Heartland Financial USA, Inc. (NASDAQ:HTLF) Q4 2022 Earnings Conference Call
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Company Participants

Bruce Lee - President & CEO

Bryan McKeag - EVP & CFO

Nathan Jones - EVP & Chief Credit Officer

Conference Call Participants

Terry McEvoy - Stephens

Damon DelMonte - KBW

Jeff Rulis - D.A. Davidson

Andrew Leisch - Piper Sandler

David Long - Raymond James

Operator

Greetings, and welcome to HTLF 2022 Fourth Quarter Conference Call. This afternoon, HTLF announced its fourth quarter earnings, and hopefully, you had a chance to review those results. The earnings release is available on HTLF' website at htlf.com.

With us today from management are Bruce Lee, President and CEO; Bryan McKeag, Executive Vice President and Chief Financial Officer; and Nathan Jones, Executive Vice President and Chief Credit Officer. Management will provide a 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 provided today falls under the guidelines of forward-looking statements as defined by the Securities and Exchange Commission. As part of these guidelines, 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 or the SEC website.

I will now turn the call over to Mr. Bruce Lee, HTLF'S President and CEO. Sir, you may begin.

Bruce Lee

Thank you, Twanda. Good afternoon, everyone. This is Bruce Lee, President and CEO. Welcome to HTLF's 2022 fourth quarter earnings conference call. I appreciate you joining us today, as we discuss our continued strong performance and ongoing momentum.

For the next few minutes, I'll discuss HTLF's highlights for the fourth quarter and year, then turn the call over to Bryan McKeag, Chief Financial Officer, for more on our results. Also joining us today is Nathan Jones, Chief Credit Officer, who can answer questions regarding the excellent credit quality across our portfolios.

HTLF had tremendous success and significant growth in 2022. We are driving momentum, executing our strategy and delivering strong results that exceed expectations. This month, our Board of Directors approved a record quarterly cash dividend of $0.30 per share on the company's common stock, a 7% increase from the previous quarter. The dividend is payable on February 28, 2023. This increase reflects our strong performance for the quarter and year and our confidence in our strategies and ongoing results.

In 2022, revenue was a record $726 million, an increase of $37 million, or 5% for the year. Total revenue increased $10 million, or 5% from the linked quarter. For the year, we delivered net income available to common stockholders of $204.1 million and EPS of $4.79. For the quarter, net income available to common stockholders was $58.6 million and EPS of $1.37. For the quarter, we saw notable expansion of our net interest margin on a tax equivalent basis, rising 20 basis points to 3.65%.

Our efficiency ratio decreased 15% from a year ago to 54.33. For the year, we reduced our number of employees by 11%. We're driving efficiency while investing for growth. And total assets grew to a record $20.2 billion, up $970 million, or 5% from a year ago. Assets increased $561 million or 3% from the linked quarter. Asset growth was driven by strong momentum in commercial and consumer loans, and we continue to see growth in deposits and service fees.

Let's start with loan growth highlights. In 2022, we saw tremendous loan growth of $1.6 billion, or 17%, excluding PPP across our portfolios. In the fourth quarter, loans grew $505 million, an increase of 5% from the linked quarter and greatly exceeding our guidance for the quarter.

This includes approximately $105 million in increased credit line utilization, primarily in Agribusiness and approximately $100 million of loan growth which we previously expected to close in the first quarter. This was an exceptional quarter, and our commercial loan pipeline remains strong at over $1 billion. We expect total loan growth of $150 million to $200 million in the first quarter. In the fourth quarter, we saw significant strength across our commercial portfolios.

From the linked quarter, commercial and industrial increased $185 million or 6%. Owner-occupied real estate decreased $20 million or 1%. Non-owner occupied real estate

increased $111 million, or 5%. Construction increased $80 million, or 8%, and our Ag portfolio increased $139 million, or 18%. Seasonal line utilizations were up, and we expect this to normalize in the first quarter.

For more on line utilization, please see Page 24 in the investor deck. In the fourth quarter, we saw commercial loan growth in eight of our 11 bank markets. We added 303 new commercial relationships, representing $296 million in funded loans and $229 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 79% and of these loans have variable rate structures compared to 69% last quarter.

The depth and breadth of our products and services is expanding relationships and developing new ones. We have made strategic investments in specialized industry verticals and capital markets expertise, including loan syndications, interest rate derivatives, trade finance and foreign exchange and we're driving business in fee-generating products. Service charges and fees increased $2.1 million, or 14% for the year and 1% for the quarter, driven primarily by our growing credit card business.

In 2022, HTLF reached a significant milestone surpassing $1 billion in purchase volume as a commercial card issuer. HTLF continues to be one of the fastest-growing Visa commercial card issuers. For more on the growth of our commercial non-interest income, please see Page 20 in the investor deck. Our consumer loan portfolio saw significant growth in 2022, increasing $87 million or 21%. Consumer loans grew $11 million, or 2% from the linked quarter. Residential mortgage increased $24 million, or 3% for the year and was flat from the linked quarter.

Turning to deposits. Non-time deposits increased $302 million, or 2% for the year. Non-time deposits decreased $448 million, or 3% from the linked quarter, mostly due to balanced declines that occurred in our commercial operational accounts for seasonal needs and year-end distribution and not as a result of account attrition. We expect these account balances to rebuild over time.

Time deposits increased $793 million, or 77% for the year and $694 million, or 62% from the linked quarter. The increase in time deposits for both the year and the quarter was primarily driven by an increase in wholesale time deposits. Overall, total deposits grew to a record $17.5 billion, an increase of $1.1 billion, or 7% for the year and $245 million from the linked quarter.

We maintain our favorable deposit, 90% of deposits are in non-time accounts, 36% of total deposits are in non-interest-bearing accounts and our deposit pricing strategy continues to serve us well. In the fourth quarter, core deposit costs were 44 basis points and total deposit costs 74 basis points. For detail on our deposit beta, please see Page 23 of the investor deck.

Turning to key credit metrics. Our disciplined credit approach is delivering excellent credit quality across our portfolios. Delinquency ratio is at a historic low of 4 basis

points. Non-performing loans represented 51 basis points of total loans. Non-performing assets as a percentage of total assets remained low at 33 basis points. Non-pass rated loans decreased to 4.7% from 5.3% in the linked quarter.

Lastly, in the fourth quarter, we had net loan recoveries of $1.7 million. We continue to take a conservative credit approach given concerns around the current economic environment. Despite some headwinds, we’ve sustained momentum, we're executing our strategies, and we're delivering record revenue, record organic loan growth, record customer acquisition, improved credit quality, expanded net interest margin and a lower efficiency ratio.

We're doing all this while consolidating our bank charters. In 2022, we successfully executed five bank charter consolidations with our banks in Arizona, California, Colorado, Illinois and Minnesota becoming divisions of HTLF Bank. 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 delivered $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. In 2022, we reduced our number of total branches by 8% to 119 total locations. In alignment with HTLF Banks Colorado Charter, as of January 1, HTLFs corporate headquarters is now in Denver. Geographic diversity is a strength of HTLF. We have 11 markets in 12 states with Denver as our largest market. HTLF's corporate headquarters in Denver reinforces our presence and commitment to global markets.

We are committed to our strong and sizable presence in Dubuque, Iowa, where 17% of our employees are located. HTLF operational and administrative functions will continue to be largely staffed and run from Dubuque. As I look back on 2022, it was a year of significant growth and tremendous accomplishment for HTLF. We continue to execute our strategies, grow our business operate more efficiently, deliver strong results, and most importantly, serve our customers and communities.

This is all the result of the hard work and dedication of HTLF's employees. I want to recognize and thank them for their continued commitment to delivering strength, insight and growth to our customers, communities, investors and each other. We move forward together because together, we are HTLF.

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

Bryan McKeag

Thanks, Bruce, and good afternoon. As Bruce just outlined, this was another strong quarter for HTLF with earnings per share of $1.37, loan growth of just over $500 million, revenue growth this quarter of over $10 million and stable clean credit performance.

Included in this quarter's results were three large notable items. First, $2.4 million of losses on the sale or write-down of assets [Technical Difficulty] related.

Second, charter consolidation restructure costs of $2.4 million; and third, shareholder dispute resolution costs of over $1 million. Together, these items decreased pretax net income by more than $5.8 million and earnings per share by $0.11. Before I go into more detail, I want to remind everyone that our fourth quarter earnings release and investor presentation are both available in the IR section of HTLF's website.

So I'll start my comments with the provision for credit losses, which totaled $3.4 million, that's up -- that's a $2.1 million decrease over last quarter. This quarter, the provision reflects our strong loan growth, continued stable, healthy credit performance and an economic outlook that anticipates a moderate recession developing over the next 12 months.

In addition, the provision benefited from $1.7 million of net loan loss risk (ph) recoveries. At quarter end, the allowance for related for lending-related credit losses, which includes both the allowance for credit losses on loans and unfunded commitments increased $5.1 million to $129.7 million or 1.13% of total loans. In addition, at quarter end, unamortized purchase loan valuations on the balance sheet totaled just over $10 million or 9 basis points of loans.

Moving to investments. Investments remained flat at $7 billion, representing 35% of assets with a tax equivalent yield of 3.45% and will generate cash flows exceeding $1 billion over the next 12 months. We continued to actively manage the portfolio by taking several actions during the quarter. First, we utilized nearly $65 million of cash flow this quarter to fund loan growth. And second, we took advantage of some mid-quarter market disruption and reinvested $115 million cash flow into a AAA rated security with a purchase yield of nearly 9% and a duration of less than a year.

With regards to capital, regulatory capital ratios remained strong with common equity Tier 1 at just over 11% and total risk-based just over 14.75%. The tangible common equity ratio reversed a several quarter decline, increasing 27 basis points to 5.21% at quarter end. The rise in market value of investments this quarter contributed 15 basis points of the increase.

Moving to the income statement, starting with revenue. Net interest income totaled $165.2 million this quarter which was $9.3 million higher than the prior quarter. And the net interest margin on a tax equivalent basis rose 20 basis points this quarter to 3.65%. The main drivers of the increase were our strong loan growth and asset-sensitive balance sheet and the Fed's short-term interest rate increases. This quarter, the net interest margin includes 3 basis points of purchase accounting accretion, which is unchanged from the prior quarter.

Non-interest income of $30 million this quarter was $800,000 higher than the prior quarter. Excluding security losses, core non-interest income was $30.1 million, which

was at the high end of our 28 -- $29 million to $30 million forecast. So in total, quarterly revenue grew $10 million or 5% and exceeded patients.

Shifting to expenses. Non-interest expense totaled $117.2 million this quarter, that's up $8.3 million from last quarter. Excluding restructuring, tax credit costs and asset gains and losses, the run rate of recurring operating expenses increased $3.1 million to $109.1 million compared to $106 million last quarter, and exceeded our forecast of $105 million to $106 million.

Operating expenses were higher than anticipated in Q4, primarily due to legal and other cost reimbursements related to the resolution of a shareholder group dispute and higher incentive compensation accruals due to stronger than expected revenue -- quarterly revenue and loan growth. As a result of the strong revenue growth this quarter, the fourth quarter efficiency ratio improved to 54.33% from 55.26% last quarter.

Now looking ahead to 2023. HTLF expects to see continued success and improvement, highlighted by expected loan growth of 6% to 8% next year with $150 million to $200 million expected next quarter. Deposit growth is expected to be 3% to 5% next year, with Q1 expected to show nominal growth.

Investment cash flow will be utilized to fund the gap between loan growth and deposit growth. Net interest income for Q1 will be down versus Q4 due to two fewer days in the quarter. Full year net interest income will be much higher than 2022, that reflects our higher net interest margin and larger balance sheet. However, magnitude of the increase will be dependent upon future Fed rate moves and deposit pricing, which are difficult to predict at this time.

Provision for credit losses are projected to range from $4 million to $6 million per quarter, given projected loan growth and assuming credit trends began to normalize from their current levels. However, declines in economic conditions and projections could significantly impact future provisions, if a worse than moderate recession develops.

Core non-interest income, that is excluding investment gains and losses is expected to be $28 million to $29 million next quarter, and is projected to raise 4% to 5% on a full year basis, as persistently weaker mortgage revenue is offset by growth in other income categories, primarily commercial fees.

Recurring operating expenses are expected to be $108 million to $109 million next quarter, and show a 2% to 3% increase on a full year basis. This includes the impact of an increase in FDIC costs of $3 million to $4 million for the full year. Charter consolidation and restructuring costs are expected to be $2 million to $2.5 million next quarter. In total, we estimate the remaining costs to complete the project will approach $10 million over the next four quarters. And finally, we believe a tax rate of 22% to 23%, excluding new tax credits, is a reasonable run rate.

So with that, I'll turn the call back over to Bruce for questions-and-answers.

Bruce Lee

Thank you, Bryan. We want to open up the call to Tawanda.

Question-and-Answer Session

Operator

Thank you. We will now conduct a Q&A session. [Operator Instructions] Our first question comes from the line of Terry McEvoy with Stephens. Your line is open.

Terry McEvoy

Hi. Good afternoon, everybody.

Bruce Lee

Hi, Terry.

Terry McEvoy

Hi, Bryan. Thanks for the all the financial outlook. Maybe if I could just ask a question, the $20 million of benefits from the charter consolidation, could you remind me, is that all on the expense side? And then maybe if we just take a step back, could you give us a few real world examples of the benefit to the charter consolidation outside the numbers? And maybe just to finish the thought or has there been any impact on local decision-making or even the perception that things have changed there? Thank you.

Bruce Lee

Yeah, Bryan, let me maybe answer -- give some comments on Terry's last question. There is absolutely no impact on local decision-making, not only the perception, but there's actually no impact. The decisions that our local CEOs and leadership teams were able to make pre-charter consolidation and post-charter consolidation are exactly the same. So there's absolutely no change there, and it's actually gone very, very, very smoothly.

Bryan, why don't you talk a little bit about the real world, examples of not just the expense side, but the actual changes because your area has a lot of that benefit?

Bryan McKeag

Yeah. I think there's certainly internal efficiencies that we'll gain Terry, for example, not doing as many call reports. That's a simple one, right? But we also manage multiple investment portfolios will eventually only need to manage one. Same with liquidity,

maintaining liquidity at 11 banks versus one. So there's a lot in finance. There's -- throughout the operations side, Rego (ph) doesn't have to be reported as much. There's some compliance things that help as well. So there's lots of those things. I think for traditionally, for customers, it will be easier for them to bank at any one of our locations across the footprint, easier than it is today and so there are customer benefits as well.

In terms of the $20 million efficiency gain in terms of dollars, it's really in a couple, maybe two or three places. The predominant place is expense savings. As you can probably see, our FTE count is down already. Whether we have to replace some of that, but we certainly won't have to replace it, I don't think, all back to the levels that we were before because it will become more efficient. So there's some cost takeouts for not having to do certain things, but there's going to be efficiency gains as well, where we won't have to add back people even if we continue to grow.

And maybe the third, and this is probably the smaller one, is there's probably some efficiencies in the treasury area just with when we do exercise some of our trades, they're probably bigger blocks and we can maybe get a little bit better execution. So one other thing that -- one big benefit that we get internally is, we don't have to participate loans back and forth between banks. And we spent a lot of time in the operations area and in the finance area kind of sorting that out and we put it all together, but then keeping the bank separate. Bruce, anything else to add?

Bruce Lee

Yeah. Just two other things, and I want to piggyback on what Bryan just said about the internal loan participations between our charters. One of the real benefits of the banks that we've already consolidated is that their balance sheet and, therefore, their income statement now actually reflects the work that they've done, where before, if they had made a loan and it was participated only the amount of the loan that was not participated remained on their balance sheet. So they're actually now getting the full benefit for everything they're doing, whether it's originating loans or on the deposit side. They're getting the benefit of the deposits if others are using those deposits to fund loans.

So that -- and then also we had to manage capital at 11 different charters in the past where now you don't have to do that. So those are just some of the kind of the non-expense side, but the real benefits in how we operate going forward, Terry.

Bryan McKeag

Thanks for the question.

Terry McEvoy

Thanks for all the color there. And then as a follow-up on the deposit side, what's it, $800 million of brokered CDs at $3.95, can you just talk about how long you expect

those to be on the balance sheet? Is it kind of a one year type product and maybe what's your deposit beta going forward from here, it's been relatively low so far?

Bruce Lee

Yeah. Bryan, why don't you take that one?

Bryan McKeag

Yeah. So I think the $800 million of CDs, brokered CDs, I believe, are all less than a year, and I think they're predominantly less than six months, so they're not long CDs, Terry. And then our deposit betas and you probably can see in the deck that they're about -- there's been about 14 basis points or 15 basis points or beta in the fourth quarter. I think those will move up a little bit. It wouldn't surprise me if we saw another five to 10 ticks on that beta, just we're going to do a little bit of catch-up, but we moved it pretty close to the market, but we're going to move a little bit more to stay with the market.

And on the consumer -- our commercial side, we have been making decisions all along that we need to make, to make sure that we maintain our customers and are open to what relationships we have to customers to price properly.

Terry McEvoy

Great. Thank you for taking my questions and enjoy the night.

Bruce Lee

Thanks, Terry.

Operator

Thank you. Please standby for our next question. Our next question comes from the line of Damon DelMonte with KBW. Your line is open.

Damon DelMonte

Hey. Good evening, guys. Hope you guys are all doing well today and thanks for taking my questions. Just wanted to ask a little bit about the margin, Bryan. I heard the commentary that NII will be down on a lower day count in part. Just kind of wondering, where you see the margin peaking, if you think at the first quarter event or a second quarter event and kind of how you look at the cadence of margin throughout the year?

Bryan McKeag

Yeah. That's probably the toughest question I'm going to get today because [Technical Difficulty]. Let me take it in chunks. I would say the first quarter here on margin, I would say would stay -- without any Fed moves, we would probably stay just slightly below the

365 that we posted. I think there is, as I said, there's some latent data catch up here that I think happened in December and maybe even in early January. So I think we'll fight without any Fed help to stay there.

Now, if the Fed raises, like, everybody thinks 25 basis points in a couple of days, we'll get a little bit of benefit from that, but not nearly like we were getting before. And I think the deposit betas are going to continue to ratchet up a bit. So we might get a tick or two there. So I would say, all in, we're going to stay somewhere in the first quarter between $3.60 for sure and maybe $3.65 on the top end. For the full year, if the Fed doesn't reduce rates in the last half of the year, maybe we get one additional, so we'll get two bumps instead of one.

I think we can stay above $3.60. But we probably are close to topping out. Now, we might go up a little bit with the Fed move, but I think we're going to slide back down. So we might touch a little bit higher, but I think we're going to bounce around this $3.65 to $70 maybe once in a while. But then I think long term, we're in the $3.60s.

Damon DelMonte

Okay. That’s helpful. Thank you. And then with regards to the outlook for loan growth, I think you said like 6% to 8%. Are you seeing greater opportunities on the C&I side or the security side or is it kind of equally weighted?

Bruce Lee

Yeah. This is Bruce. Let me take that, and then I'll ask Nathan to weigh in since he sees everything. I think there's more opportunity right now on the C&I side. And our Agribusiness group is also generating a lot of opportunity. There's some activity clearly on the real estate side, particularly in the industrial space, some of the warehouse some distribution and a couple of the markets still has some multifamily activity going on.

Nathan, do you want to add to that?

Nathan Jones

Yeah, Bruce, I would fully concur. I think the opportunity is really to show themselves on the C&I side and then where we're seeing opportunity on CRE and being very strategic. We do see some good opportunities there as they're coming about, but they're just not as prevalent as they had been historically. Currently, because we're just watching a little bit tighter now and taking precautions appropriate for sizing and doing sensitivity to make sure that they'll perform through the cycle.

Damon DelMonte

Got it. And then kind of a more technical or detailed question here. What is your exposure to office space?

Bruce Lee

Nathan?

Nathan Jones

Yeah. We have just a little bit north of $450 million exposure there from a balance perspective.

Damon DelMonte

Okay. Perfect. Okay. Great. That’s all that I had. Thank you.

Bruce Lee

Thanks, Damon.

Bryan McKeag

Just to add maybe on to that office close, Nathan, you might add where those offices are typically located because I think office can be a very general term. Is it downtown high-rise office space? Is it more low-rise suburban. Could you give a little bit of that color? Nathan, I think that would help everybody on the call.

Nathan Jones

Yeah, absolutely. Just by nature of kind of where we are located in our footprint, we really see kind of more focused outside of the potential business districts and more focused kind of in the suburban office kind of really looking at more of a granular portfolio, multi-tenant nature, amortizing, and we think they're well underwritten.

So far, we feel very good about where we're at, but we are walking in very diligently and kind of continuing to stay in front of them talking with our customers and making sure that we understand kind of where they're at, and so we can make those decisions earlier. But from that perspective, we do feel the performance today still looks pretty good.

Bryan McKeag

Thanks for doing that Nathan.

Operator

Thank you. Please stand by for next question. Our next question comes from the line of Jeff Rulis with D.A. Davidson. Your line is open.

Jeff Rulis

Thanks. Good afternoon. Maybe one for Nathan. Just wanted to the type of loans that were, I guess, resolved out of non-accrual in the quarter, I think it's $6 million net. But I just wanted to kind of get a sense for what was recovered.

Nathan Jones

Yeah, absolutely. We -- it's certainly -- there wasn't any area of significance. The recovery was really on a credit that we had in agriculture from really several years back just due to the really great work done by our special assets group to stay with it. It was really to see through and get some recoveries there.

From the non-performing perspective, kind of how that's going. We just continue to work it down. I wouldn't say there's any one area of specifically you could call out as being a systemic as we were working through it. It's just the overall book itself. We continue to work hard to make sure we're getting ahead of those credits and getting them either A, back into our performing line of business or helping find for bank or opportunities for them going forward.

Bryan McKeag

And Nathan, that's not a change -- Sorry, Bruce, go ahead.

Bruce Lee

No. I was just going to provide a little more color. Jeff, the recovery was on a loan that had been previously fully charged off. So it didn't have any -- that was not connected to the decrease in our non-accrual loans.

Jeff Rulis

Right. Yeah, if I kind of clubbed the question there. I was really looking for the direction of non-accrual, I got you. But I think, Nathan, kind of not anything overly specific. It's been just continued work. And kind of the follow-on was there's no change in aggressiveness. It's not as if this mild recession is upon us. You didn't change gears or anything. It's just work in those credits and just got, like you said, non-descript reductions in non-accruals?

Bryan McKeag

Correct. Okay. Thank you for the clarification on that, Bruce.

Jeff Rulis

And just a follow-on, maybe for Bryan. Did that recovery impact the margin at all? Was that -- was there anything in there that you'd say that kind of non-core, the $3.65?

Bryan McKeag

Yeah. No, there was no interest recovery. It was all principal recovery. This one, Jeff, just for a little bit of color, this one was -- one of the loans that we charged off coming into the COVID. We had a couple of big charge-offs as we entered COVID. I think it was back from that time. So it's been like three -- almost 2.5, three years since we took the charge off.

Jeff Rulis

Okay. Got it. And just jumping over on topics to the expense side. I wanted to make sure I got the $108 million to $109 million. Bryan, you said 2% to 3% full year growth, correct?

Bryan McKeag

Yeah.

Jeff Rulis

Okay. And that would exclude the chartered restructuring costs of $2.5 million, correct?

Bryan McKeag

Correct. Yeah. It excludes those items. I always exclude the charter. We can restructuring any tax credit costs from last year and any gains and losses that are in that expense line item. If you back those out of last year and put a 2% or 3% increase on top of that, that's why.

Jeff Rulis

Bryan, do you have a '22 core expense number relative to the $443 million, like what would be the core?

Bryan McKeag

I probably could get it. I don't have it here. I need to do some math and sometimes doing math while everybody is on the call.

Jeff Rulis

I understand. Yeah, if we could follow up, that's that we do and I'll...

Bryan McKeag

It is pretty easy though, Jeff. If you go to our income statement, if there's three line items specific to those three items I talked about.

Jeff Rulis

Okay. Appreciate the query crack it down. Okay. Well, thank you, I'll step back.

Bruce Lee

Thanks, Jeff.

Operator

Thank you. Please stand by for our next question.

Our next question comes from the line of Andrew Leisch with Piper Sandler. Your line is open.

Andrew Leisch

Hi. Good afternoon, everyone.

Bruce Lee

Hey Andrew.

Andrew Leisch

Following up on the expenses here. Just looking in once the charter conversion is complete, consolidations complete you have the cost savings in there. Has there been any -- have you looked out and seen on other investments in the franchise you expect to make? Are any of these savings going to be redeployed or do you think they're all going to follow the bottom line.

Bruce Lee

Yeah, Andrew, I think that's a really great question, and I would anticipate that as I'm thinking about it, over half of them will probably redeploy into the charter with products or potentially some geographic expansion, but it's really where the opportunities are, at the end of the day. Yes. And one of the things that we've been talking about, as you know, we'll probably reinvest in our consumer deposit platform. That's one of the things that we'll probably reinvest in during maybe the back half of '23 or early in '24.

Andrew Leisch

Okay. Got it. That's helpful there. And then on the growth for this year, 3% to 5.5% deposits, growth, because where is that deposit growth coming from? I would imagine it's not on the wholesale side that you had here this last quarter, but what's giving you the confidence that 3% to 5% is achievable in this tougher environment?

Bruce Lee

Yeah. We think it will come from the commercial side and the small business side, where we've been generating a lot of new business and new opportunities. We think the consumer side honestly, it will probably be flattish as we're just now starting to see the average balances in our consumer accounts start to decrease. You've heard us talk in the past that those extra balances during the pandemic, they were holding steady. We just saw them start to decrease for the first time during the fourth quarter.

So our goal is to generate enough new business to offset that decrease on the consumer side, and we think that we'll be able to grow the commercial in the small -- in the business banking and small business side on a go-forward basis. And we would have done that this year, except we did have a significant commercial operational outflows in the quarter that I referenced.

Andrew Leisch

All right. Thanks for taking the questions. I'll step back.

Bruce Lee

Thanks, Andrew.

Operator

Thank you. Please stand by for our next question. Our next question comes from the line of David Long with Raymond James. Your line is open.

David Long

Hi, everyone.

Bruce Lee

David?

David Long

I wanted to circle back to the discussion on the deposit base. And Bryan, you gave some good color, so I appreciate it. But just as you're looking out to the rest of this year, non-interest bearing, I think we're at about 32%. Where do you think that ends the year? And do you have a rough deposit beta all in that you're using for your outlook for this year as well?

Bruce Lee

Bryan, do you want to take that one?

Bryan McKeag

Yeah. I think our DDAs are 36% the way we calculate it. I know if maybe you've got average balances or something, Dave. But I think it's 36%, but that's down a little bit from where it was. So that has moved a little bit this year with the way deposits have flown. So I think -- we think that, that can probably solidify and some of that outflow that we saw at the end of the quarter was out of DDA in the commercial side.

So hopefully, some of that will flow a little bit and build back. And I think the new customers that Bruce was talking about, if we're successful in bringing in C&I customers, which we have been, those tend to be more DDA and non-interest-bearing accounts. So I think there, we can hold our own and maybe grow just a little bit on the DDA side and certainly grow the non-maturity deposits in total. Betas that we… Go ahead, Bruce.

Bruce Lee

No, go ahead.

Bryan McKeag

I'll finish with the betas and then you can jump in and add some color. I was just going to say, our betas that we model are typically around 25% to 30% on the non-maturity and probably around 80% on the CDs, kind of blends together for something in the mid-30s for overall betas. Now we've been doing better than that. Particularly, we did better than that in the first probably 200 basis point, 250 basis point move where we didn't move much, if any. So I still think we have some catch-up, which is why I think our margin is not going to go a lot higher and it's going to kind of tread water here because we're probably going to be having some catch up on those betas here going forward.

Bruce Lee

Yeah. And David, I was just going to mention on that commercial deposit growth, that will also help us on the treasury management fee side because those operating accounts of all those new relationships, we're able to provide them with our products that we have on the treasury management side as well as those C&I customers are using more of our capital markets products, whether they're swapping their floating rate loans, which this quarter, 79% of our loans were floating, which is an all-time high for us.

David Long

Got it. Thanks for the additional color. And then just the last thing I wanted to ask, back to the deposit side. Within your footprint, very broad-based footprint, do you notice any material differences in deposit pricing within your footprint? Are you getting better pricing out West, maybe in the Midwest, maybe Texas? I guess the question maybe specifically would be where do you see the least amount of deposit competition and where do you see the most competition?

Bruce Lee

I think the Midwest always has had more competition than the West. I mean that's been the history and you've heard us talk about that in the past. But I would tell you, the one market that probably we do the best in, is in New Mexico. That would -- and it's not so much that there's no competition. It's just we've got a great team out there. They've been there a long time. And there aren't as many credit unions as an example, out there. Where we are seeing the highest competition is where there's significant credit union activity, which also tends to be in the Midwest.

David Long

Got it. Thanks for taking my questions, guys Appreciate it.

Bruce Lee

Your bet. Thanks, David.

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 remarks.

Bruce Lee

Thanks, Twanda. In closing, HTLF had a strong fourth quarter and an outstanding year. In 2022, we delivered record total revenue of $726 million, a 5% increase, record loan growth of $1.6 billion or 17%, excluding PPP. Our fourth quarter efficiency ratio decreased 15% from a year ago to 54.33%.

Our credit quality continues to be excellent and improving. And we have increased the dividend on our common stock to a record $0.30 per share, all while seamlessly executing charter consolidation to deliver improved customer experience, efficiency and unlock capacity for future growth.

Our strong momentum continues into 2023 and we are well positioned to continue driving growth. Thank you for joining us tonight. Our next quarterly earnings call will be in late April. Have a good evening.

Operator

Ladies and gentlemen, this concludes today's conference call. Thank you for your participation. You may now disconnect.