Byline Bancorp, Inc.

3Q 2019 Earnings Conference Call

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CORPORATE PARTICIPANTS

Tony Rossi - *Investor Relations at Financial Profiles, Inc***.**

Alberto Paracchini - *President and Chief Executive Officer*

Lindsay Corby - *Executive Vice President and Chief Financial Officer*

Owen Beacom - *Chief Credit Officer*

PRESENTATION

Operator

Good day, and welcome to the Byline Bancorp Third Quarter 2019 Earnings Conference Call. All participants will be in listen-only mode. Should you need assistance, please signal a conference specialist by pressing the star key followed by zero. After today's presentation, there will be an opportunity to ask questions. To ask a question you may press star, then one on your telephone keypad. To withdraw your question, please press star, then two. Please note, this event is being recorded.

I would now like to turn the conference over to Tony Rossi of Financial Profiles. Please go ahead.

Tony Rossi

Thank you, Andrew. Good morning, everyone, and thank you for joining us today for the Byline Bancorp Third Quarter 2019 Earnings Call. We will be using a slide presentation as part of our discussion this morning. Please visit the Events and Presentations page of Byline's Investor Relations website for access to the presentation.

Before we begin, I'd like to remind you that this conference call contains forward-looking statements with respect to the future performance and financial condition of Byline Bancorp that involve risks and uncertainties. Various factors could cause actual results to be materially different from any future results expressed or implied by such forward-looking statements. These factors are discussed in the company's SEC filings, which are available on the company's website.

The company disclaims any obligation to update any forward-looking statements made during the call. Management may refer to non-GAAP measures, which are intended to supplement, but not substitute for the most directly comparable GAAP measures. The press release, available on the website, contains the financial and other quantitative information to be discussed today as well as the reconciliation of the GAAP to non-GAAP measures.

And with that, I'd like to turn the call over to Alberto Paracchini, President and CEO. Alberto?

Alberto Paracchini

Thank you, Tony. Good morning, and welcome everyone to our third quarter earnings call. We appreciate all of you joining us this morning. With me on the call today are Lindsay Corby, our CFO; and for his first call, Owen Beacom, our Chief Credit Officer.

As is our practice, I'll start the call with an overview of our performance and give you key highlights for the quarter before passing the call over to Lindsay, who will walk you through the components of our financial results in more detail. I will come back with closing remarks and then open the call for questions. As a reminder, you can follow our comments with the help of a deck that you can find in the Investor Relations section of our website.

Starting on slide 3 of the deck. We delivered another quarter characterized by solid earnings and profitability and a strong margin despite a tougher rate environment in the third quarter. Earnings came in at $15.3 million, or $0.39 per diluted share. Adjusting for merger and conversion-related charges, earnings came in at $16.2 million, or $0.41 per diluted share.

Profitability continued its positive trend, with ROA and ROTCE on an adjusted basis of 112 basis points and 12.2% respectively, despite our TCE ratio increasing by 78 basis points on a year-over-year basis.

Overall, revenue increased 5.8% from the second quarter and showed good balance between spread and fee income categories.
Our net interest income increased 6.2% from the prior quarter, driven by both growth in earning assets and our margin, which increased to 4.62%. The margin benefited from a 16 basis point increase in loan yields offset by marginally higher funding costs, which moderated further. The margin, excluding accretion income, declined by 11 basis points and came in at 4%, consistent with our expectations and the guidance we provided in the second quarter. Non-interest income increased by 4.4% from Q2, driven largely by higher gain on sale revenue from government-guaranteed loans, partially offset by higher fair value charges on our servicing asset.

From a business standpoint, loans were flat for the quarter and up 11% on a year-over-year basis. This quarter we saw a fair amount of payoff activity across our lending businesses and in our acquired portfolio. Total originations were $97 million, led by C&I and small business. The market remains competitive and given the rate environment and stage of the cycle, it's important to remain disciplined, manage margins and not chase opportunities with poor risk reward characteristics.

Pipelines at the end of the quarter were solid and we added additional talent to our lending ranks that will contribute to our business development efforts going forward. Deposits grew $20 million and stood at $4.1 billion as of quarter end, with the growth coming primarily from low-cost core accounts. Deposit costs were flat quarter-over-quarter and reflective of actions taken in response to the rate environment and outlook.

Our efficiency ratio improved to 59.8% from the second quarter. Adjusted for merger and conversion expenses, the efficiency ratio increased largely as a result of higher professional fees tied to projects that we anticipate will not recur going forward.

As we have done since our recap in 2013, we continually evaluate our branch network and assess activity levels, customer traffic, behavior, and proximity to other branches to determine if we're better off consolidating or maintaining the location.

This quarter we identified another three branches that can be consolidated and one that can be repurposed with minimal customer impact service levels and overall convenience. We expect these activities to occur during the first quarter of 2020.

The consolidation is expected to result in a one-time charge of approximately $817,000 and we anticipate it to generate $1.2 million in annual cost savings. As we've done in the past, we will look to reinvest a portion of those savings back into the business.

From an asset quality standpoint, our NPLs, excluding guaranteed portions of loans, increased by 16 basis points over the second quarter, partially due to the downgrade of one commercial relationship and one government-guaranteed loan.

Net charge-offs increased to 56 basis points for the quarter, primarily due to charge-offs taken on loans with specific reserves nearing resolution. We anticipate charge-offs levels to gradually moderate in the fourth quarter. Provision expense declined from the second quarter and the allowance increased to 82 basis points.

With that, I'd like to pass the call over to Lindsay.

Lindsay Corby
Thanks, Alberto. Good morning, everyone. I will start on slide 4 with a review of our loan and lease

portfolio. Our total loans and leases were $3.8 billion at September 30, a net decrease of $32 million from the prior quarter. The decrease in total loans and leases was primarily due to a higher level of payoffs and pay downs in the quarter. Payoffs came in at $150 million compared to $136 million in the second quarter. We continue to see payoffs in the commercial real estate portfolio and saw a slight increase from the commercial portfolio during the quarter. Our originated loan portfolio increased approximately $184 million net.

The growth was spread nicely across our commercial, commercial real estate and construction portfolios. The growth in the originated loan portfolio was offset by a $216 million decrease in our acquired portfolio. Approximately half of the decrease in the acquired portfolio related to the natural movement to originated, and the remainder stems from pay downs and payoffs on loans and relationships not considered core to our business.

Moving to slide 5, our government-guaranteed lending business. We have listened to investors and others following our story to include more disclosures around this business. Our Small Business Capital team is dedicated to originating and servicing government-guaranteed loans.

We continue to be a top 10 SBA lender nationally, and we are ranked number one in Illinois and Wisconsin. This is a higher-risk, higher-return business that produces higher average loan yields, gain on sale and servicing fee income. We currently manage $1.9 billion in SBA and USDA loans. We retained the unguaranteed portion on balance sheet and sell the guaranteed portion into the market for a premium.

Moving on to deposits. On slide 6, our total deposits increased $20.1 million to $4.1 billion at September 30. The growth was driven by increases in our interest-bearing checking, money market and time balances. The growth in our interest-bearing checking and money market accounts was primarily attributed to increases from our commercial customers.

The growth in these areas was partially offset by a $19 million decline of non-interest-bearing demand deposits, due to real estate tax payments during the quarter. We have seen balances rebound in October, and are currently up $40 million to date.

Our total deposit costs increased 2 basis points, which is down from the 5 basis point increase we had in the previous quarter. The increase was primarily due to the lower average balance of non-interest-bearing deposits in the third quarter. Our cost of interest-bearing deposits was unchanged at 1.34%, which represents the proactive management of our funding.

As a result of shortening the duration on our time deposits, we have positioned our CDs to reprice at levels below their current maturities. So assuming no change in the outlook for rates and market conditions, as our time deposits renew, we expect to see a decline in the cost of these deposits. We will begin seeing the impact during Q4 and we will see additional benefit in the first half of 2020.

Moving to slide 7, net interest income and margin. Our net interest income increased $3.4 million, or 6.2%. This was the result of the full quarter impact of the acquisition, a higher margin, and higher earning asset levels.

Our net interest margin increased to 11 basis points to 4.62% in the third quarter. Accretion income contributed 62 basis points to the margin in the third quarter, up from 40 basis points last quarter. Excluding accretion income, our net interest margin was in line with our expectations at 4%.

The 11 basis point decrease since the previous quarter was primarily due to the average loan and lease yield, excluding accretion income declining to 5.67% from 5.77%. Approximately 50% of our floating rate loan portfolio is tied to prime and a decrease in the average loan yields, excluding accretion income, was due to two 25 basis point cuts that occurred during the quarter.

We implemented certain strategies during the quarter to improve our earnings, with expectations of lower rates. We reduced rates and shortened the duration on our promotional CDs, we began replacing time deposits with other floating rate deposits, particularly by replacing maturing CDs with money market products. And third, we unwound our $250 million pay fixed swaps in September. The swaps were entered in 2016 and were used to hedge against rising interest rates. In addition, we were able to reposition a portion of the investment securities portfolio to decrease our variable rate exposure.

Turning to non-interest income on slide 8. In the third quarter, our non-interest income increased by $623,000, or 4.4% from the prior quarter, despite a $1.4 million decline in the fair value of equity securities and gains on security sales.

The increase was primarily due to a $1.9 million increase in our net gains on government-guaranteed loan sales. We sold $93.3 million of government-guaranteed loans during the third quarter compared with $75.2 million of loans sold in the prior quarter.

Net average premiums received during the quarter increased 13 basis points to 11.41%. Due to increased prepayment speed assumptions, we recorded an additional $1.6 million fair value adjustment on our servicing asset, which was up $387,000 from the prior quarter.

Moving to slide 9. Let's look at our non-interest expense. Our third quarter expenses included $1.1 million of significant items including merger-related expenses, core system conversion expenses, and impairment charges on assets held for sale. Adjusting for these items in both periods, our non-interest expense increased $3.9 million from the prior quarter.

In addition to the full quarter impact of the personnel and operations of Community Bank of Oak Park River Forest, the higher expense was driven by a $1.1 million increase in professional fees. The higher professional fees included approximately $1.5 million in project-related costs that are not expected to reoccur.

With the system conversion and branch rebranding complete, we expect to realize the remainder of the efficiencies projected for Oak Park River Forest by the beginning of 2020. And as Alberto mentioned, the additional branch consolidation should also contribute to improved efficiencies in the second half of the next year. We remain focused on continuing to improve our efficiency while reinvesting in our business.

Turning to slide 10, we'll take a look at asset quality. Our non-performing assets increased to 92 basis points of total assets from 83 basis points at the end of the prior quarter, primarily due to the downgrades of a commercial relationship and a U.S. government-guaranteed loan during the third quarter.

As of September 30, our non-performing assets included $6.2 million of government-guaranteed loans and OREO balances. Excluding government-guaranteed NPLs, our non-performing loans to total loans was 98 basis points, up from 82 basis points at the end of the prior quarter.

Our net charge-offs were $5.5 million in the quarter, or 56 basis points of average loans and leases for the quarter. Year-to-date charge-offs represent 36 basis points of loans and leases versus 40 basis points a year-ago. Virtually all of the net charge-offs during the quarter were attributed to the unguaranteed portion of U.S. government-guaranteed loans and primarily on loans with specific reserves.

Our provision expense was $5.9 million, which cover charge-offs and resulted in an increase in our allowance for loan losses. The third quarter provision included allocations of $10 million for originated loans and leases partially offset by the release of $4.1 million for acquired loans.

The higher level of provision that we have seen this year reflects the growth in our portfolio, particularly the unguaranteed portion of government-guaranteed loans, the migration of the acquired portfolio into the originated portfolio as well as increases to our general reserves.

Our provision for the third quarter increased our allowance for loan and lease losses to 82 basis points of total loans and leases from 81 basis points at the end of the prior quarter. And our coverage of NPLs, excluding the government-guaranteed portion, was 84%.

In addition to the traditional allowance as a percent of loan and lease metrics, we also analyzed the allowance in conjunction with the acquisition accounting adjustments impacting our acquired portfolio. At September 30, the acquisition accounting adjustments plus our allowance for loan and lease losses represented 162 basis points of total loans and leases.

With that, I would like to pass the call back to Alberto.

Alberto Paracchini
Thank you, Lindsay. In closing, we had a very busy quarter, with the successful conversion and integration of the Oak Park River Forest transaction. I'd like to acknowledge and thank all of our employees for their hard work in completing two conversions in less than seven months.

As I said previously, the market environment remains very competitive for both loans and deposits. I think it's fair to say that we're seeing late in the cycle behavior with respect to both rate and structure, particularly in the CRE space.

That said, we continue to see good deal flow and opportunities both in terms of customers and talent. This quarter, we continue to selectively add talented bankers both on the commercial and retail sides of the business that we feel will contribute to our growth going forward.

With that, operator, I'd like to open the call for questions.

QUESTIONS AND ANSWERS

Operator
We will now begin the question-and-answer session. To ask a question, you may press star then one on your touchtone phone. If you are using a speakerphone, please pick up your handset before pressing the keys. To withdraw your question please press star, then two. At this time, we will pause momentarily to assemble our roster.

The first question comes from Terry McEvoy of Stephens. Please go ahead.

Terry McEvoy
Good morning, everyone.

Alberto Paracchini

Good morning, Terry.

Lindsay Corby
Good morning, Terry.

Terry McEvoy
Thanks for adding slide 5. I guess I'll start with a question on that slide. Within the sector concentration, are there any specific industries or sectors that have been behind any increase in charge-offs in the non-guaranteed portion? And I'm just wondering where restaurants line up within that pie chart. Is that food services or in the other industries?

Lindsay Corby
Terry, in terms of the food services, yes, that's where the restaurants are. And then in terms of the charge-off, it's been pretty diverse. It really hasn't come from any particular one piece of the pie chart per se more so than the other. We do tend to see an uptick in terms of business acquisition type unguaranteed portions of the loans. But beyond that, no, it's not really one particular piece. The point of this chart is really to show you just the diversity in terms of what's being originated.

Terry McEvoy
Thank you. And then as a follow-up, it sounds like you've got really good opportunities to lower CD costs. I'm just wondering overall your interest-bearing cost of deposits flat quarter-over-quarter, did that trend lower as the third quarter progressed? And if the Fed cuts rates next week, what are your thoughts about the ongoing ability to just lower funding costs?

Lindsay Corby
Sure. So as I said in my remarks, you're going to see it on the time deposits really in terms of the decrease going forward here. So I do think that it will help us with the rate cuts next week, assuming it does occur, and you will see some relief on the time deposit side there.

Alberto Paracchini
Yes. If I could just add, Terry, just in addition to what Lindsay said, I think we were probably proactive, very proactive once the outlook changed for rates. So in anticipation of the Fed cutting, we took action with respect to taking the foot off the gas as far as promotional pricing was concerned, anticipating that it would rather – it was not going to be a one-time cut, but rather it was going to be several cuts in rates.

So I think, adding to what Lindsay said, certainly if the Fed were to be more aggressive in cutting rates next week and followed by another potential rate cut in December, I think we would see the impact on that for sure.

Terry McEvoy
Okay, great. Thank you both.

Alberto Paracchini
Thank you.

Operator
The next question comes from Michael Perito of KBW. Please go ahead.

Michael Perito
Hi. Good morning, guys.

Alberto Paracchini
Good morning, Mike.

Lindsay Corby
Good morning.

Michael Perito
I wanted to follow-up on the SBA business here. I guess, what I'm trying to flesh out, I mean, obviously you guys have been very transparent in that you expect kind of charge-offs and credit losses to be elevated in that business relative to kind of the traditional commercial banking lines. But trying to flesh out, as I look at some of your peers across the country, charge-offs seem to be a little lower, and I'm trying to get a sense or get your insight as to, is that more so you think just because the SBA business is such a larger relative piece of your overall company?

And do you have any thoughts about how your loss rates have compared to others in that business? And just trying to get a better sense of how the comparative credit performance is for you guys versus some of your peers there.

Alberto Paracchini
Sure. So I'll take a stab at that, Mike. I think to your first question in terms of peer comparisons, I think we run a pretty diversified business. Let's call it, I would view it more as general in nature, meaning we have business development officers that are focused on originating SBA loans. Some of our competitors have certain verticals that they focus on or maybe the dynamics in a particular vertical as it pertains to both risk and reward are different. So I think that could explain some of the variance. It is, for sure, a higher-risk business relative to our commercial banking business as it pertains to charge-offs. It also exhibits some kind of higher volatility. So in certain quarters, you see it both on the gain on sale side and you certainly see it on the credit side.

I think as it pertains to this quarter with respect to charge-off levels, last quarter I think we commented on resolution activity being relatively moderate in the second quarter relative to the previous quarters. And we definitely saw an uptick in resolution activity. And as we get closer to final resolution on credits, that's usually when charge-offs do occur. And I think as I pointed out and Lindsay pointed out, a lot of these charge-offs were charge-offs taken on loans with fully assigned specific reserves through them.

So I do think that charge-offs, going back to your question are certainly higher here. I think if you look at the risk adjusted returns in this business, and you can look at this relative to our competitors, we tend to be prime plus in our originations here. Some of our competitors tend to be a little bit lower there and correspondingly you would expect to see lower charge-offs as well. But I think the last point I would make, I think we would probably see some gradual moderation in charge-off levels in the fourth quarter and going forward.

Michael Perito
Very helpful. Thanks. And then just as I think back to the IPO process with the Ridgestone deal and some of the disclosures you guys provided, I think it was clear that the profitability on the SBA business was very high. And I'm curious if you could maybe give us an update on how the profitability of that business has trended and where it is today, but then also conversely, kind of where the bank profitability is ex the SBA business today, and how that's trended over the last couple of years as well.

Lindsay Corby
Mike, we don't break out the two. We don't segment reports. We view the bank as one. So I think

when we went through the IPO process, I think Ridgestone is a good way to look at the profitability. It's the most simple way to go back and look at it. We've obviously invested in the business, continue to invest in technology, people, process. So I would say we continue to look for ways to make it more efficient every day. So I'd say that that's probably your best bet, because we do not break that out.
In terms of the remainder of the bank, we continue every day doing the same thing. We look at it as the entire bank and we will continue to see the profitability improves here as we continue on with our strategy.

Alberto Paracchini
Yes. I think one thing that I would add, Mike, there is, as we've said in the past, today it's a gain on sale business for us, and given where premium levels are and premium levels have been, frankly since we acquired the business prior to the IPO, I think to us, the business makes sense to continue to take advantage of the fact that premiums continue to be strong and will continue to sell the guaranteed portion.

So I'll add to what Lindsay said, a couple of things. Average premiums on the business have been very, very consistent since we've owned it and certainly since the IPO. So that bodes well for the gain on sale model and the profitability of the business. The rise in rates from relative to when we acquired the business also benefits the portfolio, given the fact that you're getting a higher carry on those loans, which are, as you know, primarily floating rate tied to prime. As Lindsay said, we've continued to invest in the business.

If you look – I think we don't show it here in this slide, but I think you can look back historically at what origination levels have been in that business. So, I think that should give you a pretty clear picture in terms of how that business has performed certainly since we've owned it and more importantly to your point since the IPO.

Michael Perito
Got it. And then just lastly, my quarterly pesky question about debt capital and share repurchases and kind of where you guys are. And I guess just, obviously, there's still organic opportunities, as you mentioned, adding talent still and just a couple of quarters ago, I think, closed Oak River. So I mean, there's still lots of opportunities on that side, but the TCE ratio is pretty strong and net organic balance sheet growth seems to be a little bit more moderate than a couple of years back, with some of the payoffs and stuff of that nature, just curious if you can give me an updated view or thought on kind of capital and the potential for that broadening over time?

Alberto Paracchini
Yes. I think we will – I think obviously first and foremost, we want to utilize capital to support the organic growth of the company. Second, to look for and be able to deploy that capital in ways that increase the value of the franchise further by doing acquisitions like we've done in the past. And thirdly, if we don't see opportunities then it's an ongoing conversation certainly that we have with our board in terms of if the outlook were to change, then we would look to buy back shares or we would look to potentially establishing a dividend at some point.

That being said, at this point, we think we have good growth prospects. We have opportunities on the M&A front, and I'm happy to talk about that in the call a little later if somebody has a question on that. But we see still a path where we see opportunities to grow organically and we see opportunities to continue to do what we've done in the past with respect to acquisitions as well, and we want to make sure that we have the level of capital to be able to support that.

Michael Perito

Okay. And then, since you brought it up, just on the M&A environment, Alberto, do you want to give an update there as well?

Alberto Paracchini
Yes. I mean, I would say the environment remains okay, meaning I think the usual conversations and discussions activity in that front, I think it has remained consistent. I wouldn't say that it has increased, but I also wouldn't say that it has decreased. As you know, particularly when you're talking about smaller institutions that tend to be primarily privately held, these processes can take time.

You have ownership groups that have been in place for a long time, and timing is always a consideration and you have to be patient with that. But I would say, the level of conversations has remained pretty consistent over the course of the year and really not that much different than in years' past.

Michael Perito
Great. Thank you, guys for taking my questions. Appreciate it.

Alberto Paracchini
Thank you, Mike.

Lindsay Corby
Thank you, Mike.

Operator
The next question comes from Andrew Liesch of Sandler O'Neill. Please go ahead.

Andrew Liesch
Good morning, everyone.

Alberto Paracchini
Good morning, Andrew.

Lindsay Corby
Good morning, Andrew.

Andrew Liesch
Thanks for the clarity on the amount of loans that reprice based on prime, and it certainly looks like going forward the CD repricing you have coming up this quarter and into next year should help offset some of that.

But if I look at the strategies that you guys have implemented and knowing that the rate environment is challenging and the lending market in Chicago is incredibly tough, especially related to pricing, is there enough opportunities on the liability side to offset the pressures that you're seeing on the earning asset side?

Lindsay Corby
Andrew, I don't think it's a one-for-one ratio by any means. So do we think that there will be compression continuing on the loan side if we do have these cuts that are predicted? Yes, you're going to feel it. We saw it this past quarter in terms of the core yield without the accretion income in there go down 10 basis points.

So I don't think it's a one-for-one ratio. But we will see some slight compression here going forward.

Andrew Liesch
Okay. And it looks like you've – yes, you've covered all my other questions. I'll step back.

Lindsay Corby
Thank you.
Alberto Paracchini
Thank you.

Operator
Again, if you have a question, please press star, then one on a touchtone phone.

The next question comes from Nathan Race of Piper Jaffray. Please go ahead.

Nathan Race
Good morning, everyone.

Alberto Paracchini
Hi, Nate. Good morning.

Lindsay Corby
Good morning, Nate.

Nathan Race
Just going back to Andrew's question. The margin compression that you're expecting on a core basis for the fourth quarter, is that expected to be a little less than we saw here in 3Q just given the swap termination that you talked about, Lindsay?

Lindsay Corby
I would say that it will depend. It's a dynamic competitive environment here with the deposit front. So in my opinion, our margin will be pretty consistent with what you're seeing. However, there could be some slight compression.

Nathan Race
Okay, understood. That's helpful. And changing gears a little bit, Alberto, the loan production was down year-over-year by a decent degree. So just curious to kind of get your puts and takes in terms of what you're seeing from a production standpoint and just perhaps the traction you're seeing with some of the recent hires that you've made more recently and just if you expect maybe 4Q to maybe be more of an offset to the softer growth that we saw this quarter and perhaps in the low double-digit range?

Alberto Paracchini
Yes. So I'll take that question in two parts. First off, I think, as far as net portfolio growth, as we talked about in the release and we touched on, on the prepared remarks, payoff activity was certainly higher this quarter, certainly higher than second quarter and certainly higher than what we've seen over the course of the year.

I think what we're seeing is, I think, I used the term late cycle behavior. In some cases, people are – we have loans on the books and we're seeing a payoff request and we look at the terms or we look at the structure that's being offered to the customer, this is primarily on the real estate side, and we're just taking a pass. We just don't think the risk reward is there. Maybe we think that just the yield is just simply too low and we'd rather, frankly, sit on that liquidity and wait for better opportunities. So I think hopefully that answers a bit of your question.

As far as the looks that we're seeing, kind of the deal flow, the at-bats that we get on deal flow, you know, deal flow has been good. I mean, we're getting plenty of at-bats, and I think at this stage what's important is just being disciplined, not necessarily putting on volume for the sake of putting volume and trying to operate profitably and protect the margin, so that you can kind of wait for better opportunities that show a better risk reward to take advantage of them.

As far as the new hires, we've added a number of very talented bankers to the ranks here recently. It takes a little bit of time just because of – sometimes there's non-solicitations in place, so they can't call on customers for a period of time. That being said, we're seeing traction in terms of some of the hires starting to build their pipelines, and we do probably expect to see some of that, I think as early as this quarter, but more in full what we expect to see it in 2020, particularly after Q1 more into Q2, which is when, really, the non-solicits will start to come off. So hopefully that gives you some clarity in that regard.

Nathan Race
Yes. That's great color. I appreciate that. And then just maybe lastly on expenses. As we look out to 2020, yes, you have some hires coming on board, but you also have some relief within the professional fees and then you also have the branch consolidation. So I guess, is it fair to expect operating expenses in the $43 million to $44 million range heading into next year, Lindsay?

Lindsay Corby
Yes. I think that's fair.

Nathan Race
Okay.

Lindsay Corby
Unless Alberto goes and hires more people.

Alberto Paracchini
Yes. I think that's a fair number. I think Lindsay's second comment was also fair. When we see opportunities to add solid bankers to the company, we will certainly take advantage of that. Yes, it has an impact short-term on expenses, but they tend to pay for themselves pretty well in a relatively short period of time.

Lindsay Corby
Absolutely.

Nathan Race
Got it. Understood. And I guess lastly along those lines, are those opportunities to add quality lenders and commercial bankers, is that slowing at this point just given where we are in the disruption cycle? Or is that still kind of a steady state?

Alberto Paracchini
We're seeing good people still. And I think it will slow down probably here towards the end of the year and beginning of the year because that's usually, as you well know, when incentives and bonuses are usually paid. So we're getting to the time of the year that, if people are looking to make a change they'll probably wait until the end of the year until they get their compensation. But we're still seeing good

people and we're still talking to a number of people that we would be very happy bringing onto the company.

Nathan Race
Okay. Great to hear. I appreciate all the color. Thank you.

Operator
The next question comes from Brian Martin of Janney Montgomery Scott. Please go ahead.

Brian Martin
Hi, good morning.

Alberto Paracchini
Good morning, Brian.

Lindsay Corby
Good morning, Brian.

Brian Martin
Hey, just one follow-up on the last question about, you've talked about, Alberto, the M&A versus the talent additions. I guess, are you more confident in hiring people today than transactions, given it doesn't feel like there's a lot of activity or no difference, no pickup in activity in the marketplace today. Is that fair to say when we look over the next couple of quarters or at least next kind of 12 months?

Alberto Paracchini
That's always a tough question. The one thing that I would say to that, I mean it's always a tough question because what sometimes seems to be a long-term conversation can change and all of a sudden something may come up that you thought would take a lot longer. So it's always hard to say on the M&A front. In terms of talent, I would probably tend to agree with your comment in the sense that you talk to people, you have relationships with people and those tend to be less complex conversations. You're trying to get them to join your company. You have a good story. You have a good platform and they're looking for a home, and that's usually an easier conversation as opposed to the sale of a company. So I would tend to kind of agree with your first comment there, Brian.

Brian Martin
Okay, perfect. Thank you. And then just a couple others for me. Lindsay, pesky on the accretion, but just has it been reset now so it should just kind of be the normal stair-step down or was there something kind of unusual or non-recurring there that resets it even lower, just kind of baseline to start with?

Lindsay Corby
Yes. That's a great question. This was definitely a peak. In our view there was a sizable recovery of about $1.5 million. So I would stair-step it from there, Brian.

Brian Martin
Okay. All right. And then, just one more on tying back to the margin, Lindsay, just the – I appreciate the comments on the CDs and kind of the steps you guys have taken, but I guess if you throw out a scenario where we have a couple more cuts, three more cuts in the next couple meetings. I mean is it – does the moderation in the – the decline in the margin slows, I mean, it wouldn't be necessarily 30 basis points lower, it couldn't, maybe not be 30 basis points lower, but does each cut have less of an

impact as far as what the margin drops, based on kind of what you said? Is that fair how to think about it under that scenario?

Lindsay Corby
No. I would really think about it. We target about, for every 25 basis points, it's about three-to-five basis points of margin. So again, it's going to depend, but I wouldn't tie it to that it will level out at any given point. I think it will compress.

Brian Martin
Okay. Just remind me, do you guys have floors in the loan portfolio, or not a lot of them?

Lindsay Corby
We do have a modest amount of floor. It's about $200 million.

Brian Martin
Okay. All right. And then I guess just the last thing maybe for Alberto just the – kind of your – you talked at the start of the call about the improvement you've seen in the profitability and efficiency as you look to 2020 with some of the revenue pressures out there, can you give some context in how you're thinking about, whether it be an ROA or whether it be efficiency next year, just kind of high level, how you see things unfolding, based on kind of your ability to execute as you've outlined?

Alberto Paracchini
Brian, I think we run the business in the long run kind of with the – kind of like the general guidance in terms of efficiencies and profitability that we've talked about in the past. That has not changed. Look, revenue, interest rates, and interest rate environments change, that certainly will put pressure at times, and it also will help you at times if it turns more favorable. So I think for us as we just run the business kind of with the long run in mind, and we'll adapt accordingly to the rate environment. If I could add one more thing to what Lindsay was saying, at some point if rates were to continue to decline, I mean I think it's a challenging environment for all financial institutions.

So I think what's important is to a degree that we can continue to run the business for the long run, that we can continue to add good people, and we can continue to grow both loans and deposits with good risk reward balance in play, I think we'll be just fine.

Brian Martin
Okay. I appreciate the color guys. Thanks.

Operator
And we have a follow-up from Terry McEvoy of Stephens. Please go ahead.

Terry McEvoy
Thanks. So I just wanted to follow-up. What are your current thoughts on the impact of CECL? And I guess, specifically, I'm just thinking about the reserve for your acquired loans and how much of the current credit mark would come over to the reserve?

Lindsay Corby
Sure. So Terry in regards to CECL, we are an emerging growth company, so we were thrilled with the news that came out just recently from FASB. So we will be delaying and we won't be disclosing at this time where we're at yet. So we are doing a lot of work. We're running parallel. We're well on our way, however, we are going to elect to remain an emerging growth company and delay the implementation.

Terry McEvoy
Perfect. Thank you.

Alberto Paracchini
Thank you, Terry.

Operator
And we have a follow-up from Michael Perito of KBW. Please go ahead.

Michael Perito
Thanks, guys. I'm actually all set. Terry took the bullet for me, so appreciate it. Thanks.

Alberto Paracchini
No problem.

CONCLUSION

Operator
I see no further questions. I would like to turn the conference back over to management for any closing remarks.

Alberto Paracchini
Thank you. And I just want to take a moment to thank you for joining us today. We look forward to speaking to you again next quarter and actually after the end of the year, so in the case that we don't talk to you again, I hope you have a great holiday season, and we look forward to speaking to you in January. Thank you.

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