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People's United Financial, Inc. (PBCT) CEO Jack Barnes on Q3 2019 Results - Earnings Call Transcript

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Q3: 10-17-19 Earnings Summary

Press Release *10-Q*

EPS of $0.34 beats by $0.01 | Revenue of $462M (13.99% Y/Y) beats by $9.61M

Earning Call Audio

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People's United Financial, Inc. (NASDAQ:PBCT) Q3 2019 Results Conference Call
October 17, 2019 5:00 PM ET

Company Participants

Andrew Hersom - Senior Vice President of Investor Relations

Jack Barnes - Chairman and Chief Executive Officer

David Rosato - Chief Financial Officer

Kirk Walters - Corporate Development and Strategic Planning

Jeff Tengel - President

Jeff Hoyt - Chief Accounting Officer

Conference Call Participants

Steven Alexopoulos - JP Morgan

Ken Zerbe - Morgan Stanley

Jared Shaw - Wells Fargo

Casey Haire - Jefferies

Dave Bishop - D.A. Davidson

Collyn Gilbert - KBW

Brock Vandervliet - UBS

Operator

Good day, ladies and gentlemen, and welcome to the People's United Financial, Inc. Third Quarter 2019 Earnings Conference Call. My name is Liz and I will be your coordinator for today. At this time, all participant lines are in a listen-only mode. Following the prepared remarks, there will be a question-and-answer session. [Operator Instructions] As a reminder, this conference is being recorded of replay purposes.

I would now like to turn the presentation over to Mr. Andrew Hersom, Senior Vice President of Investor Relations for People's United Financial, Inc. Please proceed, sir.

Andrew Hersom

Good afternoon and thank you for joining us today. Here with me to review our third quarter 2019 results are Jack Barnes, Chairman and Chief Executive Officer; David Rosato, Chief Financial Officer; Kirk Walters, Corporate Development and Strategic Planning; Jeff Tengel, President; and Jeff Hoyt, Chief Accounting Officer.

Please remember to refer to our forward-looking statements on Slide 1 of this presentation, which is posted on our website, peoples.com, under Investor Relations.

With that, I'll turn the call over to Jack.

Jack Barnes

Thank you, Andrew. Good afternoon. We appreciate everyone joining us today. Let's begin by turning to the third quarter overview on Slide 2. Our third quarter performance, which reflects another quarter of record earnings, further demonstrates our success and strengthening the earnings power of the Company, while continuing to build the franchise for the long-term.

As such, we are pleased to report operating earnings of $135.5 million, an increase of 19% from a year ago and an operating return on average tangible common equity of 14.4%. On a per common share basis, operating earnings were $0.34. Third quarter results were highlighted by net interest margins of 3.12% [Technical Difficulty] higher than the total portfolio yield. The margin through nine months is 3.14%, well within our full year outlook range of 3.05% to 3.15%.

Total revenues of $454.7 million increased both linked quarter and year-over-year, and continued to benefit from strong non-interest income. Modestly higher expenses compared to the second quarter drove a 100 basis point increase in the efficiency ratio to 56.8%. Our ability to enhance operating leverage is evidenced by a year-to-date efficiency ratio of 56.6%, an improvement of 160 basis points compared to the prior year period.

Our thoughtful approach to expense management has enabled us to control costs, while continuing to make important investments in our digital capabilities. We have launched several mobile device and online driven offerings this year. Some of which, we have discussed previously, including a residential mortgage and home equity lending portal and enhanced deposit account opening solution, a direct to client investment platform and a more advanced peoples.com website.

Our latest offering is a digital small business solution for loans of $250,000 or less, which will rollout this quarter. Looking forward, we will continue to partner with fintech companies to bring greater efficiency, ease of use, and scale to our suite of digital products and services to meet the evolving needs of our customers.

Moving on to loans, period-end balances increased $224 million or 1% from the end of the second quarter, driven by solid commercial loan growth, partially offset by a planned reduction in residential mortgages as we continue to remix the balance sheet with a focus on higher yielding portfolios. The growth in the commercial portfolio was primarily due to mortgage warehouse lending, equipment finance and Boston commercial real estate.

Period-end deposits declined $893 million or 2%, partially due to a second quarter ending balance, including $500 million short-term commercial deposit, which was withdrawn in July as expected. On an average basis, deposits were down 1%, primarily driven by lower savings and time balances, partially offset by increased non-interest bearing deposits.

Despite the decline in balances, we continue to be pleased with our ability to gather deposits. Recent FDIC data confirm we maintain strong market share in each state in which we operate, and continue to hold the number one position in Fairfield County, Connecticut, and the State of Vermont. We are particularly pleased, our market share in Massachusetts is now in the top 10, driven by the addition of Belmont along with organic growth, we moved up four spots to number nine.

The acquisition of United Financial is on track to close in the fourth quarter, and we remain confident in achieving the transactions attractive financial returns. The integration process is underway progressing well as we execute on our time-tested acquisition approach.

The addition of United bolsters our already significant share of retail households and commercial clients across Central Connecticut and Western Massachusetts. We are excited for their long-tenured well established customer base to join People's United, and benefit from our broader array of products, services and technology offerings.

Before I pass the call over to David to discuss the quarter's results in more detail, I wanted to share some thoughts on the operating environment. Looking ahead, our view is customers continue to manage their businesses thoughtfully and are looking to take advantage of opportunities to grow.

We continue to see areas of meaningful growth, particularly in Boston and Metro New York, as well as in our equipment, finance and specialty businesses. However, uncertainty about the economy, whether trade related or recessionary fears, is concerning the marketplace. Additionally, a heightened competition remains, notably in commercial real estate. And our expectation is this will not abate in the coming year.

Despite these economic and competitive uncertainties, we are cautiously optimistic about loan growth. We have broadened the capabilities of the franchise through strategic investments in talent and enhanced digital offerings, while also adding retail households and commercial clients through thoughtful acquisitions.

While we have grown in size, we remain true to our roots, as a bank with significant local knowledge and the ability to provide tailored solutions to meet the individual needs of our customers. This solutions-oriented approach to banking differentiates People's United and positions us well to take advantage of growth opportunities in any environment.

It is also evident margin compression will be a headwind in 2020 by the extent -- but the extent to which will largely be dependent on potential changes in Federal Reserve monetary policy. However, we remain focused on managing what we can control to offset the effects of declining interest rates.

These levers include continuing to remix the asset side of the balance sheet by reducing lower yielding residential mortgages, growing our higher yielding commercial loan portfolios, managing deposit cost proactively, continuing to build our fee income businesses, capturing revenue and expense synergies of recent acquisitions and sustaining excellent asset quality.

Our long term approach to managing the business has and will further enable us to generate value for shareholders and customers, regardless of the uncertainties in the operating environment.

With that, here's David.

David Rosato

Thank you, Jack. Third quarter financial results were highlighted by a stable net interest margin, continued strong non-interest income, well maintained expenses and a lower effective tax rate.

Turning to Slide 3. Net interest income of $348.7 million was up $600,000 from the second quarter. Net interest income benefitted $5.4 million due to improved deposit pricing and lower balances, as well as $2 million from an additional calendar day in the third quarter.

Conversely, the loan portfolio reduced net interest income by $3.7 million due to the downward re-pricing of floating rate loans. In addition, increased borrowings and lower yields in the securities portfolio negatively impacted net interest income by $1.7 million and $1.4 million, respectively.

As displayed on Slide 4, net interest margin of 3.12 was unchanged from the second quarter despite declining interest rates. As Jack referenced in his comments, the margin benefited from our proactive management of deposit costs, and new business yields remaining higher than the total loan portfolio of the yield.

Improved deposit pricing favorably impacted net interest margin by 5 basis points, while the additional calendar day added 2 basis points. The largest offset to these increases were lower yields in the existing loan portfolio, which reduced net interest margin by 4 basis points. Increase borrowings and lower security yields unfavorably impacted the margin by 2 basis points and 1 basis point respectively.

Turning to loans on Slide 5. Average balances of $38.3 billion increased by $88 million or less than 1% from the second quarter. On a period end basis, loans ended the quarter at $38.8 billion, up $224 million, or 1% from June 30th. Commercial period end loans grew $505 million or 2%, primarily driven by mortgage warehouse lending, equipment finance and Boston commercial real estate, partially offset by $89 million of runoff in the New York multifamily portfolio.

Conversely, retail period end loans declined $281 million or 2%, mostly due to our planned reduction of residential mortgages as we continue to remix the balance sheet with a focus on higher yielding portfolios. Mortgage warehouse lending benefited from the decline in the interest rates, which increased refinance and mortgage purchase activity.

Balances ended the quarter at nearly $1.7 billion, up $429 million from the end of the second quarter. Equipment finance grew $125 million, primarily reflecting further strong production by LEAF. Furthermore, our commercial real estate business in Boston continued to benefit from the momentum generated by the addition of the Belmont's team.

Moving on to deposits. Period end balances declined $893 million or 2%, partially due to second quarter ending deposits, including $500 million short-term commercial deposit, which was withdrawn in July as expected. On an average basis, as displayed on Slide 6, deposits decreased $554 million or 1% linked quarter, primarily driven by a reduction in savings of $304 million and time balances of $142 million, partially offset by an increase in non-interest bearing deposits of $171 million.

Interest bearing checking and money market balances declined $279 million. Of which approximately $250 million is related to the withdrawal of the large short-term commercial deposit. It is important to note that non-interest bearing deposits as a percentage of total deposits improved to approximately 24% from 22% at the end of the second quarter.

We remain focused on controlling pricing, as evidenced by a 4 basis point reduction in deposit costs during the quarter, which marked the first quarterly decline since the third quarter of 2016. As we mentioned on our second quarter call, we proactively lowered CD deposit costs 2 times in the two month, leading up to the Fed's July 31st rate cut, and then we subsequently lowered money market rates twice in the quarter.

Non-interest income of $106 million marked another strong quarter. Other down $300,000 linked quarter. The results are up $13.7 million or 15% year-over-year. Year-to-date, non-interest income of $307 million is up nearly 11% compared to the prior year period.

On Slide 7, the components of the linked quarter variance are displayed; non-interest income in the quarter benefited from $1.6 million in higher commercial banking lending fees, driven by increased commercial real estate prepayment income; $1.6 million in higher insurance revenues, reflecting the seasonality of commercial insurance renewals; a $600,000 increase in bank service charges, primarily resulting from an additional calendar day in the third quarter; and higher operating lease income and investment management fees, which collectively improved non-interest income by $500,000.

The largest driver offsetting these increases was lower customer interest rate swap income, which was down $2 million from a record second quarter. Non-interest income was also unfavorably impacted by $2.6 million decrease in other fee income, which is primarily driven by the mark-to-market of one equity security position and normalized BOLI income.

On Slide 8, non-interest expense of $281.4 million increased $3 million linked quarter. Included in the third quarter were $5 million of merger related costs in the following categories; $3.7 million in professional and outside services; $800,000 in compensation and benefits; and the remaining $500,000 in occupancy and equipment and other.

In comparison, the second quarter incurred $6.5 million of merger related costs. Excluding merger related costs, non-interest expense of $276.4 million was up $4.5 million or 2% linked quarter. The largest component of the increase was $8 million in higher other expenses, driven by several items, most notably certain legal and other one-time operational costs. The primary offsets to these increases was a $2.5 million reduction in compensation and benefits, resulting primarily from lower payroll costs and a $1.2 million improvement in regulatory assessments attributable to an FDIC credit.

Turning the Slide 9. The efficiency ratio of 56.8% increased 100 basis points from the second quarter due to a modest increase in expenses. Year-over-year, the efficiency ratio was up only 10 basis points. Despite the increase in the third quarter, we are very pleased with the significant progress we have made enhancing operating leverage, as evidenced by the year-to-date efficiency ratio of 56.6%, which improved 160 basis points from the prior year period.

Asset quality was once again exceptional across each of our portfolios, as demonstrated on Slide 10. Originated non-performing assets, as a percentage of originated loans and REO at 56 basis points, was unchanged from the second quarter and remained below our peer group and top 50 banks. Net charge offs of 6 basis points increased slightly from an already low level, and continued to reflect the minimal loss content in our non-performing assets.

Briefly on Slides 11 and 12, return on average assets improved the basis point linked quarter to 105 basis points, while return on average tangible common equity decreased 10 basis points to 14%. On an operating basis, return on average assets was also 105 basis points, while return on average tangible common equity was 14.4%. As you can see on Slide 12, capital ratios remain strong, given our diversified business mix and long history of exceptional risk management.

Before opening up the call for questions, I wanted to make a few comments on CECL. Our implementation efforts are progressing according to plan as we prepare for adoption on January 1, 2020. Based on current forecasted economic conditions and portfolio balances at the end of the third quarter, the impact of CECL upon implementation could result in an increase of as much as 15% to 25%, or approximately $40 million to $60 million to existing reserves.

This increase is driven primarily by higher reserve requirements associated with the Company's longer duration retail portfolio, partially offset by shorter duration commercial portfolios and our low historical of loss experience. As a result, the current estimated impact on capital ratios, for both the bank and the holding company, is a decrease of approximately 10 to 15 basis points. It is important to note these estimates, which are subjects of further refinements and any potential change in economic outlook before year end, do not include the impact of the United acquisition.

Now, we'll be happy to answer any questions you may have. Operator, we're ready for questions.

Question-and-Answer Session

Operator

Ladies and gentlemen, we are ready to open the lines up for your questions. [Operator Instructions] First question comes from Steven Alexopoulos with JP Morgan.

Steven Alexopoulos

So you clearly did a nice job of lowering deposit rates in the third quarter. How much further do you think you could produce deposit rates here in 4Q? And tied to that, what's the outlook for the NIM here near term?

David Rosato

I'll start with the latter part of that question, Steve. Our experience has been that a 25 basis point move in either the Fed funds rate or one month LIBOR equates to 3 basis points to 4 basis points of NIM compression. We appreciate your comment on being proactive on deposit cost management. If there's another move in the end of this month, we would expect to be able to move deposit costs in both CDs, as well as money markets down commensurate with what we did in the in the prior two moves. That's not a full 25 basis points, but that's in the range of about 15 basis points give or take.

Steven Alexopoulos

And then on the loan side, given the remixing you're doing. When does this headwind move behind you? And when should we start to see stronger reported loan growth?

David Rosato

That's going to take a while, Steve. So first of all, we do have the headwind of New York multifamily, which we guided last quarter to $200 million to $300 million for the year, it's been a $175 million year-to-date. Every 1% decrease in that residential mortgage portfolio is just about $400 million. So the full remixing of our existing portfolio today or at the end of the third quarter is probably a few year of that. However, that doesn't mean there's not going to be loan growth over that time period.

Jack Barnes

For me, obviously, building the commercial portfolios is going to be very market opportunity dependent. Some of them are growing nicely at a good steady pace, but others are facing that could be headwinds we talked about, especially real estate the biggest one.

Steven Alexopoulos

And then just a big picture question on M&A. So you guys have done several nice M&A deals, have been in market, cost saves are strong, earned back is short. With that said, the market's not responding M&A the way it used to right, even for your deals. Do you guys start to think differently about M&A as a tool to create shareholder value given the dynamics around it?

David Rosato

I would say no. The decline in interest rates is something we're paying a lot of attention to in terms of our thoughts around M&A, pricing, et cetera. But if you just look at the M&A we have done with the metrics that you described and then think about building deposit households in those markets where we have presence and gaining market share and gaining opportunity to deepen those relationships, we think that's all been very valuable and will continue to pay dividends for us.

Operator

Your next question comes from Ken Zerbe with Morgan Stanley.

Ken Zerbe

So I guess maybe starting off in terms of fee income. I noticed you guys didn't include your outlook slide for the year in your slide deck. But is there any comments on why you pulled out, that will be helpful. But the question in terms of fee income, I think your guidance was up couple of percentage points. But it seems that the 106 level that you're hosting is kind of meaningfully above the 2% to 4% growth that you had previously outlined in your slide deck. Is 106 the right level for fees or -- and still unusual items in there? Thanks.

David Rosato

So I'd go back to our -- we had a little discussion on the call last quarter where we said though we had a strong second quarter at 106.3, we decided not to raise guidance, just because of the variability of some of those drivers. But we did say that we would likely be at the high end of guidance or maybe even over. Now with another quarter at 106, I would say, yes, we will definitely be over the original guidance. I wouldn't go so far as to say 106 is a sustainable rate, just because of the volatility of some of the capital markets activities.

But away from that, we continue to be highly focused, as Jack said in his comments, on growing our insurance business, our capital management business, our wealth management business, which are much more steady performers. And then we'll have some good capital markets quarters as well.

Ken Zerbe

And then just a second question. In terms of CECL, we really appreciate the additional clarity you provided in terms of the impact of CECL, but I'm not sure how to phrase this exactly. But what's the ultimate impact? I mean, I get it's 10 to 15 basis points of capital. Presumably, there's the 3-year phase in on from a regulatory standpoint. I mean, does it matter that you are going to increase reserves $14 million to $16 million? Is there any negative impact from weather its rating agencies, or anything else that I can possibly think of that we should as to sort of the sell and buy side maybe be paying attention to?

David Rosato

It's a good question. It's a question we talk about internally here as well. So CECL is an accounting exercise. It's not a reflect -- that $40 million to $60 million in our opinion is not a reflection of additional risk within that portfolio. It's a different way that we are now required to model and provision in a new accounting regime. And I would say it makes it harder for all of us, you guys, it's investor, as well as us.

Ken Zerbe

But it doesn't change any way of whether you're thinking of buybacks or loan growth, or anything, there's no impact to that, other than on the balance sheet, of course?

David Rosato

Right, we will not operate our bank any differently or think about credit any differently that is used today.

Operator

Your next question comes from Jared Shaw with Wells Fargo.

Jared Shaw

I guess not to beat a dead horse, but sticking with CECL for a minute here. When you look at the UBNK deal, was that structure with CECL 9? Or is there going to be an incremental mark in excess of that, the 1.8% mark you've hit on there because of sort of a double accounting? Will that impact UBNK and will that impact the sort of economics of the deal?

David Rosato

So we will partially answer that question. We have -- obviously, when we worked on that deal, we were very thoughtful of the impact that we would eventually have to account for that transaction under CECL methodology. But with that said and an expectation that we will close it this year, we're really not going to comment. And the estimates we just gave were exclusive of United, inclusive of Belmont, because they were on the books at the end of the quarter. But we're not going to make any comments on CECL so relativity to United.

Jared Shaw

I guess, the CECL now being out there change the way you're viewing M&A as a strategy in and of itself? Does that make it harder to make a deal work in your minds or, again, sort of like with putting loans on the books so it doesn't fundamentally change the way you look at…

David Rosato

I would say the answer is no. And I would go back and reference with what Jack said about the thoughtful M&A we're doing is a long-term perspective about gaining market share, getting and growing new customer basis. And so an accounting -- new accounting regime will change some reported deal metrics in the short term, but it's not going to change that strategy. And really CECL is very bank transactions deal specific.

Jack Barnes

Jared, I would say one common view I've heard in the industry discussions is that CECL and the requirements for longer duration -- greater reserves for longer duration portfolios is likely over time to discourage banks from holding residential real estate loans on their books, for instance. And that would seem to be logical and it makes you then wonder, whether the economics change and maybe rate expectations, spread expectations change on certain types of lending because of that, which seems very counter to the idea that a change in accounting approach would drive one of the less -- least risky businesses to hire reserves. But that's what it's doing.

Jared Shaw

And then just finally for me, you'd mentioned there could be broader market concern I guess around the economy. How does that -- how do you view growing the equipment finance and some of the other, I guess, specifically equipment finance lending? In light of that you, do feel that you want to slow that down if we think they were coming to the belly of the cycle, or the beginning of the end of the cycle? Or is that you're still expecting to see good growth in that over the next year?

David Rosato

Well, right now, we are expecting economic activity to remain somewhere at the levels and in the zone it's in, if you will. So there's nothing in data that's telling us that GDP is going to slow, or that unemployment is going to increase and the consumer is going to slow spending. There's a piece of information like the manufacturing data for instance once in a while. But generally, we feel that we're not on the verge of a recession. And we're certainly not changing our approach to any of the businesses, including equipment finance. We have studied and know that the equipment finance portfolio we expect will do well when challenges are recessionary environment, but the growth will slow as small businesses slow their borrowing in those environments?

Operator

Your next question comes from Casey Haire with Jefferies.

Casey Haire

I wanted to follow up on the NIM. I think we're all kind of impressed by the loan yields holding up. I was wondering was there a pickup in purchase accounting on a quarter?

David Rosato

Very modest, about $2.5 million linked quarter and on around maybe a basis point to the NIM.

Jack Barnes

But it was not a driver.

Casey Haire

And then -- so the resi mortgage reduction, is there -- is that -- did you get the low hanging fruit, or is there more opportunities to do that and any other balance sheet restructurings to help to fund the NIM going forward?

David Rosato

What really happened in the residential mortgage portfolio has been our strategy for the last three quarters, which is really to be less aggressive on origination rates, so working for wider spreads. The reduction was larger in the third quarter just because the level of interest rates drop and refi activity picked up so much. So we had essentially greater number of loans paid off and we just slowed the flow of replacement, but that working for wider spreads is definitely the objective. That's how we will manage the pace of the remixing.

Casey Haire

And just follow-up on the deposit side, you guys obviously did a good job in being proactive. The loan to deposit ratio did tick up over 100. I know you had that big deposit kind of walk out the door. But what -- can you just give us some thoughts and your ability to be -- to continue to be proactive with the loan to deposit ratio above 100?

David Rosato

Yes. If you put the clock back three, four years ago, we were -- we had quite a few -- we were quite a long period of time, we were over 100%. And we talked about how hard we were working to grow deposits. In this quarter, I would -- besides the 500 million commercial customer that outflow, the loan to deposit ratio was impacted by the growth in our mortgage warehouse, which hit a record level of almost 1.7 billion, and that will subside and take that pressure off over time. Obviously, we manage on a week to week basis, the commercial, retail and government banking deposits relative to the cost and the volumes. So we always strive to keep that number below 100%, almost every quarter we do. It's lifted up 1% this quarter.

Casey Haire

And just last one for me, just you mentioned the loan yields coming in above existing. The mortgage warehouse, obviously, a big contributor to the loan growth this year -- this quarter. What are the yields there? And then equipment finance, the new money yields there. And is that the VaR stuff that's being accretive to the yield?

David Rosato

Sure, a couple of things. So first, I would say and we said this on the last quarter the differential between new business yields, last quarter in the portfolio was about 50 basis points. That did contract this quarter. This quarter is about 30 basis points. The still positive and nicely positive, but not quite as positive, had to deal with the drop in one month LIBOR, which was about 25, 26 basis points linked quarter. The mortgage warehouse spread came in a bit in the quarter, but are a little more of 200 -- 2%, 200 basis points.

Operator

The next question comes from Dave Bishop from D.A. Davidson.

Dave Bishop

Heading back to deposits on one of your competitors, their conference call this morning, I know quoted about an 8 point differential between peak deposit cost and current rates you're out there paying. So curious if you have a similar number where you've seen the overall cost of deposits, I guess, peak to currently?

David Rosato

I'm not sure we heard everything you said. But you were asking about our current existing deposit costs relative to the new business that's going on?

Dave Bishop

Yes, new business and maybe how it compares to where you are at the, I guess, the peak maybe the summer, how far you sort of come off the peak of average deposit costs?

David Rosato

Well, as you saw, average deposit costs came down 4 basis points in the quarter. The way we really think about it is where we're trying to specifically raise deposits, either in retail CDs, or in money markets and kind of what those specials are, so to speak. What I said in my comments is prior to the end of the second quarter, we lowered CD -- promotional CD rates twice. And then in the third quarter, we lowered money markets twice. For example, today we have a -- we're raising six month CDs as about a 180 across our franchise. We would be accessing that to come down.

As right now we have a little over 80% chance is what the market is pricing in for that move at the end of the month. So we will be bringing our CD special rates down and then also our money market promos down as we get a little closer to that, Dave. But if I think about those rates today relative to deposit costs, that relationship is not fundamentally different than where it was three months ago.

Dave Bishop

I think in the preamble you noted that, or within the other operating expense category, there was a number of, I guess, quasi unusual one-time type items. Just curious in totality how much flow through the other expense category this quarter?

David Rosato

Yes, it was $8 million.

Dave Bishop

And that's used more as unusual one-times. I think you mentioned some legal type expenses for either…

David Rosato

Yes, definitely one-time not in the run rate.

Dave Bishop

And in terms of the effective tax rate, look like that was a little bit lower than the first couple of quarters here. Anything unusual there maybe some guides and sort of for the 2020?

David Rosato

No, that was just - in the quarter, we filed our 2018 taxes. And we have a fairly large low income housing tax portfolio and favorable impact on the tax rate. So a little bit of catch up once all this K-1s came in from those investments. You haven't followed us for too many years, but it's a normal third or fourth quarter event for us.

Dave Bishop

And then just one final question, just looking through the slide deck. Clearly, capital levels remain well below the -- well above the well capitalized rate, but total risk based capital. Is that sort of the governor here in terms of the growth across all their -- just curious in terms of where you see the -- I guess, the narrowest margin above the well capitalized range and how you think about that?

David Rosato

Yes, we're a company that -- usually, the capital constraint for us is total risk-based capital just because of the large commercial lending book that we have. Always easily address when that time is right with sub-debt issuance, but at 12% it's on the low end historically. But we're very comfortable with it sitting there today with the risk in our business mix.

Operator

Your next question comes from Collyn Gilbert with KBW.

Collyn Gilbert

Most of my questions have been asked. And I think, Casey, hit on a handful of them. But just back to the loan yield. And again, I think just trying to reconcile your comments David about 25 basis point cut in rates would imply a 2 to 3 basis point compression in NIM. You didn't see it this quarter, obviously, it fared better. So just dissecting that a little bit more, the mix here is relevant the mix here is relevant.

And then also on what you did on the deposit side, because I think you'd guided to or you'd indicated last quarter that you were thinking maybe deposit costs would still tick up this quarter but then drop in the fourth quarter. So just trying to piece this all together, so just on the loan yield side. So you mentioned what the warehouse loan yields were 200 basis points over. Just curious what the yields were, newly casing yields were on the equipment finance and then just more of your traditional C&I loans?

David Rosato

A couple of things there, Collyn. Hopefully, I get them all. You know not 2 to 3 basis points, I thought I said 3 to 4. I would also -- I probably should have mentioned. I would say, because of the lateness of the second move by the Fed, there's probably a little bit of re-pricing left from that move in our home equity portfolio that's the cycle for a full month to have all those prime days loans re-priced. I don't have a number for you on that it's just a small number, but it's out there.

On the -- and actually, I don't remember us saying that we thought deposit costs would tick up in the third quarter. I'm pretty sure we said the opposite, or we were silent to that. And then lastly just across the -- we really have -- we have three different equipment platforms that are all -- that are quite different in nature, as you know with the lowest yielding, doing the larger transactions, our original PCLC. Coupons in that business run from about 4.25.

Our highest yielding is the old financial federal People's United equipment finance where we can run yield from 6.5% to 7% on average for that business. And then as we talked about many times before can run 7%, 7.5% type range on that portfolio.

Collyn Gilbert

So you're not seeing -- or you're not seeing much compression then on new origination yields within that segment? It just doesn't seem that there's a lot of variation I don't think from what you have indicated in the past?

David Rosato

I would say there's pricing pressures and it's mostly in the largest one PCLC. But I would say across those three businesses, the managers fight that every day and do an exceptionally good job. There's across we talked many times about how diversified all of our lending businesses are. We are seeing pressure in our large corporate. We talked about mortgage warehouse PCLC. Commercial real estate is relatively steady, at least has been steady. And some of we've actually in the quarter had some businesses where we're able to widen spreads.

Collyn Gilbert

And then just shifting to loan growth, so I'm pretty sure all them, I mean, here I know it's wrong again. But on the loan growth guide, I thought you guys were thinking before UBNK were at 10% to 12% for the year. Is that correct that what your prior guidance was?

David Rosato

Yes, correct.

Collyn Gilbert

So you're there more or less year-to-date. So just trying to think about, and Jack, I appreciate your comments kind of broadly and how you're seeing your consumer behavior and such. But just curious -- and mortgage warehouse obviously was elevated this quarter, maybe some flows during the fourth quarter. But just sort of how you sort of see some of the pipelines trending as you go into the fourth quarter as it relates to loan growth?

Jeff Tengel

Collyn, this is Jeff Tengel. We see the fourth quarter, the pipelines are still, I would characterize them as being in good shape, pretty consistent with where we saw them coming into the third quarter. There's obviously some variables there, the mortgage warehouse lending business being a big one. Some of that's offset by the fourth quarter historically being a pretty strong quarter for our equipment finance business.

So we still feel pretty good about the health of the pipeline going into the fourth quarter. We saw an elevated level of payoffs in the third quarter in a number of our businesses, which if that does not occur in the fourth quarter, would be a benefit. A lot of M&A activity, a lot of capital markets activity that impacted some of our businesses that's we're hopeful won't occur in the fourth quarter.

Operator

[Operator Instructions] Your next question comes from Brock Vandervliet with UBS.

Brock Vandervliet

Just going back to couple of these comments, you touched on CECL and the loan-to-deposit ratio. It would seem like in the growth headwind that you've referenced. Could you accelerate some of that process by potentially selling down some of the resi exposure, and it's dilutive to asset yields somewhat pejorative under CECL, as you mentioned. You create some more shelf space with your LD ratio. And why not do that?

David Rosato

We could. Last quarter, we were asked about could we do that in New York multifamily and we said, yes, we could. And both are profitable portfolios. So we think and talk about it. Our outlook discusses these strategies like that from time to time. But we usually get back to -- we're comfortable with the credit risk. We have the capital to support it. They're making money for us and it gives us more time to remix the balance sheet. We don't feel we need to accelerate the remix of the balance sheet, because we don't -- of all those things I mentioned not up but more overly concern ourselves.

Brock Vandervliet

And separately on the funding side, is there anything you'd call out in terms of the cadence of CD or FHLB repricing in the fourth quarter that would, or first quarter next year, that would allow you to step down those rates more quickly?

David Rosato

I guess, I'd say two things. One is the wholesale borrowings that we do in the markets are from the home loan stepped down -- those costs stepped down nicely, because there are much more market sensitive. So they will pretty much move with one-month LIBOR. On the customer funding side, we're obviously subject to what our competitors are doing across their portfolios, retail, commercial, et cetera.

The good news in that is the industry has been quite disciplined. We talked about on this call we were a little early in some of those moves. But we've seen more -- we've seen other banks be aggressive as well, which is a great thing.

Jeff Tengel

And there's a lot of turn in the CD book. So if you think about into the future quarters, if rates drop and the market lowers rates, we'll be able to benefit from that as CDs mature and reprice.

Operator

Ladies and gentlemen, since there are no further questions in the queue, I'd now like to turn the call over to Mr. Barnes for closing remarks.

Jack Barnes

Thank you. In closing, we're pleased with the strong third quarter performance, which was highlighted by another quarter of record earnings, stable net interest margin, lower deposit costs, continued strong fee income, well maintained expenses and sustained excellent asset quality. Thank you for your interest in People's United. Have a good night.

Operator

Thank you for your participation in today's conference. This concludes the presentation. You may now disconnect. Good day.