S&P Global
Market Intelligence

Enterprise Financial Services Corp NasdaqGS:EFSC

Earnings Call

Tuesday, January 27, 2026 4:00 PM GMT

Call Participants

EXECUTIVES

Douglas N. Bauche
Senior EVP & Chief Banking Officer

James Brian Lally
President, CEO & Director

Keene S. Turner
Senior EVP, CFO & COO

ANALYSTS

Brian Joseph Martin
Janney Montgomery Scott LLC, Research Division

Damon Paul DelMonte
Keefe, Bruyette, & Woods, Inc., Research Division

David Joseph Long
Raymond James & Associates, Inc., Research Division

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

Nathan James Race
Piper Sandler & Co., Research Division

Presentation

Operator

Hello, and thank you for standing by. My name is Regina, and I will be your conference operator today. At this time, I would like to welcome everyone to the Enterprise Financial Services Corporation Fourth Quarter 2025 Earnings Conference Call. [Operator Instructions]

I would now like to turn the conference over to Jim Lally, President and CEO. Please go ahead.

James Brian Lally
President, CEO & Director

Good morning, and thank you all very much for joining us, and welcome to our 2025 Fourth Quarter Earnings Call. Joining me this morning is Keene Turner, EFSC's Chief Financial Officer and Chief Operating Officer; and Doug Bauche, Chief Banking Officer of Enterprise Bank & Trust.

Before we begin, I would like to remind everybody on the call that a copy of the release and accompanying presentation can be found on our website. The presentation and earnings release were furnished on SEC Form 8-K yesterday. Please refer to Slide 2 of the presentation titled Forward-Looking Statements and for our most recent 10-K and 10-Q for reasons why actual results may vary from any forward-looking statements that we make today.

Our financial highlights begin on Slide 3. I am pleased with our results for the fourth quarter and for all of 2025. For the quarter, we earned $1.45 per diluted share, which compares favorably to the $1.19 that we earned in the linked quarter and $1.28 in the fourth quarter of 2024. These results produced a return on average assets of 1.27% and a pre-provision return on average assets of 1.74%.

We discussed in our last earnings call, we closed on the branch purchase in Arizona and Kansas early in the fourth quarter. Earnings from this complemented our relationship-oriented business model, helping drive expansion of net interest income for the quarter to $168 million, which was a quarterly increase of $10 million when compared to the linked quarter and $22 million compared to the fourth quarter of 2024. Margin too improved slightly to 4.26%, driven by disciplined loan and deposit pricing throughout both books of business. Our ability to hold our margin at this level illustrates the quality of our deposit base and the relationship-oriented loan portfolio. The ability to continue to expand our net interest income, along with widening our net interest margin to the extent that we have reflects the strength of the franchise we are building and we remain positioned to produce high-quality earnings for years to come.

As important, the branch purchase accelerated our strategy in 2 of our higher-growth markets by several years. Since the closing, I've spent time with our new team and our new clients and feel even better about how this fits into our overall strategy and the impact that this expansion will have on our long-term performance. The strength of our company is our well-positioned balance sheet, which provides for great flexibility when it comes to capital management. We came into 2025 with a goal of growing our balance sheet at a mid- to high single-digit pace. With our organic growth complemented by the aforementioned branch purchase, we're able to exceed this goal, growing our balance sheet by 11%.

Capital levels at quarter end were stable and strong with our tangible common equity to tangible assets ratio at 9.07%. As impressive was our 14.02% return on tangible common equity for the fourth quarter. Because of the branch purchase, we expected some dilution to tangible book value. But due to our strong earnings during the quarter, tangible book value per share was relatively stable at $41.37. This represents an 11% increase in tangible book value per share growth for the year. Because of our confidence to continue to produce high-quality earnings at the pace that we are, we increased our dividend by $0.01 per share to $0.32 for the fourth quarter and repurchased 67,000 shares at an average price of $52.64.

Loan growth for the quarter was $217 million and was largely attributed to the acquired loans that came with the branch acquisition. Further reducing our loan balances in the quarter was the movement of approximately $70 million of Southern California commercial real estate loans into OREO. I will provide an update on our progress with these properties later in my comments.

Deposit growth and the quality of the deposit base continues to be a significant differentiator for our company. In the fourth quarter, we saw deposits grow by $1 billion, $400 million of which came from new and existing clients with the remaining approximately $600 million coming from the branch purchase. The cost and composition of the deposit base continues to improve and is aided in the consistency of earnings and profitability. The quarterly cost of deposits decreased to 1.64%, and our level of DDA to total deposits improved to 33.4%. It should be noted that we have maintained our DDAs at over 30% of total deposits for the last 4 years.

Finally, liquidity remains strong as evidenced by our loan-to-deposit ratio of 81%. There were several moving parts with respect to credit in the quarter. The most important movement occurred with the real estate associated with the 7 real estate loans in Southern California that we discussed on last quarter's earnings call. With a favorable verdict handed down by the bankruptcy courts during the quarter, we were able to take 6 of these properties into OREO with the seventh to follow shortly. Like we assumed, interest in these properties has been high with purchase sale agreements on several of the properties expected to be received in the very near future.

Further improvement to our overall credit metrics is a high priority. I can see a clear path for the elevated level of NPAs and OREO to reduce significantly in the next couple of quarters to more historical levels. Doug will comment on the specifics related to all of this in his comments.

Slide 5 summarizes our performance for all of 2025. For the year, we earned $201 million of net income or $5.31 of diluted earnings per common share. We leveraged capital advantageously to expand in 2 key markets while growing tangible book value per share by 11%. Other uses of capital included increasing our annual dividend by $0.16 per share to $1.22 and repurchasing just over 258,000 shares at an average price of $54.60. You will hear much more about these and other financial highlights in Keene's comments.

Slide 6 illustrates where we are focused as we turn the page into a new year. Like I stated previously, I can see a clear path to improve credit statistics in the next quarter or 2. Nonetheless, this is a keen focus for us in 2026. The level of NPAs is not compatible with the quality company we've built an improvement to more historical levels will be accomplished. At the same time, we will continue to grow the balance sheet with the quality and consistency that we've displayed for many years, serving our existing clients' needs while adding new ones that appreciate our consultative approach and willing to give up a few basis points on both loans and deposits to experience this.

And finally, like many of our clients, we will continue to find more ways to automate mundane non-value-added tasks, utilizing the investments we have made in technology over the last few years in order to enhance productivity and efficiency within our business.

Before handing the call over to Doug, I would like to share with you what I'm hearing from our clients throughout our markets and national business lines. For the most part, our clients remain optimistic about the economy and how their businesses will perform in 2026. In particular, clients that are developers, contractors, subcontractors and suppliers to companies in and around power generation and the data center industries are expecting particularly good and long runs ahead. This obviously trickles down to manufacturers and service businesses, too, that support these industries. Industries and companies that serve infrastructure improvements throughout our markets, too, should see many opportunities. This includes water projects, utility work and highway and road construction. Furthermore, there is a keen focus by our client base to further improve productivity and efficiencies. I cannot help thinking that this will come with investments in technology, robotics and other machine learning capabilities, the expense of which will be partially offset by the favorable tax treatment that such investments now receive.

The agility and resilience that our client base continues to show has been quite remarkable. I would expect this to continue in 2026 and beyond. We are pleased with the results for the fourth quarter and the entirety of 2025 and look forward to what lies ahead in 2026. Our company is positioned extremely well to continue to execute on our strategic plan and drive long-term shareholder value. Our diversified relationship-oriented model has compounded tangible book value per share at a rate of over 11% for the last 14 years, and I see this continuing for many years to come.

With that, I would like to turn the call over to Doug Bauche. Doug?

Douglas N. Bauche
Senior EVP & Chief Banking Officer

Thank you, Jim, and good morning, everyone. The fourth quarter, as Jim just described, was full of activity. The completion of our branch acquisition and onboarding of new clients and associates has gone exceptionally well. The feedback that I continue to receive from our new partners has been overwhelmingly positive. We also successfully completed foreclosure of the previously highlighted Southern California real estate portfolio and are now one very important step closer to substantially reducing our nonperforming assets. And certainly not to be overlooked, we continue to expand the balance sheet through the attraction of new organic commercial relationships and are positioned with momentum heading into the new year.

Slide 7 demonstrates the diversity and growth of our loan portfolio across all asset classes. Asset categories representing credit to commercial and industrial businesses, including C&I, CRE owner-occupied, SBA and sponsor finance, combined are just over 50% of our portfolio, while investor-owned CRE, life insurance and tax credit lending largely round out the balance of the portfolio at 24%, 10% and 7%, respectively.

Loans grew $217 million in the quarter and $580 million for the year. Organic growth in the quarter and LTM from our C&I, investor-owned CRE and life insurance premium finance lines were offset by contraction in our sponsor finance and construction and land development segments as sponsors monetize portfolio companies and developers completed and sold a number of industrial and mixed-use construction projects.

Additionally, reported organic growth at $288 million for the year was muted by our sale of $78 million in SBA guaranteed debt the movement of the aforementioned $70 million in real estate loans to OREO and our election to exit several loan participations that no longer met our return thresholds. Adjusted for those 3 items alone, organic loan growth for 2025 was in line with our mid-single-digit expectations.

Slide 8 displays our loan portfolio balances and growth across our geographic footprint in specialty lines. Specialty lending and all 3 of our geographic markets contributed to positive loan growth during the year, and our portfolio remains favorably balanced.

Within the Specialty Lending business lines, our SBA 7(a) owner-occupied CRE production topped $250 million in originations for the year and is poised to expand as we continue to head into a more favorable interest rate environment in 2026. Additionally, growth in other low credit risk categories of Life Insurance Premium Finance and Tax Credit Finance outpaced contraction in Sponsor Finance.

Our momentum in the Southwest continues. Growth in the Southwest outpaced all other markets and was driven by expansion of quality C&I and CRE relationships throughout Arizona, New Mexico, Northern Texas and Southern Nevada, including the relationships added in the branch acquisition.

Turning your attention to Slide 9. Deposits grew $1 billion in the quarter and approximately 11% or $1.5 billion year-over-year, inclusive of the $609 million in branch acquired deposits in our Arizona and Kansas City markets. Organically generated deposit growth for the year was right in line with our expectations at 6.5% or $854 million. For the quarter, organic deposit growth was seasonally strong at $432 million with noninterest-bearing deposits representing 63% or $274 million of growth during the period.

Similar to our legacy deposit portfolio, the $609 million in acquired branch deposits are favorably mixed with nearly 35% or $213 million in noninterest-bearing commercial transaction accounts. Strong deposit generation and favorable mix provide us opportunity to control the cost of interest-bearing deposits and defend our net interest margin in this down rate environment.

Slide 10 depicts the dispersion of our deposit base across the Midwest, Southwest, West and our deposit verticals. A core strength of our business model continues to be our ability to execute our deposit strategies with balanced growth coming from new relationships, deepening of wallet share with existing clients, acquisition of attractive deposit franchises and leveraging our differentiated deposit verticals.

In our Midwest region, in particular, deposit balances have grown steadily and are approaching $7 billion in aggregate. As our average client relationship duration continues to lengthen, we find we are regularly rewarded with greater share of wallet and ancillary products, including private banking, commercial card and merchant services. The breakdown of our deposit verticals is reflected on Slide 11.

Community Association and Property Management largely contributed to our deposit vertical growth in 2025, while we exited higher-yielding deposits within our Legal Industry and Escrow Services segment. We've redirected our efforts in the Legal Industry and Escrow Services area and our pipeline of more favorably mixed and priced deposits is gaining traction. These 3 businesses continue to provide a diverse, growing and overall favorable cost-adjusted source of funding that complements our geographic base.

Turning to Slide 12. You'll see that our deposit base is intentionally well balanced across our core commercial, business and consumer banking and specialty deposit channels. With the recent branch acquisition, our core commercial business and consumer banking and specialty deposits are 39%, 33% and 28% of total customer deposits, respectively.

I'd also like to provide some commentary on asset quality. As Jim noted earlier, we see a clear path to reducing our elevated nonperforming assets of 95 basis points to a more historically normalized level of 35 to 40 basis points over the next quarter or 2. To bridge that path, let me say that we are actively negotiating PSAs on 5 of the 6 properties in Southern California that we moved into OREO in December. With final execution of these PSAs and sale of the related OREO assets, we would realize proceeds at or above our carrying value.

Furthermore, we continue to chip away and make good progress on a number of other specific nonperforming loans. The combination of these successful resolutions alone will reduce NPAs in half without charge or write-down. Keene will discuss some of our asset quality metrics, but it is worth noting that our reported 21 basis points of net charge-offs for the full year includes 3 basis points related to 2 of the loans in the Southern California relationship. On a net basis, we did not take a loss on the foreclosure of the 6 properties that we took possession of in the fourth quarter. Excluding those loans for that reason, our adjusted net charge-offs were 18 basis points for 2025.

Now I'll turn the call over to Keene Turner for his comments.

Keene S. Turner
Senior EVP, CFO & COO

Thanks, Doug, and good morning, everyone. Turning to Slide 13. We reported earnings per share of $1.45 in the fourth quarter on net income of $55 million. Excluding certain nonrecurring items, earnings per share on an adjusted basis was $1.36, a $0.16 increase from the third quarter adjusted earnings per share of $1.20.

Pre-provision earnings increased over $9 million from the linked quarter to $75 million, primarily due to continued expansion in net interest income and the seasonal fourth quarter increase in tax credit income. The branch acquisition that closed on October 10 increased our liquidity and earning assets while also adding to the bottom line. Earnings also benefited from a gain on other real estate owned that is not included in our pre-provision earnings.

The provision for credit losses increased from the linked quarter and was primarily driven by net charge-offs and a change in the mix of nonperforming loans. The increase in noninterest expense in the quarter was mainly due to the addition of the run rate expenses from the branch acquisition and onetime acquisition costs related to the transaction. In conjunction with the finalization of our tax return, we have updated our state tax apportionment and effective tax rate, which resulted in a slightly higher tax rate in the fourth quarter.

Turning to Slide 14 and with more details to follow on 15. Net interest income was $168 million in the fourth quarter, an increase of $10 million from the prior period, inclusive of the branch acquisition. Net interest income growth resulted from a combination of strong deposit growth, higher investment balances and a favorable spread on acquired loans and deposits, partially offset by lower interest rates paid on interest-earning assets. Interest income increased $7 million from the prior period, mainly due to higher earning asset balances. Loan interest increased $2 million, including $4.4 million from acquired branches as average loan balances increased $340 million compared to the linked period and was partially offset by lower interest rates.

The rate on loans booked in the quarter was 6.75% and remained accretive to the overall portfolio yield. Interest on investments was $3.2 million higher compared to the linked period with average balances increasing $270 million and the portfolio yield improving by 9 basis points. The average tax equivalent purchase yield in the fourth quarter was 4.61%. Interest on excess cash balances increased $1.8 million in the fourth quarter, mainly as a result of seasonally higher deposit balances. Interest expense declined $3 million compared to the linked quarter and included $1.7 million in interest expense from deposits at acquired branches.

Total deposit expense decreased $1.4 million as a result of lower interest rates, partially offset by higher average balances. Interest expense on borrowings decreased $1.6 million, mainly due to lower balances on short-term advances along with lower interest rates. Interest expense also reflected the redemption of our subordinated debt in September that was replaced with a new floating rate senior note at a lower interest rate.

Our resulting net interest margin for the fourth quarter was 4.26% on a tax equivalent basis, an increase of 3 basis points over the linked period. The earning asset yield declined 13 basis points, driven mainly by lower rates on variable loans and short-term assets. Our cost of interest-bearing liabilities declined 25 basis points, led by lower interest rates on deposits and borrowings, including a lower average interest rate on the acquired deposit portfolio, along with a more favorable shift in the funding mix.

Moving into 2026, we expect net interest margin run rate to be roughly 4.2%. Compared to the fourth quarter, we will have some additional loan repricing based on periodic and longer-term resets and would expect to see some additional attrition of deposit balances during the first quarter. We believe our balance sheet composition and funding mix have us well positioned to limit the overall impact of interest rates to net interest margin as we have demonstrated with recent cuts. We will continue to respond to interest rate changes by appropriately managing pricing on both sides of the balance sheet. We believe that by executing our plans to grow the balance sheet funded by core deposits, we will continue to see positive momentum in net interest income growth.

Slide 16 reflects our credit trends. We had net charge-offs of $20.7 million in the fourth quarter compared to $4.1 million in the linked quarter. As Jim and Doug discussed, we made significant progress in the fourth quarter toward resolving our largest nonperforming relationship that consists of 7 different properties. In the process of foreclosing on the real estate collateral in this relationship, we had a charge-off on a few properties and a gain on others. While the impact of these items is reported on different line items, we recognized a net gain in earnings related to the foreclosures. This is consistent with what we had expected and previously disclosed.

Other than this relationship, we had a loss on the California C&I loan and also charged off several loans that had been reserved in prior periods. Net charge-offs for the year were 21 basis points of average loans compared to 16 basis points last year. The provision for credit losses was $9.2 million in the period compared to $8.4 million in the linked quarter. The increase in provision was mainly due to net charge-offs in the quarter. Nonperforming assets increased $29 million to 95 basis points of total assets compared to 83 basis points in the linked quarter. Doug discussed the components of the movement within our nonperforming assets and the progress and expectations we have for reduced levels in 2026.

Slide 17 shows the allowance for credit losses. We continue to be well reserved with an allowance for credit losses of 1.19% of total loans or 1.29% when adjusting for government-guaranteed loans. We adopted the new CECL accounting standard for purchase loans that was issued in November. This eliminated the CECL double count that would have been recognized on the acquired loan portfolio and the $3.3 million credit mark on these loans was added to the allowance for credit losses and purchase accounting.

On Slide 18, fourth quarter noninterest income of $25.4 million decreased $23.2 million from the linked quarter. However, if you exclude the impact of the tax credit recapture in the linked quarter, noninterest income increased $9 million. The increase was primarily due to the other real estate owned gains and seasonally stronger tax credit income. This was partially offset by lower gains on SBA loan sales as we did not sell any production in the fourth quarter. Depending on the levels of planned growth and activity in the SBA space, we may take the opportunity to continue to sell SBA loans in coming quarters.

Turning to Slide 19. Fourth quarter noninterest expense of $115 million increased $4.7 million from the linked quarter. Onetime branch acquisition costs were $2.5 million in the quarter, which is an increase of $1.9 million from the linked quarter. The impact of incremental operating expenses of the expanded branch footprint totaled $4.2 million in the quarter and were partially offset by seasonally lower employee benefit items and the reversal of a portion of the FDIC special assessment that was recorded in prior years. The resulting core efficiency ratio was 58.3% for the quarter.

Our capital metrics are shown on Slide 20. Tangible book value per share of $41.37 was relatively stable with the linked quarter. We leveraged our excess capital in the period to support the branch acquisition, which was modestly dilutive on a per share basis. This dilution was offset by our strong earnings performance and the favorable improvement in the fair value of the securities portfolio in the quarter. Our tangible common equity was 9.1% compared to 9.6% in the linked quarter, and our common equity Tier 1 ratio was 11.6%.

In addition to absorbing the branch acquisition, the strength of our capital position allowed us to repurchase $3.5 million of common stock and to increase our quarterly dividend by $0.01 to $0.33 per share for the first quarter of 2026. This was another solid quarter of financial performance with a 1.3% return on average assets and a 14% return on average tangible common equity. As it relates to capital, we have a history of driving shareholder value by managing our capital position and compounding tangible book value. 2025 marks the 14th consecutive year that we have increased tangible book value per share with an 11% compound annual growth rate over that period.

Since we started increasing our common stock dividend in 2015, we have increased the dividend by a 17% compound annual growth rate over the past 11 years. We are well positioned with a strong balance sheet and capital position to continue this trend and to execute our strategic initiatives in 2026.
I appreciate your attention today, and I will now open the line for questions.

Question and Answer

Operator

[Operator Instructions] Our first question will come from the line of Jeff Rulis with D.A. Davidson.

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

I wanted to check in on the foreclosed properties. I appreciate the detail. I was hoping to get maybe a little bit more. The timing of when you took control of those in the fourth quarter. And I guess it sounds like you expect the reduction in NPAs and OREO 1 to 2 quarters. So my guess is you're anticipating sales early part of this year as that plays out. Just wanted to check in a little more if we have exact timing.

Douglas N. Bauche
Senior EVP & Chief Banking Officer

Yes, Jeff, it's Doug. Just to remind you on the timing of this. We tried the original foreclosures on these properties back in October and then a bankruptcy filing was posted by the debtors. So that delayed our process, and it was in the middle of December that we received a favorable ruling from the bankruptcy court that recognized our October 15 foreclosure process as a legitimate process.

So in the middle of December, we were able to take 6 of the 7 properties into OREO. The seventh property, the reason it didn't come into OREO is because back in October, there was an unrelated third party that had outbid us on that particular property. So that will have to be retried here in the first week of February.

So having control now of 6 of the 7 properties, as we mentioned, we are actively engaged with parties on sale agreements at this point in time. We feel that the valuations for these negotiations continue to reaffirm our positive outlook on the resolution of these properties. As you noted, we took a gain on the OREO here in the fourth quarter. We feel good about how we're positioned. Timing of it, Jeff, is always a bit hard to predict, but we've got good momentum, good progress here, and we're optimistic that by the end of the second quarter, we're going to see some resolution.

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

Doug, is it safe to say, I mean, the litigation process has been an issue. I don't know how you're able to market those properties. I mean, in terms of some interested parties, I mean, for the balance of '25, probably knew that these may be coming to a sale.

Do you glean any momentum that maybe conversations have predated taking control of those properties? Or is that truly you really couldn't discuss those until you've got legal ownership of that?

Douglas N. Bauche
Senior EVP & Chief Banking Officer

Yes, it was a very public -- Jeff, as you know, right? It was a very public litigation that was going on, just not only for the 7 properties that we were a direct lender on, but other properties that these parties were engaged in. So it was well known. There were a lot of parties reaching out to us before we had control of the properties and we're able to even speak of the situation.

So now that we've taken control and ownership, the simple ownership, it really clears the path now for us to move forward in contract negotiations and the monetization of the assets.

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

Appreciate it, Doug. Just hopping over to the -- maybe Keene, on the sort of some moving pieces on the fee income and noninterest expense lines. I don't know if you could reorient us on a run rate and/or kind of growth expectations on both.

Keene S. Turner
Senior EVP, CFO & COO

Yes. So when I think about the 2025 fee income run rate, you got to take out the gain on the ORE. And then you're getting -- which you really didn't see here in the quarter, you got about $2 million from the branches we acquired. And then other than the tax credit line item, which I think about as being relatively flat, we've got fees growing at about 5% year-over-year on a recurring basis.

And then from an expense perspective, I've got -- if you call the run rate for 2025, $423 million of expenses, and you've got $18 million that's a full year for the branches. We think expenses grow around 5%. So that gets you -- that will get you in the ballpark. And I'd like to back up for a second and let just highlight one assumption that's there.

So we've got 3 Fed funds cuts in that projection, which predominantly affects the deposit costs. So year-over-year, we're accounting for that expense guide, we're accounting for deposit costs on a run rate basis to be relatively flat. And I'll say significantly, but down from fourth quarter annualized run rate. And that's inclusive of the growth that we're expecting in those 3 businesses.

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

Just to recap that, so I got it on the expense side, you're talking about a $423 million core plus $18 million annual on the acquired branches. So kind of growing 5% off of 441. Is that correct number to use?

Keene S. Turner
Senior EVP, CFO & COO

Yes. I mean range of reasonableness on both sides of that, but that's how I'm thinking about it and how we've built it.

Operator

Our next question comes from the line of Nathan Race with Piper Sandler.

Nathan James Race
Piper Sandler & Co., Research Division

I was wondering if you could just shed some additional color on the 2 loans totaling $28 million that migrated to nonaccrual in 4Q in terms of what type of impairment was taken in the quarter? And then also what the timing for resolution is? I appreciate that you guys are pretty well secured here. So just curious on some of the background there and any color on just the timing.

Douglas N. Bauche
Senior EVP & Chief Banking Officer

Yes, sure. This is Doug. I'll just comment again. So these particular assets, one is a retail center in Riverside, California, approximately $22 million or $23 million in debt. Valuations that we have on current appraisals would suggest we're at a very good loan to value. And I'll comment that we're actively negotiating the exit of that credit.

The second loan that came in was a $6 million loan that's secured by a residential property in San Diego. Again, I think from a valuation perspective, we're somewhere in the neighborhood of 60% to 65% of appraised value, and we feel good about our position. Timing on that one is not as clear for me in terms of the exit may take a little bit longer. But from a valuation perspective, we feel good and loss content. I believe there will be very little loss content in either one of those assets.

Nathan James Race

Piper Sandler & Co., Research Division

Okay. That's really helpful. And then, Keene, I'd be curious to get your thoughts on -- I appreciate the broader income comments earlier, but just in terms of SBA gain on sale revenue, obviously, the government shutdown had an impact in the fourth quarter, but just any expectations for that revenue line to grow this year?

Keene S. Turner
Senior EVP, CFO & COO

Yes. I think that -- Nate, we did not take gains on SBA loan sales in the quarter. I'm not sure with the tax credit strength, we would have done that anyway, but the shutdown did tie our hands a little bit. We had a good quarter there, but it was all half -- second half of December weighted. For 2026, I would expect the SBA gain on sale to grow modestly from the 2025 levels in that 5%, but we do have that as part of our plan coming out of the gate here in '26.

Nathan James Race
Piper Sandler & Co., Research Division

Okay. Great. And I just want to clarify on the tax credit revenue. You had some noise in that number in the third quarter. So I think your comment was kind of flat. Is that flat versus just under $8 million in 2025?

Keene S. Turner
Senior EVP, CFO & COO

Yes. Like 7.5%, 7% to 7.5% is what we're thinking. I mean, obviously, that line is fairly volatile given rates and the performance of that business, but we think it repeats by and large in 2026. But to your point, there might be some puts and takes depending on how the year and the rate cycle plays out.

Nathan James Race
Piper Sandler & Co., Research Division

Okay. Great. And then I appreciate the commentary around kind of mid-single-digit loan growth for this year. Is the expectation that deposit gathering should largely keep pace just based on some momentum you're having with share gains and just with some of the hires continuing to ramp up. And we would just be curious also within that context, what your spot rate of deposit costs were coming out of the quarter.

James Brian Lally
President, CEO & Director

Yes, I'll take the first part of that, Nate, this is Jim. On the overall balance sheet growth, we're looking at 6% to 8%. And to your point, loans at about mid-single digit. But certainly, the deposit gathering rate and pace will exceed the loan growth pace. Relative to the spot rate on deposits in the fourth quarter. Keene you have that one?

Keene S. Turner
Senior EVP, CFO & COO

Yes, it's 1.6% coming out of December.

Operator

Our next question comes from the line of Damon DelMonte with KBW.

Damon Paul DelMonte
Keefe, Bruyette, & Woods, Inc., Research Division

Just wanted to circle back on the margin, Keene. I think you had kind of guided to like a $420 million for the year in 2026. Just kind of curious on the cadence of kind of how you're seeing that play out. We have a bit of a step down here in the first quarter with some seasonality and then kind of just stays flat? Or what are some of the dynamics you're thinking about?

Keene S. Turner
Senior EVP, CFO & COO

Yes. I think I normalize out about 3 basis points in the quarter. We just -- we didn't have any headwinds from prepayment of SBA loans that are acquired at a premium. So that was a few basis points. So we do see that $423 million stepping down to around $420 million. And then it just kind of hangs there. And that is pretty sticky, whether we have no real rate changes or whether we actually have the 3 cuts that I mentioned in our forecast.

The dollars moves around a little bit, but we feel pretty comfortable that at least with the Fed funds rate coming down, but the shape of the curve remaining reasonably intact that we're pretty well positioned to defend margin in that environment. I think we've I highlighted in my comments that we've done that successfully so far with the prior Fed cuts.

Damon Paul DelMonte
Keefe, Bruyette, & Woods, Inc., Research Division

Got it. That's good color. And then kind of along the lines of the credit outlook, you guys seem pretty optimistic that you'll see some meaningful resolutions on some of these NPAs in the first half of the year. How do we think about provisioning going forward? Do you think you kind of go back to a more normalized level versus what we saw in the back half of the year? Or do you think it kind of stays a little bit elevated until you kind of completely come out of the woods?

Keene S. Turner
Senior EVP, CFO & COO

Yes. I mean, Damon, based on where we sit today, everything that we know that's a nonperformer or that the problem has the appropriate reserve or fair value on it, whether it's in ORE or in the allowance. And so I think that we're approaching it like this, which is the allowance because of the charge-offs and the activity, actually, the coverage came down. I think that reflects where we sit from a balance sheet perspective. And as long as we don't have unexpected migration, I think our expectation is that charge-offs move down from the level they were at in 2025, and then that will alleviate some of the provisioning.

We do have, I think, aspirations to get a little bit more net growth in the portfolio this year. And so that will be a counterbalance, but we'd rather provision, obviously, for growth and for charge-offs. So I think that's the long way of saying we're optimistic, but we're also realistic about just having a little bit more credit class and ORE than we'd like.

Damon Paul DelMonte
Keefe, Bruyette, & Woods, Inc., Research Division

Got it. Okay. Great. And then just lastly on capital management. You noted you guys did a little bit of buyback this quarter or last quarter. I guess, how do you think about the buyback here as we go into '26? And what is the remaining capacity?

James Brian Lally
President, CEO & Director

Yes. So this is Jimmy again, Damon. We were very interested in terms of utilizing our capital for buybacks. We've got roughly -- we've got 150,000 shares.

Keene S. Turner
Senior EVP, CFO & COO

There's 1.1 million that's still authorized. There's about 100,000 that's covered by a plan right now.

James Brian Lally
President, CEO & Director

Yes. And then obviously, growth is a big part of it for '26 and then certainly, we'll continue relative to the increase in the dividend over time as well.

Keene S. Turner
Senior EVP, CFO & COO

I'll color that in a little bit, too. I mean I think I think the question that we get is, you could have done more in 2025, why didn't you? We wanted -- we leveraged our capital through the branch acquisition. When you look at the stack, the total stack looks good, but we're a little inefficient on TCE. And so I think we've got a little bit of work to do when we come out of year-end here to work on the cap stack, and I think the environment is set up well for that. So more to come there, but that's on our radar as an early 2026 item.

James Brian Lally
President, CEO & Director

And Damon, I'll just get ahead of the M&A question, which is a very low priority for us. It's about executing the plan. It's about getting our credit right, organic growth, making sure we're integrating well what we did in 2025.

Operator

Our next question comes from the line of David Long with Raymond James.

David Joseph Long
Raymond James & Associates, Inc., Research Division

As it relates to your charge-offs for the quarter, I think the number was a little over $20 million. You had a few million from the properties that you've been talking about that those 7 properties. There's a good -- it's still elevated when you take that out. I think you mentioned that you decided to move forward on some credits that you had built reserves for. Just curious what drove that higher and why make the decision now to move some of those and charge them off at this point?

Douglas N. Bauche
Senior EVP & Chief Banking Officer

Yes. David, it's Doug Bauche here. Let me comment just on charge-offs. Again, fourth quarter, $20 million thereabouts in charge-offs, net of the aforementioned OREO properties that Keene talked about, right? We had about $3 million of charges there. We're really talking about $18 million of commercial charges in the quarter.

We had 2 sponsor finance credits totaling $3.5 million in aggregate that were previously recognized and reserve for. We had one multifamily project in L.A. County that was still back acquired asset that we took a $3 million charge on. And then really what came up in the fourth quarter was a C&I credit in our Southern California portfolio, a company that was engaged in kind of last mile logistics and delivery of e-commerce packaging, a company that really -- its growth rate outstripped its capital. It was a $10 million credit. We took an $8.5 million charge on that. We continue to carry a $1.5 million balance that we feel we're well secured by the remaining asset to the company. But I think we wanted just to recognize that fully and head into the 2026 year with a really clean slate and good position. So those were the primary drivers of charges in the quarter.

David Joseph Long
Raymond James & Associates, Inc., Research Division

Okay. Great. No, I appreciate that color. And I think it goes without saying, but this is the fourth quarter aggregate here net charge-offs is not reflective of anything that you expect going forward, correct?

Douglas N. Bauche
Senior EVP & Chief Banking Officer

No, it's not. And I'd just refer back, right? We look at -- if you look at the year charges again, whether you look at 18 basis points adjusted or 21 reported, that's relatively in line, David, with what our 10-year average is, right? I think our 10-year average net charge-off rate is somewhere in that 15 to 16 basis points.

So I think it's largely in line with our historical performance. And quite frankly, it's representative of who we are and the commercial credit that we originate and take. But I feel good about how we're positioned going into the new year.

Operator

[Operator Instructions] And our next question will come from the line of Brian Martin with Janney Montgomery.

Brian Joseph Martin
Janney Montgomery Scott LLC, Research Division

See most of mine were just covered there, but just one clarification, Keene, on the fee income side, just thinking about the base there, I guess, I think you talked about mid-single-digit growth, maybe is that base around -- just given some of the noise throughout the quarters, around $75 million, is that kind of the starting point that you're thinking about? Or is it different than that in terms of.

Keene S. Turner
Senior EVP, CFO & COO

No, that's about right. I mean the biggest item in there is the fourth quarter gain on ORE. There are a couple of BOLI payouts throughout the year, but nothing that accumulates to be material, and we'll have items like that moving forward. So yes, I'm really just stripping out the $6 million and then growing off of that and adding the $0.04 or $2 million for the branches that will start to earn some fees here in early 2026.

Brian Joseph Martin
Janney Montgomery Scott LLC, Research Division

Yes. So how much of the -- I mean, that $2 million run rate in branches, was that in the fourth quarter number? Or that's, I guess, fully in the number or not -- I guess, what part of that was in that current level?

Keene S. Turner
Senior EVP, CFO & COO

Well if you think about the timing, I mean we typically put fee holidays in place. So you wouldn't have charged fees in October and likely November. So you're not -- the number in and of itself, $2 million is not that large. And then if you have a little bit of run rate in December, it's not meaningful. So really, you'll start to get that $500,000 a quarter here in 2026.

Brian Joseph Martin
Janney Montgomery Scott LLC, Research Division

Got you. Okay. So roughly 75-ish, 5% and then add in the branches, and that's how we think about it. So that's helpful.

And then just the loan pipeline, I think you talked about, I guess, the SBA being a bit -- maybe a bit stronger. And just wondering in terms of other areas or segments or markets that are stronger today that you're seeing. I know Jim commented about the infrastructure, but anything else in terms of where you're -- the growth outlook may be a little bit better in 2026?

James Brian Lally
President, CEO & Director

Yes, Brian, this is Jim. I'd say we look at it closely. We feel very good about where the pipeline sits today. The life insurance premium finance portfolio looks good. Portfolio or the pipeline -- the pipeline down in the Southwest looks really good. As Doug mentioned, there's great momentum down there. And it's really a nice mix between C&I and the CRE side. So we like the mix. We like the pace of play. We feel very comfortable about where we sit today and the projected growth for 2026.

Brian Joseph Martin
Janney Montgomery Scott LLC, Research Division

Okay. And the projected growth is still consistent with what you -- consistent with this year's performance. Is that how to think about?

James Brian Lally
President, CEO & Director

No, I think we said we're mid-single digits net-net-net for 2026.

Operator

And that concludes our question-and-answer session. I'll hand the call back over to Jim for any closing comments.

James Brian Lally
President, CEO & Director

Well, thank you, and thank you all very much for joining us this morning and for your interest in our company. We look forward to speaking with you again in the first quarter, if not sooner. Have a great day.

Operator
This concludes today's call. Thank you all for joining. You may now disconnect.