MidWestOne Financial Group

2016 Q1 Earnings Call

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CORPORATE PARTICIPANTS

Charles Funk – *President and CEO*

Gary Ortale - *Chief Financial Officer*

Kent Jehle - *Chief Credit Officer*

Sue Evans – *Chief Operating Officer*

Katie Lorenson – *Vice President*

PRESENTATION

Operator
Good morning, everyone, and welcome to the MidWestOne Financial Group 2016 First Quarter Earnings Release Conference Call. All participants will be in a listen-only mode. Should you need assistance, please signal a conference specialist by pressing the star (*) key followed by zero (0). After today's presentation, there will be an opportunity to ask questions. To ask a question, you may press star (*) and then one (1); to withdraw your question, you may press star (*) and two (2). Please note that today's event is being recorded. At this time, I'd now like to turn the conference call over to Mr. Charlie Funk, President and CEO. Sir, you may begin.

Charles Funk
Thank you very much, Jamie, and thank you for joining us this morning. As we get started, as I always do, I will read the forward-looking statements message, which just says this presentation contains forward-looking statements relating to the financial conditions, results of operations, and business of MidWestOne Financial Group, Inc. Forward-looking statements generally include words such as believes, expects, anticipates, and other similar expressions. Actual results could differ materially from those indicated. Among the important factors that could cause actual results to differ materially are interest rates, changes in the mix of the Company's business, competitive pressures, general economic conditions, and the risk factors detailed in the Company's reports and registration statements filed with the SEC. MOFG undertakes no obligation to publicly revise or update these forward-looking statements to reflect events or circumstances after the date of this presentation.

And with that, let me begin and say that I have on the call in Iowa City our Chief Operating Officer, Sue Evans; Chief Credit Officer, Kent Jehle; and Chief Financial Officer, Gary Ortale; and we also have Katie Lorenson, our Chief Financial Officer in waiting, so to speak, in the Twin Cities. Just a review of the prior quarter, I would say that we would describe the quarter as okay. We certainly think that we will have better metrics going forward than we had this quarter. With that said, there are a whole bunch of nuances in the numbers and I will talk about some of them if you would like to elaborate on them, we certainly can do that, as well, during the Q&A, but what we really want to do is provide clarity for everyone on that.

Let's start with the balance sheet and net interest income. Our loans were up about $20 million from yearend, that's a little misleading. Loan demand was actually pretty good. We, as you know, sold the Rice Lake and Barron Wisconsin offices which had $30 million in deposits and $20 million in loans. We also had our largest classified FDIC loss share credit payoff, which was fully accounted for, paid off without a loss, and that was $6 million during the quarter. So really, when you take that into consideration, we had a pretty strong quarter when it comes to the loan demand. Loan demand, I think it's fair to say, came from the Iowa City market and from the Twin Cities market, both of those economies remain pretty strong right now.

Deposits, pretty much flat when you take the Rice Lake/Barron sale out of the equation. When you look at net interest income compared to the fourth quarter, we also have to remember that we sold our Ottumwa, Iowa, office during the fourth quarter. We sold that in, I think it was December 2nd that it closed, and that had $35 million in deposits and $15 million in loans. Then we sold Rice Lake and Barron, so we expected a little bit of a contraction in net interest income. Also of note, we talked a little bit about the one-off commercial credit that we're dealing with in Iowa and during the quarter, we charged off $230,000.00 of interest, previously collected interest, which obviously had a negative effect on the net interest income.

In terms of non-interest income, of course we had the gain on sale from Rice Lake and Barron. I would highlight our trust department in Iowa, which had a very, very strong first quarter and I think they're on track to meet or exceed their budget this year, doing a tremendous job. We've had a little weakness in our investment services area in Iowa. We need that area to pick up the pace a little bit to meet their budget. If they do that, I think we can meet or exceed our goals in wealth management for the year.

Mortgage had an okay quarter and we think as the second quarter goes on, we have a good pipeline and we are expecting a pretty good second quarter from our mortgage unit. As far as deposit fees or service charges, we got a nice lift from the roll-out of the new service charge schedule in the former Central Bank footprint, which came prior to the bank's merger on April 2nd and I think as the year goes on, we have a chance to continue to augment that as we roll out a few more things in that particular part of our footprint.

Our expenses, the regular number on expenses were high, as we said there were some merger related expenses in there. In terms of the recurring expenses, we didn't see anything out of line or grossly out of line this quarter. In mid-quarter, we should start to see a reduction in headcount that comes as the detailed, as the final finishing touches are being put on the bank's merger, so there will be a reduction in headcount that will come in the, probably in the next 30 days or so most of that will occur.

I do want to take just a moment and remind everyone that we did, I would say, successfully merge the two banks together on April 2nd. I would just have one word and say bravo. We did a lot more right than we did wrong. An event like that does take its toll on the staff and our frontline people in the Twin Cities, especially, have had a lot coming at them. I think everyone's anxious to move on and build our franchise. With that said, it's a process and we just need to move forward from that particular point in time, from this particular point in time. The last thing I'll say about the merger of the banks, and I think this is perhaps the most important thing, is I think it's fair to say that customer disruption was kept to a minimum, which reflects the fine job that was done not only by the frontline staff, but also our operations and IT people, really a number of us have been through a number of these types of events and the customer disruption was kept to, I think, a minimum, which reflects very, very well on our entire staff.

So that's the quarter. If we look ahead a little bit, I think it's fair to say that loan growth continues. The pipeline, perhaps, is not as robust as it's been in prior quarters but there still is a pipeline of loans. We are choosing not to compete at the low end of the market on rate or on policy exceptions and there are a lot of those in both markets, both in the Twin Cities and in Iowa. It would be also a fair statement to say if we were willing to do a 350, 3 5/8 on commercial real-estate credits and do it in big volume, we could add a lot more loans, we've chosen not to do that at this particular point in time. And while I don't want to mislead anybody, there will still be occasional policy exceptions. Those are only being made on the strongest borrowers and the ones that we feel are our best customers. We've talked in the past, in past quarters about competition and I would say that competition now is probably a little bit keener and I think the reason is that a lot of banks see especially commercial real-estate spending is about the only thing they have in this low rate environment. So we will soldier on but we still do have a pipeline and expect loan growth to continue to be good going forward.

I've talked a lot about deposit growth and I am encouraged by what I see as a renewed emphasis with some results on deposit generation. We've had some notable successes in the last 30 days in our Iowa footprint, with some fairly large deposits that have come in, have been a result of calling efforts and we have a pretty nice pipeline that's starting to come in Twin Cities area and I have couple of offices, especially in the Twin Cities area, that have made some very good calls and I would hope in the second and third quarters we would start to see some results from those efforts. But I just heard yesterday about the pipeline we have in the Twin Cities and I'm very, very encouraged about that, our ability to grow deposits, going forward.

Asset quality, of course we have the one-off commercial credit, which we have talked about for several quarters and finally, that all came to fruition in this past quarter. I want to speak for a minute about the agricultural sector. This was a tough renewal season. January, February, a little bit in December, are the months when our Ag borrowers renew their lines of credit for the coming year. We did see more carryover debt this year than we've seen in prior years and it was a, I think it's fair to say it was a tough renewal season, not only on our borrowers but also on our bankers, who did a really good job of getting through this season. I would speak for the Company when I say that we don't see losses on a big scale in this portfolio this year. There may be some small losses here or there, but I do think it's noted that we do have a higher percentage of our loan loss reserve allocated to Ag. Again, a reminder that operating lines for agriculture comprise about 6% of our loan portfolio and Ag real estate 3%, so 9% is our direct exposure to agriculture. I think we can manage through this. We also recognize that every year that this continues, and this will be the third year now for tough conditions in agriculture, every year this continues, it just adds stress to the borrowing base. But again, we do not see this as being a major event in 2016; it's just something we have to really keep our eyes on.

One of the things we're going to do, and we hope to provide clarity on the second quarter earnings call, within the next couple of weeks our loan review is going to stress test our agricultural portfolio and then we would hope to report on that at the end of next quarter because we really believe that we need to go through the exercise and say what happens for example if the price of corn goes to $3.00 a bushel and the price of soybeans has a like decline, where does that put us in relationship to our Ag portfolio? So there's more to come on that, but we are being as proactive as we can.

We did, for those of you that saw the earnings release, we did provide a loan loss reserve on the non-acquired loans for the first time and that was 1.36%. I think that's important to continue to track that, we will continue to report on that and we would endeavor to keep that range in the 1.30% to 1.40% range, which we think is necessary, going forward.

Efficiency expenses, non-interest expense, we have signed a contract with a firm that we've worked with before. We worked with this particular firm about 10 years ago. We're very pleased with the work they did at the old Iowa State Bank & Trust in Iowa City. They are going to come into our Company and do an efficiency study that will encompass every area of the Company and they will do this beginning in the third quarter and I would expect by the end of the third quarter or the beginning of the fourth quarter, we would have their recommendations. As we've talked about, we are committed and continue to believe that we will get to the $8 million in cost projections, our cost cuts that we talked about when we announced the merger. We've identified roughly three-fourths of those, some of them are still in the process of being implemented and will be implemented during the course of this year and the goal, of course, is to have all of those identified and implemented during the 2017 year. I continue to say and I've said this a lot in the last 90 days because I've met with various people, I see no reason that we can't accomplish those goals.

Let me end by talking a little bit about capital. You see that when we announced the merger and had our first quarter end, our tangible common equity had gone to 7.2%, plus or minus, and that was a little bit lower than we had originally modeled when we had announced the merger.

We’re now at 7.75%, so we’re well on the way, I think, getting back to the 8% to 8.5% number that we think is a good number going forward and, perhaps, we’ve made a little more progress than many of us thought we would make on that front. Also, I think it’s good to look back to the tangible book value when the deal was announced. We first, the first quarter that we reported combined results was June 30 last year and our tangible book value was $18.06 at that time, tangible book value per share, and ended this quarter at $19.57 a share. Again, we think we’ve had pretty good accretion back to tangible book value and perhaps we don’t talk enough about that, but I think that’s worthy of mention.

So Kent’s here, Gary’s here, Katie’s here, I’m here. I think, Jamie, we can now open it up to the questions.

QUESTIONS AND ANSWERS

Operator
Ladies and gentlemen, at this time we’ll begin the question and answer session. To ask a question, you may press star (*) and then one (1). If you are using a speakerphone, we ask that you please pick up your handset before pressing the keys to insure the best sound quality. To withdraw your question, you may press star (*) and two (2). Again, it is star (*) and then one (1) to ask a question. We’ll pause momentarily to assemble the roster. Our first question comes from Jeff Rulis from D.A. Davidson. Please go ahead with your question.

Jeff Rulis
Thanks, good morning.

Charles Funk
Good morning.

Gary Ortale
Good morning.

Kent Jehle
Good morning.

Jeff Rulis
Question on the, just the operating expense run rate then that, Charlie, you mentioned that you think you’re sort of solidifying into that kind of normalized run rate, if we were to back out the merger costs, it puts you in the low $21 million range. And then I guess you mentioned the headcount or some of the cost savings going forward, could you kind of range bound your expectations as it sort of plays out a timeline through the rest of the year?

Charles Funk
Yes, I’ll let Gary and Katie, if Katie wants to jump in can add to this, but yeah, we actually, I think our run rate might be a little lower than what you indicated in your question and I will tell you that both Gary and Katie have spent a lot of time on this and we’ve also spent a lot of time at the board level, continuing to talk about the necessity to lower this run rate.

Gary Ortale
Yeah, Jeff, this is Gary. What I would say is that in talking to you and other analysts in the past, what I will say about the expenses is we did come in, as you can see, at the $23.3 million range. We typically now have been backing out merger related expenses and the purchase accounting

expenses and when you do that, we had a combined $3 million in expense this year that's in that $23.3 million. So we would say that the run rate is more close to the 20.2 or 20.3 range. I think our goal is to eventually get that run rate down under $20 million and closer to $19 million, but that's going to take probably the rest of this year and into next year before we can get there.

What I would also say is we have worked hard to try and identify as many of the merger related expenses and get them in and get them behind us. What I would also tell you, though, is that we do have some severance and, as Charlie just mentioned, we are going to engage this consultant. We are going to try to, I think most of the severance will be done by the end of the second quarter and may continue into the third quarter, but definitely not past that. The consultant we're trying to get into this second quarter, as well. So with all those things, we are doing our best to try and get these expenses behind us and as far as cost saves, what I would say is, I think Katie and I would say that at the end of the '15, we were probably a little bit of ahead of schedule on the cost saves. We have a lot to do here in 2016 to keep pace and, as Charlie indicated, we hope that by the end of this current year that we'll have $6 million to $6.5 million of those $8 million originally identified cost saves, well, certainly identified and executed upon. Obviously, we're bringing the consultant in to help find that last $1.5 million to $2 million. But I don't see that being executed on until either late this year or into 2017.

Jeff Rulis
Okay, thanks, Gary.

Gary Ortale
Yep, those would be my comments, Jeff.

Jeff Rulis
All right, very helpful, and then just wanted to confirm that the gain on the sale of branches, that was not included in your adjusted EPS of $0.60? Basically you just excluded the merger cost, not the gain there?

Gary Ortale
That is correct.

Jeff Rulis
Okay and the $700,000.00, was that in the other service charges? Where was that geographically?

Gary Ortale
Yeah, it is in that other service charges, commissions and fees line and since you brought that up, I would share with you that that line, since the merger and even before the merger, but particularly since the merger has taken place, beginning from last May, that line has become kind of a catch-all for a lot of non-recurring items, like the sale of the branch, like OREO gains or losses, like Central has an SBA component where they sometimes recognize gain on the sale of SBA loans, all those things are going into that component or into that line item and can be somewhat volatile from quarter-to-quarter. So I think what we're going to do next quarter, hopefully, is try and break that up. Some of those other components, like the gains on the sales of branches or the gains on OREOs or SBA, into another line item so that the other service charges line becomes representative of the typical kinds of bank fees that go in there; that being debit and credit card fees, the telephone transfer fees, whatever fees that typically you would associate with the business of banking, to reduce that volatility there and better maybe separate some of those items out for you.

Jeff Rulis
That's great, that would be helpful, thanks. Maybe just one last one, then if I could, just to quantify the accretive benefit from the data processing contract. You mentioned that you expect that to come in, I guess, amount and timing of that and that would be it for me. Thanks.

Gary Ortale
Yeah, included in the data processing expense number, obviously, it's significantly up from the last quarter. That's reflective about $1.75 million and the conversion cost that we paid to our processor. We did receive a benefit of roughly $1.5 million back, but accounting rules kind of dictate that we recognize that over the term of the contract, which is now seven years. And so beginning in, I believe in February, the second month of the quarter, we, that $1.5 million over seven years computes to about $18,000.00 a month and we will bring that in to, it'll be a negative expense, obviously, against the DP costs for the next seven years.

Jeff Rulis
Okay, thank you very much.

Gary Ortale
Yep.

Operator
Our next question comes from Andrew Liesch from Sandler O'Neill. Please go ahead with your question.

Andrew Liesch
Morning.

Charles Funk
Good morning.

Gary Ortale
Good morning, Andrew.

Andrew Liesch
Just want to drill down more on the margin here, it seemed like there was a $1.2 million benefit from the accretion but also offset by $600,000.00 of a reversal, but then on, it also looked like deposit costs increased, as well. So putting that all together, I'm just kind of curious where you're looking for the reported margin to come in here over the next few quarters?

Gary Ortale
Yeah, Andrew, this is Gary again, I'll try and tackle that one. If you recall in the fourth quarter last year, we had that error reported, which significantly understated the interest expense and so overstated the net interest income. So that needs to be factored in, as well. In addition to the purchase accounting or the discount accretion on the loans, we have other benefits from other purchase accounting items on the deposit side that is also yielding a benefit. The net benefit this quarter, though, was down from last quarter. And so there's been a lot of noise here, as you've indicated. What I would tell you is, is that the 397 that we reported in the report, if you back out these purchase accounting entries, both on the interest income and interest expense side, you'll find that our core margin rate is somewhere in that 379 range for the quarter. I think we see that continuing and may be slightly narrowing as we move forward over

the course of the rest of the year though.

Andrew Liesch
Great, thanks.

Gary Ortale
Does that help?

Andrew Liesch
Yeah and then just on the expense side again, it sounds like the core number that you guys are using is closer to $20.2 million to $20.3 million.

Gary Ortale
That's correct, because [multiple voices], sorry, go ahead.

Andrew Liesch
No, I was thinking like the cost of the consultant coming on, just kind of curious how that might affect, how that would affect that over the next few quarters?

Gary Ortale
Yeah, certainly, as I think I indicated a little earlier, we are going to try and accrue for that expense in this second quarter. I think we view that, we will view that as a merger related expense, as well, since we most likely wouldn't be doing this without the merger having taken place. So again, I'm talking purely backing out all merger related, all purchase accounting, I think that's the may be the one item of difference between what Jeff commented on. We have roughly included in, if I can find it here, well, it's right there, the amortization of intangible assets, $1.61 million this quarter, almost $1 million of that is purchase accounting or related to the amortization of the premium on the deposits and we are taking that out, even though that will be around for a few years, yet it is getting less and less each year. But we included that in addition to the other merger related items and that's' how we got $2.1 million in merger related, $0.9 million in this amortization of the intangible, that's the $3 million drop that we're making the allowance for and coming up with that $20.2 million or $20.3 million run rate, versus the $23.3 million that shows in the report.

Andrew Liesch
Okay, then more on that deprecation line, are there other expenses related to the just depreciating your new buildings? So basically, my question is this $1.061 million expected to increase here this quarter before turning lower?

Gary Ortale
Well, you mentioned the, are you talking about occupancy and equipment, Andrew, is that what you asked?

Andrew Liesch
Just the depreciation of the new buildings that you already have, new office or is that in the occupancy line?

Gary Ortale
That's in the occupancy line and equipment line.

Andrew Liesch
Okay.

Gary Ortale
Yeah and that, we did begin depreciation on both facilities. I think we started the one place down the road, maybe in the fourth quarter of last year and the tower portion downtown here, we started in this first quarter. So I was pleased to see that our occupancy and equipment was lower, given the fact that we did begin this process of adding that depreciation into the component so.

Andrew Liesch
Very helpful, I'll step back. Thank you.

Gary Ortale
Thank you.

Operator
Our next question comes from Brian Martin from FIG Partners.

Brian Martin
Hi, guys.

Gary Ortale
Morning.

Charles Funk
Hello, Brian.

Brian Martin
Hey, Gary, not to, since you're hot on the topic with expenses, not to beat a dead horse, but I mean the amortization of intangibles, the million bucks that was out there this quarter, I mean, when you talk about backing that out, I guess just making sure I understand what you guys are talking about the 22, I mean if the amortization will be in there next quarter, so on a reported basis, your guidance would be more on the 21.2 type of range versus 20.2 range, is that fair?

Gary Ortale
That is correct, yep.

Brian Martin
And then just, [multiple voices] and just going back

Gary Ortale
That $1 million or $900,000.00 of amortization will be there each quarter for the rest of this year and going into 2017 though, it will drop to maybe the $700,000.00 to $800,000.00 range and then every year thereafter, it will get $700,000.00 to $800,000.00 per quarter and then it will get less and less in successive years. But you are correct that the, if we back out merger related next quarter, the run rate would be closer to $21 million because of the intangible amortization.

Brian Martin
Okay and then just making sure I understand moving parts, getting down to the $6 million to $6.5 million or kind of 75% of the expenses, where does that put that $21 million? If you get to

the target you're looking for to get that $6 million in savings out by the fourth quarter of this year, how much below that $21 million are we talking about to get to achieve that level?

Gary Ortale
Yeah, I mean, I think that will get us into the low, again, if you're going to include the purchase accounting in that, hopefully, it will get us under the $21 million and closer to the $20 million.

Brian Martin
Okay, that's helpful and a couple of other questions, maybe can you just go through, I know you talked about breaking out the fee income a little bit next quarter, kind of taking out some of the noise, but when you look at the quarter, first quarter being on a core basis, it seems like it's around $5.6 million, and if that's wrong you can let me know, but I guess just how to think about the run rate on fee income, going forward? It sounds like you've got a few things, I guess, that are going more of a tailwind on some things Charlie talked about, but I guess is this a reasonable type of run rate, I know mortgage is better, service charges you expect a little bit more, but the $5.6 million that look to be core this quarter, can you just give a little color on how you're thinking about that over the balance of the year?

Gary Ortale
Yeah, I would also add to Charlie's comments on the mortgage line item, it looked somewhat depressed from what it was in the fourth quarter and you might think so, given that from a mortgage perspective, that's usually a pretty slow quarter. What I would also tell you that affects this number significantly for us from quarter-to-quarter is the value of the mortgage servicing rights, and when interest rates or mortgage rates come down that valuation comes down and so we had a negative $160,000.00 mark on those mortgage servicing rights in this quarter. Last quarter, in the fourth quarter of last year, we had a write-up of $70,000.00, so you've got a $230,000.00 swing there. So I think your $5.6 million, if you take the $6.4 million, add back the loss on the building, take out the gain on the sale of the branch and then may be adjust for this mortgage servicing rights item, you're probably at that $5.6 million, $5.7 million run rate.

Brian Martin
Okay, and your thought is that's a good level, maybe, and trending upwards as you make some progress on some of the things Charlie alluded to?

Gary Ortale
Yeah, I mean, I think I was pretty encouraged by the trust investment insurance, given the equity markets in the first quarter and I would hope that, if that recovers, we might see a little bit better performance, but can't say that for sure. And that obviously affects the trust numbers to some degree, as well, but if I want to be optimistic and say that the market will continue to, equity market at least, continue to perform, hopefully, that number will be a good indication of what we would see going forward.

Brian Martin
Okay, perfect and then just your reconciliation of the margin to get to the 379, was there something in addition that you adjusted for other than the $1.2 million? I just wanted to make sure I know what you were, if there was something else you were adjusting for.

Gary Ortale
In arriving at the 379, I just made the allowance for the adjustment for the discount accretion only. So I didn't adjust it with some of those other expense benefits that we had there or the

fact that the interest expense number was understated last. I think if you take all that out, we might be closer to a 373 run rate, but again, we're going to have some level of discount accretion, it's just a matter of how much and I would say that the amount of discount accretion we've recognized has been tracking fairly close to our estimates, although I'd also say from the fourth quarter last year to this first quarter, it was probably down about $250,000.00 to $300,000.00 if I'm not getting my numbers all mixed up. So.

Brian Martin
Okay, all right, that was helpful and then maybe just two other things and I'll hop out. The loan outlook, maybe this is more for Charlie. It sounded the numbers were a little bit better, I mean they're masked by few things this quarter, but it also sounds as though you are a little bit tempered on your loan growth. In the past, it seemed like the second and third quarters were a bit more productive, especially up in the Twin Cities. I guess is that a fair assessment based on your commentary or are you as optimistic as you were last quarter, heading into the middle part of the year here?

Charles Funk
I'll give you the overview, Brian, it's a good question and I think my answer would be that the last couple of quarters when we've talked about the pipeline, I mean it was like an outstanding outlook, because of what they had going in the Twin Cities. Adding to what we have in Iowa City, it was outstanding. And now, partially because I think we're reining things in just a little bit and not willing to compete too much on price and terms, it's good. It's not outstanding anymore, but it's still good. If I compare, when I see the outlook being compared to the last five years, when we've had these calls, I'd say it's okay, it's pretty good. Kent you can chime in, if you like.

Kent Jehle
Yeah, Brian, this is Kent. The only thing I would add to Charlie's comments would be we are entering into the construction season so we will receive some lift from that. So even with an okay or good pipeline, we'll get a little more lift through the construction season. Then, also, the Ag lines will continue to fund as we're into the fields and everything's moving forward, so there'll be a little more lift with that as we get towards the end of second quarter and enter into the third quarter. So I would agree with Charlie though, compared to where the pipeline was, it is more in the good range, which I would define as about half of what the pipeline was previously from a dollar amount.

Brian Martin
I got you. Okay, that's helpful and just last two and I'll hop out, Kent, maybe just more for you since the part about the provision for the quarter, I mean the breakout of what was the acquired portfolio versus legacy, can you give some insight on that? And then just how you're thinking about it going forward? It sounds like maybe you're a bit more conservative on the Ag side, I guess that suggests maybe a little bit more allocation for that, that piece of it.

Kent Jehle
Yes, maybe starting with the end of your question, as Charlie alluded to, as we went through the renewal season, we did see more stress in our customers and, as far as carryover debt from the previous crop year. So we did have migrations of ratings, it wasn't significant and, again, as we work through this year, we'll keep our eye on that. Having said that, then we did adjust our factors in our reserve calculation related to Ag to account for that from our standpoint. Therefore, we did lift those dollar amounts that are allocated in that specific bucket in that regard. So as far as the new information that we included, and I give a lot of credit to Katie Lorenson and she can certainly add to this, but it was important for us to look at the loans that

remain under the discount, have those be separate and then look at the rest of our portfolio that actually is being allocated through our reserve that's on the books, and that's where we ended up in that mid-130 range when we looked at that. That gives us the barometer of what we actually have reserved for those specific loans. Then as we have loans migrate away from the discount across, we'll continue to monitor to that as we bring the discount into the bank as they're either renewed or as we have new growth, as well, from that aspect. So that was our attempt and I think a really good attempt to provide clarity in that area, so you can see exactly, when you look at our allowance for loan loss, what we have for loans that are against that and be able to measure that, going forward, and I would offer Katie, if she's got any additional comments.

Katie Lorenson
Just real quick, I'd just add that we just hope to provide some clarity again as to the discount that does remain out there on those acquired loans because it is quite sizeable and as you know on the call, some of that relates to future income and then some is there to absorb credit losses.

Brian Martin
Okay, understood and I think that was it for me, other than, Gary, if you have any comment on the tax rate, any changes there or maybe just giving any update on that and that's all I had.

Gary Ortale
Yeah, no, as you know in the fourth quarter and third quarter last year, we did take significant historical tax credits, which brought the effective rate down, but I think we are back closer to that 25% rate that we've normally have indicated. There was no historical credits this quarter. We are still working with the state now versus the Fed and so we still, there's still the possibility that we may get a little bit more in credit but I don't see foresee that for the second quarter, it may even be out to the third quarter, if it happens at all.

Brian Martin
Okay, so the current run rate, use that for the time being?

Gary Ortale
Yep.

Brian Martin
Okay, perfect, thanks, guys.

Gary Ortale
Thank you.

Kent Jehle
Thank you.

Operator
Our next question comes from Daniel Cardenas from Raymond James. Please go ahead with your question.

Daniel Cardenas
Hey, morning guys.

Charles Funk
Hi, Dan.

Gary Ortale
Hey, Dan.

Daniel Cardenas
Just a couple of quick questions, Charlie, I think you mentioned in your prepared comments that you're beginning to see some deposit growth in the Iowa market, which, I mean, is that growth coming at an expense to the margin or are we seeing, perhaps, the credit unions, the larger credit unions maybe back down a little bit from where they price? I mean, what's driving that growth in the Iowa market right now?

Charles Funk
Well, first of all, I don't think the words "back down" are in their DNA. So we're not seeing that. But I think, Dan, that this is coming from calling on larger customers that have large sums of money to invest and you could say it's coming at a little bit of a cost but we, if it gets too much, we can pass on it and we will pass on it, but if you can bring in $3 million, $4 million $5 million and you have to pay 10 basis points above your stated rate that you would pay for somebody with $100,000.00, you probably are going to do that. So it's been that sort of thing, but it's really been identifying large depositors and getting a commitment from those depositors.

Daniel Cardenas
Okay and then in the Minneapolis marketplace, is that just, is competition a little bit more rational there?

Charles Funk
Much more rational if you're looking at the rate. I mean it's good competition, it's just that, in the Twin Cities, when you've got 75% of the deposits, bank deposits held at U.S. Bank and Wells Fargo, that has a real affect on the rate structure and, whereas, in our market, the credit unions, everybody has to kind of keep up with the credit unions. In the Twin Cities, it's keep up with Wells Fargo and U.S. banks. So even if you're above those rates, you're still probably below the rates we have to pay in Iowa. So, yes, it's much more rational, very competitive on loans up there, however.

Daniel Cardenas
I would imagine so. Okay and then just a quick question on the capital management side, if you're being more selective when it comes to loan growth, I mean can we expect to see perhaps a pickup in share repurchase activity or is that not necessarily the case?

Charles Funk
Well, we certainly could and I think that depends on the circumstances. It's a fair question and my answer would be that it's not something that we've talked a lot about at this point in time. If we get another couple of quarters down the road and we're still where we are right now in terms of our Company, then I'm sure that's something that would be on the table for discussion.

Daniel Cardenas
Okay, great. All my other questions have been answered. Thanks, guys.

Charles Funk

Thank you, Dan.

Operator
Once again, if you would like to ask a question, please press star (*) and one (1). Our next question is a follow up from Andrew Liesch from Sandler O'Neill. Please go ahead with your follow up.

Andrew Liesch
Hey, guys, do you have a preliminary estimate on how much the consultant is going to cost this quarter?

Charles Funk
Yeah, I'm not sure how much we will accrue this quarter, but I can say this, one of the things we're happy about is we negotiated a onetime fee, not a contingent fee. So I don't know, Gary, if you want to give some guidance on that.

Gary Ortale
Yeah, it's a onetime fee and we plan to accrue for all of it in the second quarter.

Andrew Liesch
Okay, thank you.

Operator
And ladies and gentlemen at this time, I'm showing no additional questions. Id' like turn the conference call back over to management for any closing remarks.

CONCLUSION

Charles Funk
Thanks for being on this call this morning and we appreciate all the good questions and, as always, I would say to all of our listeners and shareholders, any time you have further questions, don't hesitate to call any of us who have spoken on the call this morning. So thanks for joining our call this quarter and we'll talk to you next quarter if not before.

Operator
Ladies and gentlemen, that does conclude today's conference call. We do thank you for attending. You may now disconnect your telephone lines.