Heartland Financial USA, Inc (HTLF) Q3 2021 Earnings Call Transcript

HTLF earnings call for the period ending September 30, 2021.

Heartland Financial USA, Inc (NASDAQ:HTLF)
Q3 2021 Earnings Call
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Prepared Remarks:

Operator

Greetings and welcome to the HTLF Third Quarter 2021 Conference Call. This afternoon HTLF distributed its third quarter press release and hopefully you've had a chance to review the results. If there is anyone on this call who did not receive a copy, you may access it at HTLF's website at htlf.com.

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

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

At this time, I would now like to turn the call over to Mr. Lynn Fuller at HTLF. Please go ahead, sir.

Lynn B. Fuller -- *Executive Operating Chairman*

Thank you, Tawanda, and good afternoon. Welcome to HTLF's Third Quarter 2021 Earnings Call. We appreciate everyone joining us today, as we discuss the company's performance for the third quarter of 2021. For the next few minutes, I'll touch on the highlights for the quarter. I'll then turn the call over to HTLF's President and CEO Bruce Lee, who will cover business performance. Then Bryan McKeag, our EVP and CFO will provide additional color around HTLF's results. And also joining us today, is Nathan Jones, EVP and Chief Credit Officer, who will be available to answer questions regarding credit.

Now, onto the financial highlights for the third quarter of 2021. I'm pleased to report that we had another solid quarter. Net income in the third quarter available to common shareholders was $53.9 million compared to $45.5 million for the third quarter of 2020, an increase of $8.4 million or 18%. Diluted earnings per common share was $1.27 compared to a $1.23 for the third quarter of last year, an increase of $0.04 or 3%. Year-to-date earnings per share is $3.88, which is an increase of $1.29 or 50% over last year.

Annualized return on average common equity and average tangible common equity for the quarter was 10.32% and 15.14% respectively, and year-to-date that's 10.95% and 16.34% respectively. Annualized return on average assets for the quarter was 1.19% and year-to-date 1.25%. Net interest margin on a fully tax-equivalent basis was 3.34% for the quarter and 3.41% year-to-date. Our efficiency ratio was 60.38% and year-to-date 58.05%. Bruce and Bryan will share more detail on these ratios in their comments.

Well, book value and tangible book value per common share continued to increase, ending the quarter at $48.79 and $34.33 respectively, that's a 6% and 4% increase respectively from a year ago. Tangible common equity ended the quarter at 7.89%, just short of our goal of 8% to 9% and all regulatory capital ratios continue to be very strong, bolstered by our issuance of $150 million in sub debt during the quarter.

Well, at this month's Board meeting, HTLF's Board of Directors approved an 8% increase in its quarterly cash dividend, raising it from $0.25 per share to $0.27 per share on the company's outstanding common stock. The dividend is payable on November 30, 2021 to stockholders of record at the close of business on November 15, 2021. This marks the third increase in 2021, and results in a 35% total increase over the prior year's quarterly dividend level of $0.20 per share. The Board also approved a preferred dividend of $175 payable on January 15, 2022 to stockholders of record on December 31, 2021.

Well now, I'll turn the call over to Bruce Lee, HTLF's President and CEO, who will provide an overview of the company's operating performance and credit. Bruce?

Bruce K. Lee -- *President and Chief Executive Officer*

Thank you, Lynn. Good afternoon everyone. I am pleased to share with you HTLF's solid third quarter results. We continue to see strong growth across our markets and, we are already seeing results from the investments we've made in talent and technology for our agri teams. In the third quarter, total assets grew to a record $19 billion, an increase of $625 million from the linked quarter, assets are up $3.4 billion or 22% from a year ago. Asset growth is driven by our strong momentum in commercial and consumer loan, and we continue to see significant growth in deposits and service fees.

Let's start with loan growth highlights; loans grew $263 million across our portfolios excluding PPP, an increase of 3% from the linked quarter, exceeding our guidance for the quarter of $220 million. We saw continued strength across our commercial loan portfolios, with the exception of construction, all categories showed growth during the quarter.

From the linked quarter, commercial and industrial increased $19 million or 1%. Owner-occupied real estate increased $195 million or 10%, non-owner occupied real estate increased $33 million or 2%, our ag portfolio increased $5 million or 1%, construction decreased $40 million or 5%.

We added 226 new commercial relationships during the quarter representing $116 million in funded loans and $16 million of new deposits. We're focused on executing our talent acquisition strategy. In California, we added in agri-finance team of 22 people, it's an excellent team, that includes relationship managers, treasury management officers and credit professionals, and strategically adds to our growing agribusiness in the Central Valley of California.

The strength of our agribusiness group, complements our other HTLF-specialized industries teams that have expertise in healthcare, specialty manufacturing and distribution, food and beverage and professional services. We're also extending our reach in several high-growth markets in the Midwest. We have opened offices in St. Paul, Des Moines and Cedar Rapids, and are scheduled to open two offices in the Western suburbs of Chicago this quarter. We have added 13 commercial bankers at these locations.

Our commercial pipeline is 16% higher from the end of the second quarter, and we expect to grow commercial loans in excess of $200 million in the fourth quarter. I'm traveling regularly and meeting with our clients and bankers. It's exciting to see firsthand, our clients' creativity, resilience and optimism. Headwinds remain and clients are managing challenges from supply chain disruptions, workforce shortages and wage pressures and inflation.

We're very pleased with the pace of PPP forgiveness. With PPP-I loans, 99% of customers and dollars have already completed the forgiveness process. As PPP-II borrowers become eligible to apply for forgiveness, we are seeing a steady pace of activity. We also had strong growth in our core consumer based loan portfolios, which encompasses both consumer and residential mortgage loans, increasing by $50 million from the linked quarter and greatly exceeding our forecast of $20 million. We expect continued growth, albeit at a slightly slower pace and forecast $20 million of growth in core consumer-based loans in the fourth quarter.

Turning to deposits, non-timed deposits totaled $15 billion at quarter-end, an increase of $465 million or 3.2% during the quarter. Demand deposits increased $238 million or 4% to $6.5 billion. Savings deposits increased $227 million or 3% to $8.4 billion. We saw total deposit growth for the 10th consecutive quarter. Total deposits were a record $16 billion, an increase of $407 million from the linked quarter and $3.3 billion or 25% from a year ago. Our already exceptional deposit mix improved even further, 41% of deposits are in Non-interest-bearing accounts and 93% in non-time account balances.

Our deposit pricing strategy continues to serve us well. Total deposit costs remain low at 8 basis points, a decrease from 16 basis points one year ago, helping us weather continued pressure on our margins.

Turning to key credit metrics; Nathan Jones, our Chief Credit Officer and his team use a disciplined credit approach that has delivered strong credit quality across our portfolios. Nonperforming loans decreased $2.1 million from the linked quarter and represented 84 basis points of total loans. Nonperforming assets as a percentage of total assets, decreased to 46 basis points from 50 basis points in the linked quarter. Other real estate decreased to $4.7 million from $6.3 million in the linked quarter. Delinquency ratio decreased to 12 basis points from 17 basis points in the linked quarter. Non-pass rated loans decreased to 9.2%, a decrease of 1.2% for the quarter. Lastly, in the third quarter, we reported a net recovery on charged off loans of $1.3 million or minus 5 basis points of average loans.

We are strategically investing for growth through our talent acquisition strategy. We have expanded and strengthened our commercial teams. We are providing them with best-in-class technology, while we continue to engineer processes for speed and scale. We are also establishing a $15 per hour minimum wage for all employees beginning November 1.

We actively listen to our customers through our bankers in structured research. In partnership with [Indecipherable], we conduct commercial customer experience research to identify opportunities to satisfy emerging needs. Through this dialog, we collect market intelligence to inform our strategies and investments. We are on track to deliver more service enhancements in digital functionality, that will enrich the customer experience. We're expanding our document management capabilities, to reduce administrative burden for our customers and bankers. We're adding more convenience features like online appointment scheduling and live chat.

We are partnering with Temenos for robust consumer online account opening, loan origination and digital onboarding, and we are excited about offering custom digital experiences in the future to our customer portal that's currently in development.

These enhancements enable us to continue to optimize our branch network. Since 2019, we have closed or announced plans to close 23 branches or 16% of our network. Importantly, we've retained 95% of the deposits from these locations. We continue to look closely at our footprint and expect a further reduction of 7% in the network.

HTLF is in the process of finalizing an evaluation of consolidating our separate bank charters into a single charter to drive efficiency, improve agility, reduce expenses and enhance scalability. We are well positioned to consolidate our bank charters. We already successfully operate a well-integrated shared-services model and consolidating charters will yield additional benefits, including driving efficiency and reducing redundancies, realizing significant expense savings, focusing existing resources, where they add the most value, simplifying regulatory and financial reporting and adding greater capacity to better serve our customers.

Two key tenets of our evaluation are; first, our banks will maintain their brand identities and retain local decision making, local leadership and local Boards. Second, HTLF will maintain its strong and sizable presence in Dubuque, Iowa. Current HTLF operational and administrative functions will continue to be largely staffed and run from Dubuque. When completed, we expect to achieve annualized revenue opportunities and expense reductions totaling 3% to 5% of our current cost base. While other institutions may have achieved greater savings in their charter consolidation initiatives, our savings may be somewhat lower, as we already operate a well-integrated and mature shared-services model. We expect to communicate more detail, when the evaluation is complete later in the fourth quarter.

Lastly, I want to acknowledge our employees. I'm proud of how they continue to adjust, adapt and advance. I'm grateful for their hard work and dedication. It has strengthened our company and delivered strength, insight and growth to our customers, communities and shareholders. Together, we are HTLF.

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

Bryan R. McKeag -- *Executive Vice President, Chief Financial Officer*

Thanks Bruce and good afternoon. I'll begin today by referencing our earnings release which details another solid quarter for HTLF. With earnings per share reported at $1.27, loan growth of $263 million excluding PPP loan forgiveness, improved credit metrics and continued deposit growth. Before I go into my comments, I would remind you that you can find additional information on the quarter in the third quarter investor presentation, which is available in the IR section of HTLF's website.

So I'll start my comments with the provision for credit losses, which was a $4.5 million benefit this quarter and primarily driven by improved underlying credit metrics, highlighted by loan upgrades, exceeding downgrades, the $2 million decrease in non-performing loans, a record low level of loan delinquencies and $1.3 million in net recoveries on previously charged off loans. The economic outlook factors used to develop the allowance were largely unchanged from last quarter and still retain a measured level of caution and uncertainty, that management deems appropriate for lingering economic headwinds that are yet to be resolved.

At quarter end, the total allowance for lending-related credit losses, which includes both the allowance for credit losses on loans and unfunded commitments, stood at $131.5 million or 1.33% of total loans. When the PPP loan balances are excluded, the total allowance stands at 1.39% compared to 1.47% at June 30, 2021. At quarter end, unamortized purchased loan valuations on the balance sheet totaled $21.5 million or 23 basis points of total loans, excluding PPP.

Moving to the rest of the balance sheet, investments grew $912 million this quarter and comprised just over 40% of assets, with a tax equivalent yield of 2.17%, a duration of just over five years and generates $70 million to $75 million of monthly cash flow. Borrowings increased $214 million to end the quarter at $637 million or 3.36% of assets. The increase this quarter includes both the issuance of $150 million, 2.75% fixed rate sub debt, and the retirement of a $21 million, 5.43% fixed rate holding company loan. The tangible common equity ratio decreased 19 basis points to 7.89% at quarter end.

Decrease was the result of 16 basis points decline due to the decrease in market value of investments and another 26 basis points decline, due to the significant balance sheet growth this quarter. These were partially offset by a 22-basis point increase from higher retained earnings. Heartland's regulatory capital ratios remain strong with common equity Tier 1 at just under 11.5% and the total risk base now over 16%, with the inclusion of $150 million in sub debt we issued this quarter. So, the balance sheet continues to be very strong and well positioned.

Moving to the income statement, net interest income totaled $142.5 million this quarter, which was $1.3 million higher than the prior quarter. PPP interest and fees recognized this quarter was $11.2 million which was unchanged from last quarter. We exited the quarter with just under $17 million of unamortized PPP loan fees remaining on our books. The net interest margin on a tax-equivalent basis this quarter was 3.34%, that's down 7 basis points compared to last quarter. During the quarter, a 10-basis point decline in investment yields was partially offset by a 2-basis point increase in loan yields, and a 1-basis point drop in interest costs. This quarter, the net interest margin includes 8 basis points of purchase accounting accretion, which was down 1 basis point from the prior quarter.

Non-interest income totaled $32.7 million for the quarter, that's down $440,000 from last quarter. Total mortgage banking revenue was up $1.2 million, which was offset by security gains, which decreased $1.3 million compared to last quarter. In addition, service charges were $400,000 higher and trust fees were up $200,000, representing 3% increases in each category compared to last quarter.

Shifting to non-interest expense; non-interest expenses totaled $110.6 million this quarter, up $7.3 million from last quarter. Excluding acquisition, integration, restructuring and tax credit costs and asset gains and losses, core expenses increased just over $6 million to $108 million compared to $102 million last quarter. The increase is attributed to several items, including a $3.4 million increase in salary and benefit cost, related to the addition of the new lending teams, some wage inflation pressure and higher benefit costs, as our employees have started to utilize the healthcare system at more normalized levels. The remaining increase is primarily due to FDIC insurance assessments, which rose due to higher deposit levels, and higher cost for security, legal and account losses related increases in claims and productivity this quarter.

Looking ahead to the final quarter of 2021 and into 2022, we believe HTLF will continue to deliver strong results highlighted by loan pipelines that remain strong, leading to an expected growth rate ex PPP in the 2% range per quarter, as the economy continues to strengthen. Remaining PPP loan forgiveness will happen largely over the next two quarters. We anticipate that PPP reductions will be replaced by non-PPP growth. Non-time deposits growth is likely to slow into the 1% range per quarter. Net interest margin will continue to be pressured, however, net interest income excluding PPP fees is projected to grow modestly as earning assets grow and mix improves going forward.

Provision for credit losses are expected to remain low for the next quarter or two, and then begin to normalize as loan growth continues, the economy stabilizes and COVID and supply chain issues subside in 2022. Non-interest income, excluding investment gains or losses in total is expected to be flat next quarter at about $31 million. We expect to see year-over-year lift in core non-interest income in the 10% range next year.

Core expenses are expected to remain flat in the $108 million range next quarter. We intend to manage core expenses to a modest year-over-year increase in 2022. However, persistent or increasing inflationary pressures could be a difficult headwind. We believe a 22% core tax rate that excludes new tax credits is a reasonable full-year run rate, assuming no tax law changes. And lastly, we expect the TCE ratio will climb back above 8% next quarter, as we get a 20 to 25 basis points increase from retained earnings. However, a continued upward movement in interest rates could weigh negatively on ratio.

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

Bruce K. Lee -- *President and Chief Executive Officer*

Thanks Bryan. Tawanda, if you want to open up the line, we'll take questions now.

Questions and Answers:

Operator

[Operator Instructions] Our first question comes from the line of Jeff Rulis with D.A. Davidson. Your line is open.

Jeffrey Rulis -- *D.A. Davidson -- Analyst*

Thanks, good afternoon.

Bruce K. Lee -- *President and Chief Executive Officer*

Hi Jeff.

Bryan R. McKeag -- *Executive Vice President, Chief Financial Officer*

Hi Jeff.

Jeffrey Rulis -- *D.A. Davidson -- Analyst*

Hi. Just a question on the charter collapse. I guess analysis is still to be determined, but just sort of the trigger on that, I mean, that's certainly been discussed for years and you've stayed on that platform and really I guess effectively not a lot changes, just interested in the trigger for the timing of that. I know that you've done a lot of internal work for years now, just wanted to kind of get a sense for the timeline of kind of why now in that discussion?

Bruce K. Lee -- *President and Chief Executive Officer*

Yeah so, Jeff, this is Bruce. I think a couple of reasons. First of all, we had to make sure that we had a foundation internally so that we could actually execute on a charter collapse. We actually have that in place now. I think the second thing is, we've gotten larger, that also was one of the factors as well. And we just felt that this was the right time to do it, especially with the pressure on both margin and expenses, that this will be an opportunity for us to continue to reduce our efficiency ratio over time and, we've also been reducing the number of physical branch locations as well.

Bryan R. McKeag -- *Executive Vice President, Chief Financial Officer*

I think the other thing I would add Jeff is, when we do acquisitions and have been doing acquisitions into our model, a model that has one charter and the ability to do bigger deals and set them the way that we want within the company will be easier, if we don't have to worry about the separate charter demarcations and so that will make it easier, along with other internal things in our back office.

Bruce K. Lee -- *President and Chief Executive Officer*

Yeah. And just to follow up on Bryan's comment, our last acquisition AimBank, they had geographies stretched across two states, so based upon our model we had to split their operation into our two separate charters with some of the assets going into New Mexico and some of them going into Texas.

Jeffrey Rulis -- *D.A. Davidson -- Analyst*

Yeah, no, makes sense, excited to kind of hear the results of that. And, maybe just Bryan then, I would -- the expense guide is maybe absent, any decision on that to come in the fourth quarter, is that fair to say?

Bryan R. McKeag -- *Executive Vice President, Chief Financial Officer*

Yeah.

Jeffrey Rulis -- *D.A. Davidson -- Analyst*

Or would that have much impact?

Bryan R. McKeag -- *Executive Vice President, Chief Financial Officer*

Yeah. And, I would say the impact is likely to come more toward the end of when we get the charter consolidations done. So I think it's going to be a little bit of a lag before you start to see the impact on our run rate from the consolidation. There probably will be some one-time expenses that we'll incur, to get the consolidations done as we go through. So, could be a little lag before we see the benefit. Still working on the timing and what other things, we have to make sure, we kind of cleared the deck of a couple of projects and then we can get going, assuming we finalize the process here.

Jeffrey Rulis -- *D.A. Davidson -- Analyst*

Okay. So your modest increase into '22 would be absent that, and like you said, maybe some upfront costs and the savings that you potentially identified would kind of be a '23 event, is that fair?

Bryan R. McKeag -- *Executive Vice President, Chief Financial Officer*

Yeah, late '22 -- I would say, yeah late '22, into '23 yes.

Jeffrey Rulis -- *D.A. Davidson -- Analyst*

Okay. Maybe one last one on the expenses. It just seems a little elevated, I know the projects that you've -- and appreciate the slide on the number of items that you're working on. Was there any lumpy pull forward in this quarter that would suggest, tracking these projects is a little difficult from quarter-to-quarter. But was this on the higher side? Given your guidance, sounds like flat and then moderate next year, but maybe just give us an update on the timeline of, kind of where you are on that internal spend and work on that front?

Bryan R. McKeag -- *Executive Vice President, Chief Financial Officer*

Yeah, I think a couple of things. So, we still have one quarter left in 2021 and I think the consulting part. So what we expense is -- due to these projects, we probably have one more quarter to go, and then we expect that should start to slow down, as we really then concentrate on the charter consolidation as one of our main projects. So that should come down. We did have a little bump up in temp cost, again trying to get some of these projects to completion, before we start the consolidation. So, I would say those are two things that happened on the project side, professional fees and some of it was in the salaries and benefit line as well.

The rest of the cost increase, a lot of it was -- we added the lending teams that Bruce talked about, so that was one component. And quite frankly we have been getting the benefit from our employees, not doing as much in their healthcare area, staying at home, not visiting the doctor, not doing some of their normal healthcare. And so we're seeing that starting to open up. We're seeing the claims starting to pick up and a lot of that is normal, people going back and using the healthcare system. So, those new teams and the healthcare costs, I think are going to stick, and so that's why I'm thinking some of these costs to be a little bit stickier than other.

Jeffrey Rulis -- *D.A. Davidson -- Analyst*

Got it. Sorry that triggered one last small one, the agribusiness team you added in the Central Valley, what was the total number of folks that you brought on?

Bruce K. Lee -- *President and Chief Executive Officer*

22.

Jeffrey Rulis -- *D.A. Davidson -- Analyst*

Okay. And, they sound like it ranged -- go ahead.

Bruce K. Lee -- *President and Chief Executive Officer*

That would include again relationship manager, treasury management officers and the credit team and support team.

Jeffrey Rulis -- *D.A. Davidson -- Analyst*

Great, thank you. I'll step back.

Operator

Thank you.

Bruce K. Lee -- *President and Chief Executive Officer*

Thanks Jeff.

Operator

Our next question comes from the line of Terry McEvoy with Stephens. Your line is open.

Bruce K. Lee -- *President and Chief Executive Officer*

Terry, you there? Tawanda, I don't think, he's coming through.

Operator

Check if your line is on mute, Terry?

Terry McEvoy -- *Stephens -- Analyst*

Is that better?

Bruce K. Lee -- *President and Chief Executive Officer*

There we go.

Bryan R. McKeag -- *Executive Vice President, Chief Financial Officer*

Yeah.

Terry McEvoy -- *Stephens -- Analyst*

Oops, sorry. I think batter in the headset died. Good afternoon everyone. Let's just stick with the -- just the consolidation of the bank charters. I mean, everything I've heard sounds quite positive. What would you lose, what's the other side of the argument, that is maybe being discussed internally?

Bruce K. Lee -- *President and Chief Executive Officer*

Well, we spent a lot of time talking about it and we don't think there is really very much that we lose at all, especially when you keep the brand, you keep our structure with a local CEO, local decision making, local Boards. Quite honestly, that's why we chose to do it. We didn't see any downside.

Terry McEvoy -- *Stephens -- Analyst*

That makes complete sense. Slide 13, the digital strategy, so much went into that slide and I don't want to just overlook it. So I guess my question is, you do a few things very well first. What's the takeaway from this slide? Is it treasury management, consumer loan originations, or what are those few things that you're looking to do extremely well, at least in phase one here?

Bruce K. Lee -- *President and Chief Executive Officer*

I think the way to think about it is, if you look at the upper left hand corner, those are the things we're really trying to do better, and those are the things that the customers are asking for first. So we really thought that we would turn this around a little bit, and not focus on what we thought the right thing to do was, but what did the customers' expectation -- what expectations do they have? And, so then also on the right-hand, upper right hand corner, those are also things that our customers were looking for. In sort of the bottom half, a lot of this is more on what I would call, the efficiency side.

Bryan R. McKeag -- *Executive Vice President, Chief Financial Officer*

Yeah, I think Terry, just to add on that. I think what we're really working hard, is to get that -- acquire and fill the top one, the account analysis, that we're just trying to get done before the end of the year, the account opening and maintenance and the online products. We're trying to get those done, before we start to collapse the charters, so that is already -- so that as the charters move together, that functionality just grows across the footprint.

Bruce K. Lee -- *President and Chief Executive Officer*

I think the other thing, Terry, and it goes to a little bit of the elevated expenses Bryan already talked about, as well as getting some things done first. One is, you get the customer facing things done first to provide value for that customer experience, so then next year we can really focus on this charter collapse and installing Temenos for the --

on the retail side, because we believe that will be a game changer for our customers and internally.

Terry McEvoy -- *Stephens -- Analyst*

Great, thanks.

Bruce K. Lee -- *President and Chief Executive Officer*

[Speech Overlap] capacity. So, we want to get -- we have to get some of these things done first.

Terry McEvoy -- *Stephens -- Analyst*

Understood. I appreciate that. And Bryan, thanks for your fourth quarter outlook for some of the balance sheet and income statement items. Very helpful. Thanks.

Bryan R. McKeag -- *Executive Vice President, Chief Financial Officer*

Thanks.

Operator

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

Andrew Liesch -- *Piper Sandler -- Analyst*

Hi, good afternoon everyone. Just one last question on expenses, the $108 million and the modest growth next year. That's modest growth of that run rate, not of the full year number in '21, is that correct?

Bryan R. McKeag -- *Executive Vice President, Chief Financial Officer*

I would say, actually we're trying to have it be very modest off this $108 million, because again as we go into next year, I think some of the consulting and some of the things we're doing will come off. But again, I think it's modest over the full year, probably relatively flat, and hopefully slightly down from where we are.

Andrew Liesch -- *Piper Sandler -- Analyst*

Got it. Okay, that's helpful.

Bryan R. McKeag -- *Executive Vice President, Chief Financial Officer*

The challenge -- and, as I said, the one headwind that concerns me is, all the inflation that's out there and all the wage inflation and things like, that we all in the industry are going to deal with. So, that's probably the biggest hurdle to get where we want to go right now.

Andrew Liesch -- *Piper Sandler -- Analyst*

Certainly. Yeah. Then the securities portfolio continued to add some of this quarter, you're going to add much cash as you did a few quarters ago, but what's the appetite to continue building that portfolio, and what have you been adding there?

Bryan R. McKeag -- *Executive Vice President, Chief Financial Officer*

Yeah. So, I think in terms of growth of the portfolio, our hope is that the growth will slow considerably and maybe flatten out, as we can get the loan engine, these new teams coming, we'd like to be able to convert basically the cash flow, a little bit off the investment portfolio and certainly the cash flow that's coming off of the forgiveness right until back into loans. So, if we can do that, you may not see earning assets grow a whole lot for a quarter or two, just more reposition and then after that, we should see earning assets grow, as PPP forgiveness is over. And then it...

Andrew Liesch -- *Piper Sandler -- Analyst*

Got it. Okay, and then...

Bryan R. McKeag -- *Executive Vice President, Chief Financial Officer*

Yeah, in terms of what we are adding, it's probably what most banks are adding, it's fairly low credit, Ginnie Maes, those sorts of things, I don't know, probably in the 1.5% to 1.75% range in terms of yield right now. Hopefully, getting a little bit better with the tenure moving up, but we tend to play a little bit shorter of the 10-year mark, so it helps a little bit. We're really at the front end of the curve to come up for us to get the real benefit from our balance sheet.

Andrew Liesch -- *Piper Sandler -- Analyst*

Definitely. The -- and then this -- the team that came over in the Central Valley, California, what size loan portfolio where they managing at their prior bank?

Bruce K. Lee -- *President and Chief Executive Officer*

Prior to coming over, it was in excess of $1 billion.

Andrew Liesch -- *Piper Sandler -- Analyst*

Okay.

Bruce K. Lee -- *President and Chief Executive Officer*

And, I want to make sure...

Andrew Liesch -- *Piper Sandler -- Analyst*

So the experience they could bring that over, but that seems a little -- that'd be aggressive if they did?

Bruce K. Lee -- *President and Chief Executive Officer*

There is an opportunity there.

Andrew Liesch -- *Piper Sandler -- Analyst*

Okay, great. Thanks for taking the questions. I'll step back.

Operator

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

Damon DelMonte -- *KBW -- Analyst*

Hey, good afternoon guys. Hope everybody's doing well today.

Bruce K. Lee -- *President and Chief Executive Officer*

Hey, how are you Damon?

Damon DelMonte -- *KBW -- Analyst*

Just one quick follow-up on the -- great, great. One quick follow-up on the lending team you guys brought over. Are you disclosing where they came from?

Bruce K. Lee -- *President and Chief Executive Officer*

We are not disclosing where they came...

Damon DelMonte -- *KBW -- Analyst*

Okay, fair enough. And then they started, was it like early in the quarter? Or I guess when do they come on board and what is the -- maybe is there like any restrictions on when they can try to bring over some of that business.

Bruce K. Lee -- *President and Chief Executive Officer*

Yeah. So, they came late in the quarter. So we really -- we didn't get any real production out of them in the third quarter and they do not have any restrictions. So we do expect to get some volume from them -- from that team, even in the fourth quarter.

Damon DelMonte -- *KBW -- Analyst*

Okay. Okay, great. And, then obviously you guys have a lot going on, the charter consolidation seems to be a pretty sizable project for you guys that you're working on. How does all of this kind of internal, behind the scenes activity is going out? How does this impact your outlook for M&A, which has been a long-standing component of your strategy? Do you -- are you guys kind of shifting toward -- focusing more on what you've built and leveraging the current footprint and not relying on external growth anymore, or how do we think about M&A?

Bruce K. Lee -- *President and Chief Executive Officer*

Yeah, I would say that we want to do both. This is the opportunity and we can control this and we felt it was time, again on these projects, as well as the charter consolidation. But the way that we are thinking about it, we can still do M&A and charter consolidation and Temenos, and the talent acquisition strategies.

Damon DelMonte -- *KBW -- Analyst*

Got it, OK. And, then just lastly, Bryan, could you just go back and revisit your commentary on the margin outlook, on the core margin? And I may have missed what you said the impact was from PPP loans this quarter?

Bryan R. McKeag -- *Executive Vice President, Chief Financial Officer*

Yeah. PPP loans had a bigger impact this quarter, the dollar amounts -- looking at non-net interest income, the dollar amount was the same, but it had a bigger impact in terms of the basis points. I'm thinking, I did that, hang on here. Let me go through my notes. Yeah, I think, had we not had the PPP loans, and if you backed out the purchase accounting, our margin would have been around 3.12%.

Damon DelMonte -- *KBW -- Analyst*

Okay.

Bryan R. McKeag -- *Executive Vice President, Chief Financial Officer*

So, we had about 14 basis points of the effect this quarter.

Damon DelMonte -- *KBW -- Analyst*

Okay, perfect. And, then that 3.12%, can you just repeat what you were saying about your expectation in the fourth quarter and kind of as we head into 2022?

Bryan R. McKeag -- *Executive Vice President, Chief Financial Officer*

Yeah. I think in the fourth quarter -- I think with the -- so I think of it in two different ways. I think the margin is going to continue to be under pressure a few basis points, just because of -- still there's a lot of liquidity, and there is the continued loan repricing of that in investment portfolio. But I think non-net interest income dollars, will grow, because we had a lot of growth come in at the end of the quarter, both in the investment portfolio as well as in the loan portfolio, and if we can -- we're off to a decent start this quarter already on Bruce's $200 million projection. So, if we can keep bringing that in and get that to average, those three pieces should give us a pickup in interest income. The real wild card will be PPP and how much gets forgiven and how much of that $14 million we bring in this quarter versus moves into next year in the first quarter, is predominantly I think going to come to that $14 million -- just under $14 million, $13.8 million or whatever it is, is going to come in, I think almost all of it's going to come in, in the next two quarters.

Damon DelMonte -- *KBW -- Analyst*

Got it. Okay. And, I guess just lastly on credit, a few quarters in a row of negative provisioning; do you think that you're going to need to take any provisioning here to close out the year, and as we go into 2022?

Bryan R. McKeag -- *Executive Vice President, Chief Financial Officer*

You know, I always hesitate to say yes or no, because tomorrow Nathan could call me and say you know something happened that we didn't expect. I would say if nothing unexpected happens in terms of non-performers popping up, new non-performers or some non-performer getting way worse than we thought. I think we should be -- again I think there's still going to be net loan upgrades, rather than downgrades and, I think that will largely offset the need to provide for a loan growth component. So I'm thinking we could be plus or minus a little bit around zero.

Damon DelMonte -- *KBW -- Analyst*

Okay, got it. That's great. That's all that I had. Thank you very much.

Operator

Thank you. We have a follow-up from the line of Jeff Rulis. Your line is open.

Jeffrey Rulis -- *D.A. Davidson -- Analyst*

Thanks. And I know we are blurring the lines a little bit with organic and M&A sort of opportunities, but this at a high level, you see quite a few larger bank announcements throughout your footprint, in terms of not MOEs, but larger transactions. Any care to kind of comment on opportunities off of that, or if that -- again back to the M&A

discussion, could you sit back and maybe take dislocation of other deals versus super aggressive on buying your own? Just, I guess the reaction of your -- from your group on deals you've seen throughout your footprint, if that changes anything, or your thoughts on opportunity?

Bryan R. McKeag -- *Executive Vice President, Chief Financial Officer*

Yeah. We continue, Jeff, to have a deep pipeline of banks of all sizes. The smaller deals are difficult, because they just don't move the needle on EPS, but if they're very strategic and in our current markets, I mean we would look at deals that are under $1 billion. And, as to larger deals, I mean we prefer to do transactions from $1 billion to call it $5 billion or $6 billion, those are big enough to move the needle. But again, we're focused on our current markets in building the scale and dominance in those markets.

Yeah. The MOEs that you're talking about, we wouldn't be opposed to them. But as you know those are more challenging to put together, they take longer, they're harder to do and you always have the social issues. So again, not opposed to it, but we look at anything that's very positive for the shareholders obviously.

Bruce K. Lee -- *President and Chief Executive Officer*

And Jeff, I might -- just a couple of follow-ups there. Again, our strategy right now is to control what we can control, and we think that's first and foremost, on the talent acquisition side, because that will help us grow, whether it's in California or in the Midwest or in cities that I have referenced. Also, we have had a lot of good hires that we made in Colorado. So we're really focused on growing that first. And, as you mentioned, we have a few of those, particularly MOEs have occurred in our marketplace, which enables us to not only think about the talent there, but also the customer disruption. So we have a lot of opportunity in front of us, and that's what we're trying to execute on right now.

Jeffrey Rulis -- *D.A. Davidson -- Analyst*

Okay. Thanks guys.

Operator

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

Bruce K. Lee -- *President and Chief Executive Officer*

Thank you, Tawanda. In closing, HTLF had a solid third quarter. We had total commercial loan growth of $214 million, consumer loan growth of $50 million, total deposits were recorded at $16 billion, we increased our dividend to $0.27, our third dividend increase this year and we ended the quarter with total assets of $19 billion. Our momentum continues, we're driving growth, maintaining strong credit quality and investing in top talent. We're well positioned for the rest of this year, and into 2022.

I'd like to thank everyone for joining us today. Our next quarterly earnings call will be in late January. Have a good evening, everyone.

Operator

[Operator Closing Remarks]

Duration: 50 minutes

Call participants:

Lynn B. Fuller -- *Executive Operating Chairman*

Bruce K. Lee -- *President and Chief Executive Officer*

Bryan R. McKeag -- *Executive Vice President, Chief Financial Officer*

Jeffrey Rulis -- *D.A. Davidson -- Analyst*

Terry McEvoy -- *Stephens -- Analyst*

Andrew Liesch -- *Piper Sandler -- Analyst*

Damon DelMonte -- *KBW -- Analyst*