Enterprise Financial Services Corp NasdaqGS:EFSC

Earnings Call

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Call Participants

EXECUTIVES

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Senior EVP & Chief Banking Officer

James Brian Lally
President, CEO & Director

Keene S. Turner
Senior EVP, CFO & COO

ANALYSTS

Adam Kroll
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Brian Joseph Martin
Brean Capital, LLC, Research Division

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

Presentation

Operator

Hello, everyone. Thank you for joining us, and welcome to the Enterprise Financial Services Corp 2026 Earnings Conference Call. [Operator Instructions]

I'll now hand the conference over to Jim Lally, President and CEO. Please go ahead.

James Brian Lally
President, CEO & Director

Thank you all very much for joining us this morning, and welcome to our 2026 second 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 our most recent 10-K for reasons why actual results may vary from any forward-looking statements that we make today.

Our financial scorecard begins on Slide 3. For the quarter, we earned $41 million or $1.09 per diluted share. This compared to the $1.30 that we earned in the first quarter of this year and the $1.36 that we earned during the second quarter of 2025. This level of performance produced a return on average assets of 95 basis points and a pre-provision ROAA of 1.58%.

While our core operating performance remained stable, a larger-than-expected provision expense impacted the operating results for the period. During the quarter, we took the opportunity to reposition our securities portfolio by selling investments with tax equivalent yields in the low 3s and reinvesting the proceeds into securities with tax equivalent yields in the low 5s, resulting in an additional $3.5 million in net interest income annually.

Pulling this lever resulted in a current period pretax loss of approximately $6 million that was mostly offset by over $4 million in pretax gains on the sale of Visa Class B common stock and the sale of a piece of land. Net interest income expanded by $2.6 million to $169 million, and net interest margin expanded 2 basis points to 4.30% when compared to the linked quarter.

Higher loan and investment balances, coupled with higher rates and stable deposit costs contributed to these results. Given the increasingly competitive environment that we find ourselves in, I'm pleased with how we were able to defend margin with our relationship-oriented business model. Our well-positioned balance sheet continues to be a strength for our company as it continues to provide great flexibility with respect to capital planning.

Capital levels at quarter end remained stable and strong, with total stockholders' equity at $2 billion and the tangible common equity to tangible assets ratio of 9.04%. Additionally, our tangible book value per share increased to $42.30. Other balance sheet activity during the quarter included the repurchase of 382,000 shares, the aforementioned balance sheet restructure and the issuance of $175 million of 6.25% fixed to floating rate subordinated notes. All 3 of these tactics put us in great shape for the growth and expanded profitability for quarters to come.

Keene will discuss all 3 of these strategies in his comments. Turning to Slide 4, you will see that loan balances grew as we expected by $200 million in the quarter. Doug will get into the specifics of where we saw this growth and other nuances related to our markets and businesses, but I appreciate the diversity of where we experienced this growth, and we expect similar activity for the remainder of the year.

Our diversified deposit base continues to be a differentiator for us. While overall deposit growth was flat for the quarter, we did see a positive remixing that resulted in DDA growing modestly to 34% of total deposits and overall cost of deposits remaining flat at 1.53%. We are working on several exciting opportunities in this area and when combined with our normal back of the year swell, should produce a similar level of deposit growth that we have achieved in the years past.

Our teams have worked extremely hard for many years to garner full relationships, the results of which are the combination of larger, more sophisticated commercial relationships, granular business banking and consumer accounts and the expanding national deposit verticals. In my opening comments, I mentioned a higher provision expense in the quarter than we expected. Late in the quarter, we experienced approximately $14 million in charge-offs related to 2 commercial accounts. The first of these was a Texas-based C&I relationship that failed on the integration of an expansion strategy and subsequently had to be liquidated.

The second of these was an entity within our sponsor finance group whose health care consulting business model was severely disrupted when the Centers for Medicare and Medicaid announced on May 13, a 6-month moratorium on all new hospices and home health agencies. With this change, ownership concluded that there was not an opportunity to rehabilitate the business given this nationwide regulatory action. Through the first quarter of 2026, this company was generating positive cash flow and was current on all of debt, but things obviously deteriorated quickly and the business ceased operations abruptly in early June.

With the charges taken in Q2, our net charge-offs year-to-date are 31 basis points annualized, and we expect to have better results in the back half of the year. All other credit statistics were relatively stable in the quarter. On our first quarter earnings call, I reported that we had 4 of the 7 Southern California OREO properties under contract. Since then, a party has filed an appeal to the bankruptcy court's ruling, which challenges title to one of the properties that is not under contract.

This appeal has delayed our ability to close on those that are contracted for sale. The buyers of these properties remain committed, and we fully expect to resolve this and execute on the disposition. There's a table in our press release that provides some insight and further clarity with respect to our NPAs. You can see that $135 million of the $160 million of nonperforming assets, net of government guarantees are secured by real estate that mostly has been recently appraised.

These values support our comfortability and we expect to resolve these with little or no loss. I would characterize the remaining $25 million or 14 basis points as normal for our company. Turning to Slide 5. You will see our priorities for the remainder of the year. I realize that credit is not where it needs to be, and we are focused to have a path to materially improve this over the next few quarters. The momentum we have in the business is solid and adding core relationships and reaching our mid-single-digit growth for the year is another key focus and certainly attainable.

Along the way, we will continue our automation journey using the existing technology framework that we have invested in, focusing on integrating manual procedures into automated workflow processes. We are already seeing strong adoption of various automation tools throughout our company, the benefits of which will provide a better overall associate and client experience.

In my most recent travels and discussions with clients throughout our footprint, it is encouraging to hear the optimism that they have despite some headwinds related to increased energy costs and other inflationary factors that are present in our economy. Companies in and around the data center ecosystem, power generation, defense and aerospace have a clear and robust run ahead of them. We're also still seeing pockets of industrial and retail demand in faster-growing markets in the Southwest.

However, increased costs related to new construction could pose a challenge for some projects to reach desired return levels and subsequently could push back the commencements of these projects until later in 2026 or early 2027. Competition for new clients is fierce, but we work extremely hard on our funding base and our consistent model of delivery such that we should continue to garner our fair share of the market in all of our geographies and businesses for the foreseeable future.

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. Consistent with our expectations, our teams executed well on the developing pipeline of quality CRE and C&I opportunities, leading to $200 million in organic loan growth in the quarter. Turning to Page 6, you'll see that the loan growth occurred in our investor-owned CRE secured portfolio and our C&I book, inclusive of our specialty lending niches of life insurance premium finance, tax credit, sponsor finance and SBA. Gross loan originations were particularly strong in the quarter, up 32% and 48% over the prior year and linked quarters, respectively.

Growth in our investor-owned CRE portfolio was balanced between Kansas City, Phoenix, Dallas, Southern Nevada and Southern California. New CRE funded projects in the quarter were largely centered around pre-leased and stabilized industrial and retail projects as we expanded relationships with existing clients and onboarded new high-quality developers and investors in our markets. Examples of traditional C&I originations in the quarter include working capital and owner-occupied real estate financing for a food distribution company in Arizona, a manufacturer of made-to-order stainless steel HVAC systems in Kansas City and a Southern California-based manufacturer of truck and van body equipment used in the utility, emergency and construction industries.

Within our specialty lending business lines, originations of SBA 7(a) owner-occupied real estate loans remained stable in the quarter with 32 new loans funded totaling $59 million, ranking us again in the top 25 SBA originators in the country. Additionally, we continue to capitalize on our strong brand and momentum in the life insurance premium finance market with strong originations leading to $42 million in quarterly net growth and 8% growth over the trailing 12 months.

Page 7 demonstrates the diversity of the loan portfolio across our geographic markets and our specialty lending divisions. Roughly $7.6 billion or 65% of total loans are attributed to our Midwest, Southwest and West region community banking markets, while $4.2 billion or 35% is from our specialty lending business lines. Previously discussed reductions in our low-income housing tax credit portfolio in Q1 2026 have muted the overall growth in our specialty lending lines to only 3% year-over-year, while our geographic markets have grown 8% or $570 million year-over-year, inclusive of the loans acquired in the First Interstate branch acquisition in Q4 of 2025.

Coming off a solid quarter of loan originations and net growth, I'm encouraged by the depth and diversity of our current pipeline of new opportunities yet to come. We are seeing resilient traction and growth, particularly from San Diego, Dallas and Southern Nevada, complementing our historic strongholds in St. Louis, Phoenix and Kansas City.

Turning to Slides 8 and 9. While total deposits remained relatively flat quarter-over-quarter, core deposits are up $1.2 billion year-over-year, inclusive of the branch acquired deposits in Q4 of '25. The mix of our deposit base remains favorable with 34% noninterest-bearing compared to 33% in the linked quarter. Traditional outflows in the front half of the year are normal for our deposit portfolio, with growth particularly from our geographic markets occurring in late Q3 and into Q4.

Specialty deposits grew $62 million in the quarter, which is consistent with the growth in the prior year quarter. The breakout of deposit mix and growth within the specialty channels is reflected on Slide 10. Property management deposits account for 42% of specialty deposits and 12% of total bank deposits, while community associations account for 39% of specialty deposits and 11% of total bank deposits.

As we've said during previous calls, the branch-light specialty deposit verticals provide us an attractive cost-adjusted source of funding that complements our community banking deposit base. With our favorable 82% loan-to-deposit ratio, we continue to execute disciplined pricing strategies to effectively manage our blended cost of deposits to protect net interest margin.

Continuing with deposits, Slide 11 reflects our deposit base across our commercial, business banking and consumer and specialty deposit channels. The strength of our commercial base with nearly $5 billion in deposits is well complemented by the granular and diverse nature of our business banking and consumer channels, contributing $4.5 billion in deposits with an attractive 1.25% weighted average cost of funds. The consistency, stability and balance of our deposit base across these business channels remains a core strength of our company.

And with that, I'll turn the call over to Keene.

Keene S. Turner
Senior EVP, CFO & COO

Thanks, Doug, and good morning, everyone. Turning to Slide 12. We reported earnings per share of $1.09 in the second quarter on net income of $41 million. Excluding certain nonrecurring items, earnings per share on an adjusted basis was $1.13 compared to $1.31 in the linked quarter. Pre-provision earnings totaled $68 million, a $2 million decrease from the linked quarter. The primary driver of the decrease was lower fee income, which was partially mitigated by a continued expansion in net interest income.

On the cost side, noninterest expense was relatively stable compared to the first quarter. The linked quarter increase in the provision for credit losses was primarily due to the loan charge-offs from the 2 relationships Jim detailed, along with reserves for $200 million of loan growth in the period.

Turning to Slide 13 with more details to follow on 14. Net interest income in the second quarter was $169 million, an increase of $3 million from the first quarter, which was largely attributable to higher yields on earning assets and an additional day during the period. Interest income increased $4 million from the prior period, including $3 million of loan income and $2 million from investment securities, partially offset by lower earnings on cash balances.

Interest expense increased $2 million compared to the linked quarter, including $1 million in deposit interest expense, along with additional costs on short-term borrowings and our second quarter subordinated debt issuance. The net interest margin for the second quarter was 4.30%, an increase of 2 basis points from the linked period. Earning asset yields expanded by 5 basis points, led by a 5 basis point increase in loans, including some favorable discount accretion and an additional 8 basis points on securities.

The rate on loans booked in the quarter was 6.58% and the average tax equivalent purchase yield on investments was 5.03%, both of which improved the yield on each of those asset classes. The cost of interest-bearing liabilities increased 2 basis points, mainly due to higher interest-bearing deposit balances, short-term FHLB advances and the recent sub debt issuance. Net interest income remains slightly asset sensitive, primarily in parallel interest rate simulations with each 0.25 point cut in rates affecting net interest income $1 million to $2 million per quarter or a couple of basis points of net interest margin.

Including deposit-related noninterest expense in this analysis, we modeled that we are effectively neutral as we continue to have success growing the related deposit vertical balances. We also added $200 million in loan hedges over the last several months to further reduce sensitivity to interest rate movements. We completed a modest repositioning trade on $180 million in investment securities in the latter part of the quarter, realizing a net loss of $6 million and adding $3.5 million in annual earnings.

We offset the majority of this loss by selling Visa shares and a small parcel of land that generated a combined gain of $4.4 million. The trade added 10 basis points to the portfolio yield and approximately 2 basis points to margin without any material change in the overall duration of the portfolio. We anticipate margins to remain in the mid- to upper 420s in the current interest rate environment. While the yield on asset additions and resets has been accretive and the repositioning trade is beneficial, we also expect to see some modest pressure on funding costs with a full quarter of the sub debt issuance at 6.25% and rates on brokered and wholesale balances moving slightly higher.

Slide 15 reflects our credit trends. Net charge-offs totaled $13.6 million in the second quarter compared to $4.4 million in the linked quarter. As previously discussed, the charge-offs were primarily related to 2 credits that accelerated to a loss position at the end of the quarter. The ratio of nonperforming assets to total assets increased by 5 basis points compared to the linked quarter, primarily due to the addition of the $16 million loan secured by a flagged hotel in California.

Net charge-offs totaled 46 basis points of average loans compared to 15 basis points for the first quarter of 2026. The provision for credit losses was $14.2 million compared to $7.2 million in the linked quarter. The provision was mainly due to net charge-offs and to a lesser extent, loan growth. Slide 16 shows the allowance for credit losses. The ratio of allowance to total loans decreased to 1.17% compared to

1.21% at the end of the first quarter of 2026. When adjusting for government guaranteed loans, the ratio increases to 1.27% of total loans.

On Slide 17, second quarter noninterest income was $13.5 million, a $5.6 million decrease compared to the linked quarter. The decrease was primarily due to the net loss on the investment portfolio restructuring and lower tax credit income from a decline in projects carried at fair value. The benchmark interest rate used to value these projects increased in the quarter, driving the decline in fair value.

Noninterest income was also impacted by lower levels of private equity and community development distributions. We also elected not to sell SBA loans as we were evaluating the sale of certain OREO properties in the quarter that may have generated a potential gain. As Jim noted, recent developments on those properties have delayed the timing to a later date. We did, however, take the opportunity to sell a small parcel of land at a gain to also offset the investment portfolio restructure.

Turning to Slide 18. Second quarter noninterest expense of $116 million was relatively flat with the linked quarter with a few movements among various line items. Employee compensation and benefits declined by $2.6 million due to the seasonal impact on payroll taxes and certain benefits. Deposit costs increased $1.8 million quarter-over-quarter, largely driven by an additional day in the quarter and the expiration of certain unused allowances that reduced expenses in the first quarter. Other expenses increased by $1.4 million from the linked quarter, primarily due to the recovery of a credit card loss that reduced expenses in the first quarter.

The core efficiency ratio was 61.1% for the first quarter compared to 60.2% in the linked quarter. Our capital metrics are shown on Slide 19. Tangible book value per share increased approximately 9% on an annualized basis to $42.30, and our tangible common equity ratio of 9% was stable with the linked quarter. Our capital management actions in the quarter included the issuance of $175 million of subordinated debentures to bolster total risk-based capital, the repurchase of 382,000 shares of common stock for approximately $23 million and an increase to the quarterly dividend of $0.01 to $0.35 per share for the third quarter of 2026.

These actions have helped to reduce our weighted average cost of capital while ensuring that our regulatory capital levels remain a strong foundation to support the balance sheet. For the first half of the year, we have returned approximately $75 million to shareholders through common stock repurchases and dividends.

As of the end of the quarter, we have 249,000 shares remaining in our current repurchase plan. In July, the Board approved an additional 2 million shares to the plan. With that, we can continue to opportunistically manage our excess tangible common equity. Our operating results drove a 1% return on average assets and a 10% return on average tangible common equity. While these results are below our expectations, our core business remains sound, and we expect to return to the level of profitability that is more in line with our standards.
I appreciate your attention today, and we will now open the line for questions.

Question and Answer

Operator

[Operator Instructions] Your first question comes from the line of Daniel Tamayo with Raymond James.

Daniel Tamayo
Raymond James & Associates, Inc., Research Division

Yes. Maybe just if you could just frame the decline in the charge-off activity that you're expecting in the back half of the year for us. I think you said you expect that to come down and that kind of the underlying outside of these losses, the underlying loss rates remain solid at roughly 15 basis point range. But if you can kind of give us a thought on timing and size of the decline in the back half, that would be helpful.

Douglas N. Bauche
Senior EVP & Chief Banking Officer

Daniel, it's Doug. Listen, let me just kind of break it down in some buckets here. As we had pointed out, right, there's $160 million of nonperforming assets, $84 million of which are in other real estate owned today that we've largely discussed. It's the $77 million that makes up the Laguna, California portfolio that we're highly confident in our carry balances given our commercial buyers on 4 of the 7 properties and active interest on the remaining 3.

The rest of the OREO portfolio is largely made up of 2 SBA loans related to properties that we foreclosed on totaling $5 million, where we have the 75% SBA guarantee on any deficiency that's realized from the sale of that OREO, which we really expect to be minimal, if any. So that leaves nonperforming loans, which totaled $76 million or 64 basis points at the end of the quarter, which we believe will normalize to closer to 45 basis points over time.

And of that bucket, $76 million, roughly $50 million of that or 2/3 of nonperforming loans are secured by real estate and the balance or 1/3 or $25 million secured by C&I-related credits. So with that, I would expect our charge-offs going forward to normalize back to kind of our 10-year historical norms, which is 15 basis points. And I think that's the rate that we would expect against that level of nonperformers and the quality of the balance of our portfolio.

Daniel Tamayo
Raymond James & Associates, Inc., Research Division

That's great color, Doug. I appreciate that. So just a follow-up on the credit side. The Medicare change that you described that impacted the -- one of the big charge-offs in the second quarter, -- anything else in the portfolio you think might be impacted by that? I'm not sure if you've done a kind of a deep dive yet on that, but...

James Brian Lally
President, CEO & Director

We have. Yes, there's roughly -- in the entire portfolio is about close to $12 billion, it's about $150 million or so that involves payment through a Medicaid, Medicare process. But these are treatment centers and assisted living and traditional things of that nature with other assets behind it. So we've looked at it, and those loans are performing well and diversified throughout our footprint.

Douglas N. Bauche
Senior EVP & Chief Banking Officer

And Daniel, it's Doug. I just want to make a distinction because that moratorium from CMS was specific to new applicants for Medicare licensing, and that moratorium did not affect those that are already licensed and practicing and providing services for Medicare and Medicaid reimbursement. So this particular credit was unique and that it was a consulting business that was largely engaged in qualifying applicants for Medicare, Medicaid recipients.

Daniel Tamayo
Raymond James & Associates, Inc., Research Division

Great. Alright. Well, thank you for all the color on the credit side. Appreciate it guys. I will step back.

James Brian Lally
President, CEO & Director

Thank you.

Operator

Your next question comes from the line of Jeff Rulis with D.A. Davidson.

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

Keene, on the margin, I Just wanted to make sure I heard that right. It looks like the go forward is that maybe the tail of benefit from the restructure is muted by maybe the sub debt impact and then -- so kind of a wash and then just regular way kind of a core margin slight pressure is kind of where you get to the range. Do I have the pieces of that right that's maybe oversimplifying, but just checking.

Keene S. Turner
Senior EVP, CFO & COO

No, I think that expresses the high level. And then I would say the upside case is to the extent that we continue to have strong loan growth in sequential quarters, we expect that, that will further strengthen net interest margin given where the loan to deposit is. So -- but yes, I think we feel pretty good about, absent any changes that margin is pretty stable.

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

Keene, do you have the June average on the margin? And do you think that's a fairly good read on the core as you came out of the quarter?

Keene S. Turner
Senior EVP, CFO & COO

Yes. The 4.30% is really like 4.27%, 4.28%. We had some prepayment activity that benefited the total quarter in the period. So yes, I think that's a pretty good proxy for moving forward.

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

Okay. And Jim, I wanted to circle back on the -- just the puts and takes of the OREO. It sounded like you said maybe one of the properties not under contract appealed, which is holding up the sale of the 4 that other -- excuse me, that are under contract.

James Brian Lally
President, CEO & Director

Yes. The fact of the matter is the order from the bankruptcy court that was dismissed was encompassing of all 7. And because there's an appeal on one, it creates a bit of a cloud for the entirety of the portfolio. And we're confident relative to what's in front of us. It's just a matter of time. We just need the attention of the courts to look at these last couple of appeals and put them aside so we can go ahead and move forward with what's planned.

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

And on the -- maybe the other properties that are not under contract, you said there's interest. Are those closer to being? Maybe it's interrelated with if there's bankruptcy issues or appeals, it holds it up. But is there a movement on that -- go ahead.

James Brian Lally
President, CEO & Director

Yes, there's high interest. And based upon.

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

But no contract.

James Brian Lally
President, CEO & Director

There's no contract in hand, no.

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

Okay. Got it.

Douglas N. Bauche
Senior EVP & Chief Banking Officer

I'll just say we have received contract offers on the other 3. The challenge, Jeff, is we can't go into a contract with new parties that require us to pass title to them within a specified period of time because this appeal is going to require the ruling from the appellate court. And we just, unfortunately, don't control that timing. We're highly confident in what the outcome will be. And in time, this will satisfactorily resolve itself. But suffice it to say, there's a high degree of interest, and we have had offers and offers pending right now in the other 3.

James Brian Lally
President, CEO & Director

And I'll just finally add to this. The parties of interest of the 4 that we've talked about remain highly engaged. We talk to them often. I was just with one of them last week, and there's no, no trepidation or what have you. So we're very confident that they'll remain patient with us.

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

Okay. I appreciate the backdrop there. Maybe just one last one on the fee income side, certainly, the tax credit impact in the quarter, but kind of pretty low across the board on a number of fronts, even once you exclude the one-timers, just try to get a sense for the run rate on fee income. It seems like this is certainly a low watermark, but expectations on maybe the second half of -- in the overall noninterest income.

Keene S. Turner
Senior EVP, CFO & COO

Yes. I think, Jeff, maybe if you look back to 1Q, I think that's a little bit more of what we would expect on a recurring basis. I do think that we expect the tax credit line to at least breakeven for the year. I know that that's not anything that's material, but we don't expect that to be a negative consistently moving forward that there will be activity or reversals of the fair value there. And then we do expect to resume our posture of selling SBA loans. So again, I think in my comments, we expected there to be maybe some more one-timers and you were kind of poking around at that.

And just given the timing of when everything came together, we're just -- we're a little light in that line item. We didn't sell SBA loans, but we'll earn interest income on those, and it will strengthen margin in other places of the business. So unfortunately, just a little bit of bad timing and PPNR fundamentals, I think, as I view them are strong and improving. So we feel good about it rolling forward.

Operator

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

Adam Kroll
Piper Sandler & Co., Research Division

This is Adam Kroll on for Nate Race. Yes. So maybe just starting on the loan growth guide for the mid-single-digit guidance. It imply a little pickup in growth in the back half of the year. So I guess I'd be curious if you could dive into where the pipeline stands today and sort of what segments you see driving that growth?

James Brian Lally
President, CEO & Director

Yes. So this is Jim. I'll just say this that to me, it's very similar to what we saw in the first half. It's throughout the company. We've got great momentum here in the Midwest for sure. Strength of Arizona, and Doug had mentioned San Diego and Nevada will continue. And then the life insurance premium finance certainly is a bright point in our business. So it's really diversified throughout the portfolio and the markets, and that's really by design and how we built the company.

Adam Kroll
Piper Sandler & Co., Research Division

Got it. I appreciate the color there. And maybe for Doug or Jim, I was wondering if you could provide some color on what you're seeing from a pricing perspective. From your comments, it sounds like loan yields are still coming on above the portfolio, but would just be curious to hear what you're seeing in terms of competition there.

Douglas N. Bauche
Senior EVP & Chief Banking Officer

Yes, Adam, it's Doug. Listen, it's a highly competitive market. There's no question. There's pressure on loan yields today in terms of new originations. But I think, listen, we take a disciplined relationship pricing view on everything that we originate. And we're going to be competitive in the market to continue to grow and originate at the clips that we expect. But I think, listen, we're in that 6.25%, 6.5% type probably origination rates.

And then again, if you're not familiar, Adam, the duration of our portfolio is relatively short. Absent the SBA portfolio that originates with longer-term maturities and repricing, the balance of the portfolio is typically a 3- to 5-year type maturity. And again, I think we just exercised pretty good discipline in terms of both variable and fixed rate pricing, and we price to market to win and then complement that with the ancillary services that we sell through to those relationships.

Adam Kroll
Piper Sandler & Co., Research Division

Got it. And then last one for me, maybe for Keene. Just expense growth expectations for the back half of the year?

Keene S. Turner
Senior EVP, CFO & COO

Yes. I think really the only material growth that we expect in the back half is maybe just a $1 million to $2 million per quarter step-up in deposit costs running through noninterest expense. I think we're looking to make sure we're being optimized and efficient and maybe we can continue to whittle away at some of the line items to mitigate that, but really modest quarterly step-up really driven by that line item and growth in that business is what we expect.

Operator

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

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

Keene, just to follow up on the last comment on the expenses. You said $1 million to $2 million step-up in deposit costs. Is that like per quarter? Or is that like kind of in aggregate off of second quarter numbers during the next 2 quarters?

Keene S. Turner
Senior EVP, CFO & COO

Yes. I mean I think it goes up $1 million 2Q to 3Q. And then depending on strength of seasonality of balances in 4Q, maybe it's another $1 million to $2 million is sort of what I think given how averages tend to be a little heavier in the fourth quarter. Obviously, we earn on averages. So that comes with some stronger net interest income, albeit maybe at a lighter ROA and spread. But that's how we expect that line item and then that bucket to trend.

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

Got it. Okay. And then with regards to the fee income and the kind of like the outlook for the tax credit, I know it tends to be stronger in the back half of the year. I mean do you think that that's expected again this quarter or this go around, you could get some positive income in the third quarter and then a big step-up in the fourth?

Keene S. Turner
Senior EVP, CFO & COO

Yes. I think third quarter would have to be some -- a little bit of rate-driven assistance there just because activity is not usually very strong in the third quarter. And then I would expect the fourth quarter will have some activity in it, which we think if we don't get any -- if rates are stable, makes up for maybe the negative 2% that we have with maybe a little bit of upside there possible. That book, depending on what sells, some of it's already at fair value, so that is affecting it.

We did expect a lighter contribution year-over-year. We didn't expect rates to be against us on that portfolio, but the advantage is that we're -- net interest income is strong. Deposits are -- continue to be well priced, and we're driving net interest income. So we'll -- I think we'll take that trade given the size of the contributions and the line items day in and day out.

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

Got it. Okay. And then just lastly, any updated thoughts on the buyback? You called out the announcement from last week. So fair to assume you guys will remain active kind of where the stock is currently trading?

Keene S. Turner
Senior EVP, CFO & COO

Yes. I think you saw us do the capital markets work and bolstering the [indiscernible] liquidity and the total capital, total and TCE are roughly 100 basis points higher than where we'd like to see them. And I think the announcement of the additional 2 million shares and us continuing to be active reflects our posture on managing that capital to where we think it's optimized.

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

Okay. Great. Everything else is then asked and answered, so thank you very much.

Keene S. Turner

Senior EVP, CFO & COO

Thank you, Damon.

Operator

Your next question comes from the line of Brian Martin with Green Capital.

Brian Joseph Martin
Brean Capital, LLC, Research Division

So just maybe 1 or 2, I just -- I joined here late, but the -- team, just with the restructuring and whatnot, just -- and I appreciate the color on the margin outlook. In terms of where average earning assets kind of shake out into 3Q, given the restructuring and some of the other initiatives, can you just give us an idea of a landing spot and where -- how to think about average earning assets into 3Q and then to model it from there?

Keene S. Turner
Senior EVP, CFO & COO

Yes. I mean the size of the earning asset base didn't really change with the restructure. So we had $180-plus million of proceeds, and it was all redeployed. So we didn't lever up or down the balance sheet in that process. We'll just start 3Q with a higher rate on the securities portfolio. And then as Jeff noted, we're a little bit behind in terms of what we did with the sub debt. But I think as we continue to manage share count, that should net-net kind of make up for it. So margin fortunately stays intact in the high 4.20s, and we should be able to get some EPS advantage here as we buy more stock.

Brian Joseph Martin
Brean Capital, LLC, Research Division

Okay. Yes, I just want to make sure it was -- there was anything on that. I know you said you had done it late in the quarter. So that's helpful. And then just in terms of the strategic outlook, it sounds like the buyback is just kind of the best use and it's really an organic focus going forward. Right now, that's kind of the primary focus rather than anything strategic in terms of excess use of capital.

James Brian Lally
President, CEO & Director

Brian, I think you hit the nail on the head. It's really about growth and buybacks and certainly keep looking to dividend.

Brian Joseph Martin
Brean Capital, LLC, Research Division

Yes. Okay. And Jim, just the -- it sounds like just in general, the clients are optimistic on -- I mean, I guess I don't want to put words in your mouth, but listening to your commentary and visiting with them recently. I mean you're -- given the diversity of the loan book and just your segments, you still feel good about the growth and the clients are still relatively optimistic as you go into the back half and then into '27 on loan growth and sustaining that?

James Brian Lally
President, CEO & Director

Yes, very much so. I think, too, it's -- entrepreneurs are amazing people. I mean they have great confidence in their own business. They have great confidence in the economy. And so Doug is out there with me and very bullish on the impact of manufacturing returning to the United States. Despite all the things that are going on in and around the world, we feel good about what we're hearing and what we're seeing and frankly, what we're experiencing in the growth of the pipeline.

Brian Joseph Martin
Brean Capital, LLC, Research Division

Okay. And then just the last one for me. I appreciate the commentary about the credit quality and the expectations to get that better. I mean at the end of the day, if we're not -- if the loss content appears low, I mean, I guess the delay really, if anything, could be -- could these issues just extend out with the courts? I mean, I guess if you kind of frame up kind of the tail risk that it could just take longer than you thought even if there are limited losses, is that real? Or I guess do you -- it sounds like you expect to see a little bit of improvement sooner rather than later, but I don't want to frame that the wrong way.

James Brian Lally
President, CEO & Director

Nothing exactly. So I would say that I think it's extended longer than I would have imagined. And could they continue putting roadblocks up? I don't know, maybe they could, but I doubt it. I think these last 2 are the ones that we're looking to get resolved and move forward. And so -- but Brian, I don't run the courts. So...

Brian Joseph Martin
Brean Capital, LLC, Research Division

I got you. Okay. I mean, it seems like they're going in the right direction. It's just timing it.

James Brian Lally
President, CEO & Director

Very much [indiscernible]. The [indiscernible] look good.

Operator

There are no further questions at this time. I will now turn the call back to Jim Lally, President and CEO, for closing remarks.

James Brian Lally
President, CEO & Director

Kristen, 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 to you again at the end of the third quarter, if not sooner. Have a great day.

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