



Alerus Financial Corporation NasdaqCM:ALRS

Earnings Call

Thursday, January 26, 2023 5:00 PM GMT

CALL PARTICIPANTS	2
PRESENTATION	3
QUESTION AND ANSWER	7

Call Participants

EXECUTIVES

Alan A. Villalon

Executive VP & CFO

James Collins

Executive VP and Chief Banking & Revenue Officer

Karin M. Taylor

Executive VP & Chief Risk Officer

Katie A. Lorenson

President, CEO & Director

ANALYSTS

Benjamin Tyson Gerlinger

Hovde Group, LLC, Research Division

Jeffrey Allen Rulis

D.A. Davidson & Co., Research Division

Nathan James Race

Piper Sandler & Co., Research Division

ATTENDEES

Eric Grubelich

Presentation

Operator

Good morning or good afternoon, everyone, and welcome to the Alerus Financial Corporation Earnings Conference Call. [Operator Instructions] Please note, this event is being recorded.

This call may include forward-looking statements, and the company's actual results may differ materially from those indicated in any forward-looking statements. Important factors that could cause actual results to differ materially from those indicated in the forward-looking statements are listed in the earnings release and the company's SEC filings.

I'd now like to turn the conference over to Alerus Financial Corporation President and CEO, Katie Lorenson. Please go ahead.

Katie A. Lorenson

President, CEO & Director

Thank you, Emily, and thank you, everyone, for joining our call this morning. 2022 was the year of significant transitions in our company as I moved into my current role and spent the better part of the year building the executive leadership team, including our new Chief Financial Officer, Alan Villalon, who joins me on the call today, along with Karin Taylor, our Chief Risk Officer. In June, we recruited a new Chief Banking and Revenue Officer, who is also here with me today in the Twin Cities. And in July, we promoted from within 2 long-tenured employees to round out the new executive team of Alerus. I am so proud of the professionals across the company who I get to work with every day as we take Alerus to new heights.

Recruiting and retaining talent beyond the executive leadership team is a key strategic initiative we remain committed to as we build our commercial, treasury and private banking franchise to support our historical strong client growth, scale and brand, we have already established in our wealth management, retirement and mortgage division. On Monday, we announced another win on the talent side with the addition of 3 high-performing commercial bankers to the Alerus team. And this week, we also welcomed our new Head of Treasury Management and Deposit Strategy to our company.

Consistent with the rest of the industry, 2022 was full of unpredictable and unprecedented headwinds to our company. The power of the Alerus diversified business model, our collaborative one Alerus culture and our hard-working team members continued to focus on what we could control, attracting talent, acquiring new clients, expanding relationships with existing clients, managing expenses and constantly improving the client experience. The results of these efforts across the company are creating embedded tailwinds for the coming years when the pressure points on the balance sheet and in the markets subside.

Specific strategic highlights for 2022 included the acquisition and closing of Metro Phoenix Bank, our largest acquisition in company history and a transformational deal for our Alerus Arizona franchise. Another successful lift out of a team of bankers who exceeded our expectations and closed over \$200 million in high-quality loans in 2022, less than a year with Alerus. In 2022, we surpassed the sales milestone with another record year of record levels of new business growth in wealth management and retirement while constantly building on the synergies from the businesses, including synergistic deposit balances reaching nearly \$700 million at the end of 2022.

We remain committed to exceptional asset quality. And in 2022, we continued building on our strong foundation of credit and risk management to support our future growth, including the additions of regional credit officers, additional technology, enhanced administration and monitoring, robust stress testing and reporting as well as changes to loan policy. We strategically exited the payroll business, a small and no margin product, which we replaced with formal referral partnerships with other payroll providers, allowing us to focus on our core retirement and benefit product offering. We've done a good job in managing expenses while thoughtfully improving the processes and the client experience.

Despite the inflationary headwinds, we continue to make progress in building efficiencies and scale in our company. The company and the client rates have grown while expenses in the number of employees

continue to trend downwards. Looking ahead to 2023, we have put the pieces together, and this team is focused on the fundamentals that drive sustainable long-term outperformance. We remain committed to the work of rightsizing our infrastructure, investing in experienced talent entrenched in our markets and building our business. We remain committed to exceptional asset quality and are laser-focused on client selection as we grow.

We will take the positive lending market share and grow our company through new client acquisitions, expanding and deepening relationships with current clients and reducing attrition by taking our service levels and the client experience to new heights. All while making the company more efficient and improving long-term shareholder returns.

With that, I will now turn it over to Al Villalon, Alerus' CFO, for financial comments on the quarter.

Alan A. Villalon
Executive VP & CFO

Thanks, Katie. I'll start my commentary on Page 14 of our investor deck that is posted in the Investor Relations part of our website. For the fourth quarter of 2022, reported average loans increased 4.3% on a linked-quarter basis. The increase in core average loans was driven by a 6.4% growth in commercial real estate and commercial construction. Average deposits declined 1.1% on a linked quarter basis as clients continue to put liquidity to work. Due to decline in deposits, we had to increase our short-term borrowings over \$124 million, a 49% increase to fund continued loan growth and especially with the addition of Metro Phoenix Bank as we continue to expand in Arizona.

I will discuss later the impact of these increased borrowings. Turning to Page 15. Credit continues to remain very strong. We had net recoveries of 3 basis points in the fourth quarter. Our nonperforming assets percentage was 10 basis points compared to 17 basis points in the prior quarter. Our allowance is 1.27% of period-end loans, which includes our recent acquisition of Metro Phoenix Bank. We will be transitioning to CECL in 2023. We are currently expecting a \$5 million to \$7 million day 1 allowance increase. This will impact our CET1 capital ratio by 20 to 25 basis points based on risk-weighted asset levels for the fourth quarter. Turning to Page 16. Our core funding mix remains very strong.

We saw an increase in our cost of funds due to rising interest rates. Given the further rise in interest rates and a highly competitive deposit environment, we have responded by increasing our deposit rates. At the end of the third quarter, our deposit beta was only 3.65% which is one of the lowest in the industry as we lagged deposit pricing through the first 9 months of the year. However, competitive pressures escalated as many banks in our footprint saw their loan-to-deposit ratio exceed 100%. Due to escalated competition for deposits, we raised pricing several times, which increased our overall deposit beta tenfold to 36%, which is in line with our historical experience. Despite the competitive pressures, and deposits declined slightly, our funding base remains very strong and sticky as our loan-to-deposit ratio was at 83.8% with no broker deposits.

On Page 17, our capital base remains very strong as our common equity Tier 1 ratio is at 13.4%. As a frame of reference, the medium common equity Tier 1 for the largest financial institution subjected to the Dodd-Frank stress test was around 8%.

On this slide, you'll also notice that we have over \$2 billion in potential liquidity, given increasing concerns of potential economic uncertainty, we are well positioned from both a capital and liquidity standpoint. Turning to Page 18, are key revenue metrics. On a reported basis, net interest income declined 4.8% on a linked quarter basis. The decline was driven primarily by increased funding costs as deposit pricing rose and as borrowings increased to support loan growth in our Arizona market, as previously discussed. Noninterest income declined 5.5% on a linked-quarter basis, mainly due to a decrease in mortgage. I will go into detail about our fee income segments in later slides.

Turning to Page 19. Net interest margin was 3.09% in the fourth quarter a decrease of 12 basis points from the prior quarter, which is lower than expected, primarily due to a rising cost of funds. As you'll see in the last page of our earnings release, we saw our cost of funds rise across the board. Interest-bearing deposit costs increased 284% to 50 basis points. Money market and savings deposit costs increased 248%

to 139 basis points. And short-term borrowings increased 59% to 382 basis points. Overall, the cost of our interest-bearing liabilities increased 120% to 145 basis points. We expected our liability costs to rise given our sensitivity, but the magnitude and speed were more dramatic given the competitive environment. Offsetting this increase purchase accounting accretion for the Metro deal impacted net interest margin positively by 10 basis points.

Turning to Page 20. Over \$1 billion or over 30% -- 37% of our loans are floating, as you can see at the top left of the slide. As you see, almost all of our variable loans are above their stated floors or have no floors. Now on the bottom left, you can see a waterfall for our net interest income and net interest margin. You'll see that impact of our liability sensitivity in the waterfall table. The net effect of asset and liability rate changes negatively impacted net interest income by 4.7%. As we disclosed in our last -- latest 10-Q, we are liability sensitive in the near term. In a plus 300 to 400 basis point scenario, we would expect our net interest income to be down 10% to 13% in the upcoming 12 months.

Taking a step further, that means we have approximately a \$12 million headwind embedded in our current balance sheet for 2023. However, due to recent balance sheet strategies and remixing we should see our net income growth resume after 1 year even when assuming no loan growth. While net interest income will contract in 2023 under a static balance sheet basis, I expect this coiled spring and net interest income to bounce back in 2024.

On Page 21, I'll provide some highlights on our retirement business. AUM increased 5.1% due mainly to higher domestic bond and equity markets in the fourth quarter. Revenues were stable on a reported basis, but up 4.6% if you exclude onetime restatement fees, of \$721,000 in the third quarter. This increase was in line with our expectations. Turning to Page 22, you can see highlights for our Wealth Management business. Revenues increased here by 6%, which was better than our expectations. AUM increased 4.2% from the prior quarter, mainly due to improved equity and bond markets again and also strong production.

Turning to Page 23, I'll talk about our mortgage business. Mortgage revenues declined \$1.6 million from the prior quarter due to lower originations as the environment remained challenged. Mortgage originations decreased approximately 45% from the prior quarter, while originations of \$812 million for 2022 came in line with our lowered expectations. As a reminder, the first quarter and fourth quarters of a calendar year are typically the weakest quarter for originations for us due to seasonality. Lastly, turning to Page 24 is an overview of our noninterest expense. During the quarter, noninterest expense decreased 11.3%, which was better than our original expectations of a mid-single-digit decline. Compensation expense declined mainly due to lower mortgage compensation from a decrease in mortgage originations.

Our tech expense declined due to timing of new contracts, and we do not expect that benefit to occur again. Our efficiency ratio improved over 500 basis points to 69.6% and we achieved a positive operating leverage that was previously guided to. Before I provide guidance, I want to highlight again that due to our near-term liability sensitivity, we have some strong headwinds in 2023 for net interest income.

We are making changes to reposition and remix the balance sheet. That will take some time, but the coiled spring that I referred to earlier will take shape in 2024 and beyond. When interest rates eventually stop rising and actually decline that coiled spring will only become more powerful given our current positioning. Now I'll provide some guidance for the first quarter and for 2023. For the first quarter, we expect the following: we expect net interest income to be done -- to be down high single digits. Our net interest margin should decline further as we expect the cost of funds increase led by the repricing of our index liabilities. Some of the increased interest expense will be offset by modest loan growth. On the fee income side, all segments will be heavily influenced by the macroeconomic landscape. While new business production has been strong in both wealth and retirement, revenues will be influenced by market conditions. Mortgage revenues will continue to be challenged as interest rates remain high and we are in a seasonally weaker quarter for originations.

On a reported basis, we expect noninterest expenses to be stable relative to the fourth quarter. We have begun rightsizing our infrastructure while also adding some talent that Katie referred to, to help drive future revenue growth and deposit growth. We expect credit to remain benign in the first quarter. Now I will comment on some metrics for the full year 2023. As discussed previously, net interest income will be challenged due to our liability sensitivity where most of the challenge will come in the first half of the year.

To offset some of the 10% to 13% decline or approximately \$12 million pretax headwind embedded in our current balance sheet, we expect some modest loan growth and deposit growth. We continue to expect the mortgage business to be challenged as the Mortgage Bankers Association purchase index is forecasted to be down 8% to 9% in 2023.

Excluding market impact, we do expect retirement fee income on a reported basis to be down a little due to the exiting of payroll, which had reported revenues of \$1.4 million. As we reposition, remix, rightsize and add talent, we are focused on controlling expenses in 2023. 2023 will be a year when spring coils back but we remain confident that we will -- with all the strategic initiatives being put into place during the year that we will spring forward noticeably in 2024 and beyond. As that coiled spring jumps forward after the challenge had been absorbed in 2023, we will return to our strategic goals of achieving EPS growth of 10% or more and a 12% -- an ROE of 12% or more. In 2024 and beyond, we expect continuous improvement in our efficiency ratio as we are laser-focused on investing in talent and infrastructure to make us more efficient in the way we operate, while continuing to offer a high-level service for our clients. With that, I will now open it up for Q&A.

Question and Answer

Operator

We will now begin the question and answer session. [Operator Instructions] Our first question today comes from Jeff Rulis with D.A. Davidson.

Jeffrey Allen Rulis

D.A. Davidson & Co., Research Division

Katie, you alluded to the number of hires that you've made in the last year have been significant. And just trying to get a sense for if growth slows in '23 and as roles have been filled, is the hiring pace slow down? And I guess as that -- the second question of that is how that translates to the expense growth in '23. Maybe a question for AI on the second one.

Katie A. Lorenson

President, CEO & Director

Sure. Thanks, Jeff. In regard to the talent adds, we will continue to add professionals with expertise in our markets. We will balance that level of investment as we work through and reposition talent throughout the company in regards to the support side. And so from a -- AI can give guidance in regards to the expenses, but that's how we look at the talent additions. And in regards to growth, I will hand that off to...

James Collins

Executive VP and Chief Banking & Revenue Officer

Thanks, Katie. This is Jim Collins. I will say that as we look at that talent that Katie just talked about, we're looking at focus talent in specialized verticals to bring that value add to our customer base. We will consistently look for adding that talent in all of our markets, but we're going to be a little picky, right? We're going to make sure we're adding the right team to us. We will offset that expense with expense saves or repositioning of different expenses already in the bank, but the intent is to harvest talent during this time when we can.

Alan A. Villalon

Executive VP & CFO

Jeff, it's AI. So on the noninterest expense side, we are -- as I alluded to in our call, laser focused on continuous improvement on our infrastructure. We are looking on trying to achieve some expense saves this year, and we are looking to have that reported noninterest expense to be down slightly on a year-over-year basis, but a lot of that will be determined on the timing of those expense saves, as we also trying to add talent too, and that could also to -- as well.

Jeffrey Allen Rulis

D.A. Davidson & Co., Research Division

Yes. Just trying to -- I know that you kind of alluded to some Q4 maybe incrementally lower, but do we look at kind of full year close to \$1.59, you're down slightly as -- is that a good number to think about for the full year, something inside of that number, absent maybe getting opportunistic hires in there?

Alan A. Villalon

Executive VP & CFO

Yes. When I look at like the 158.8-ish, we're looking for that to be down year-over-year from that level. Correct.

Jeffrey Allen Rulis

D.A. Davidson & Co., Research Division

Okay. And then, Al, while I got you, the margin, just thinking about where that may trough. It sounds like further pressure in Q1, and you talked about the coiled spring thereafter. But trying to get a read on where that -- where you think that belly out.

Alan A. Villalon
Executive VP & CFO

Yes. That's a good question there, Jeff. So I said it's going to be in the first half. I'd say a good brunt of it will be felt in the first quarter, a little bit more in the second quarter, and then we're hoping to rebound from there. But again, a lot of the timing is going to come from the interest rate environment. So I feel comfortable saying that in the first half of the year and maybe the first quarter, we'll feel brunt of it and then a little bit less in the second quarter and then probably starting to rebound in the last -- in the second half of the year. Again, timing will be determined in the mid-midpoint of the year based on what the curve does.

Jeffrey Allen Rulis
D.A. Davidson & Co., Research Division

Appreciate it. One last one, just on the -- if it was modest, but I wanted to look at the nonaccrual drop, anything of specific there? Was that just a miscellaneous or was there one large loan that came back on accrual?

Karin M. Taylor
Executive VP & Chief Risk Officer

We had a couple of payoffs, Jeff. This is Karin.

Operator

The next question comes from Nathan Race with Piper Sandler.

Nathan James Race
Piper Sandler & Co., Research Division

Just wanted to drill down into the outlook for this year. Al, I appreciate your comments on decline in the first quarter. I guess just kind of thinking further out, if we just get 2 more Fed rate hikes in the first half of this year, do you see kind of flattish NII growth after a presumable trough in the second quarter? Or are you guys kind of think about just NII growth prospects in the back of the year. Let me -- it will picks up after being somewhat seasonally soft in the first quarter.

Alan A. Villalon
Executive VP & CFO

Yes. So Jeff -- sorry, Nate, this is -- the timing of the -- we kind of gave the guidance already on the previous question in terms of our margin, and I'd say our NII is going to follow somewhat a similar cadence to. A lot of that, though, too, will be influenced by the talent adds we've had and also the loan growth we're doing from our current team. So I would say right now, a good portion of that sensitivity -- liability sensitivity will be felt in the first half of the year, which will impact that NII and then kind of gradually dissipate as we get through the year. So as we get through the first 6 months, I think you'll see those storm clouds on that liability sensitivity kind of starting to dissipate and then start turning to more bluebird guys, I would say, for us in the back half of the year.

Nathan James Race
Piper Sandler & Co., Research Division

Okay. Great. And then just within that context, curious how you guys just kind of think about the overall balance sheet from here. With some of the deposit runoff that we saw over the course of last year. Do you think that's largely brought us sports at this point and we can anticipate a more kind of stable average earning asset base relative to the level in 4Q?

Alan A. Villalon

Executive VP & CFO

Nate, that's a question that's going to have -- we're going to have to see how the year goes because right now, the deposit environment is very competitive. I mean we've added talent right now and we're very positive about right now and very excited about is that on the treasury management side. We're bringing very experienced capabilities in our footprint. Maybe I'll switch it here to Jim in a second. But as we build out that treasury management and also our HLA capabilities, we think we can take market share out there because this is a -- they're bringing in a level of experience that is very high for us, and I'll switch over to Jim here.

James Collins

Executive VP and Chief Banking & Revenue Officer

Thanks, Al. I'd make the comment that else right, the deposits, it's going to be hard to see what happens to our current deposits. We have a lot of commercial customers that are just going to use their deposits instead of taking on debt. But we are building out and continue to build out our team and bringing in experts in other verticals, such as repositioning one of our commercial executives into building out professional services, right? We'll focus -- have more focus on commercial deposit-focused bankers/ wholesale deposit group. And we have the HOA group that we acquired in Arizona, middle of last year and looking at ways to leverage that to garnish more deposits and of course, building out and enhancing our private banking group, which harvests a lot of deposits. So it's a hard question to answer, but I think we're doing all the right things in order to build up our deposit base.

Alan A. Villalon

Executive VP & CFO

And Nate, just to kind of clarify one last thing here in terms of our NII, if you think about the cadence here, hopefully, it troughed somewhere midyear, but we do expect our NII to start growing again in the back half of the year, especially in the fourth quarter. And I would say the same thing about our margin as well.

Nathan James Race

Piper Sandler & Co., Research Division

And in the back half of this year, does that contemplate just a bit on pause, you actually see some growth lift potential to Fed test rates just given the index deposits repricing lower? Maybe quicker than loans are pricing lower.

Alan A. Villalon

Executive VP & CFO

Yes. Yes. Definitely.

Nathan James Race

Piper Sandler & Co., Research Division

Okay. Helpful. And then maybe just turning to the income outside of mortgage. I would love to get your guys' updated thoughts on just kind of expectations for 2023 in terms of just overall kind of wealth management, RBMS, revenue growth assuming equity markets kind of stabilize, and we don't see much more valuation pressures from here with some of the initiatives that you guys are -- you're taking in terms of driving more durable kind of less market sensitivity within the business. Are you guys in growth in the segment year over year, again assuming more stable equity markets this year?

James Collins

Executive VP and Chief Banking & Revenue Officer

I'll take that one, Nathan. Yes. The simple answer is yes. If everything stabilizes going forward with the additional focus that we've done with line of business in that group, along with our current product set and our long-standing initiatives that we have put in place with the wealth group, we plan for additional growth. I'm just going to also piggyback off of that to we did see record production in both our wealth and

retirement business in 2022. And we expect those tailwinds from all the strong efforts from the teams in those segments to continue forward into 2023 as well.

Nathan James Race

Piper Sandler & Co., Research Division

Okay. Great. And then maybe one last one for Katie. I would be curious to kind of get your updated thoughts on the acquisition landscape going forward. I mean at your lessons to bank deals or something interest. At this point and maybe there's more focused on impairment platform augmentation, or just kind of any thoughts on what you're seeing in the landscape in those arenas.

Katie A. Lorenson

President, CEO & Director

Sure. Yes. So retirement benefits, fee income acquisition is always a high priority for us, consistently building the pipeline, networking, building relationships across those landscapes. On the banking side, we're obviously having great success in lifting out talent. And so that's where we're focused. But working on building partnerships and relationships across that network also.

Nathan James Race

Piper Sandler & Co., Research Division

Okay. Great. And I'm sorry, if I could just ask one more just on kind of reserve outlook from here. I appreciate the guidance in terms of the CECL impact in the first quarter, but perhaps absent that, is it fair to expect provisioning can be pretty negligible, just given you're still a fairly robust reserve level as a percent of loans and obviously a great coverage on NPLs as well.

So just any kind of thoughts preserved apart from just some impact in the first quarter from here?

Karin M. Taylor

Executive VP & Chief Risk Officer

Sure, Nate. This is Karin. Yes, I think that characterization is accurate. Of course, with the switch to CECL, what's happening in the macro environment matters now that we're somewhat forecast dependent. So -- but certainly, we don't see anything early in the year that would cause me to think we're going to have volatility outside of those macroeconomic factors.

Nathan James Race

Piper Sandler & Co., Research Division

Okay. Great. And is there anything of note that shows the increase and criticized loans in the quarter.

Karin M. Taylor

Executive VP & Chief Risk Officer

Yes. That increase was the result of a downgrade of one commercial relationship. That client is experiencing some stress, which we believe to be temporary, and we are working with them as they improve their results in 2023.

Operator

[Operator Instructions] Our next question comes from Eric Grubelich who is a Private Investor.

Eric Grubelich

I have a few things for you. First thing is I want a little bit of clarification. You're kind of describing 2023 as maybe a bit of a write-off, nothing great is going to happen. It's all a year out from now. So with the margin, were you saying that the margin, so let's just focus on where you are at the end of the quarter at 309, okay. Is your margin going to trend much lower from here? Is it going to break 3%? And are your dollars of NII? I thought you said the dollars of NII are going to be lower in 2023 than 2022. Did I understand that correctly?

Alan A. Villalon
Executive VP & CFO

Yes. So what we gave on the call, we said that using -- looking at a static balance sheet right now, embedded in that is a \$12 million headwind. So if you take that into -- on a static balance sheet basis, you could probably calculate out the pressure on the margin there.

Eric Grubelich

Okay. And that \$12 million headwind is increased deposit pricing? Is that -- what's the \$12 million from?

Alan A. Villalon
Executive VP & CFO

The \$12 million is based on our -- if you look at our AUM modeling that's disclosed on Page 62 of our 10-Q, you'll see that up 300 to 400 basis point scenario, it does decrease our NII, mainly due to repricing of our liabilities, which is going to be mainly our money market and interest-bearing deposits. Now also, too, what's impacting that now because of our increased borrowings to support our increased loan growth in our Arizona market, we have also increased borrowings, too.

Eric Grubelich

Okay. So you obviously like a number of banks. The core deposits were not exactly as maybe core deposits as everybody thought, given the big increase in the rate that you provided customers at least in the last quarter. So when I'm looking at your money market, primarily, that's the big chunk of it at the end of the day, is there much more? I mean, is that number going to be hitting 2% next quarter? And I'm just trying to understand -- I understand the \$12 million you're pointing to the 10-Q, that's fine, but there's a practical side of what really happens?

And maybe you can talk a little bit about what is in your market. Who's been jamming the deposit side that's caused this kind of a headache for you. Maybe you could talk a little bit about that and where you expect those deposit costs to go?

Katie A. Lorenson
President, CEO & Director

Sure. I'll start. Thank you for the question. In regards to our core deposit franchise, exceptionally strong. Now they are long tenured relationships and they are also significant balances. So they absolutely have pricing -- some pricing power. And we are not going to lose core deposit clients in. We've been very focused on building our core deposit franchise for decades. In regards to the money markets, certainly a portion of those relates to our synergistic deposits. They are indexed, they do reprice quarterly. As in regards to the total cost of funds for those, they have no servicing costs, of course, and they have no acquisition costs. So overall, although the rate is high, the total all-in cost of those deposits is fairly slow. Al, do you want to...

Alan A. Villalon
Executive VP & CFO

Yes. And I'd just like to say, when you ask about where is it coming from the pressure, I'd like to just highlight when we look at community banks within our footprint, we have approximately 30 banks that have loan-to-deposit ratios in excess of 100-plus percent. So that's where the pricing pressure is coming from is those banks need liquidity in our deposit ratio -- loan-to-deposit ratio remains well below 100%, they're coming after our deposit base as well. So that's where the pressure has been coming from. .

Eric Grubelich

Okay. So let me ask question, if I went on your website or walked into a branch right now, what would I be offered on a money market deposit account rate wise?

Alan A. Villalon
Executive VP & CFO

So right now, you've been given the market rate right now and that would be roughly around 85 basis points.

Eric Grubelich

Okay. But you're showing \$139 in the average for the quarter? So how can that be...

Katie A. Lorenson

President, CEO & Director

[indiscernible] synergistic...

Alan A. Villalon

Executive VP & CFO

Yes. But that -- those are synergistic deposits that do not come out at the branch level. So they're coming from our retirement services side...

Eric Grubelich

Okay. Okay. So that's where you're having to pay up more for the deposits, okay -- yes. Do you expect the NIB, the noninterest-bearing to you expect to continue to lose volume there? You made that comment about some of your commercial customers are drawing down their own liquidity as opposed to taking loans. Do you see more of a dent on that coming?

James Collins

Executive VP and Chief Banking & Revenue Officer

I think that generally is a trend in the fourth quarter for all commercial clients as they're paying dividends or getting money out of the entities. I think it's safe to say line utilization is a big question mark on what will happen in 2000, in the rest of this year. It has crept up towards the end of last year. But we have seen a lot of customers instead of taking a term note for a piece of equipment just using cash. So I think it could come down a little bit, but I don't think that's enough at this point that's going to be impactful.

Eric Grubelich

Okay. Let me just switch gears for a second. The mortgage banking business, obviously, unless something drastic happens in rates, it's not going to come back online anytime soon. The way you're operating that business now given where the revenue volume is, is it fair to say it is breakeven? Or are you losing money on it all Alan?

Alan A. Villalon

Executive VP & CFO

We are making money in that business, Eric.

Eric Grubelich

You are. Okay. That's good. And then last thing on the expense side, you talk about cuts and things like that. But if this revenue environment stays subdued for you or there's maybe more of a surprise with the margin, the model is what the model is, but the rubber hits the road with what your competitors do, right? You can't control that. To what extent do you see your comp line coming down at the operating level and at the executive management level this year.

Katie A. Lorenson

President, CEO & Director

From an expense standpoint, we're doing the right things. We just completed a restructure. We eliminated several positions in the company. And -- but we're thoughtful, right? This company has run for the long term, and we are going to be opportunistic in adding talent where we can while thoughtfully repositioning the support to make sure that talent has even more capacity in the company.

Eric Grubelich

How -- Katie, how much -- or I guess, how far are you through that sort of plan to streamline more, maybe that's my own word, not yours in 2023. Are you right at the beginning of doing it? Are you mostly through it? I realize with Metro Phoenix, there was a lot of churn there and things you had to get through to the positive. But I assume you're talking more about the core bank outside of what happened with Metro Phoenix, the acquisition. So are you -- is this sort of a new step or are -- you are halfway through it, do you think?

Katie A. Lorensen

President, CEO & Director

A new step -- first step was here just a couple of weeks ago. And it really was restructuring the team to formalize the structure around our go-to-market strategy. And so as we bring in experienced producers in their verticals. We have realigned the support side and dedicated support side to those team members so that our speed to market can improve as well as the client experience and again, just the overall capacity of those team members.

Eric Grubelich

Okay. And then just one last thing. The stock had a premium valuation on it for quite some time. That premium has come off quite a bit. And again, this is sort of like a financial metric, but is there anything you would consider on the stock buyback side if the stock stays weaker or not, repurchasing shares.

Alan A. Villalon

Executive VP & CFO

We do have a current authorization out there, but we've been also watching making sure our capital levels are adequate because we also are aware that the investor base and stakeholders out there are very closely watching TCE.

Katie A. Lorensen

President, CEO & Director

Yes. I would just add. I mean, everything we're -- all the steps we're taking are what fundamentally build value and creates value. So our balance sheet is not in the -- is in the position it's in, but we're doing the right things and taking the right steps, and I expect we'll return to that valuation.

Operator

Our next question is a follow-up from Nathan Race with Piper Sandler.

Nathan James Race

Piper Sandler & Co., Research Division

Just to make a last question around valuation. I mean the stock is down plus the 1.5 and book with where it's trading today. How are you guys thinking about buyback within the context of what I'll describe in terms of how your capital ratios are well both peers and so forth today?

Alan A. Villalon

Executive VP & CFO

So Nate. We do have an authorization out there. We are watching closely because we want to make sure that we manage that authorization to make sure that we don't also put us in a TCE position that people will be concerned about us. So we're carefully watching. But our stock is very cheap right now, and I'd love to be active in the market. But also, too, with the acquisitions we've done on the retirement side, we also have to make sure that our TCE doesn't cause concern as well.

Nathan James Race

Piper Sandler & Co., Research Division

Right. Understood. And then can you just remind us in terms of how much of your deposit base effect to short-term rates. I don't think that's something we've talked a lot about in the past.

Alan A. Villalon
Executive VP & CFO

Nate, let me get back to you offline on that one. I just want to make sure I got the exact numbers for you on that one.

Nathan James Race
Piper Sandler & Co., Research Division

Okay. Great. And then just one housekeeping question on the tax rate going forward.

Alan A. Villalon
Executive VP & CFO

Yes. I mean we'll -- I mean, our tax rate has been on the lower side, we're expecting somewhere in the low 20s still. I think that's pretty fair to go forward.

Operator

Our next question comes from Ben Gerlinger with Hovde Group. .

Benjamin Tyson Gerlinger
Hovde Group, LLC, Research Division

Quite a bit of fire in brimstone in the tenor today. I get the modeling question, and I try to bring a little bit of levity to hear, but I'm just kind of thinking just I don't know, 10,000 or 100,000 foot view with the recent hires, which all have pretty solid pedigrees. And if you look at what you guys have done on the core bank, it seems like growth is solid or should be solid. You should not really have a credit risk. If you think philosophically, you could ever see spread revenue above fee income in terms of revenue generation.

I think longer term, you guys have a charter clearly, and you're focusing on being a bank because of the lead for all, your kind of flywheel type businesses across the income. Can I get the fee income kind of a market that gives you the results, i.e., mortgage and retirement to some degree. But when you just think bigger picture, a lot of the marquee hires have been in the bank, and that's clearly the focus. But is that just because that's the lowest hanging fruit? Or is that the easiest change? I'm just trying to figure out for the next 2 or 3 steps here in turn the ship around.

Katie A. Lorenson
President, CEO & Director

Yes, sure, I'll take that. So strategically, as we've talked about, our wealth management, our retirement, our mortgage division has historically had strong performance. Within our Banking division, we know that scale is important and moving upmarket is important. We're in great markets. And so what we bring in terms of an opportunity for talented producers really resonates. They see a very -- an opportunity to be part of a very special growth story and do more with their client base. And so we have had great success in building the expertise within the banking franchise so far. We intend to keep going. And I do anticipate that you will see our mix of revenue start to trend towards the banking side, but we will always be focused on being a diversified company with high levels of fee income.

Benjamin Tyson Gerlinger
Hovde Group, LLC, Research Division

Okay. Fair enough. And then being that your fee income strategies are more diversified than your branch footprint, I guess, you could say about like kind of the Denver area. When you think loan production? Do you think there's LPO opportunities that don't necessarily carry the overall cost of a branch network extension.

Alan A. Villalon

Executive VP & CFO

Yes. So definitely a strategy we're looking into and could see us deploying that strategy in the future.

Operator

[Operator Instructions] This concludes our question-and-answer session. I would like to turn the conference back over to Katie Lorensen for any closing remarks.

Alan A. Villalon

Executive VP & CFO

Before we go closing remarks, I just want to provide one answer that Nate adds on the call. About 15% of our total deposit base is directly indexed to short-term money market rates. So with that, I'd like to turn it over now to Katie.

Katie A. Lorensen

President, CEO & Director

All right. Thank you, Al. Thank you for joining the call today. Thank you for the question. 2023 is a pivotal year for Alerus. The work we are doing this year will set the stage for Alerus to return to high-performing return ratios in 2024 and beyond. Our enviable diversified business model with industry-leading recurring fee income, strong core deposit franchise with access to synergistic deposits, robust reserves and regulatory capital and historically strong asset quality position our company well for attracting and retaining talent and growing our client base.

We are committed to constant improvement throughout our company and expect to see continuous improvement in our efficiency ratio and return metrics. As the balance sheet headwinds subside in 2024 and beyond, we believe the work we are doing on the fundamentals and the powerhouse of professionals and experienced bankers and producers, we are bringing into the company will be catalysts for the long-term value we are creating for our shareholders.

I want to thank our Alerus team members for all they do, and thank you all of our shareholders for your investment in our company. Thank you all for joining our call today.

Operator

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

The information in the transcripts ("Content") are provided for internal business purposes and should not be used to assemble or create a database. The Content is based on collection and policies governing audio to text conversion for readable "Transcript" content and all accompanying derived products that is proprietary to Capital IQ and its Third Party Content Providers.

The provision of the Content is without any obligation on the part of Capital IQ, Inc. or its third party content providers to review such or any liability or responsibility arising out of your use thereof. Capital IQ does not guarantee or make any representation or warranty, either express or implied, as to the accuracy, validity, timeliness, completeness or continued availability of any Content and shall not be liable for any errors, delays, or actions taken in reliance on information. The Content is not intended to provide tax, legal, insurance or investment advice, and nothing in the Content should be construed as an offer to sell, a solicitation of an offer to buy, or a recommendation for any security by Capital IQ or any third party. In addition, the Content speaks only as of the date issued and is based on conference calls that may contain projections of other forward-looking statements. You should not rely on the Content as expressing Capital IQ's opinion or as representing current information. Capital IQ has not undertaken, and do not undertake any duty to update the Content or otherwise advise you of changes in the Content.

THE CONTENT IS PROVIDED "AS IS" AND "AS AVAILABLE" WITHOUT WARRANTY OF ANY KIND. USE OF THE CONTENT IS AT THE USERS OWN RISK. IN NO EVENT SHALL CAPITAL IQ BE LIABLE FOR ANY DECISION MADE OR ACTION OR INACTION TAKEN IN RELIANCE ON ANY CONTENT, INCLUDING THIRD-PARTY CONTENT. CAPITAL IQ FURTHER EXPLICITLY DISCLAIMS, ANY WARRANTY OF ANY KIND, WHETHER EXPRESS OR IMPLIED, INCLUDING WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE AND NON-INFRINGEMENT. CAPITAL IQ, SUPPLIERS OF THIRD-PARTY CONTENT AND ANY OTHER THIRD PARTY WORKING WITH CAPITAL IQ SHALL NOT BE RESPONSIBLE OR LIABLE, DIRECTLY OR INDIRECTLY, FOR ANY DAMAGES OR LOSS (INCLUDING DIRECT, INDIRECT, INCIDENTAL, CONSEQUENTIAL AND ANY AND ALL OTHER FORMS OF DAMAGES OR LOSSES REGARDLESS OF THE FORM OF THE ACTION OR THE BASIS OF THE CLAIM) CAUSED OR ALLEGED TO BE CAUSED IN CONNECTION WITH YOUR USE OF THE CONTENT WHETHER OR NOT FORESEEABLE, EVEN IF CAPITAL IQ OR ANY OF THE SUPPLIERS OF THIRD-PARTY CONTENT OR OTHER THIRD PARTIES WORKING WITH CAPITAL IQ IN CONNECTION WITH THE CONTENT HAS BEEN ADVISED OF THE POSSIBILITY OR LIKELIHOOD OF SUCH DAMAGES.

© 2023 Capital IQ, Inc.