East West Bancorp, Inc. (NASDAQ:EWBC) Q3 2023 Results Conference Call October 19, 2023 11:30 AM ET

Company Participants

Adrienne Atkinson - Director of Investor Relations

Dominic Ng - Chairman and Chief Executive Office

Christopher Del Moral-Niles - Chief Financial Officer

Irene Oh - Chief Risk Officer

Conference Call Participants

Casey Haire - Jefferies

Brandon King - Truist Securities

Broderick Preston - UBS

Ebrahim Poonawala - Bank of America

Dave Rochester - Compass Point

Manan Gosalia - Morgan Stanley

Matthew Clark - Piper Sandler

Timur Braziler - Wells Fargo

Gary Tenner - D.A. Davidson

Chris McGratty - KBW

Operator

Good day, everyone, and welcome to the East West Bancorp's Third Quarter 2023 Earnings Conference Call. All participants will be in a listen-only mode. [Operator Instructions] After today's presentation, there will be an opportunity to ask questions. [Operator Instructions] Please note that this event is being recorded.

I would now like to turn the conference over to Adrienne Atkinson, Director of Investor Relations. Please go ahead.

Adrienne Atkinson

Thank you, operator. Good morning, and thank you, everyone, for joining us to review East West Bancorp's third quarter 2023 financial results. With me are Dominic Ng; Chairman and Chief Executive Officer; Christopher Del Moral-Niles, our new Chief Financial Officer; and Irene Oh, Chief Risk Officer. This call is being recorded and will be available for replay on our Investor Relations website. The slide deck referenced during this call is available on our Investor Relations site.

Management may make projections or other forward-looking statements, which may differ materially from actual results due to a number of risks and uncertainties. Management may discuss non-GAAP financial metrics. For a more detailed description of the risk factors and the reconciliation of GAAP to non-GAAP financial measures, please refer to our filings with the Securities and Exchange Commission including the Form 8-K filed today.

I will now turn the call over to Dominic.

Dominic Ng

Thank you, Adrienne. Good morning, and thank you everyone for joining us for our earnings call. Before we start, I would like to welcome Adrienne and Chris. I would also like to congratulate Irene on assuming the role of Chief Risk Officer and thank her for her service as CFO, and help in ensuring a smooth transition. Their leadership will be integral in advancing the Company's growth strategy and risk capabilities.

I will now begin the review of our financial results on Slide 3 of our presentation. This morning, we reported strong results. Third quarter 2023 net income was $288 million and diluted earnings per share was $2.02, driven by a record level of quarterly revenue and net interest income. Our continued customer focus and diversified growth strategy allowed East West to grow loans from the prior quarter and add significant customer deposits. We kept expenses well controlled generated quarterly positive operating leverage and grew tangible book value. We also maintained broadly stable asset quality and continue to proactively manage our creditors.

Slide 4 presents a summary of our balance sheet position that is strong, well-diversified and efficient. You can see that we grew the customer deposits by $1 billion from the prior period, with notable growth in both our consumer and commercial balances. These customer deposits largely funded this quarter's loan growth, allowing us to use excess cash to pay down maturing wholesale deposits. We're also pleased with the mix of our loan growth where nearly half the growth came from low-risk residential mortgages.

In the third quarter, we generated industry-leading returns on our capital. We continue to maintain strong capital ratios, which are now the highest for regional banks. East West is on track for another year of record earnings in 2023, and we are looking forward to starting 2024 from a position of strength. Given our earnings stability, solid credit performance and strong capital levels, our Board of Directors has approved the resumption of our share repurchase program in the fourth quarter.

I will now turn the call over to Irene for a more detailed discussion of our portfolio and asset quality. Irene?

Irene Oh

Thank you, Dominic, and good morning to all on the call. I'll start with a discussion of our loan portfolio.

Slide 5 provides detail on our overall loan book. East West loans are largely balanced by type across residential mortgage, commercial real estate and C&I. Within C&I, our exposures are also well diversified by industry. Our greater China exposures remain limited at roughly 4% of total loans and nearly all our C&I loans, also well diversified by industry.

Slide 6 shows the details of our commercial real estate portfolio. It is important to note that East West's portfolio remains well diversified by geography and property type. When comparing our portfolio to the FFIEC commercial real estate concentration guidelines, we have consistently been below the guidelines since the end of 2009.

Slide 7 provides additional detail on commercial real estate. As you see, the portfolio is very granular with an average loan size of $3 million. The weighted average loan-to-value for the portfolio was a low 51%. Fewer than 25% of our commercial real estate loans have a loan-to-value of 60% or over. In the appendix, we have shared similar trends of low average loan sizes and LTVs within our office and retail commercial real estate portfolio.

Many of our commercial real estate borrowers have had long-standing relationships with our bank and a large portion of our loans are full recourse with personal guarantees. As a reminder, we typically originate amortizing loans with a maturity of 7 to 10 years. We also have low risk from near-term maturity. As of quarter end, only 8% of the income-producing commercial real estate portfolio matures in the fourth quarter of 2023 and for all of 2024.

On Slide 8, we provide detail on our residential mortgage portfolio, which is made up largely of single-family mortgages and also home equity lines of credit. Like commercial real estate, our residential mortgage portfolio is well diversified by geography and property. The average loan-to-value for our residential mortgage portfolio is also quite low at 51% and with close to 90% of our portfolio below a 60% LTV.

As you can see on the slide in our distribution behind geography, our residential mortgage loans are overwhelmingly in footprint with the primary source of origination coming through our branch network. Residential mortgage has proven to be a resilient source of loan growth for us growing 3% from the second quarter. I would also like to highlight that over 80% of our HELOC commitments, we are in first lien position.

Turning to Slide 9. The asset quality of our portfolio remains broadly stable. During the third quarter, we reported net charge-offs of $18 million or 14 basis points, an increase from net charge-offs of 6 basis points in the second quarter. Quarter-over-quarter, nonperforming assets as of September 30, decreased modestly to $104 million or 15 basis points of total assets from 17 basis points as of June 30.

The criticized loan ratio increased 38 basis points from June 30 to 2.01% of loans held for investment. The special mention loan ratio increased 29 basis points, quarter-over-quarter to 95% of loans held for investment as of September 30, and the classified loans ratio increased 9 basis points to 106% as credit continues to normalize. The increases were driven primarily by CN as some borrowers are being impacted by higher rates and inflation.

There were no industry or sector trends for this increase in criticized C&I loans and also no geographic trends to highlight and the slight uptick in commercial real estate criticized loans. We remain vigilant and proactive in monitoring and managing our credit risk. We reported a provision for credit losses of $42 million in the third quarter compared with $26 million for the second quarter building the allowance for loan losses ratio 1 basis point to $1.29.

Turning to Slide 10. As shown on this slide, all of our capital ratios expanded quarter-over-quarter due to the strength of our earnings. If adjustments were made for AFS and HTM security mark and the allowance for loan losses that is not already reflected in equity, our capital ratios would still be very strong. Tangible common equity grew to 9.03% as of September 30. Quarter-over-quarter, our tangible book value per share increased 2%. Year-over-year, tangible book value per share increased 18%.

East West's Board of Directors has declared fourth quarter 2023 dividends for the Company's common stock. The quarterly common stock dividend of $0.48 per share will be payable on November 15, 2023, to stockholders of record on November 1, 2013. We currently have $254 million of repurchase authorization that remains available for future buybacks. Although we did not repurchase any shares during the third quarter of 2023, as announced in our earnings release, we intend to resume repurchases in the fourth quarter.

I'll now turn the call over to Chris for a more detailed discussion of the drivers of our income statement and outlook. Chris?

Christopher Del Moral-Niles

Thank you, Irene, and good morning to all. I will start with a discussion of our deposit strength and then review the key drivers of net interest income and net interest margin.

Slide 11 highlights our deposit mix by segments, customer type and source. In the third quarter, we grew both commercial and consumer deposit balances, increased the number of customer accounts and reduce higher cost wholesale deposits. Year-over-year, we have successfully grown deposits across our client sectors. Our commercial deposits remain well diversified by industry and our consumer deposits are fairly granular.

Turning to the balance sheet on Slide 12. Third quarter average loans grew 2% sequentially, driven by growth in all major categories. Third quarter average deposits of $55.2 billion increased $900 million or 2% from the second quarter. During the third quarter, growth in average money market and time deposits was offset by declines in other deposit categories, largely reflecting customers optimizing their yield in a higher interest rate environment. Our average loan-to-deposit ratio was 90% during the third quarter and average noninterest-bearing demand deposits made up 30% of average deposits for the period.

Turning to the NIM on Slide 13. Third quarter 2023 net interest income was $571 million, a new third quarter record for East West. Net interest margin was 3.48%, which compressed by 7 basis points quarter-over-quarter. As you can see from the waterfall chart on this slide, NIM compression was largely due to the impact of higher interest-bearing deposit costs and the deposit mix shift to higher-cost customer deposit categories, partially offset by the lower wholesale deposits and higher loan bodies.

Turning to Slide 14. The third quarter average loan yield increased by 18 basis points quarter-over-quarter, and the spot coupon rate on our loans was 6.62% at quarter end compared with 6.45% at June 30. In total, nearly 60% of our loan portfolio was variable rate at September 30 with a fairly balanced split between prime rate and SOFR-linked loans. Over the last several years, while rates were low, we continue to help many of our CRE and also some C&I customers hedge against rising rate risk through the use of swaps, caps and collars. As a result, on the customer side, nearly 2/3 of the total CRE book was fixed rate to them at September 30. These clients are partially protected against the rising debt service costs and the payment shocks from the higher rate environment over the near term.

Turning to Slide 15. Our average cost of deposits for the third quarter was 243 basis points, up 31 basis points from the second quarter. Our spot rate on total deposits was 248 basis points as of September 30, reflecting a 46% cumulative beta relative to the change in Fed funds since December 21. In comparison, the cumulative beta on our loans has been 61% over the same period. We were pleased with our ability to manage deposit costs during the quarter. We paid down $1.6 billion of higher cost wholesale deposits and replaced much of that with lower cost customer funds.

Moving on to noninterest income on Slide 16. Total noninterest income in the quarter was $77 million. For the third quarter, interest rate contracts and other derivatives income of $11 million increased $4 million from the second quarter, primarily reflecting changes in market valuations. Other investment income of $2 million was down a bit quarter-over-quarter, reflecting higher valuation marks on CRA investments recognized during the second quarter. Our fee income for the period was $67 million.

Moving on to Slide 17. Third quarter noninterest expense was $252 million, a 4% decrease quarter-over-quarter. Excluding amortization of tax credit and CDI adjusted noninterest expense was $202 million in the third quarter, down over $3 million or down 2% sequentially. This was driven by decreases in several categories including lower consulting costs lower loan-related expense, lower comp and benefits expense and lower occupancy expense. The third quarter adjusted efficiency ratio was 31.2% compared with 31.8% in the prior quarter. We are pleased with our ability to consistently deliver industry-leading efficiency.

And with that, I'll now review our updated outlook for the full year on Slide 18. For the full year, we are reaffirming our prior guidance for the end of period loans, net interest income, adjusted noninterest expense and credit items. Regarding tax items, we now expect our effective tax rate for the full year will be between 19% to 20% based on about $185 million of tax credit investments. We currently anticipate that for the fourth quarter, the amortization of tax credit investments will be approximately $45 million.

With that, I'll now turn the call back to Dominic for his closing remarks.

Dominic Ng

Thank you, Chris. In closing, we are looking forward to finishing 2023 on a high note. Our revenue, net interest income and profitability measures remain high. The East West business model is resilient and diversified and our balance sheet has positioned us well to continue to focus on our customers. I want to thank our associates for all their hard work last quarter, which was reflected in our strong performance.

I will now open the call to questions. Operator?

Question-and-Answer Session

Operator

[Operator Instructions] Our first question comes from Casey Haire with…

Casey Haire

Yes. Thanks. Good morning, everyone, and welcome back, Chris. First question for you, Chris. Just on the NII. Curious about the cash position and working down those wholesale deposits, going forward? How much more can you lean into the cash position to retire the rest of those wholesale deposits?

Christopher Del Moral-Niles

Sure. As Irene mentioned on the last call, it was our intention to pay down up to $1.75 billion by year-end and we've obviously talked a lot of that wood here in the third quarter with $1.6 billion paid off. So, there's a little bit that we had planned that's maturing, that we're going to take care of as we go forward. And then we will continue to evaluate the optimal level of cash as we move into next year's planning.

Casey Haire

Got it. Okay. And just as my follow-up on the buyback resumption, just curious how aggressive you might be with that? I know you have the $250 million authorization, but are you looking to a specific CET1 ratio or payout ratio? Just trying to get a sense of how aggressive you might be on the buyback with the stock at obviously at attractive evaluation?

Dominic Ng

I don't know. I would use the word aggressive. I think we're always opportunistic. We have $254 million left to go, that's already been authorized. And so I think, obviously, price pretty good, and so we will proceed. And so I will leave it at that.

Operator

Our next question comes from Brandon King with Truist Securities. Please go ahead.

Brandon King

So, I wanted to give more context in regards to net interest margin trends, potentially being in the higher for longer rate environment. When do you think we could see some stabilization or potential bottoming?

Christopher Del Moral-Niles

Well, I think we expect generally continued modest compression given the current rate outlook and given our expectations that there's potentially another Fed action towards year-end. In the medium term, of course, we're managing more towards dollar NII, and in the long term, obviously, our largest risk is actually to rapidly declining rates. So, we're taking proactive measures to make sure we're positioned for the long term.

Brandon King

Okay. And doing that next year is going to be more challenging from a revenue standpoint. What are you thinking about in terms of managing or maintaining positive operating leverage with regard to expense base?

Christopher Del Moral-Niles

I think it's a little early for us to give you 2024 guidance. We typically do that in January call, and we'll be happy to follow up then.

Operator

Our next question comes from Broderick Preston with UBS. Please go ahead.

Broderick Preston

Using my full name, I like it. I wanted to ask maybe a more pointed question on the buyback, Dominick. So you got $254 million of authorization. Capital is obviously robust.

The stock is cheap and well below where you bought it back in the past. And you had $220 million left over after paying the dividend out of net income in 3Q alone. So would you consider using the full amount in the fourth quarter?

Dominic Ng

Well, as I said earlier, we are opportunistic. And so we don't really have any specific sort of like direction that we have to be doing it in one quarter or not. And we'll see how -- what the price is and how things go. And one thing you can be rest assured, East West Banks always shareholders-friendly. And we always do the right thing at the right time. And whatever that makes sense that we'll go according to what we think is the best.

Broderick Preston

Got it. Okay. And then I do have a follow-up, which is a multipart kind of question. I wanted to ask how much of the bank's loan portfolio SNCs. And of that, what amount is the bank, the lead underwriter on? And then also, I don't know if Chris or Irene would have this, do you happen to have what the reserve on the office portfolio is?

Irene Oh

Yes, Brody. So as of 9/30, we held $2.4 billion of SNC that we have purchased from others. Out of 9/30, we're also the lead on $900 million of syndications, $300 million of which we've participated out to others. And I think your next question, although you squeeze them three questions for day, I want to comment on that on offsets. So we increased the reserve for office. Total reserve for office was 230 as of 9/30 from 190 as of 6/30. And I'll just share that half of that continues to be qualitative factors versus quantitative reserve that we need for the -- as we look at the portfolio and the economic outlook and the portfolio of credit quality. So, we continue to monitor it and make sure that our reserve is building as we think it is appropriate given the environment.

Operator

Next question comes from Ebrahim Poonawala with Bank of America. Please go ahead.

Ebrahim Poonawala

Just maybe Dominic for you. So as we think about -- you have a lot of excess capital, a lot of banking peers are pulling back. Just give us a sense of customer demand as you think about lending on the commercial side and how you're approaching? Are you pulling back in certain areas? Just give us a sense of the growth opportunity be it market share driven or just customer demand driven that you're seeing today?

Dominic Ng

Well, our priority has been mainly focusing on taking good care of our customers. As you can see, actually back in March, some of our other former competitors were really hurting their customer in a big way. So one of the things that East West offer is stability and consistency.

So, we have, frankly, some really good commercial real estate clients that are year-ins and year-out have been banking with us for decades that went through the cycles of various economic conditions and actually have done really well. In fact, whenever there is a down cycle, they tend to do better.

And when there are customers like that, that find really great opportunities, we step up and take good care of them and make sure they get the financing needs. But we're not chasing down every other customers who are fleeting other banks and things like that. So obviously, as we all know, the interest rate is relatively high level.

And there are not that many great deals out there. And also on the C&I side, many of our very strong customers are not out there making substantial investments. So in the standpoint of where are we today that we've got plenty of capital to be deployed, we are able to continue to take very good care of our customers for their needs.

But on the other hand, our customers are not out there making very aggressive purchases or acquisitions that require a whole lot of additional line increases and so forth. So with that, I think that I would say that the growth is relatively somewhat stable, and I don't expect something dramatic just because of the market disruption that happened back in March.

Secondly, I do see that we are getting more increase from customers from other banks from the banks have felt all banks that currently are not doing well. Their customers are making increase to East West. We are prudently taking this new customer one at a time. We don't want to just quickly and then start bringing too many on and then just causing indigestion for ourselves.

So we are just prudently taking them on one at a time. And then we feel that in the next few years, in general, the market is somewhat more favorable to East West simply because of the current competitive landscape.

Ebrahim Poonawala

Got it. That was good color. And maybe just one, maybe, Chris, for you. And apologies if I missed it, but the special mention loans, we saw that pick up 95 bps was 60 sites. What's driving that? Is it just your own internal portfolio review? Or are there certain areas within the commercial book where you're seeing some softness?

Christopher Del Moral-Niles

I'll let our Chief Risk Officer, address that one.

Irene Oh

Thank you, Chris. Ebrahim, when we look at that, honestly, there really aren't any drivers, one way or another or sector. It is really pretty broad-based, as I mentioned in the prepared remarks, we continue to monitor the portfolio very carefully. And as appropriate, given kind of where rates are, we do expect that there will be some kind of increases in the classified and criticized asset ratio, given the very, very low basis those are at [indiscernible]

Operator

Our next question comes from Dave Rochester with Compass Point. Please go ahead.

David Rochester

Irene and Chris, congrats on the new roles. I know you mentioned it's a little early on the expense front for next year. But just bigger picture, is there anything we need to watch out for any big ticket items, either on the regulatory side or systems upgrades or anything like that, that would potentially keep that expense growth rate elevated next year?

Irene Oh

Yes. I don't think so, Dave. I mean, obviously, we have the special assessment, the SAIC special access, but that will impact everyone in the industry, but nothing particular.

David Rochester

And then as a follow-up on the margin. First, it sounded like you mentioned maybe seeing a little bit of an impression near term, correct me if I'm wrong, but you guys also highlighted a pretty big deceleration and increase in deposit costs with the spot barely up from the quarter average. So just wondering, absent any Fed rate changes, could you actually see NIM stabilize near term and you'll continue to benefit from earning assets re-pricing higher? And are you seeing that growth into 2024?

Christopher Del Moral-Niles

As I look to the fourth quarter, I certainly see the mix should we be able to continue the deposit growth from our customers that we're seeing as providing some lift to that compression risk. That having been said, if there's another Fed hike, there'll probably be some repricing of existing deposits that will work against us. So those are the dynamics that are at play, but I think you've captured the spirit of remarks well.

Irene Oh

Maybe I'll just add. I mean, if you look at the third quarter and the trajectory of the NIM and this helps kind of inform our thoughts around this, so NIM from July was 345 And then for August and September, we've got a little bit of better 350 for both quarters, so months, excuse me. So that helps us kind of fray where we're at and we're comfortable with the stabilization as we move forward.

Operator

The next question comes from Manan Gosalia with Morgan Stanley. Please go ahead.

Manan Gosalia

I wanted to ask about just a little bit more color on the funding side. It looks like you're getting some nice loan growth and it sounds like you're going to continue to lean in here. I think you noted that market deposit growth this quarter is coming from money market and time deposits. Is that where you're going to be focused on bringing in new funding to fund the loans?

Christopher Del Moral-Niles

I think we're going to be looking across the board. And frankly, we've seen success across the board. In fact, on the consumer side, we're expecting to grow deposits driven by some initiatives we have internally with business checking accounts, on small and medium-sized businesses as well as consumers as well as a further push to better integrate our new mortgage customers into our checking ecosystem.

So, I think we'll see consumer lift that won't necessarily be at the higher-end cost, but we're also expecting to grow commercial balances. And as Dominic alluded to, there have been opportunities for us to be selective and proactive with new customers to the bank. And we're obviously prioritizing new customers that come with significant deposits at the right price points.

Manan Gosalia

So maybe that...

Dominic Ng

I also want to add that for our commercial clients, a new commercial clients we brought in that have primary operating accounts that transfer over to East West Bank, it's going to take some time to set up the cash management online banking and whatnot. And in order to have a fully operated, it's going to take a few months. So therefore, those are going to be a gradual increase when it comes to the noninterest-bearing deposits.

Manan Gosalia

Got it. Okay. And then maybe just to focus on the CDs and time deposits. It looks like you're seeing some good traction there. And I think I can see online that you're offering about a 4.5% rate. I guess it is slightly below market given where other banks are -- can you talk about how you're able to do that? Is it because of the longer relationships you have with your depositors? Is it relationship pricing elsewhere in the services you offer?

Christopher Del Moral-Niles

I think we've had success both with our rack rate rates, which you're referring to and also on selected new opportunities, we're able to look at exceptions and opportunities to bring folks in on an individualized basis. And I think that's one of the hallmarks of East West is they're able to look at the entire relationship and make appropriate business judgments to move forward on individual opportunities. And that's been part of what's given them. They're low cost base they have today and allowed us to continue to attract the right customers with the right relationship going forward.

Operator

Our next question comes from Matthew Clark with Piper Sandler. Please go ahead.

Matthew Clark

First one for me, just on deposit -- your deposit cost outlook kind of beyond the fourth quarter. If the forward curve plays itself out, I guess, how quickly do you think you might be able to start cutting deposit costs?

Christopher Del Moral-Niles

Well, there's going to be a bit of a lag over the near term. But as soon as the Fed starts moving, I think it will be a function of how fast the Fed starts moving. So when rates fell precipitously and rapidly in '20, the bank reacted pretty well. And obviously, it will be a function of how and why the Fed moves as to how we'll react and lag on the next turn year.

Matthew Clark

Okay. Okay. And then on office CRE, one of your competitors had a couple of new nonperformers on the suburban side of office. Are you seeing any performance differences within your office portfolio as it relates to suburban versus central business district?

Irene Oh

Yes. Matthew, we actually don't have much exposure at all for any kind of central business district, quite honestly. And you can see that reflected really with the loan sizes, right, as far as the size of the loan, if it's granular or smaller or smaller properties. So based on that, I would say most of ours is really more kind of suburban or non kind of CBD.

With that said, I would say as we continue to [comb through] the portfolio, although there are loans that we are working out with clients, overall, we're comfortable with the grades, we're comfortable with the strategy. And there's no major difference that we're seeing in one sector or region geographically.

Operator

Our next question comes from Timur Braziler with Wells Fargo. Please go ahead.

Timur Braziler

Two big picture questions for me. Maybe for Dominic. Just on the timing of the buyback, I mean, how much of that is symbolic in nature? It's a question that it seems like you get every single conference call. And I'm just wondering, announcing it here. How much does that speak to your confidence in navigating the current credit cycle?

Dominic Ng

I don't quite -- Irene and Chris, did you hear the question? I didn't quite exactly heard it.

Irene Oh

Maybe I'll start to answer your question. Look, I mean, I think as we look at the uses of capital, highest investees of capital, also the growth of the capital. The confidence that we have the capital continue to grow not just quarter-by-quarter, but if we look multiyear, this is part of our thought is quite candidly, just where the capital levels are at. So, I think in answer to your question, yes, we do it is a commentary on kind of the strength of where we see the franchise is and what will happen with our capital level.

Timur Braziler

Okay. That's great. And then maybe just talk to the recent management changes and how that relates to your thinking on succession planning?

Dominic Ng

Oh, that in fact, I think this is always at the East West Bank's sort of like long-term plan, leadership development, succession planning. And we are very pleased, in fact, that we're able to get Chris to join us in the CFO position and which allow us to get Irene to rotate to a very important position to be our Chief Risk Officer.

We feel that as our organization continues to grow, it's going to be very important for us to make sure that we have very, very solid and strong leadership, both in the finance area and also in the risk area. We can't think of any better person that can feel the Chief Risk Officer job going forward then Irene.

And also thank goodness, Chris came in and shortly an act like he's been moon lighting at East West for years. So, this has been all working out pretty good for us because I think we strengthened our executive leadership depth at East West, and this is going to be pretty good for us for many years ago.

Operator

Our next question comes from Gary Tenner with D.A. Davidson. Please go ahead.

Gary Tenner

As it relates, first, to your comments about kind of planning longer term, I'm wondering if there are any additions to the interest rate swap book, which I think was $5 billion as of June 30. Because the quick math looks like the headwind there was maybe $10 million or $12 million higher quarter-over-quarter versus the second quarter. So thinking about how kind of view that going forward?

Christopher Del Moral-Niles

Sure. Yes. We did add a total of $750 million for the quarter, $250 million of which Irene had mentioned on the last earnings call another that came after that. And we've done a further $250 million just for transparency here in the fourth quarter.

Irene Oh

To your forward start date.

Christopher Del Moral-Niles

Yes, with a forward start. So, we're looking at essentially protecting against that downside risk and as the previous caller alluded to, the risk that the Fed moves precipitously downward, we're sort of protecting ourselves against that profile. The total cost collectively of all of the swaps for the quarter was $24 million, which is to say, our income would have been $24 million higher had we not with those in place, but we think that's prudent and appropriate protection going forward. That's costing us currently or cost us in the quarter, 14 basis points to the NIM, but we think that's a reasonable price to pay for that long-term insurance that we're putting in place.

Gary Tenner

I appreciate that. And just remind me, in your loan yield slide that's 41% fixed in hybrid and fixed, is that adjusted for the swaps or adjusted is a little over?

Irene Oh

It is not adjusted.

Christopher Del Moral-Niles

Yes. The Slide 14 numbers are the actual underlying loans and the swaps are an overlay to that. And again, keep in mind that some of the swaps as Irene mentioned, the most recent ones have all been forward starting. So, there's a bit of a lag there before they will take effect, but there's obviously a component.

Operator

Next question comes from Chris McGratty with KBW. Please go ahead.

Chris McGratty

Great. Maybe for the team. You talked about capital -- use of capital a lot the buybacks seemingly, I think the market likes that. What about an appetite to reposition a portion of the bond portfolio given the move in rates?

Christopher Del Moral-Niles

I think we're always looking at the right portfolio strategies. And I think we're going to be looking at our cash positions, our portfolio strategies, and our growth dynamics as we look here at the fourth quarter going into planning for next year, and we'll take all of that into consideration. And I think as Dominic has said, we're shareholder-friendly we'll do the right thing. But we'll be very thoughtful about what that right thing should be.

Chris McGratty

Okay. Great. And then a lot of questions about office and maybe by the market. But Dominic, do you think that's where the -- we should be focusing? I mean we've seen some C&I credits from some of your peers go sideways this quarter. I guess if you were to kind of stack rank where you are most worried about credit going into the next year? Like what would you say?

Dominic Ng

Right now, I'm not too concerned about much anything, frankly, from a credit perspective. We actually are in pretty good shape. I mean we do have a slight pickup in terms of charge-offs, but that's really compared with relatively, I mean, almost like no charge-off at all for the last few quarters. So, I think that we just kind of normalize at this point.

At this stage, I really -- I mean if I look at the overall credit portfolio, I really haven't seen much that I would say really got me concerned. I mean I will reflect back five years ago, six years ago, I mean, this oil and gas portfolio that we had was not very good. And so, we had a little bit of charge-off.

But the nice thing about having a very diverse portfolio that we have is that despite the fact that we have some challenges with our oil and gas portfolio, the fact is we still end making record earnings, simply because everything else is doing so well. So that one particular industry couldn't hurt us much.

So when I look at CRE right now, office building, a lot of people have their eyes on it, and I'm pretty sure at some point, we may take a hit here and there. It's just that the overall portfolio is not big enough. The size of this portfolio to the size of loans. The average size, as you can see, is so small and the LTV is so low and so therefore, at the end of the day, and the earnings for everything else is so high.

And I think that all in all, we should be in great shape. So at this stage right now, I'm still not concerned. And I would tell you though I always expect that by the second quarter, the third quarter will be going through a recession. That's what I expected, a year, 1.5 years ago. Again, it didn't turn out. And would it be like six months from now or is that actually we are exactly in the soft lending who knows.

But the way I look at it is that it doesn't really matter whether it's a recession or soft lending. Our position is that East West will continue to stay true to our philosophy, which is having a very diverse portfolio and having a strong customer base. And this is how we make sure that we -- at the end of the day, relatively speaking, we always end up doing better at the other banks.

Operator

This concludes our question-and-answer session. I would like to turn the conference back over to Dominic Ng for any closing remarks.

Dominic Ng

Well, I just want to thank everyone for listening to our call today, and I'm looking forward to talking to all of you again in January. Thank you.

Operator

The conference has now concluded. Thank you for attending today's presentation. You may all disconnect.

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