in my notes here. I'm wondering, could you just talk about feedback from employees, from customers? And as an outsider looking in, just reviewing the quarterly data, it really didn't appear to disrupt growth or client acquisition at all, but just would be curious kind of what you're seeing and hearing from your seat?

Bruce Lee

Yeah. Terry, I've got to tell you, I couldn't be more pleased with how this has gone. As we've always said that we really are great at M&A. And really, this is just doing our own internal M&A. And the teams, and I recognize several of them on the call, the planning that we put into this for over six months. The employee feedback has been fantastic. We haven't had any issues there at all. They're still using the same systems.

I would also say, the customer feedback has been very positive, especially now that they can use, where they are either, say, traveling into Arizona, wintering, they can use our branches there. That is a real advantage for them. In most cases, everybody was able to maintain their routing numbers. In a few cases, they've had to change account numbers, and that's really where we probably had the most significant issues. And it really hasn't been an issue. It just required us to get out in front of that and have conversations with our customers and supply them with their new account numbers. But very positive, it's had absolutely no impact at all on our growth and growth strategies that hasn't slowed us down at all.

Terry McEvoy

That's great to hear. When I look at the asset quality and include OREO and performing troubled debt restructuring loans, there was an uptick quarter-over-quarter. So, I'm wondering just your -- kind of what you saw within the loan portfolio. And again, there's kind of OREO and those TDRs popped up? And what are your expectations for Q4?

Bryan McKeag

Yeah. I'll probably let Nathan jump in and give your thoughts on that, Terry. Nathan?

Nathan Jones

Yeah. As we look at kind of the NPLs and the overall OREO, we've really -- I think it really showed that we've made so much headway around kind of over the last year, a year and a half. If you look at our NPLs, compare whether upside this quarter, if you look at them compared to 2019, they're down 25%. And a lot of our other credit metrics have improved significantly along the same lines. Our loan delinquencies are down from 2019 by looking at it from a dollar perspective, almost 55%-plus, non-pass is down from 7.4% in 2021 to 5.3%. So, we don't expect everything to be a linear improvement. We don't see any significant issues as we continue to

work through and continue to execute on improving the overall credit quality of the overall portfolio.

We think it's just a little bit of us working through that and not happening perfectly linear, but we continue to put the hard work in and to continue to improve the overall portfolio, and are optimistic we'll be able to continue to make positive results in relation to that work.

Bryan, anything you'd like to add back on top of that?

Bryan McKeag

Yeah. I think just related to the TDRs, Terry, there's a couple in there that. One, I know, was a holdover from some of the extensions that we did during COVID. I just needed some additional help. And the cumulative time, we just need to move it to TDRs, it's making its payments as we had hoped. It's just needed a little bit more time, so it crossed the line into a TDR. Both of them are rated substandard. So, they're getting a pretty healthy reserve in our process anyway. So just ...

Terry McEvoy

Perfect. Thanks for taking my questions.

Bruce Lee

Thanks Terry.

Operator

Thank you. One moment for questions. Our next question comes from Damon DelMonte with KBW. You may proceed.

Damon DelMonte

Hey. Good afternoon, guys. Just wanted to clarify, Bryan, the guidance on the provision. I think you said between $3 million and $5 million, assuming no changes for economic conditions. Like this quarter was loan growth and also from what I read in the release, kind of a broader comment about potential softening of credit trends. So that was kind of factored into the provision this quarter. So, do we think about the $3 million to $5 million specifically for the loan growth? And that, if economic trends continue the way they are, we could see a provision similar to what we saw this quarter?

Bryan McKeag

Yeah. I think unless there's a significant change, and the main drivers that we use are unemployment. And those both went down this quarter from last quarter. And so, I think if those don't just go down quite a bit, you can be -- we can be right in that range, based on the

credit quality that we've got going into this quarter with -- as we talked about, the low delinquencies, non-pass in a really good range. So, it will be mostly a loan growth and then whatever change in economics, and then a little bumps here and there that we just normally get as we go through the process.

Damon DelMonte -- KBW -- Analyst

Okay. All right. Great. And then, for the expense guidance, did you say you hope to keep it in the $105 million, $106 million range?

Bryan McKeag

Correct. Yeah. That -- kind of that core run rate component of it, that would exclude those items I talked bumpy.

Damon DelMonte

Yeah. Exactly. Okay. So, I guess, on that point, what gives you confidence of being able to kind of keep things flattish just given the kind of the inflationary environment that we're in now and other wage pressures that have been a common theme throughout the quarter?

Bryan McKeag

Yeah. Our FTEs are down again this quarter. I don't know if they're going to go down a whole lot more. We've done a really good job, if you look at our FTE trends in the earnings release. So, I think we're at that point. We're managing that well. And we have been providing for a strong year for our bonuses. Sometimes we get a bump at the end of the year. So, I believe that we've kind of -- we're in good shape for all that. Wages -- all wage inflation is always something we're working on. But we've been able to manage it through for the last two, three quarters and I think we can continue to do that.

Damon DelMonte

Got it. Okay. Great. And then just lastly, on the margin outlook, it seems if we get another 75 basis points later this week, that bodes well for you guys. As you look out into 2023, where do you kind of see the margin peaking as far as like what time of the year? Do you think you can go through at least the first half of the year with a rising margin? Or do you think you could start to see some ramping of deposit betas that will kind of limit further expansion as you go through 2023?

Bryan McKeag

Yeah. Obviously, the Fed will play a big part in that. How -- as long as they keep moving, we will keep moving up. As I said, at a 40% deposit beta, we still have enough asset sensitivity to cover that. If we have to go into say 50%, 55% of that, if it gets really competitive and we have to do

that on deposits, then there's probably getting to a push, there's no benefit for a rate increase so.

Bruce Lee

And I think I look at it, Damon, a little -- the way I look at it, the time the Fed stops increasing, we probably will continue to increase our margin about one more quarter and then it starts to top out, the way that I would describe it.

Bryan McKeag

Because there's a lag on asset reprice.

Bruce Lee

Because we have the lag effect.

Bryan McKeag

Yeah.

Damon DelMonte

Got it. Okay.

Bruce Lee

We feel very positive about funding our loan growth because of what's coming off of our investment portfolio, as Bryan already mentioned, with $1 billion next year.

Damon DelMonte

Great. Great. Okay. Perfect. That’s all I had. Thanks a lot. Appreciate the color.

Bryan McKeag

Thank you.

Bruce Lee

Thanks Damon.

Operator

Thank you. [Operator Instructions]

Our next question comes from Jeff Rulis with D.A. Davidson. You may proceed.

Jeffrey Rulis -- D.A. Davidson

Thanks. Good afternoon. Just a couple of questions to follow-up on. Bryan, do we have a sort of a percent of the $20 million savings that you've earmarked in savings for the consolidation? Are you along a path of achieving a certain amount of that already, I guess, through -- do you have to be completely complete to recognize that? Or is there a number that you think you've already achieved on that?

Bryan McKeag

Yeah. Bruce ask me that all the time. And it's really hard. As you know, a lot of this stuff -- and I hate to use that term, but -- right? These expenses are linked to tougher things, but we have been reducing our FTEs. We've been -- some of that is our branch optimization. So, you've got all that going on at the same time. So -- but what I look at, Jeff, is that core expenses to average assets, and we have taken out a pretty good chunk of the $20 million already in various forms.

Again, it's hard to figure out how much of that is from that branch optimization and how much is from the charter consolidations are happening at the same time. But I feel pretty good that we've got a good piece of it already in. There will be more next year as we continue to consolidate. But we're doing pretty well, I think.

Bruce Lee

I mean, Jeff, it's not quite linear, like we've got four out of our 11 banks done. So, have we achieved 40% of the 20, that's probably not necessarily the way to look at it. But with the growth that we've had, we've definitely increased our capacity without increasing our expenses. So, the way I think about it, we're probably 25% to 30% of the $20 million we've already achieved, even though we still have eight or nine months to go.

Jeffrey Rulis

Got it. Thanks for the detail. Kind of a lot of puts and takes there, but helpful. And as you said, Bruce, I mean, as the transition or the consolidations are pretty smooth, that bodes well, I suppose, for the remainder. But just hopping over to the housekeeping a little bit on that, Bryan, I think you alluded to this. In the other income line down, linked quarter is kind of cut in half. Was that largely just reduced swap income?

Bryan McKeag

Yeah. And also, that's where the Visa B share gain was last quarter.

Bruce Lee

$1.9 million.

Bryan McKeag

$1.9 million. Yeah.

Jeffrey Rulis

And the -- you do think the swap, that kind of comes back some again to offset maybe some of the gain on sale?

Bryan McKeag

Yeah. I think a little bit. Obviously, our loan growth that Bruce projected for next quarter is about what we did this quarter. But I think we've got some things in the pipeline. Hopefully, that can keep that flat to slightly up.

Bruce Lee

Yeah. And I would just say that...

Bryan McKeag

We can move our service charges up a little bit.

Bruce Lee

Right. Yeah. And in the second quarter, I mean, our capital markets income, we really overachieved. We had a huge loan growth that we're able to capture not only syndication fees, but also some swap fees. And we have more and more customers talking about swapping some of their floating rate debt. Those conversations have increased fairly dramatically over the last couple of quarters.

Bryan McKeag

But having said, I would say that, that number of the things that I told you about the future, that's the lumpiest number, and that's the one that has probably got as much challenge to get into that range and keep it in that range as any of the other numbers that I quoted in terms of what we expect going forward.

Jeffrey Rulis

Okay.

Bruce Lee

But we feel very good about treasury management fees, commercial card fees. We have great run rates going there, and it's not as lumpy. But the mortgage business is off. The wealth business, we'll see how the billings are because of the way the market rallied here in October.

Bryan McKeag

See how it reacts to the next Fed cut, which sounds pretty certain here of 75 basis points, at least here in a week or so.

Jeffrey Rulis

Okay. And the last one I had, just clarifying. I didn't -- maybe I missed it. Just again, the uptick in kind of, call it, non-accruals and/or OREO. Did you outline an asset class outside of -- I think you mentioned kind of healthcare. Was there anything else in there that kind of led to some of the sequential increase by type?

Bryan McKeag

No. I think the one thing I would say, that increase in the OREO is really from a credit that we have talked about for, not just quarters, years. It's a workout credit that we've had here in the Midwest. It's a hog operation, and I think you've heard us talk about before. It's now finally made its way to OREO. I know that our special assets guys are working hard to try and see if we can get it off the books but.

Bruce Lee

Nathan, do you have any other color on that?

Nathan Jones

No. Bryan articulated well. It's one we've been working with for many years, even predates me here, something we're helping to draw a resolution on here shortly.

Jeffrey Rulis

Thanks guys.

Operator

Thank you. As there are no further questions at this time, I would now like to turn the call back over to Mr. Lee for closing comments.

End of Q&A

Bruce Lee

Thank you, Josh. The HTLF Board of Directors has approved a quarterly cash dividend of $0.28 per share on the company's common stock, a 4% increase from a year ago. The dividend is payable on November 29, 2022.

In closing, HTLF is executing our strategy. We are delivering results, and we're exceeding expectations. In the third quarter, we delivered $185 million of revenue, a 5% increase from the

linked quarter, $54.6 million of net income available to common shareholders, and EPS of $1.28.

Organic loan growth totaled $255 million or 2%. Our efficiency ratio decreased 512 basis points from a year ago to 55.26. Our credit quality continues to be solid, and we're seamlessly executing charter consolidation to deliver improved customer experience, efficiency and unlock capacity for future growth.

Thank you for joining us. Our next quarterly earnings call will be in late January. Have a good evening.

Operator

Thank you. This concludes today's conference call. Thank you for participating. You may now disconnect.