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First Business Financial Services, Inc.

Earnings Conference Call - Third Quarter 2025

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CORPORATE SPEAKERS:

Corey Chambas

First Business Financial Services, Inc.; Chief Executive Officer

David Seiler

First Business Financial Services, Inc.; President and Chief Operating Officer

Brian Spielmann

First Business Financial Services, Inc.; Chief Financial Officer

PARTICIPANTS:

Daniel Tamayo

Raymond James; Analyst

Jeff Rulis

D.A. Davidson; Analyst

Nathan Race

Piper Sandler; Analyst

Damon Del Monte

KBW; Analyst

Brian Martin

Janney; Analyst

PRESENTATION:

Operator^ Good afternoon. Welcome to the First Business Financial Services third quarter 2025. (Operator Instructions) (Technical Difficulty). CEO, Corey Chambas, please go ahead.

Corey Chambas^ Good afternoon, everyone.

Thank you for joining us.

We appreciate your time and your interest in First Business Bank. Joining me today is our President and Chief Operating Officer, Dave Seiler; and our CFO, Brian Spielmann. Today we'll discuss our financial performance, followed by a Q&A session.

I'd like to direct you to our third quarter earnings release and supplemental earnings call slides, which are available through our website at ir.firstbusiness.bank.

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We encourage you to review these along with our other investor materials.

Before we begin, please note, this call may include forward-looking statements, and the company's actual results may differ materially from those indicated in any forward-looking statements.

Important factors that could cause actual results to differ materially from those indicated in the forward-looking statements are listed in the earnings release and the company's most recent annual report Form 10-K and as may be supplemented from time to time in the company's other filings with the SEC, all of which are expressly incorporated herein by reference.

There, you can also find information related to any non-GAAP financial measures we discuss on today's call including reconciliations of such measures. First Business delivered another outstanding quarter.

Our team again produced high-quality loan and deposit growth sourced from core client relationships.

We maintained a strong net interest margin and produced positive operating leverage, driving improved efficiency. Private Wealth assets continue to expand, delivering significant annuity-like fee income and operating revenue reached record levels, reiterating the value of our revenue diversification.

These highlights contributed to robust profitability metrics. Year-to-date ROA grew 15 basis points to 1.23% compared to the same period of 2024.

Year-to-date return on average tangible common equity grew to over 15%, up from just under 14% in 2024. And most importantly for shareholders, we grew tangible book value per share an impressive 16% from a year ago.

We are very pleased with the quality of this quarter's results, which Dave will expand upon more now. Dave?

David Seiler^ Thank you, Corey. third quarter performance was very strong across the board and reflects our consistent growth and profitability.

Our model is designed to drive 10% long-term growth, and we view quarterly results as a tool for tracking our success towards this.

Our pretax pre-provision earnings are a good indicator of the success of our model.

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We saw 18% growth from the second quarter and 20% growth compared to the first nine months of 2024.

Credit costs can impact results meaningfully and the provision for credit losses this quarter was better than expectations, leading to earnings per share growth of 26% from the second quarter and 25% year-to-date. A primary driver of these exceptional results was the record level of noninterest income generated during the quarter. That include elevated swap fees and income from SBIC funds as well as two nonrecurring items, which totaled about \$770,000 that Brian will cover.

Swap income grew nearly 6x from the linked quarter and income from SBIC funds grew over 4x from the linked quarter. While both items are variable quarter-to-quarter, third quarter levels exceeded our expectations and were outside our historical range.

This quarter's fee income performance showcases our successful revenue diversification efforts that we believe provide significant long-term benefits and differentiate us from our peers. Fee income comprised 19% of our operating revenue for year-to-date 2025 and 2024 compared to about 15% for peers.

I'll highlight, as a business-only bank, we've achieved this outperformance without the heavy fee revenue stream of a residential mortgage or consumer business. This reflects the success of our investments for growth and efficiency and high-quality, high-producing talent we attract.

It's also one of the drivers of our strong ratio of operating revenue per average FTE, which has been 30% to 40% above our peers over the past five years.

Looking ahead, we'd expect annual fee income growth to approximate 10%. However we would expect Q4 operating fee income to be more in line with our recent four-quarter average.

Net interest income growth was also substantial and reflects continued and robust balance sheet expansion. You can see the highlights on Slide three of the earnings call slides and our quarterly loan and deposit growth trends on Slide 4. Loan balances grew about \$85 million or 10% annualized during the quarter and \$286 million or 9% over the same period last year.

We had strong growth across our geography with our Kansas City and Northeast Wisconsin markets leading the way.

We continue to see solid demand for our conventional and niche C&I products and pipelines look strong for the fourth quarter. Activity levels in our asset-based lending group continue to exceed what we've seen in the last two years, and we are positioned to capture growth opportunities in this space.

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Our accounts receivable financing business is similarly poised for growth.

We've been investing in these businesses, which also performed well during economic downturns through business development officer hires, technology and process improvements.

We know how to lend to these clients, and our solid underwriting process has historically driven better-than-average loss rates across cycles.

We value the strong risk-adjusted returns our niche C&I businesses provide.

We also continued to see strong growth in core deposits, up 9% from both the linked and prior year quarters.

Our South Central Wisconsin market led the way in our deposit growth by landing several large new relationships.

We track service charges on deposits as a proxy for new relationship deposit growth and these fees grew 25% from last year's third quarter.

On to asset quality, which was pretty stable with nonperforming assets decreasing slightly during the quarter. Net charge-offs totaled \$1.3 million and were primarily from previously reserved equipment finance loans. In total, NPAs decreased by \$5.2 million to 0.58% of total assets compared to 0.72% last quarter.

Our overall portfolio continues to perform as expected, and we have no areas of particular concern. The transportation loans in our small ticket equipment finance portfolio continue to shrink, and our CRE markets remain strong.

Additionally, we don't have direct consumer exposure so we wouldn't be impacted by things like credit card and auto loan delinquencies. This is a positive differentiator for our business-focused model.

Before passing it to Brian, I'll make one quick note on the government shutdown.

We do not currently anticipate any negative credit exposure related to the federal government shutdown.

We do, however depend on federal government processing to complete SBA loan closings.

This may affect the already variable timing of SBA loan sale premiums.

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Our SBA loan pipeline is strong.

While pricing continues to be extremely competitive, we continue to win deals. Now I'll hand it off to Brian.

Brian Spielmann^ Thanks, Dave. third quarter net interest margin grew 1 basis point to 3.68%, reflecting our continued strong balance sheet management. You can see a breakdown of this on Slide six of our earnings supplement.

As you know our margin includes fees in lieu of interest, which refers to the recurring but somewhat variable amount of interest income we earn from items like prepayment fees, collection of nonaccrual interest and asset-based loan fees. These fees increased by \$482,000 from Q2 and contributed 23 basis points to margin in Q3, up 5 basis points compared to 18 basis points in Q2.

Fees in lieu of interest contributed 21 basis points on average this year compared to 16 basis points on average over the past three years.

On a year-to-date basis, net interest margin grew to 3.68% from 3.62% for the same period of 2024.

We're very pleased with our ability to maintain a strong and stable margin in this environment.

This again shows the value of our risk-mitigating match funding strategy. Given the current interest rate environment, I'll remind you that our balance sheet is intentionally interest rate neutral.

Looking forward, we continue to target a range of 3.60% to 3.65% for margin. A few additional notes on our record fee income this quarter. The \$770,000 in nonrecurring items, Dave mentioned, consists of two distinct components. First, a \$537,000 fee was recognized related to the exit of an accounts receivable finance credit.

While these types of fees are not unusual, the size of this particular fee was larger than typical. Second, we received \$234,000 in BOLI insurance proceeds during the quarter, and we offset this income with a contribution to the First Business Charitable Foundation.

As Dave mentioned, we expect SBIC income and swap fee income will return to more typical levels in the fourth quarter.

We expect to continue investing in additional SBIC funds as a long-term earnings catalyst and effective use of capital.

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SBA gains are a bit of a wildcard for the near term given the government shutdown and potential backlog at the SBA, but we expect they will rebound and benefit from our continued investment in the business.

Our expenses were well contained in Q3.

Compensation expense grew about \$900,000 due to an annual cash bonus accrual update tied to strong total bank performance. Excluding this accrual update, compensation expense declined by about \$183,000.

I'll note that we currently have a higher level of open positions we are actively working to fill. Compounded with increases in benefit costs, we expect 2026 compensation levels to grow a bit more than the 7% year-to-date growth in 2025. I'll reiterate that when we think about expenses, our primary objective is achieving annual positive operating leverage.

That is annual expense growth at some level modestly below our target level of 10% annual revenue growth.

We saw a significant positive operating leverage in the third quarter due to our 16% revenue growth.

We would expect this gap to narrow to a more normal level as revenue growth returns to our long-term target of 10%. This reflects consideration of the high revenue produced this quarter including some onetime items as well as our ongoing commitment to investing in talent and technology for growth.

On taxes, our effective tax rate varies modestly quarter-to-quarter, in part due to the timing of tax benefits received from our investment and limited partnerships.

Our 2025 year-to-date effective tax rate of 16.3% was within our expected annual range of 16% to 18%, and we continue to believe this range is appropriate looking forward. Finally, our strong earnings are generating more than enough capital to facilitate our expected organic growth.

We continue to believe reinvestment in the growth of the company typically provides the best return for our shareholders.

But of course we regularly evaluate all the capital management tools at our disposal to maximize shareholder returns. And now I'll hand it back over to Corey.

Corey Chambas^ Thank you, Brian.

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Our 2025 progress toward our long-term strategic plan goals has been excellent and can be seen on Slide 12. These outcomes demonstrate the value of consistency and execution.

We continue to work our plan by focusing on solid underwriting, building out efficient systems, prioritizing client relationships and profitability and investing in talent.

We are very optimistic about the future and believe our discipline and consistency will continue to serve First Business Bank and our shareholders well. I want to thank you for taking time to join us today. We're happy to take your questions now.

Operator^ (Operator Instructions) For your first question, Daniel Tamayo from Raymond James.

Daniel Tamayo^ Maybe just a clarification first on the fee income guide. The 10%, I think you said 10% next year. Is that an all-in number?

Or should we be pulling any of these onetime items out that you've had in '25 so far?

Brian Spielmann^ I would say it's adjusted for the Q3 items. If you pull those nonrecurring items out, \$77,000 and adjust off of that based off the kind of four quarter average, excluding that, that's your good starting point then for 10% growth off of that.

Daniel Tamayo^ Got it.

Okay.

Then maybe looking at the margin.

So if you normalize the fees in lieu of interest, your core margin is really kind of exactly where it should be in terms of where you're thinking about the guidance you've given, 3.60% to 3.65%. Deposit costs have continued to rise a bit, just thinking about understanding the match funding nature of your balance sheet.

But as we do get rate cuts, just thinking about how these -- the funding side and the loan side would be coming down, you're expecting those betas to be pretty similar kind of initially and over the next few quarters?

Brian Spielmann^ Correct.

Our betas on both sides of the balance sheet have historically been pretty consistent, which gives us comfort in the continued message around that 3.60% to 3.65%.

On the deposit side, new client acquisition is expensive.

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So we're bringing on clients at, say SOFR right now but then we're having opportunities to lend out at -- in our specialty areas at SOFR plus 4, so we have that spread that contributes to the net interest margin long term. And kind of point to that on Slide five of the supplemental materials, but this kind of shows our long-term growth rate in the C&I businesses versus the CRE business and so where we think our ability to continue to do that and be able to pay for those higher cost deposits.

I would add that when we're having those conversations for new clients with those higher prices, we're having conversations around expectations for rate cuts.

So that's built in early on with the conversation, and we're having luck bringing when those rates down when there are rate cuts to help stabilize margins.

Daniel Tamayo^ Understood. That's helpful. And just a cleanup question here. Do you have the classified or criticized balances at quarter end or at least the direction from where they were at June 30.

Brian Spielmann^ We have that in the Q that will be filed tomorrow. I can tell you they're very consistent, nothing materially changed.

We actually have a decrease in our total NPLs that you saw in the release but nothing significant to report in terms of the adversely classified population.

Operator^ Next question will be from Jeff Rulis from D.A. Davidson.

Jeff Rulis^ I wanted to maybe refine just a small part of the margin. The fees in lieu, could you remind me if there's any historical -- those tend to be higher, lower or not impacted in times of rate reductions.

Is that something to think about?

I know that we model for core, but I just wanted to see if the next 12 months, if we see additional rate cuts if that is any impact on that figure?

Brian Spielmann^ Yes. The fees in lieu of interest have historically been pretty idiosyncratic, where on average, that's why we get some of the average detailed long-term average because it's around 20 basis points, I think but we'll have spikes here and there. Cory, do you want to add to that?

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Corey Chambas^ Yes. The one thought I have on that, Jeff, is the biggest piece of fee in lieu, it comes from a variety of places, but the biggest one would be from our asset-based lending group. They have -- their deals are contractual.

So if somebody breaks a contract, that's where we get significant fees in lieu.

But unlike thinking, well rates are going down, so people might leave, those are all floating rate deals.

So they're going to float.

It's not like a fixed rate real estate loan when the rates go down, somebody might want to refinance. Those deals refinance because the company gets stronger and it becomes bankable on a conventional basis.

But as -- but those deals aren't fixed rate deals where that would become attractive.

So I was trying to think of any forces of movement in rates, but I don't really see anything with that.

Jeff Rulis^ Got it. I appreciate it, kind of chasing that down, but pretty clear.

On the -- I guess kind of a segue to the asset-based lending. The large loan, the \$6.1 million, that seemed locked up in litigation for a while. I just wanted to check in on that timeline. And does this feel like a '26 event?

Just any update there would be helpful.

David Seiler^ Yes. Well I think your description is pretty good, Jeff. It's locked up in litigation.

So there's really no change, and it's taking a very long time but it's -- there's really no change in our belief that we're going to get -- fully recover that.

Corey Chambas^ And given the geography of where this is, that's normal as we understand it from the court system there is it's just really slow.

Jeff Rulis^ Got you.

Okay. And maybe one last one, just on, I think Brian sort of teased the capital close of the formal remarks, but just saying looking at growing capital and just wanted to kind of reconfirm the priorities.

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I think obviously organic growth, you've got a fantastic position in that and don't really need to chase other opportunities.

But maybe if you could touch on other capital tools as well as if there was one area on the acquisition front that you would consider what would that be?

Brian Spielmann^ I can speak to the capital tools and maybe Corey or Dave will jump in on the M&A front.

But as far as the capital tools we have that we evaluate quarterly and annually is going to be just our common stock dividend increase.

We've done that for 13 consecutive years. We'll evaluate that now here going into January. And just a reminder, we also have a \$5 million repurchase agreement out there with (inaudible).

There's no maturity on that.

So that's something we also continue to evaluate in terms of best use of that, comparing it to on balance sheet growth we have been doing of late to drive that shareholder value.

Corey Chambas^ And just to tack on to that, Jeff, you're not wrong. Capital has continued to build. We're above where we're comfortable with our capital levels.

We've been able to do that through strong earnings even though we've been growing at 10%.

So we are accumulating a bit extra.

So at some point, maybe we grow a little faster, that would be awesome.

But 10% growth is a pretty good mark already as it is.

But then as Brian said, yes, then at some point, you look at other capital options.

On the acquisition side, I think an ideal acquisition candidate for us would be something that would fit inside our private wealth business, some kind of money management business. Unfortunately, those are really rare, hard to find.

And as we've -- when we've looked at those before, we've gotten very close. Those are typically owned by individuals, one or two people, and then you're sort of dealing with an emotional seller.

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The one time I can tell you years ago, we were -- I mean we were like on the precipice of this thing happening and then the guy couldn't sell his baby.

It just -- so you have emotional sellers harder to do deals in that space, I think because of that.

So other than that, is something that tucked into one of our niche areas where we have nice platforms built out and could add a little more scale. That would be a fine fit for us as well.

But again when we can do 10% organically, we're not going to overpay. We're not going to stretch on something that doesn't fit our credit standards, which is typically why those other businesses screen out when we do take a look at those.

We're just -- as we've said in the past, we play in the top quartile in the credit spectrum of any of the businesses that we're in, any of the business lines or niches. And by mathematical reasoning, average is below that.

So the typical one you see is going to be not going to fit into our credit standards.

So that's why those typically fall by the wayside.

Operator^ Next question will be from Nathan Race from Piper Sandler.

Nathan Race^ Going back to the margin discussion, Brian, just given the variability around the fees in lieu of interest, wondering if you have any thoughts around kind of just the adjusted margin outlook.

I know you reiterated 3.60% to 3.65% on a reported basis, but if we strip that out, any thoughts on just kind of how that adjusted margin stabilizes in the future or perhaps expands?

Brian Spielmann^ Yes. I would say stability is the key there.

I would go off of our long-term average that we've been talking about 20 basis points.

So just backing into that, I could say 3.4% to 3.45% is going to be our adjusted margin range and expectations.

So you can tell we're right around there right now but have a little bit of room there still to continue to go after these nice deposit relationships.

But again the ability to lend that back out in those higher-yielding C&I areas is going to be key.

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Nathan Race^ Understood. That's helpful.

I appreciate that you guys are still expecting 10% loan and deposit growth going forward. Just curious, when you look across your Wisconsin, Kansas City footprint, do you see -- and also the national verticals, do you see enough opportunities to generate that growth with the existing team?

Are you guys looking at any markets or any kind of adjacent areas to your footprint where maybe you want to establish your presence or is kind of the existing landscape fertile ground enough to execute on that growth outlook?

David Seiler^ Right.

So when we look at our Southeast Wisconsin market and the Kansas City market, we don't have high market shares in those markets.

So we think there is a really nice opportunity to grow market share and grow those markets for us.

Then additionally, all of our niche C&I businesses are national.

We think we have a lot of runway in front of us there.

So I think we're pretty optimistic right now in terms of being able to continue the growth for the foreseeable future.

Corey Chambas^ And I would add something to that as well Nate, we set our Board meeting this morning. The Board was asking us about it because it's like, "How long can you keep doing 10%?" And we'd say "Well we've been doing it, and we believe we can continue to do it if we can add talent." So that's part of -- because the first part is, is there a market opportunity, and Dave just outlined that there's lots of market opportunity and some of our other specialty businesses, there's lots of national opportunity in those.

So then it's about talent. Do you have the right talent and enough talent.

We -- since we started this last strategic plan, we've added 21 business development officers.

So as long as we can keep adding that business development talent, we have the market -- markets have capacity.

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So if we can keep attracting and retaining the talent, and that's where we really -- our culture is really important to us.

It has people happy working for us. They don't leave.

So we don't have a kind of a hole in the bucket as we're bringing new people in.

So good performers like it here, and that also attracts talent from the outside because folks want to be on a winning team.

So that helps us to continue to grow that business development talent pool.

So as long as we keep winning the talent game, we can continue to grow at this kind of a pace.

Nathan Race^ Got it. Makes sense. Really helpful.

One last one, Brian, on expenses. Is the 4Q in terms of the fourth quarter run rate, is it similar to expect something that we saw here in 3Q and that would put you around 8% growth for this year. Is that kind of a decent proxy as you think about the expense growth trajectory into 2026?

Brian Spielmann^ Yes. It's a good place to start.

We had our bonus accrual update here in Q3 because of the strong performance that brought in about \$900,000 of additional expense, but that also means then a higher run rate to finish the year.

Then we talked about a lot of open positions.

So I think he maybe could back out a little bit, but it's a pretty good spot to start -- to that 8% growth rate relative to our 10% operating revenue targets, so.

Operator^ Next question will be from Damon DelMonte from KBW.

Damon Del Monte^ Just looking for a little bit more color on the investment and wealth management area. If you look at the kind of the year-to-date revenues generated by that area, it's had a nice lift over 2024. Is that more of a function of adding new accounts and new customers?

Or is there more market appreciation baked into those numbers?

Corey Chambas^ So well it's a combination of the two, right?

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Obviously markets have done very well but we have a lot of focus on building new relationships and acquiring new relationships.

So I would say it's a good mix there, but we've done a nice job adding relationships this year.

Damon Del Monte^ Okay. Great.

Then you guys have mentioned about -- Cory, I think you mentioned about the talent hires, 21 business development officers since your last business plan.

What has been your recipe for success for adding people?

Is it from market disruption where people are getting displaced?

Is it been just opportunistic relationship building with people in the markets that you kind of cross path with?

Like what's kind of been the driver of the additional people?

Corey Chambas^ Yes. I would say it's more of the latter relationships. The people who run our different -- our market presidents, people who run different business lines, we let them know that part of their job, they're supposed to be out prospecting for new clients, but they're also supposed to be prospecting for new bankers.

That should be -- they should be treating it the same way. They should be knowing in their market who the talented folks are.

And you need to cultivate those relationships over long periods of time.

So they're working that all the time. And like I said, when people see you winning and being successful and then if they get uncomfortable where they are because potentially they've gone through an acquisition and things have changed or whatever makes them not real aligned with the philosophy of the organization that they're with.

If you're the one who's developed a relationship, just like a prospective client, we -- you might have heard us say before, we like to say we have foam fingers that say we're number two because we want to be in the position to take over that relationship when somebody becomes disgruntled with the large bank that they're with and that typically happens.

We want to be there, have the relationship and they move to us kind of no questions asked when they finally throw in the towel. Same thing with the talent that we want.

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We want to develop those relationships and work those.

It also happens in the same way with some of the folks, the person who's fairly newly in charge of our asset-based lending group, been in the industry a long time has a lot of good relationships. The guy who's running our SBA group.

I mean their BDOs are people they've worked with in the past.

So they're following those leaders that they've worked with in the past.

So that's primarily how we get the talent.

Damon Del Monte^ Got it.

Okay. I appreciate that color.

Then I guess just lastly, obviously a very positive and continued positive outlook for loan growth.

So is it fair to assume that kind of the overall borrower sentiment remains positive in the markets that you're in?

Others have kind of talked about borrowers kind of being a little bit more reluctant waiting for rates to come down or more clarity on the prospects for their business.

But it seems like you guys continue to just power through regardless of the broader sentiment.

So just curious on your local sentiment.

Corey Chambas^ Yes. I'd say it's pretty positive. I would say the -- if you took a sampling of our business clients, probably the -- or most common answer that you would get is that this year is their third best year ever.

The last two were the best ever.

So it's really good. Things are still really good, just not quite as good as they were the last two years.

So people are positive. They've had to deal with questions about tariffs and different things that make life a little confusing.

But I would say most of our clients are -- they're entrepreneurial. They're positive, optimistic people, otherwise, you wouldn't start a business because that's a tough endeavor.

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They do kind of what we do for the most part.

They just put their head down and say "We're just going to keep winning and we're going to succeed." And so while there is some uncertainty, I don't think any of them are kind of going into a shell in any way shape or form.

Operator^ Next question will be from Brian Martin from Janney.

Brian Martin^ Just one question, Brian, just back to margin, just one thing. The funding pressure, a little bit of funding uptick you saw on the core margin, if you will.

I guess are you beginning to see that stabilize in terms of -- it sounds as though you would given kind of the dynamics of holding the margin steady, but just kind of wondering how you're seeing the trends there on the funding side and what may be the driver of that this quarter?

Brian Spielmann^ Yes. I would say the driver of this quarter in particular is specific to some CD relationships we brought on at the end of Q2. That's really what drove a decent amount of that pricing pressure reported in Q3.

I would say from what we're seeing in newer opportunities with now two rate cuts behind us, the pressures -- the premium we're seeing for new clients, new deposit acquisition is coming down a little bit.

So we are seeing some relief there. It is -- for our highest rates for these ones we're really trying to track, we were over SOFR for a bit. Now we're at SOFR.

We have had ones that are now below SOFR again for those new, new money relationships.

So we're seeing better rates across the board for new money.

Brian Martin^ Got you.

Okay. That's helpful.

Then just in terms of -- just one question back to those open positions. I mean the majority of those open positions are -- are they more operational or back office?

Or are they more revenue producing in terms of where the talent is you're looking for today?

David Seiler^ Yes. Brian, I think they're really across the board. I don't think there's a concentration in business development folks or other positions throughout the company.

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Brian Martin^ Okay. All right. And just in terms of the specialty businesses, can you just talk about where maybe over the next 12 to 15 months, where is the greatest opportunity?

Where are you seeing the best opportunity today to grow that book of business?

Then it sounds as though the expectation would be that, that book in aggregate would outgrow the traditional book is how you're thinking about things today and that seems accurate.

Corey Chambas^ Yes. I would say the places where we see the strongest pipelines right now and activity level, asset-based lending would be one of those. That kind of was slow for quite a while for us, and that's picked up. We've had more new deal activity there.

Our accounts receivable finance business has strong pipelines and really good activity and floor plan, and that's been really consistent.

Our floor plan business has been really strong and steady.

Brian Martin^ Okay.

In terms of credit risk, in those businesses, remind us where the greatest risk is there?

Is there a concern out there as you grow these businesses a little bit quicker, especially given kind of the market conditions there or just the fears out there, I guess?

Corey Chambas^ No. I don't think so in those business lines. We've -- any of those businesses that we've built, we've built with real specialists. I think one place banks can get into trouble is even like when we got into asset-based lending back in 1995, I mean I knew what an asset-based deal was, and so did Jerry Smith, but we also knew we didn't know how to monitor them correctly.

But we knew they needed to be monitored.

So we brought in somebody at that time from Bank One's asset-based group.

We built out the full team with a field examiner, collateral analysts, et cetera.

So we've always done that.

So the -- and again we play in that kind of top quartile piece of each of those businesses.

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So what we've seen is there's less credit risk and credit costs in those businesses than even in our conventional book over time. And a lot of the reason is while, some of those -- let's take asset-based lending compared to a conventional C&I loan, the asset-based loan, that company's balance sheet is going to be weaker.

The earnings history is going to be sketchier, but we're all over the collateral. We're out there examining it.

Before we go into the deal, we already know what -- at what price we think we could liquidate out of it if we had to liquidate the inventory. Whereas a conventional C&I deal where you may have the same kind of collateral receivables and inventory, you don't do that kind of monitoring on it.

When things go south on one of those deals, suddenly, you don't have what you think you had in terms of collateral.

It's just kind of how those end up turning out.

You don't have the real-time information like you do on asset-based lending or factoring where you've got daily information coming in.

So in the absence of fraud, if you act quickly, you should be able to get out of those deals whole, and that's our expectation on those kinds of business lines.

Brian Martin^ Got you. No. That's helpful. And just, I guess in terms of just the SBA, I know Brian mentioned it, I guess bottom line is, if the shutdown persists, is it just your expectation would be that the business that would normally flow through this quarter will just fall into 1Q?

And just until we see more clarity on that, that's kind of where it's at?

David Seiler^ Right. I think to a certain extent, it would be pushed out depending upon when the government opens back up.

But where we're really impacted is after we have a credit that goes through underwriting and is accepted -- approved and accepted by the client, that's when we have to go out and get the e-tran from the SBA.

That's what we can't do today.

So we can talk with clients, we can structure deals, we can get deals approved.

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We just can't really start the closing process without that e-tran number.

Then the other thing we can't do is sell a loan once it's closed and funded. And both of those two things will open up when the government opens up.

Corey Chambas^ But the e-tran numbers, we anticipated the closing.

David Seiler^ Right.

We did anticipate the closing and we were able to get a few deals or a good chunk of deals kind of far enough along in our pipeline where we could get the e-tran numbers in anticipation of the government shutdown.

Operator^ There are no further questions at this time. I will now turn the call over to Corey Chambas. Please continue.

Corey Chambas^ Thank you for joining us today.

We appreciate your time and interest in First Business Bank, and we look forward to sharing our progress next quarter once again. Again appreciate it, and have a great weekend.

Operator^ Ladies and gentlemen. this concludes today's conference call. Thank you for your participation. You may now disconnect.