MidWestOne Financial Group, Inc.

MOFG 2015 Fourth Quarter Earnings Release

January 29, 2016 at 12:00 p.m. Eastern

CORPORATE PARTICIPANTS

Charles Funk – *President, Chief Executive Officer*

Gary Ortale – *Chief Financial Officer*

Kent Jehle – *Chief Credit Officer*

PRESENTATION

Operator
Good day, and welcome to the MidWestOne Financial Group Fourth Quarter 2015 Earnings 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. After today's presentation, there will be an opportunity to ask questions. To ask a question, you may press star then one on your telephone keypad. Please note this event is being recorded.

I would now like to turn the conference over to Charles Funk. Please go ahead, sir.

Charles Funk
Thank you very much, Chad, and thank you for joining us this morning. I do want to give props to SNL because we felt we were at the Boston Pops when we were listening to that music while we were waiting. So, let me get started as I always do with the forward-looking statement message and remind you that this presentation contains forward-looking statements relating to the financial condition, 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, as we all know, could differ materially from those indicated. Among the important factors that cause actual results to differ materially are interest rates, changes in the mix of our business, competitive pressures, general economic conditions, and the risk factors detailed in the company's periodic 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 out of the way, let me begin and say my comments may be a little bit more lengthy than they normally are, and I think the reason is we had so many moving parts, certainly more so than usual, in our quarter, and I'll talk about a few perhaps that weren't discussed in the earnings release. But let me start with the quarter.

I think if you look at the quarter, very good loan growth in the quarter primarily, I think, as a result of the Central Bank operation in the Twin Cities. Please keep in mind that we sold $17 million in loans when the Ottumwa office went away. So, our growth—we had to generate $17 million in loans just to stay even. And if you look at our deposits, our deposits were basically flat, but again, $33 million in deposits left with the Ottumwa sale. We did have some growth in deposits, actually decent growth when you factor out the Ottumwa transaction.

Our margin held in there pretty well. I think the reported margin was 404 versus 408 last quarter, and I will not comment on the purchase accounting adjustments. If you care to ask, we have Katie Lorenson, who is the Chief Financial Officer at Central Bank and, of course, Gary Ortale, our MidWestOne Financial Group Chief Financial Officer also on the call.

It was tough going, I think, in the fee-related areas, specifically wealth management, and when you consider our trust and investment services operations, they tend to be fee-related and tied to the market. With the market down, that's made for a rough going in those areas. I think mortgage was somewhat seasonal, but we continue to see good volume, considering the time of the year it is, for our mortgage operations.

If you look at our expense items, I want to talk a little bit about this. There are several important notes. The run rate was quite a bit higher in the fourth quarter compared to the third quarter, so let me go down through the list on those. The first thing is, we really got behind in our accruals for incentive payoffs at Central Bank. That was about $600,000 worth that we had to catch up in the fourth quarter, and I think we'll be on a better track going forward.

We also finalized the amortization of our intangibles, and that was a difference of about $335,000 in amortizations. And just as a note, we think the run rate for our intangibles next year, or this year, 2016, will be in the $300,000 range per quarter I believe is what I heard yesterday. So, that's a little bit of guidance for you.

Also, we had a couple of large fraud losses in the fourth quarter, and when you combine that with a little bit of extra loan and collection expense that was about a $250,000 difference from the third quarter, and I think the activity was a little bit elevated. We don't expect it to continue at that rate going forward, although you never can forecast when you're going to have a debit card fraud loss. So, we had those things.

And then one which was a little more complicated and when you start talking about complicated accounting issues, I have to keep this as simple as I can. In the third quarter, we had a mapping error. And so if you look at our third quarter numbers, we basically overstated noninterest expense to the tune of—well, excuse me. Let me go back and say we understated noninterest expense by roughly $430,000 in our third quarter. That particular $430,000 got mapped to deposit expense, interest expense, so our margin wound up being understated by about $430,000, and likewise, our expenses were also understated by about $430,000, which makes the expense build in the quarter worse than it actually was. The year-to-date numbers you see are correct, and we will make these corrections in the 10-K whenever it is filed.

Again, I talked about the Ottumwa office was sold in the first few days of December, and with that went $33 million in deposits and $17 million in loans. It's been an arduous process to collect the historic tax credits, and they all came to fruition, actually just after the first of the year, but were recognized in the fourth quarter.

Tangible equity building a little bit faster perhaps than we had expected and got over the 7.5% mark and hopefully on the way to 8%, and as all of you know who listen on a regular basis, we prefer it to operate in the 8% to 8.5% range for this particular ratio. I would remind you when we reported earnings for the first time after our merger, our tangible equity was just under 7.25%. So, we've had a nice build over six months.

I want to talk a minute about credit. We continue to rebuild the reserve in a prudent manner, and we feel good about the coverage, the NPA coverage as reported. We have talked over the last 12 to 15 months periodically about one large loan in Iowa, and we continue to work through issues on that particular credit. It's a commercial loan. It is a one-off in terms of these source of issues, and I think it's fair to say that when we file the 10-K you'll see that it has an effect on our reserve adequacy. We are still in the acceptable range on our reserve; however, we're a little bit lower in the range than we have been for several years. But as all of you know, our intent is always to operate toward the higher end of that range, but we are in the range, and you'll see that whenever we file the 10-K. Again, we believe this is a one-off item.

The ag sector, agricultural sector certainly is a concern to any bank in the Midwest that does ag lending. I will remind all of you that ag, the ag portfolio was less than 10% of our overall portfolio. We're into the renewal season big time right now, where we renew lines of credit, operating lines for the coming year. We're about 50% through that process, and I can say that we do have more carryover debt this year in our company than we saw a year ago. We expected this, and I think we've been pretty clear that the longer these crop prices continue to persist at these levels, there will continue to be erosion in any bank's portfolio. I think we have a good read on the quality of our ag portfolio. We'll certainly have a better read next quarter because when we report next quarter, all of our ag renewals should have been completed by then.

We're also watching our commercial loans in our smaller communities that get tied to ag, i.e., if we have auto dealerships that would bank with us, and we have a few, certainly the people in the ag sector are going to be buying nearly as many pickups, for example, as an example, as they have in prior years.

And then the other thing that tends to bleed into our portfolio is in the Quad cities in Oskaloosa and in Cedar Falls-Waterloo is we have a number of customers who might be subcontractors for John Deere, and as John Deere doesn't produce as much there's not as much work for these particular credits. I don't know that we have any identified problems in our portfolios, but at this particular point in time it is something that we are keeping an eye on.

A word about cost saves. Non-interest expense, I am pleased with where we are right now. I would say we're a little bit ahead of schedule in the identified cost savings, and we have identified roughly 75% of our goal, so the task in 2016 will be over the course of the year to identify the remaining 25% of cost saves that we promised we will deliver. These won't all come to fruition in 2016, but our goal would be that almost all of them will have been identified and implemented during the 2017 calendar year.

I've been very clear with our own employees, and I think I've been clear on this call that the last 25% is always the hardest. It was the hardest in our 2008 merger, but we are committed to do this, and the first six months, I think, will be spent in large part identifying where these particular saves can be recognized. Our two banks, Central Bank and MidWestOne Bank, will merge on April 2nd and will be under the flag of our corporate logo MidWestOne Bank.

Looking forward, we have a good loan pipeline, in particular in the Twin Cities. They had a big fourth quarter at Central Bank and while their pipeline is a little lower than has been in prior quarters there still is a pretty good pipeline up there, and we appreciate that. I would say we are holding steady in Iowa, for sure. A reminder, it was in our earnings release that Rice Lake and Barron, Wisconsin offices will be sold in February. We're on track to consummate that transaction—$30 million in deposits, $20 million in loans will go out the door whenever that transaction occurs.

And then the other thing before I turn it over in the Q&A would be that in addition to the cost saves, I think our biggest corporate challenge is deposit generation in both footprints, both the Twin Cities footprint and, of course, they have two offices in Florida at Central Bank, but also in Iowa we want to deliver 3% to 4% deposit growth overall in our company this year, and we've tied a lot of our management goals and incentives to this.

Our loan-to-deposit ratio is up into the high 80s, and I think everyone knows that our goal is to run an efficient bank that operates a loan-to-deposit ratio in the 80s. We're comfortable with where we are right now, but we realize we're going to have to generate core deposits better than we have the last few years in order to continue to run as we would like to.

I told you we have Gary Ortale, and Katie Lorenson on the call. We also have Kent Jehle, our Chief Credit Officer; and Stu Evans, our Chief Operating Officer.

So, Chad, at this time, I think we're ready for questions and answers.

QUESTION AND ANSWER

Operator
Thank you, sir. We will now begin the question-and-answer session. To ask a question, you may press star then one on your telephone keypad. If you're using a speakerphone, please pick up your handset before pressing the keys. To withdraw your question, please press star then two. Once again, pressing star then one will allow you to ask a question. At this time we will pause momentarily to assemble our roster.

Our first question comes today from Andrew Liesch with Sandler O'Neill. Please go ahead.

Andrew Liesch
Hi, everyone.

Charles Funk
Hi, Andrew.

Kent Jehle
Hi, Andrew.

Stu Evans
Hi, Andrew.

Andrew Liesch
So, this Charlie, your comments here on deposit growth being a priority, and I think I remember you saying that you've launched some new products at Central Bank, so just curious if you can give us an update on how the deposit growth there is coming. It sounds like loan growth is good, but how is deposit generation?

Charles Funk
Yes, thanks. It's a good question, Andrew, and thank you for asking it. So, a couple of things would come to mind. I think if you look at Central Bank and where they've come from, they had a lot of liquidity, and so their loan build, they focus much more on getting their loan-to-deposit ratio up to where they wanted it, and so they have been terrifically successful generating loans and really haven't had a lot of focus on deposits. That has turned over the last few months. We did, to address your question specifically, we have rolled out one retail checking account product in the Twin Cities, and it's been a soft rollout to get our employees comfortable with the idea of the account. We can report that we've got between 2 and 3 million perhaps in new deposit dollars that have come in, and that's with a soft rollout. So, I would say that we're on the right track there. Two to 3 million doesn't move the needle in our company, but it's early in the game, and I think we have a little bit of momentum that's hopefully growing.

We did put in our earnings release that we hired a seasoned treasury management professional, and this is someone who has both community bank and large regional bank experience. I think he will be a very good fit for our culture, will also help us a little bit in Iowa rolling out some of our products. So, over a period of 12 to 24 months, I think it's very positive for deposit generation, and most of his efforts will be in the Twin Cities. And perhaps most importantly, is that our regional presidents in the Twin Cities have really been come on board, and I think they're fully committed to making sure we get deposit momentum that would come forward and be in the same level as our loan momentum in these markets. So, I think when you put those three or four things together, Andrew, I feel pretty good about the direction we're headed.

Andrew Liesch
Okay, that's good to hear. And then following up on your question on the amortization on Central, is that $300,000 per quarter in total or is it going to be an aggregate to what was there before Central? So, like $400,000 a quarter, $300,000 a quarter? Just curious on the right number there.

Gary Ortale
Yes, Andrew, this is Gary, and actually I was going to correct Charlie mid-sentence but chose not to. It's more like $300,000 per month or $900,000 per quarter. So, the number is a little bigger than what he indicated there. The run rate for 2016 is probably in that $900,000, but it is on a declining balance method, so it'll be coming down, but still for an average for the quarter it will be $900,000 range.

Andrew Liesch
Got you. And then just one last question on the other fee income charges. Backing out the sale of the Ottumwa branch, it looked like that was still an increase for the quarter, and I'm sorry if I missed it in your prepared remarks, but just curious what the driver behind that might have been.

Gary Ortale
I believe our service charge income was better, and I think some of that came from Central Bank as we've started to roll out different service charge schedules. We did that a little bit ahead of the bank merger, so I think it was mainly in the service charge line that offset any shortage that was elsewhere.

Andrew Liesch
Okay. Very good. Thanks so much.

Charles Funk
Thank you, Andrew.

Operator
Our next question is from Jeff Rulis with D.A. Davidson.

Matt Yamamoto
Hi, this is Matt Yamamoto , sitting in for Jeff. I just had two quick questions. What was the reason for the sell-off of the branch in Ottumwa, Iowa and the future sell-off of the two branches in Wisconsin?

Charles Funk
Good questions, and I can take those. I think that we as a company saw limited growth potential in both markets. The Ottumwa office, we were there since our merger. We had those offices for about seven years and really didn't see much growth at all in either loans or deposits. We ran a fairly efficient operation there that was profitable, but we really didn't see much growth opportunity. We can certainly feel like we can grow over time to replace those deposits and loans, and in the near term it really helps our capital ratios. So, those would be the major things, and I think the same could be said about Rice Lake and Barron. With Rice Lake and Barron, if you look on a map, they are quite a long ways from the Twin Cities and actually are a little bit of an outlier in that footprint. So, both offices were profitable, but we think over time probably the bottom line is we could better deploy our capital in other markets.

Matt Yamamoto
Okay. Thank you.

Charles Funk

You're welcome.

Operator
The next question is from Daniel Cardenas with Raymond James. Please go ahead.

Go ahead Daniel. Your line is open. Perhaps your line is muted.

Daniel Cardenas
Yes, sorry about that, guys. As you work through your deposit growth goals for 2016, can you maybe comment a little bit on if you're seeing any pickup in competitive factors and what kind of impact on your margin would hitting that 3% or 4% deposit growth, what kind of impact on margin would there be?

Charles Funk
I think it's a great question. I think that there will be some impact on the margin, but I think we would—I just talked to Jim Cantrell, our head of Asset Liability Management, about this a couple of days ago, and we expect any margin erosion would be in the single digits. I don't know that it’s any more competitive on the deposit front. It is very, very competitive in Iowa, and that’s driven by the credit union competition and to a lesser extent other community banks, but it’s mainly the credit unions that drive it in Iowa. But I think in the Twin Cities the higher rates are being paid by smaller community banks. U.S. Bank and Wells Fargo comprise just a little over 75% of that market, so that keeps the deposit cost down there. We actually think that we can maybe thread the needle a little bit in between the rates we have to pay at Iowa and pay maybe just a little bit more in the market in the Twin Cities, and we think that could be a chief source of deposit. We’re still orchestrating that strategy, so it’s a little bit incomplete at this point in time, but the specific answer, the best guess I can give you would be any erosion in the margin would be in the single digits.

Daniel Cardenas
You think low single digits or high single digits?

Charles Funk
Low to Mid.

Daniel Cardenas
Okay. And then just a couple quick questions about your franchise. Any plans for some additional branch rationalization? And then maybe some comments on the integration of the transaction seems to be going well, maybe even a little bit ahead of schedule, your appetite for any additional M&A?

Charles Funk
Great questions. The first part had to do with other branch rationalization. I think that what we would say is what we said to our employees, that we’re always going to be looking for opportunities where we think our capital can be better deployed. And so, I’d just probably leave it at that, that it is ongoing, and we want to do what’s best for our shareholders. The second thing had to do—what was the second part?

Daniel Cardenas
Appetite for the M&A.

Charles Funk
Appetite for M&A, and you commented on the merger going well. I think we have to be focused on the merger of our banks on April 2nd and making sure that that goes off. We know it's not going to be flawless, but I think we're on track to have a good merger of the banks, certainly better than we had in

2008. And I think what we have to be cognizant of as a management team is that we are really working people very hard, especially in her operations areas and support areas—IT, deposit operations, those areas, and we want to make sure that they're allowed to stop and catch their breath.

I think we also have to make sure that as we bring the banks together that we're all on the same page and we're all moving in the same direction. I think everyone would acknowledge that there's never been a bank merger where you didn't have hiccups with morale and with things like that. And I think overall, we've done a wonderful job in that regard, but I think what we have to do is make sure we're all pointed in the same direction. I would think, Dan, that if an opportunity came along in the second or third quarter, and again, the word is "if," we would be in a position to where we could say yes, we want to take a look at this. But I just think we all have to be going in the same direction before we can say that that happens. And I think, as I look at a right now, we will be.

Daniel Cardenas
All right. And then for loan growth, it sounds like the majority of the growth is going to be coming out of the Minnesota markets. Is that a safe assumption?

Kent Jehle
Dan, this is Kent. I would agree with that. With the pipeline as we look at it today, we would say that roughly 75% of the pipeline is through the Minnesota-Wisconsin markets, and the balance would be throughout the rest of their footprint.

Daniel Cardenas
Okay. Great. That's it from me right now. Thanks, guys.

Operator
All right, again, as a reminder, if you'd like to ask a question, please press star then one.

The next question is from Brian Martin with FIG Partners. Please go ahead.

Brian Martin
Hi, guys.

Charles Funk
Hello Brian.

Gary Ortale
Hello, Brian.

Brian Martin
I am not sure who takes it, but talking about the margin and the discount accretion and what you guys viewed as a core margin this quarter and how we're thinking about that going into 2016 would be helpful, maybe more high-level full-year type of thoughts and just if you could give any color on that, that would be helpful.

Charles Funk
Yes, since I obviously don't have all of the numbers added up, Brian, I'm going to give it to the guy who does that for living, and that would be Gary Ortale.

Gary Ortale
Hi, Brian.

Brian Martin
Hi, Gary.

Gary Ortale
The margin, as is indicated in the report, shows 404 for the quarter, and obviously that's a little bit off because of the mapping error that Charlie alluded to earlier in the discussion. And just correcting for that alone would have dropped it by about five or six basis points. To your question about discount accretion, I obviously have been in close contact with Katie on this number, and I think our assessment is that collections have been coming in a little bit faster than expected, and the discount accretion has been recognized a little bit faster than expected as well.

And if you take out the discount accretion that's reflected in either the quarter or the year, our yield for the quarter would have dropped from that 398, 399 range down to the low 370s, 373, 374 range. So, almost a 25 basis point impact for the quarter. For the year, I think we're showing a 371 margin and that is a good number. It was not impacted by the mapping error that took place in the third quarter. And again, after allowing for the discount accretion, we're looking at a 354, so not quite a 20-basis-point drop, but a little bit of a drop.

As we look at next year, I think, again, there is always that dichotomy between deposit growth and improving margins, and a little bit of margin might be sacrificed as well in trying to come up with deposit growth amongst one of our ways, but I don't think we're looking at too much of an impact. I would agree with Charlie that hopefully the impact wouldn't be any more than four or five basis points.

So, the other maybe big thing that impacts 2016 is, again, the discount accretion numbers. And as I look at what we are expecting in terms of accretion flow for 2016, the number will be certainly down from what it was in 2015. And even when you consider the fact that we only had eight months of accretion in 2015 and we've got a full 12 months in 2016, the number is still lower. The 12-month number for 2016 is even lower than the 8-month number for 2015. So, I can't recall. Obviously, we have a budget that we put together, and I think as I think about the yield that was reflected there, I still think it was a yield that we were holding steady pretty much with what we experienced in 2015.

Brian Martin
Okay. And just to be clear, the four to five basis points potentially on the margin that either yourself or Charlie talked about, is that from the current level or is that you're talking from the full year 2015 number? Just be clear on that. If you think about the 370, you said something like 370, 373, 374 as being poor. Is it off of that type of run rate you're thinking on the decline in the margin potential?

Charles Funk
I would say from the current level is what we're talking, Brian.

Brian Martin
Okay, perfect. All right, thanks for that. And then just a couple other things. On the fee income, you talked about that other line item and the service charges potentially contributing much of that delta from last quarter to this quarter. Curious what the crystal ball looks like as far as the sustainability of that, just given that it is in that other column which—if it was service charges, if you back off of the branch gain in the quarter, it probably puts that number all-in fee income around a $6 million level. Is that a realistic run rate or is there something that's unusual that was adjusted other than that in the fourth quarter?

Charles Funk

I can talk generally. Gary may be able to talk a little more specifically. I think, unless there is some change in the macro environment, and the reason I give you that qualifier, Brian, is because you know what's happened to NSF charges over the last four or five years, they've just gone down for most banks, and they've gone down 3%, 4%, 5%, 6% a year and it adds up over time. So, all other things being equal, I think our run rate should be pretty sustainable because we've rolled these charges out in the Central Bank footprint. I don't know any reason that our run rate would decline by very much, and I would think it might even increase a little bit as we get more retail deposits in that footprint.

Brian Martin
Okay.

Charles Funk
Brian, let me just say the other thing, we have not rolled out our NSF program at Central Bank, and there is a lot of potential to gather much more fee income there. Because of the regulatory scrutiny, we're being very careful and we want to roll it out in exactly a prudent and correct manner, but there should be a little bit of lift from that, and that hasn't been rolled out yet. And I can't quantify it, but I know there will be a lift.

Brian Martin
Okay. It seems like that make sense with the mortgage being a little bit seasonably weak, you said, the wealth management being a little bit weak, so if you had that additional in that other line item, from here, it seems to be the right way to think about it. And then, just jumping to the expenses, Charlie, you put out a slew of items there that were nonrecurring or just unusual items, if you will. I couldn't write them down quite that quick, but it sounded like it was in the neighborhood of $1 million or so in that range.

But if you back off that type of dollar amount, if it's $1 million or maybe you can suggest what the core number was for this quarter, how are you thinking about expense cuts? I guess it seems as though there, like you said, maybe last quarter a little bit slower to materialize than initially planned, and I guess just trying to get any comfort on what the expense number actually looks like and when you actually begin to see some notable improvement. And it sounds like next quarter you get some from these unusual items and just thereafter. But some thoughts on the expenses or just additional commentary would be helpful.

Gary Ortale
Brian, this is Gary. I'll try and tackle that one. If you look at our fourth quarter noninterest expense in total, you'll see that it's well over the $22 million mark, and after adjusting for the mapping error and some of these catch-ups on accruals and one-time events, we could probably easily bring that down to the $21 million range. I would have said to you if you were to ask me what is our core noninterest expense quarterly going forward, it'll be between the $20 million and $21 million range. And quite honestly, as I think about what we've put in the budget for next year, it's probably towards the low end of that range. As we execute on more of these cost saves and as we realize the effect on noninterest expense of not having Ottumwa and not having Rice Lake and Barron, those kinds of things will obviously tend to bring that down. So, I think in that, again, a good range would be in that 20 million to 21 million.

Brian Martin
Okay. Thanks, Gary. And then on the credit quality or the provisioning in reserve adequacy, it sounded like there are some things that we'll see in the K when it comes out. Can you talk a little bit about, it sounds as though it's not too alarming on the ag side with some of the things about John Deere and the other factors that could trickle down into other businesses in that market, but how you're

thinking about the reserve as you renew the loans at Central and then as it pertains to any potential risk, if you will, on the ag side.

Kent Jehle
Brian, this is Kent. And let me start with the ag side. I think the term I would use as we're going through the ag renewal season, and Charlie alluded to, we're about 50% through where we're at with reviewing financial segments. We're just continuing to look to see where we can make prudent adjustments with our clients to set the stage for not just 2016 but also 2017 in anticipation that prices stay where they're at at this point and possibly even go lower, if you look at it from the land value side.

So, still we would characterize our borrowers with good equity positions, but again, just looking at what we recall the working capital or liquidity they have available that's deteriorated, how we can work forward in that regard. So, we'll watch that closely. We'll monitor it as we go through the year, but again, at this point we don't see anything that gives us a huge amount of concern as it relates to the reserve itself.

Also, as you know, we're continuing to build up reserve as we move forward as loans move on the Central Bank portfolio from the purchase accounting side outside of that. So, that is being measured and watched, and again, you'll see provisions related to that. So, overall, provisioning as you have seen in the fourth quarter, we're looking and anticipating that being the same as we go forward. But again, as you've heard, a lot of it has to do with the purchase accounting roll-off and loans renewing organic loans from Central bank that we're reserving for us as we move forward. So, hopefully that answers your question.

Brian Martin
Yes. ,Maybe you can touch on the provision this quarter. If you break it out by renewals versus the legacy MidWestOne, what was the breakdown as far as that goes? Can you give any color on that, what the run rate was internally versus what was added?

Charles Funk
The run rate on the legacy MidWestOne was $450,000, so the balance of that would have been related to Central Bank, organic and loans that were renewed that would move out of the purchase accounting.

Brian Martin
I got you. Perfect. That's helpful. Just the last one for Gary, and I'll hop off, was the tax rate, obviously with those tax credits being completed here in the fourth quarter, how should we be thinking about the tax rate, Gary, going forward, just the effective rate to use in 2016?

Charles Funk
I should have anticipated that question, Brian, and I didn't. I apologize. I would guess that the effective tax rate will be back to that normal 25% to 28% range that we've typically experienced. It may be a little bit higher. As I think about our bond portfolio and our tax-exempt securities and things of that nature, there's not as much now on a combined basis as we had previously, but I would think it would drift back to that, again, 25% to 28% effective rate range.

Brian Martin
Okay. Thanks very much for taking the questions, guys.

Charles Funk
Thank you, Brian.

CONCLUSION

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

Charles Funk
Thank you, everyone, for joining us on the call this morning, and as always, our management team is available to answer any further questions you might have. All you have to do is email us or call us. Thank you, Chad.

Operator
Thank you, sir. The conference is now concluded. Thank you for attending. You may now disconnect.