MidWestOne Financial Group, Inc.

Q4 2020 Earnings Conference Call

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CORPORATE PARTICIPANTS

Charles Funk - *Chief Executive Officer*

Len Devaisher, *President and Chief Operating Officer*

Gary Sims - *Chief Credit Officer*

James Cantrell - *Treasurer and Chief Investment Officer*

Barry Ray- *Chief Financial Officer*

PRESENTATION

Operator
Good morning and welcome to MidWestOne Financial Group's Fourth Quarter 2020 Earnings Call. All participants will be in listen-only mode. If 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. Please note that this event is being recorded.

Also, this presentation contains forward-looking statements relating to the financial conditions, results of operations, and businesses of MidWestOne Financial Group, Inc. Forward-looking statements generally include the words such as "believes," "expects," "anticipates," and other similar expressions. Actual results could differ materially from those indicated. Among the important factors that could cause actual results to differ materially are interest rates, changes in the mix of the company's business, competitive pressures, general economic conditions, and the risk factors detailed in the company's periodic reports and registration statements filed with the SEC. MidWestOne Financial Group undertakes no obligation to publicly revise or update these forward-looking statements to reflect any events or circumstances after this date of presentation.

Now, I'd like to turn the call over to Mr. Charlie Funk, Chief Executive Officer. Please go ahead.

Charles Funk
Thank you very much, Nick, and thanks to all of you for joining the call today. In the room in Iowa City with me are Gary Sims, our Chief Credit Officer; Barry Ray, our Chief Financial Officer; our President, Len Devaisher; Jim Cantrell, our Treasurer and Chief Investment Officer.

I'll begin with a few opening remarks. First of all, would say that we think it was certainly a good quarter for our company. There were a lot of positives in our numbers — 122 ROA, a little over 17 percent return on tangible equity, earning $1.04 per share. Also, and I'll talk a little bit more about this later, but certainly we think that our asset quality has stabilized and maybe even a little bit better to improving.

Excellent quarter for non-interest income, and we note that our commercial loan growth in the quarter was good.

In terms of the balance sheet, as I said, we did show modest loan growth. We had paydowns in our residential and consumer as they refinanced into the secondary mortgage market. So, the commercial loan growth was right in the 6 percent annualized neighborhood, and we'll take that.

In terms of the outlook, we think the first quarter will be — flattish is probably the best word. We have some take-outs from construction lines that will be occurring during the quarter. We do continue to project a budget of 4 to 5 percent loan growth for the calendar year 2021.

The strongest regions in terms of loan growth and the outlook for loan growth — Denver continues to do well; Florida is steady to improving; the Twin Cities market has strengthened recently, and we are starting to have a nice pipeline there. We also think the Iowa City market could show positive loan growth in the first quarter and for the year.

We also would note a better outlook in rural America, and specifically in the rural regions that Midwest — or MidWestOne has offices, and we know — we just recently hired a new banker in Southwest Wisconsin, and we're developing a little bit of a pipeline there as well.

We do continue to see very, very strong deposit inflows, and we saw that during the quarter. It's very difficult for us to predict what the deposit outlook will be in 2021 because we have a lot of moving parts. Specifically in the first quarter, we typically see deposit outflows that are seasonal, and then toward the end of the quarter, they build back. We've also got PPP forgiveness, which is in place, and we expect some of that money at least will stay on our balance sheet for a period of time. And now we have another round of PPP. So, it's very, very hard to forecast deposit growth in terms of PPP demand for the second round. We do have significant demand. We think the dollar volume will not be as robust as it was the first time around, but we do note that there is enhanced eligibility — there's enhanced eligibility for our ag borrowers. So, we do expect to see a little bit more activity from our agricultural customers.

In terms of the income statement, we think that — I think that the biggest and most prominent line in the income statement is certainly the net interest margin and net interest income. In this last quarter, we were certainly aided by PPP forgiveness. That was a tailwind. We continue to have a roll of the CD portfolio, which adds a few basis points each quarter to the margin.

We would note that — and this was in the earnings release — that we did charge off $400,000, roughly, of interest on one loan that was placed on non-accrual. That is a core item; however, we also think that's a one-time item and should be noted on this call as it was in the earnings release.

I think in terms of the outlook for the margin, it's in — it should bump along in this range plus or minus. The steeper yield curve helps us a little bit; however, it should be noted that for a bank such as ours, it would be — the zero to five-year part of the yield curve is probably the one that needs to steepen for it to have the greatest benefit for our company. And then again, as I said earlier, the large deposit inflows that we've experienced did have a negative effect on the margin in the fourth quarter.

In terms of non-interest income, I think a really good story for our company — and it's not just one area of the company — our home mortgage center had a record year. They generated right around $466 million of volume. We've never done that kind of volume before at our company, and I would note that the merger with American Trust really paid off, because the Dubuque Mortgage team, especially, really added to these totals.

Going forward, we do have a good mortgage pipeline for the first quarter. It's amazing that the demand continues to stay strong. We think there will be less of a drag from mortgage servicing rights, although of course that's dependent on the direction of interest rates, but that's what we would see at this point in time. And our servicing portfolio today is just under $900 million for our secondary market loans and about $355 million of portfolio loans. So, we're well over $1.2 billion in terms of residential real estate loans that we service.

Investment services, which is our LPL brokerage subsidiary, had a record year. They continue to look to expand their footprint. It's very hard to hire good people that fit our culture and that are able to produce. We now have an LPL rep in Denver, but at this point in time, we are just in Iowa for the rest of our LPL reps, and we would love to expand into the Twin Cities' market if the opportunity presents itself.

Our Trust Department had a strong year. They had to deal with merger integration with the Dubuque Trust Department, and that's gone very, very well. We did not think they would hit their budget, but they did in 2020. As I said on the past earnings call, the court systems in Iowa

have basically shut down. So, we've not been able to collect probate fees. We expect to collect those in 2021, but despite all of that, the Trust Department was able to meet budget, which we think was a significant accomplishment.

The emphasis will be on organic growth for the Trust Department in 2021, and I'm happy to report that we've hired two bankers — trust bankers, and they're established bankers — in the Twin Cities. We expect to hire one more in the next 90 days, and we do think that there is very significant revenue growth potential over the next couple of years as we roll that out in the Twin Cities. They've been with us for — depending on which one we're talking about — between 30 and 90 days. They've made a great impression and we've already had a number of significant customer calls.

In terms of expenses, it was a messy quarter for expenses. We didn't renegotiate the contract with our core provider, and the way that works is we used a third-party vendor to help us negotiate the contract. We paid that vendor upfront. That was reported in the quarter. And now we will realize the savings over the life of the contract. We also terminated a cash flow hedge which, as we look back, we put this hedge on just before the pandemic started and just before the Fed basically cut the rates to zero. So, that wasn't — we terminated that contract, which was an $800,000 charge. And then there were another — there were a few other smaller one-time items. I do think Barry will be available to answer specific questions, but the non-interest expense should calm down in Quarter 1 and hopefully get back to the run rate that we were experiencing before the fourth quarter.

In terms of asset quality, again, I think the story here is generally positive. We did have a release of reserves. We still have a X PPP loan loss reserve to total loans at 1.72 percent — again, X PPP. Net charge-offs of 4 basis points annualized during the quarter, 15 basis points for the year, which is the best performance we've had in a number of years. We feel very good about that.

The NPAs were up slightly. As we did disclose in the earnings release, we put one $9½ million hotel loan on non-accrual, and I think that pushed our non-accrual numbers up slightly; however, what that did was mask a lot of cleanup and resolution that took place in the legacy portfolio during the year. If you look back to 12/31/19, actually, our NPAs were actually down slightly, which we feel very, very good about.

We did, as noted, release credit loss reserves, and I think it's fair to say that CECL created a bumpy ride for us in 2020, and we expect that to continue into the future as we learn to deal with the new regulation and the new guidance on this particular topic.

I think most importantly, our outlook on credits is generally positive. We continue to be mindful of our hotel portfolio. In terms of the $9½ million loan, we think it's fully reserved for, and we don't anticipate a large loss on this particular credit.

Also of note, the ag sector, very strong. We would say that farmers had their best year probably since 2013. There's a good outlook for 2021 with corn and soybean prices as strong as they are. And the other thing to note is that our rural economies benefit when crop prices are high. So, there's an indirect effect that's positive on most of our customers who reside in rural America.

We think that the dairy industry — and we do have some dairy loans in Southwest Wisconsin — their outlook is not quite as positive as for corn and soybean growers, but it's positive. It's better

than it's been for some period of time. So, we forecast a good outlook for this year in terms of our ag portfolio.

In terms of capital position, we think we're fine where we are — 821 would be the percentage of tangible common equity, when we back PPP out of the equation. We did repurchase 84,000 shares of our own stock during the quarter. We think it represented then and continues to represent good value, and we continue to reward our shareholders with an increase in the annual dividend, which we typically do each January. And we would remind everyone — it's in the earnings release, but our tangible book value increased to $26.69 per share in — as of 12/31.

So, in summary, before we go to the Q&A, I just was thinking to myself, and how would you describe 2020? I think it was an unprecedented year. I think we would all agree with that, and as I look at our company, when we've tallied up the final results and we talk about our core operating earnings, which would exclude the goodwill impairment charge we took in Q3, we made — we had net income of $38.1 million in core income compared to $43.6 million in 2019, and on an earnings-per-share basis, $2.37 cents per share in 2020 versus $2.93 in 2019. And I would hasten to add that we added about $28 million to our credit loss reserve during the year and strengthened our loan loss reserve from 1.72 — from roughly 0.95 percent of loans a year ago to 1.72 percent X PPP at the end of 2020.

And I would add that we kept our employees safe and served our customers and served our communities very well. So, overall, we like the position we sit in. We look forward to 2021 and we do think we're ready for the challenges that lie ahead.

And with that, Nick, we'll turn it back to you for any Q&A that might be out there.

QUESTIONS AND ANSWERS

Operator
That you. We'll now begin the question-and-answer session. To ask a question, you may press star, then 1 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 2. At this time, we will pause momentarily to assemble the roster.

The first question comes from Brendan Nosal of Piper Sandler. Please go ahead.

Brenda Nosal
Hi, good morning, everybody. Hope you've stayed well.

Multiple Speakers
Good morning, Brendan.

Brendan Nosal
I just want to start off here on some of the liquidity dynamics in the quarter. So, you like many others, continue to see very strong liquidity influence, but it looks like this quarter you opted to deploy that into securities rather than let it sit in cash. So, just discuss that strategy of how you're going to manage this excess on through the course of the year.

James Cantrell
Yes, Brendan, this is Jim. I'll take that. I think you're onto it. I think we've decided to invest in relatively short-term, cash-flowing securities, ones where we're going to buy. We're not going to put the long-term interest rate risk of the company in jeopardy, but it's just really costly to leave that money in cash. I think we have $200 million on average in excess liquidity that had we left it in cash, would have been 10 basis points. So, we're investing in a combination of mortgage-backed securities, hybrid municipal bonds, and I think that's a strategy that we finally caught up and got us — got ourselves into a Fed fund purchase position, albeit a small one, at the end of the period. But that's really been the strategy that we've employed for most of the year.

Brendan Nosal
Good. That's helpful. And then one more for me and I'll step back. Charlie, you alluded to the expense run rate being a little bit [unintelligible] the quarter. There's a couple of items that might not persist, like the [inaudible] hiring [unintelligible]. Can you guys just help frame up what you think a reasonable run rate will be end of the new year?

Barry Ray
Brendan, this is Barry. I think what we'll anticipate for the finished run rate will be back into the $29 [million] to $30 million-per-quarter range, what we expect.

Brendan Nosal
Fantastic. Thank you for taking the questions.

Operator
And the next question will be from Jeff Rulis of D.A. Davidson. Please go ahead.

Jeff Rulis
Thanks. Good morning.

Charles Funk
Good morning.

Male Speaker
Good morning.

Jeff Rulis
So, Charlie, I'd love to – oh, and also maybe for Gary, I just — the optics of reserve release and higher NPAs — and understand that that's overly simplistic — is you've set up reserves and you allocate towards it, the hotel movement, or migrating. I'm trying to get a sense for, you know, the credit tone sounds more positive, and particularly on the ag side, I guess the question, to be specific, is it seems like you've — is it fair to say you've pivoted that — you know, the outlook today that you're more positive on the ag side than potentially non-ag credits in the portfolio?

Gary Sims
Yes. Hey, Jeff, Gary here. I'll start to answer the question, and, Charlie, add in if I — if you have something additional. So, really, the quarter, what you see in the quarter is a good story around resolution of our existing non-performing book taking place in the quarter, but also, at the same time, that migration of the vulnerable industries portfolio, specifically as we've pointed out, that particular hotel overshadowing the — a lot of good work that happened in the quarter, and most of that good work that happened in the quarter, in terms of resolutions, were on agriculture credits. But I would say, generally speaking, in terms of our pre-pandemic book of

non-performers, we've seen a very positive movement towards resolution of those credits, and so that's what gets us in a position where we think we're really going in the right direction in terms of our management of that book, that pivot that you were talking about, Jeff.

Charles Funk
Do you want to talk a little more about ag?

Gary Sims
Yes. Yes, I sure will. You know, as Charlie said in his remarks, good prices solve a lot of challenges that we have in the ag space, and we are experiencing very good prices. We're experiencing corn prices and soybean prices that we have not seen since 2013/2014. And that makes a big difference. And when you combine that with the government assistance that our farmers have experienced over 2019 and 2020, it's a good story right now for our ag space in Eastern Iowa.

Jeff Rulis
That's great. And maybe just a housekeeping — for Barry. Just on the tax rate, obviously, a bumpy 2020, but any expectations for that going forward?

Barry Ray
Yes, Jeff, we do expect for 2021, that the tax rate will be 19 to 21 percent.

Jeff Rulis
Nineteen to 21?

Barry Ray
Yes, right.

Jeff Rulis
Okay. I will step back. Thank you.

Barry Ray
Thanks, Jeff.

Charles Funk
Thank you, Jeff.

Operator
Thank you. Next question will be from Terry McEvoy of Stephens. Please go ahead.

Terry McEvoy
Hi, good morning, everyone.

Charles Funk
Good morning.

Multiple Speakers
Good morning.

Terry McEvoy
I just want to circle back to the commentary on the margin. It sounded like a bump around plus or minus but remains stable, and I'm just trying to take that into consideration with the PPP fees of like $3 million and a likely decline over the next few quarters. And then, also the commentary in the press release, which kind of said — indicated that it might be under some — it was a challenging environment, which, to me, suggested ongoing compression. So, I guess my question is X some of the noise, accretion and PPP, does the core margin compress from here, and then there are some offsets on some of the other variables?

Charles Funk
We have a — yes, and some of it will also depend on the mix and when loan demand comes into the equation, but I think the unknown is all the liquidity. And we don't know how much liquidity will come in. If there's a significant amount more of liquidity that comes in, then you're probably going to see some margin compression. If the PPP money that's been forgiven doesn't stay in our bank very long and we know that a number of customers will pay dividends — they will make payouts and the money may leave our bank — then the margin probably hangs in there or improves a little bit, but I think the big question mark is how much liquidity will there be on our balance sheet and how quickly will the loan demand be merged during the year? Because we do think that we will have loan growth this year. We may not have quite as much in the first quarter, but we still anticipate a pretty good year for loan demand.

Do you have anything to add to that, Jim?

James Cantrell
No, I think you can watch our — maybe you could watch our loan-to-deposit ratio, and it is significantly lower today than it was, say, a year ago. And as the loan-to-deposit ratio goes, and that's to Charlie's point, it's just a more efficient use of resources if we can move some of those liquid assets like securities into loans. And when that begins to happen, that will help the margin.

A little yield curve steepness of zero to five wouldn't hurt either, or even a rising rate environment – we're slightly asset sensitive but not hugely so — but we'd benefit from a little uptick in rates as well.

Terry McEvoy
Okay. We'll continue to watch that part of the yield curve. And then, just as a follow-up, I don't think in the last couple of quarters you've maybe updated us on just what you're doing with the digital platform and some of your fintech initiatives that you had outlined earlier last year as it relates to third, fourth, and even some thoughts on what you're going to do here in early '21. So, an update there would be helpful. Thanks.

Charles Funk
Sure. We rolled out the — our core provider's products in the last — I lose track of time, but 90 to 120 days — and we've had some bumps with that, but no — not significant bumps. I think they were all — they would all be normal. And I think we believe that this platform as we get used to it and as we use the enhancements that it offers, will be very, very competitive with other financial institutions and will really help us.

We also are in the process — and this a 2021 initiative — of streamlining our small business banking initiative, and we'll try to automate a lot of the application and approval process, where we will start out small but ultimately would go up into the $200,000, $300,000, $400,000 range.

And we think that will certainly enhance the productivity of our commercial bankers by allowing them to focus on larger and more profitable deals but, at the same time, taking care of our customers.

We've also implemented in the last six months a platform that's more of an internal platform, called OnBase, and it really allows us to be more productive internally. I'll give you one example. Just in our deposit operations area in Iowa City, I was talking to the folks who run that department last Friday, and they pointed out that they've been able to save, just in their department, over 4,000 manhours a year by the implementation of OnBase. And we have to continue to use those internal things that help us improve productivity, and there's a whole bunch of others in risk management and various parts of our company that the customer might not see, but they do make us a better and more efficient company. So, that would be a little bit of a snapshot, Terry, of some of the things that are on our plate right now.

Terry McEvoy
Great. I appreciate that. Thanks and have a nice weekend.

Male Speaker
Thank you.

Charles Funk
Thank you, Terry.

Male Speaker
Thanks, Terry.

Operator
Thank you. Next question is from Damon DelMonte of KBW. Please go ahead.

Damon DelMonte
Hi, good morning, guys. I hope everybody's doing well today.

Multiple Speakers
Hi, David. Good morning.

Damon DelMonte
So, my first question is regarding the outlook for credit and a little bit of direction here on the provision as you go through the next few quarters. Do we go back to booking the provision after this quarter's release, or do you feel that trends are strong enough where you're probably going to have additional reserve release as we go through the year?

Gary Sims
So, Damon, I'll — this is Gary, and I'll start to answer the question, by talking about, you know, fourth quarter, what you saw there was the economic factors really driving our calculation to a release, but we also had, as we've pointed out, some migration to non-performers that we — non-performers that we took provisions against. So, the net effect is what you saw in the financials, and as we go into 2021, as the economic forecasting improves, which we think will be happening in 2021, you're going to continue to see that opportunity for a lower reserve. But you're also going to see us utilizing that opportunity for a lower reserve to provide for possible deterioration in the portfolio as we go through the year. Does that make sense? That's the way, at least in our minds, that's the way CECL is supposed to work.

Damon DelMonte
Got it. Okay. What are your expectations for charge-offs for next year?

Gary Sims
Help me out there. What do we have on our budget for charge-offs?

Charles Funk
We took a conservative approach in our budgets. We'll get that for you.

Damon DelMonte
Okay. Great. And then I guess, while you're looking that up, I guess just to circle back on the margin, so if we were to kind of exclude the fair value accretion this quarter, that puts the core margin around 3 percent. Is that right?

James Cantrell
That's right. I think that includes the PPP, but the — excludes —

Damon DelMonte
That includes PPP, right. So, then if we take it a step further and back out the PPP, that's like probably 20-something basis points, 22, 24 basis points. Is that the level that you're hoping to be plus or minus going forward?

James Cantrell
Yes. Damon, I don't think it's — I don't think the PPP contributed quite that much to the margin. It may have contributed that much to the loan yield, but to the margin, with the earning asset based in over $5 billion, I think that was more like a 10-to-12 basis point impact.

Damon DelMonte
Got it. Okay.

James Cantrell
And so that's really — yes — but to answer your question, yes, that is the — if you strip away the accretion and the PPP and you're getting to a number that's in the 290 region, then that's the number we think, all else being equal, it's going to be flat. You know, it could be up or down a little bit, but that's the number.

Damon DelMonte
Got it. Okay. That's very helpful. Appreciate the clarification on that. That's all that I had in questions, so thank you very much.

Charles Funk
And we will — before the end of the call, we'll get you the charge-off number that we have in the budget. I've got something in my mind, but I don't trust my memory on that.

Operator
Thank you. Again, if you have a question, please press star, then 1. Next question is from Brian Martin of Janney Montgomery Scott. Please go ahead.

Brian Martin
Hi, good morning.

Multiple Speakers
Good morning, Brian,.

Brian Martin
Hi, I appreciate that last comment, Jim, that's what I was going to get at, was where the core margin kind — if you were thinking about some stability or, you know, give or take a plus or minus the impact. So, you're thinking that the impact is about 10-to-12 basis points on the reported margin for the PPP this quarter. And that includes — can you remind us how much did that include of the fees this quarter?

James Cantrell
I'm working from memory now. I want to say it was about 2 ½ — is it — well —

Male Speaker
Of PPP fee income?

Male Speaker
PPP — net PPP — maybe it was 3.

Male Speaker
It was 3, and this quarter —

Male Speaker
Three —

Male Speaker
Because this quarter we had $3.1 million in PPP —

Male Speaker
$3.1.

Male Speaker
— loans via accretion.

Brian Martin
Okay. And the remaining piece you guys have left, is about how much?

Male Speaker
$5.3 million, Brian, is what's left for the [inaudible].

Brian Martin
Okay. And it's still fair to assume that you guys are expecting most of that forgiveness to be recognized in the first half here, that remaining $5 million or so?

Male Speaker
Yes.

Male Speaker
Brian, yeah —

Male Speaker
Yes, that's the way we budgeted it.

Male Speaker
In my mind, much of it could happen in the first quarter as we look at what's actually being forgiven, and we do track that. We've seen a bit of an uptick, so, yes, I think it's safe to say we think most of it will happen in the first half, anyway.

Brian Martin
Okay. And as it sits right now, I guess maybe if you just — I know you already mentioned this as far as thinking about it, but your expectation would be that at least initially when that — when those get forgiven, you'll — the balance sheet will get a little bit more inflated, and then it's just a matter of how we want to model that liquidity, whether it stays or — it's still somewhat of what you said last quarter, give or take 5 or so basis points to the margin, it's fair to still think about?

Male Speaker
Yes, I would say, you know, on the day we'd get a loan forgiven, the money is going to be invested into the [inaudible], so I'm not sure I see much balance sheet shrinkage due to that transaction. But over time, we do use excess liquidity to pay off high-rate CDs, to pay off whole loans or FHLB borrowings, and other wholesale borrowings. So, that are at a little bit higher rate. So, that may be why we see the balance sheet come down a little bit over time. But we're sort of at an all-time low in terms of wholesale funding at the bank's — at the bank level, and I suspect we'll continue to pay down wholesale funding in large CDs where we are paying a little bit higher rate.

Brian Martin
Okay. And I guess is there a lot of opportunity to do that, to maybe even pre-pay some things, or not really?

Male Speaker
You know, FHLB, the economics of pre-paying an FHLB advance are not terribly attractive. So, you're better off leaving it in place and just paying it off when it matures —

Brian Martin
Okay.

Male Speaker
— is what we've found, so I think there's $40-or-some million of FHLB advances coming off this year, and I would hazard a guess some of them — in the large CD areas, it's $40 [million], $50 [million], or $60 [million], some of which will renew at lower rates; some of it will go out of the bank altogether.

Brian Martin
Yes. Kay. Okay. That's fair. I appreciate that, and then maybe just the last one or two for me. Just on the — given mortgage in Charlie's comments about both that and the investment area really having great years, when you think about fee income next year, just high level, how we should think about the contribution from fees next year given some headwinds potentially on the record mortgage year, how should we think about fee income as we go into next year? Is it a stepping-off point, or just however you guys could frame up something?

Charles Funk
I think the way we would start, I just think you have to break it into components, Brian, and I think mortgage is going to have a strong first quarter. And you tell me what's going to happen after that. I think none of us know, but the way the year's starting out, maybe not quite as much as 2020, but certainly strong. I think investment services probably will continue to chart a good path of increasing fees, and I know our Trust Department is counting on higher revenues as well.

We had a lot of swap income from commercial banking transactions the first two quarters of last year. I think there will be some of that in 2021, but perhaps not quite as much, because we really did see a lot of that, especially before the Fed reduced the interest rates to zero. But I think the potential's there to do some. So, there's the major components. Service charges probably continuing a slightly downward trend, which is true for most of the industry.

Brian Martin
Gotcha. And can you not — I guess, is — the mortgage bankers made the association, Charlie, is more in the neighborhood of, I thought, 20 to 30 percent reduction in mortgage volume this year. Maybe it sounds like you're a bit more optimistic than that, and not wildly, but maybe especially given the start to the year.

Charles Funk
Yes. I'm more optimistic than that in the first quarter, but for the year, I think that's a fair — because we all look at the same things, and I think that's a fair way to look at it for the year. I think all I'm saying is we're starting out the year better than that.

Brian Martin
Yes, I got you. Okay. I appreciate that. And then maybe just one for Barry. Just some remaining accretion to be brought in, I guess the — I guess, how much is that, or just if you can just frame how you're thinking about the contribution in '21.

Barry Ray
Yes, we have — at December 31st, and this is not the PPP that we were talking about, Brian. This is just the purchase discount. It was $9.1 million — was remaining to be accretive into income, and I tend to think of that as it's principally front loaded as we've observed. And so, our quarterly run rate, which we've had [unintelligible] been able to continue to attenuate from there going forward.

Brian Martin
Perfect. Okay. Thank you, and thanks for taking the questions, guys.

Barry Ray
Thanks. Damon, just really quickly, with respect to the charge-offs, 53 basis points is what we are expecting with respect to charge-offs — 53.

Gary Sims
And, Barry, if I could add some commentary around that too as we talk about the — we're envisioning 53 basis points of charge-offs for the year, but we don't necessarily envision that we will have to create a provision to cover all those charge-offs for the year, because the way we believe the reserve is going to work is, as our economic forecasting improves throughout the year, reserves will be released that will cover a significant portion of those charge-offs. So, our actual provision, we don't really see getting to that level.

Charles Funk
Yes, and I think — and so I can add even more. I think the way we modeled it in our budget is we ended the year with roughly 1.5 percent.

Gary Sims
Yes, we'll actually draw down our reserves —

Charles Funk
Right.

Gary Sims
— to that 1.5 percent throughout the year, in other words, utilizing that reserve to cover the charge-offs that we anticipated at the beginning of the pandemic.

Charles Funk
I hope that is clear to you, Damon.

Gary Sims
Yes, that was Damon that asked that.

Charles Funk
Yes.

Operator
Thank you. This concludes our question-and-answer session. I would like to turn the conference back over to Mr. Charlie Funk for any closing remarks.

CONCLUSION

Charles Funk
Thanks again to everybody for joining us on the call this morning. Those of you who need follow-up, please call any of us. We'll be happy to respond as quickly as we can, and wish all of you a safe, happy, and healthy new year and weekend. Thanks for being on the call.

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