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Earnings Call

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Presentation

Operator

Hello, and welcome to Enterprise Financial Services Corp Fourth Quarter 2024 Earnings Conference Call. Please note that this call is being recorded. [Operator Instructions] Thank you. I'd now like to hand the call over to Jim Lally, President and CEO. Please go ahead.

James Brian Lally
President, CEO & Director

Well, thank you, Ellie, and good morning. Thank you all very much for joining us this morning, and welcome to our 2024 fourth quarter earnings call. Joining me this morning is Keene Turner, EFSC's Chief Financial Officer and Chief Operating Officer; Scott Goodman, President of Enterprise Bank & Trust; and Doug Bauche, Chief Credit Officer of Enterprise Bank & Trust.

Before we begin, I would like to remind everybody on the call that a copy of the release and accompanying presentation can be found on our website. The presentation and earnings release were furnished on SEC Form 8-K yesterday. Please refer to Slide 2 of the presentation titled Forward-Looking Statements for our most recent 10-K and 10-Q for reasons why actual results may vary from any forward-looking statements that we make today. Our financial scorecard begins on Slide 3.

I'm very pleased with our results for the fourth quarter and for all of 2024. Our strong financial performance continued in the fourth quarter, where we earned $1.28 per diluted share, which compares to $1.32 in the linked quarter and $1.16 in the fourth quarter of 2023. We produced an adjusted return on assets of 1.31% and a pre-provision return on assets of 1.80%. Our diversified business model drove an expansion in net interest income while defending net interest margin, which was essentially flat when compared to the linked quarter and remained above 4%.

The talent investments in relationship managers that we made in late 2023 and throughout 2024 is beginning to pay off. These new associates have a pedigree in C&I banking and deposit generation. Their efforts contributed to the outstanding growth in client deposits that we experienced in the fourth quarter. Our ability to hold our margin at this level illustrates the quality of our deposit base and relationship-oriented loan portfolio.

This reflects the strength of the franchise we have built, and we remain positioned to produce high-quality earnings that consistently improves shareholder value with a client-oriented model.

We entered 2024 focused on continuing a cadence of consistency that we had established a few years ago. We accomplished this in the fourth quarter and are positioned well for another strong year in 2025. I'd like to remind you that our strategy is focused on diversification. And for us, this means growth in revenue from several different markets and businesses. We're not relying on any one market, business line or economic trend for our success.

We lean into our client-centric, team-oriented approach focusing -- focused on listening well and providing holistic solutions that guide our clients to their defined success. We will continue to refine and improve this strategy for quarters and years to come.

For the last few quarters, I discussed the wait-and-see mindset of most of our client base with respect to significant financial moves. Since the presidential election, I can say that this mindset has changed, but is yet to translate into significant loan demand. Like we thought would happen though, loan demand did tick up in the quarter as evidenced by our growth of $140 million or 5% on an annualized basis. This includes a $27 million decline in our agricultural portfolio that continues to wind down.

I do think that we should see loan demand elevate slightly from here, but we will not force this by changing the credit and pricing disciplines that have long been a characteristic of our company. Deposit growth and the quality of the deposit base has become a significant differentiator for our company. In the quarter, we saw client deposits increase by $677 million, making this the fifth quarter in the last 6 that we

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saw client deposits grow. As impressive was the fact that we had just about equal contribution from our national deposit verticals in our geographic markets.

The cost and composition of the deposit base improved and has significantly aided in the consistency of our earnings and profitability. The quarterly cost of deposits declined to 2% and our level of DDA to total deposits increased to over 34%. We have maintained our DDAs at over 31% of total deposits since the end of 2020.

I remain confident that we will grow our balance sheet in 2025 at a mid- to high-single-digit pace. Our teams, both established and new, have done a good job building loan and deposit pipelines. The mix, too, is encouraging. With ample room to grow CRE, we are seeing really good opportunities here that complements our C&I bias. You will hear much more about our markets and businesses during Scott's comments.

Another strength of our company is our well-positioned balance sheet, which provides for great flexibility with respect to capital planning. Capital levels at quarter end remained stable and strong, with our tangible common equity to tangible assets ratio at 9.05% as impressive was our 14.05% adjusted return on tangible common equity for the fourth quarter.

Tangible book value per common share was $37.27. Given the strength of our earnings and our confidence in our continued execution, we increased the dividend by $0.01 per share for the first quarter of 2025 to $0.29 per share, and we returned an additional $11 million to shareholders during the quarter through common stock repurchases.

In 2024, the industry attempted to define what a normalized credit profile would look like for each institution. I would characterize the credit quality and profile of our portfolio strong and stable. NPLs to loans and NPAs to total assets showed a slight increase compared to the third quarter, but remained at very modest levels. We've been able to achieve this while maintaining a strong allowance for credit losses of 1.34% of unguaranteed total loans.

Slide 5 provides a recap of our financial highlights for the full year 2024. We reported $185.3 million of net income or $4.83 per -- of diluted earnings per common share. We invested heavily into the company in 2024 in terms of both technology and talent while generating over $255 million in preprovision net revenue. This resulted in a preprovision ROA of 1.72% and an adjusted return on average tangible common equity of 37.71% (sic) [13.71%]. Keene will provide much more detail on these results in his comments, along with our strategy to defend margin given the expected interest rate environment.

Slide 6 shows we're focused for the foreseeable future. As we enter our 37th year in business, our focus remains the same. We will continue to focus our time on taking care of the great clients that we've accumulated while adding those family-owned businesses that cherish high-touch consultative relationships. Doing this day in and day out will lead to several more quarters of really strong performance and the continued building of franchise value.

We will not alter our credit discipline to chase growth, and we'll be cognizant of the current market pricing trends to make sure we continue to protect and grow our client base. We will continue to take advantage of the disruption caused by M&A in just about all of our markets. As you know, over the past several quarters, we've been adding talent from these disruptive situations. While the pace of talent acquisitions will likely moderate, we are confident that these investments will add many new relationships and subsequent growth and profitability from just about every corner of our company.

Before handing the call to Scott, I would like to provide a little perspective on how our clients are performing and provide a view of the overall economy from their vantage point. For the most part, our clients performed well in 2024. They have readied their balance sheets for anticipated opportunities that should manifest in 2025 and beyond. From large, general and subcontractors to mid-market manufacturers and distributors, 2025 should continue the encouraging momentum that we've seen in the fourth quarter.

Our teams continue to have many strategic conversations about expansion, succession and acquisitions. We're also starting to see the positive impact of investments that companies are making for reshoring,

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infrastructure development and power generation. My expectation for sound C&I growth in 2025 should blend well with the continued success that we've experienced with our CRE clients. Our conservative approach towards CRE earlier in this decade gives us plenty of capacity to grow this part of our business, while our competitors remain restricted due to their 100/300 limitations.

Overall, I like the tempo that we are seeing in our business and feel good about our team's ability to consistently produce quality opportunities that will ultimately lead to consistent, sound balance sheet growth. We enjoy a great reputation and corresponding market share of middle market businesses in our mature geographies and specialized lending and deposit businesses. As such, I am confident that we'll continue to get more than our fair share of corresponding opportunities.

Our newer markets and higher-growth areas will provide similar levels of opportunities while we continue to build our reputation in these markets. This blend is what gives me high confidence that we will continue to grow and earn at a predictable rate while continuing to compound tangible book value at a higher level than our peers over the foreseeable future.

With that, I would like to turn the call over to Scott Goodman. Scott?

Scott R. Goodman
President

Thank you, Jim, and good morning, everyone. As you heard from Jim and as we're showing on Slide 7 and 8, we ended the year with overall loan growth around 3%, including growth in Q4 of $140 million or 5% annualized. Production levels were solid, with total originations trending up roughly 20% from the prior quarter. Increases were most prevalent in the general C&I, construction and life insurance premium finance segments.

However, net growth within the generalized C&I categories, while improved from the prior quarter, has been somewhat muted by operating businesses, using lines of credit more sparingly, and in many cases, opting to use cash reserves to fund working capital needs. Average usage on revolving lines declined about 2.5% in the quarter, with outstanding balances down $135 million from September 30.

Construction loan outstandings continue to fund on existing projects with additional new project opportunities starting to come back online following a pause during the rising rate environment last year. Within the specialty lending verticals, life insurance premium finance and tax credit posted seasonally strong quarters, growing $84 million and $36 million, respectively. For the year, life insurance premium grew $158 million or 16.5%, showing continued momentum from premium fundings on existing policies and bolstered by new opportunities from a growing base of referral partners.

This business has proven over the years to be a steady and consistent source of growth with a certain level of immunity to overall economic headwinds, while adding some balance and diversity to complement our other lines of business.

SBA also posted a strong quarter, growing $25 million or 7.9% annualized. Trends in this business are tracking well with production up materially in the quarter and payoffs continuing to moderate due to the lower interest rate environment. Overall, payoffs were down 26% in 2024 compared to 2023.

For the Sponsor Finance business, 2024 was a year characterized by slowed originations and a bubble of payoff activity, resulting in a net reduction in the loan portfolio of roughly 10%.

Having been in this specialty now for nearly 20 years, we do understand it can be a more cyclical business, and we're prepared to exercise discipline in our origination process to protect the credit quality of our portfolio as well as the reputation we've built with our sponsor base. Deal flow has picked up a bit in the latter part of the year, and the pipeline is active. Over time, the book has grown nicely and provided solid risk-adjusted returns with a 3-year compounded growth rate of 15%.

Moving on to the geographic regions on Slide 9. The Midwest region of St. Louis and Kansas City grew modestly in Q4 to $3.2 billion with the aforementioned revolving line paydowns and sale of some commercial properties muting solid production of new C&I relationships. In St. Louis, we expanded

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relationships through equipment financing for a regional transportation client as well as funded a new facility for a long-term client in the diversified energy services business.

In Kansas City, we helped several companies with acquisition and recapitalization credit facilities. As more and more companies face the issue of succession, we are seeing opportunities to assist with this process, and our team has developed a strong understanding of how to put these deals together to differentiate from other competitors and bring relevant advice and resources to the table for these clients.

Growth was particularly strong in our Southwestern markets of Arizona, Las Vegas, New Mexico and Texas, with Q4 balances growing $104 million. For the full year of 2024, this region posted loan growth of $218 million, an increase of 13.9%. In addition to strong base of fundings on existing construction projects, we're seeing a higher level of new construction and commercial real estate opportunities in this region, particularly in the Arizona and Las Vegas markets. Larger deals this quarter included fundings for a large preleased industrial building, an equipment loan for a private tour operator and several mixed-use investments by commercial real estate clients.

In California, representing our West region, loan balances slipped $85 million during the quarter, mostly attributable to timing on some larger line paydowns and proactive management of several weaker credits out of the bank. These were legacy clients of the acquired portfolio tied to undersecured or noncash flowing commercial real estate collateral.

With steady new production coming from our core team in this market and success in attracting new seasoned talent to our platform, we feel confident in the near- and long-term prospects for growth in California. We continue to target disruptive competitors in this market and move new banking relationships to enterprise, including this quarter, clients in the professional, medical, industrial, chemical and digital media business lines.

Deposits are profiled beginning on Slide 10, which shows strong growth of $681 million in Q4 and year-over-year growth of $970 million or 8%. It is notable that this growth is almost entirely attributable to core client deposits with no material change in brokered balances. The growth in Q4 was also heavily concentrated within noninterest-bearing categories with contributions coming from both our commercial markets and the national deposit verticals.

With rates beginning to fall during the quarter, our teams also did a nice job of retaining relationship-based interest-bearing balances while supporting an effective rate reduction plan, which effectively lowered our overall funding costs. Keene will have more on this in his comments. Within our geographic markets, commercial deposits were up $382 million in a seasonally strong fourth quarter, but also reflects our success in onboarding new relationships.

As outlined on Slide 11, deposit costs rose in all regions -- I'm sorry, deposits rose in all regions during the quarter as well as within our deposit verticals. The geographies contributed roughly 56% of the increase with the largest increases coming from the heavier C&I markets of St. Louis and California. Midwest region balances are up 3.4% year-over-year, including $228 million or 14.6% annualized in the quarter.

Growth within the Southwest market continue at a steady pace, up 12.5% year-over-year. Balances in Q4 were up $86 million, including several new deposit heavy commercial relationships with a large electrical contractor and an industrial warehousing company. West region balances also show strong seasonal growth in the quarter as well as the benefits of new C&I relationships with construction, private lending and dispersing companies. Balances there were up $72 million in the quarter or 24% annualized.

The deposit verticals contributed $295 million of the increased balances for the quarter and continue a steady pace, providing year-over-year growth of $610 million or 22%. More detail is shown on Slide 12, which illustrates the portfolio that is well balanced between the 3 main verticals. Q4 produced increases in each business line at an average cost of 2.72% or a reduction of 20 basis points from the prior quarter.

Growth in property management in Q4 and previous quarters follows a consistent pattern of continuing to onboard new relationships and expand account balances with existing clients. Community Associations had a strong Q4, mainly attributable to new relationships which began funding during the quarter and which should add solid momentum to this business into the first part of 2025.

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Legal and escrow also posted robust growth in Q4. And while this can be a bit lumpy quarter-to-quarter, we have grown the balances and diversity in this channel year-over-year as we build our reputation in this space and extend this expertise into our existing geographic markets with our established clients and COIs.

Lastly, core funding mix is outlined on Slide 13 and shows an overall profile of the deposit portfolio by channel and mix within each. Generally speaking, our strategies have [produced] a portfolio that is well balanced, relationship-driven and highly weighted in lower-cost account types. I continue to be encouraged by our ability to lean into a value-added model to proactively manage the deposit costs down while retaining our relationship base and competing effectively for new clients across all of our major channels.

Now I'll hand the call over to Keene for the financial highlights. Keene?

Keene S. Turner
Senior EVP & CFO

Thanks, Scott, and good morning. My comments begin on Slide 14, where we reported earnings per share of $1.28 for the fourth quarter on net income of $49 million. On an adjusted basis, earnings per share was $1.32, a $0.03 increase from adjusted EPS of $1.29 in the third quarter. Adjusted EPS excludes the impact of core conversion-related expenses, gains and losses on the sale of other real estate and FDIC special assessment charges.

Operating revenue contributed an increase to EPS again this period as net interest income expanded for the third consecutive quarter. Strong client deposit growth improved overall liquidity and drove an increase in the securities portfolio, cash balances and related interest income.

We proactively managed deposit rates with a decrease in the Fed funds target rate so that the decline in loan income was offset by a corresponding decrease in deposit interest expense. The provision for credit losses increased from the prior quarter as total loans expanded and net charge-offs increased. Overall asset quality remained sound and net charge-offs were 16 basis points for the full year.

Noninterest expense increased in the quarter, primarily due to higher compensation from medical costs and variable incentives. The increase in compensation was partially offset by a decrease in variable deposit servicing costs due to a managed decline in the earnings credit rate. Turning to Slide 15. Net interest income was $146.4 million in the fourth quarter, an increase of $2.9 million compared to the linked quarter. Interest income decreased $0.9 million during the quarter.

Loan income declined $3.9 million from the linked period as lower Fed funds, prime and SOFR rates drove a reduction in earnings on $5.5 billion of variable rate loans. This was partially offset by growth in average balances.

Earnings on investment securities grew $2.7 million from the linked quarter on higher average balances and higher portfolio yields. Strong deposit growth in the quarter allowed us to fund $200 million in new investment purchases in addition to the investment growth from the third quarter. Yields remain favorable for new purchases and reinvestment of cash flows with the treasury curve moving 70 to 80 basis points higher during the quarter. The average tax equivalent yield on purchases in the quarter was 5.10%. More details follow on Slide 16.

Interest expense declined by $3.8 million in the quarter, with nearly all of the reduction attributable to lower interest rate on deposit balances. Average interest-bearing deposits grew $236 million compared to the linked period, mainly in interest checking accounts. The average interest-bearing deposit rate declined 26 basis points and interest on other borrowed funds declined in the quarter as well -- as the result of lower variable rates.

The resulting net interest margin for the quarter was 4.13%, a decrease of only 4 basis points from the linked quarter. Earning asset yields declined by 22 basis points, driven mainly by lower yields on variable rate loans and interest-earning cash balances. This was partially offset by improvement in investment yield and growth in earning asset balances. Our cost of liabilities decreased by 26 basis points compared

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to the linked period, resulting from active rate reductions and growth that was skewed toward noninterest-bearing and lower interest rate checking accounts.

The total cost of deposits for the month of December was 1.91%, which is 9 basis points lower than the 4Q average. While net interest margin did drift lower, the impact of rate changes was less than we had anticipated in the quarter. We successfully managed our cost of deposits through the recent Fed cuts and deposit growth in the quarter outperformed in terms of both volume and composition. Our balance sheet remains modestly asset sensitive overall, but sensitivity has declined. We have leveraged several quarters of strong deposit momentum to bolster the investment portfolio, adding durable earnings at favorable yields.

The steepening of the yield curve compared to the end of the third quarter with higher rates on terms 2 years and beyond should result in improved pricing on fixed-rate loan originations and renewals. For some color, loans originated in the fourth quarter had an average interest rate of 7.10%, which is above the average portfolio rate.

Our deposit mix continues to be a strength. Noninterest-bearing balances accounted for more than half of total deposit growth during 2024, and we remain focused on managing our deposit costs appropriately as rates change. Finally, interest rate swaps and collars provide protection against more severe downward movement in rates. That being said, we expect that further rate cuts will continue to put some pressure on net interest margin. Our modeling shows that each 25 basis point change in rates equates to approximately 5 basis points of margin or $1.5 million to $2 million of net interest income per quarter based on the existing balance sheet.

Consistent with the prior period, we expect deposit-related noninterest expense to move in the opposite direction, with each 0.25 point cut resulting in approximately $1 million of reduced noninterest expense. So all in, the total impact of each 25 basis points of Fed cuts is around $1 million or less of pretax income.

To summarize all that, we look for net interest margin to be relatively stable once the balance sheet resets to start the year, somewhere around 4.10%. Net interest income dollars will face a headwind with lower day count in the first quarter, but we believe our planned growth is sufficient to overcome those setbacks and will result in higher net interest income during the year.

Slide 17 reflects our credit trends. Net charge-offs were $7.1 million for the quarter and $17 million for the year or 16 basis points of average loans in 2024. This is an improvement from charge-offs of 37 basis points in 2023 and is a positive reversion toward our expected longer-term trend. Nonperforming assets were 30 basis points of total assets compared to 22 basis points at the end of September. The 8 basis point increase in nonperforming asset ratio was primarily related to 2 relationships that are being actively managed and are adequately reserved.

Our credit metrics have been relatively stable all year and reflect the underlying strength of our diversified loan portfolio. The increase in net charge-offs and loan growth resulted in a provision for credit losses of $6.8 million in the quarter, an increase of $2.7 million compared to the third quarter.

Slide 18 presents the allowance for credit losses. The allowance for credit losses represents 1.23% of total loans or 1.34% when adjusting for government-guaranteed loans. The weighted economic forecast used in the allowance calculation leans more toward a downside scenario for the next 12 months.

On Slide 19, fourth quarter fee income of $21 million was essentially flat with the linked quarter as growth in tax credit income offset the gain on sale of other real estate that was recognized in the third quarter. Tax credit income was better than expected as sales activity outpaced fair value pressure from the increase in 10-year SOFR.

Turning to Slide 20. Noninterest expense of $99.5 million was an increase of $1.5 million from the third quarter, driven primarily from compensation and benefits, seasonally higher charitable giving levels and core conversion expenses, which were partially offset by lower deposit servicing expenses. Core conversion expenses were $1.9 million in the current quarter compared to $1.4 million in the prior quarter.

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Deposit servicing expenses were $0.9 million lower compared to the linked quarter despite average balance growth in the deposit verticals of roughly 12% annualized as related earnings credit percentage were managed lower during the quarter following recent Fed funds interest rate reductions. The fourth quarter's core efficiency ratio improved 130 basis points to 57.1%, driven by higher operating revenue compared to 58.4% for the linked quarter.

Our capital metrics are shown on Slide 21. We continue to manage our excess capital and repurchased 206,000 shares at an average price of $54.01 for approximately $11 million. We have approximately 1.4 million shares remaining under our repurchase plan. Our tangible common equity ratio was 9.05% at the end of the fourth quarter, down from 9.5% in the linked quarter. The decrease was primarily due to strong balance sheet growth and a decline in the overall fair value of the available-for-sale securities portfolio. We will continue to monitor our capital levels and manage some of our excess position with share repurchases.

On a per share basis, tangible book value of $37.27 was stable with the linked quarter and increased 10% for the full year. This is in line with our 10-year compound growth rate for tangible book value per share of just over 10%. For 2024, the common dividend per share was $1.06, a 6% increase from 2023. We also increased our dividend by $0.01 per share to $0.29 for the first quarter of 2025.

In summary, our 2024 financial results reflect the strength of our diversified business, and we closed the year demonstrating the high quality of our deposit base. For the second consecutive year, we significantly grew core deposits while expanding operating revenue, supported by solid credit and managed expense levels. We also invested in the new core system and recruited new talent in our higher-growth markets in support of our expectation for continued growth.
We consistently posted strong profitability and returns throughout the year, and we closed the year with a strong fourth quarter performance. This is reflected in a 1.30% adjusted return on assets and a 14% return on tangible common equity. I appreciate your questions and attention today, and we'll now open the line for analysts.

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Question and Answer

Operator

[Operator Instructions] Your first question comes from Jeff Rulis from D.A. Davidson.

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

I wanted to check in on the margin. Keene, thanks again for the kind of per cut impact to the margin and the ECR cost. It seems like reality is a bit better than what you've previously framed up, as you mentioned, the steeper curve and good deposit success. So the 4.10% expectation, I want to -- is that's in a -- does not include a rate cut in that expectation or does?

Keene S. Turner
Senior EVP & CFO

Yes. Jeff, I would say 4.10% includes the reset predominantly of the SBA portfolio that didn't occur until January 1. So there's a little bit of pressure to come. We're working to still mitigate that. But I think that's just a delayed impact because that resets quarterly. So that's 50 basis points on almost $0.75 billion.

And then -- so there's no cut. And then I would also say it allows us a little bit of reversion on the mix of deposits. Deposits have held -- growth was strong in the fourth quarter and deposits have held well since then. But we do expect a little bit of remixing in the early part of the year as we typically get commercial DDA balances, some deployment with tax payments and bonuses on the underlying clients that experienced some runup throughout the year. So those are a couple of things that we see that are sort of baked into that.

And then we -- I would say we maybe have a little bit of pessimism in there that the curve doesn't remain optimally upward sloping for that period of time. I mean I think you can see with what happened in the fourth quarter, we managed deposit costs way better, and we're trying to continue to do that. But certainly, the shape of the curve helped, and we've got a little bit of estimation error built in there if the curve isn't quite as robust on the long end as it is right now.

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

Sure. Very helpful. And okay, we'll just apply that math on margin with potential rate cuts. I guess, safe to say, I mean, odds have improved at a 4% plus. I don't want to put words in your mouth, but that has framed up firmer than expectations of a sub-4% being likely. It's -- do you think, I guess, the core or the base around 4% even with cuts is still potential to hold above that level?

Keene S. Turner
Senior EVP & CFO

Yes. I mean I think that unless we get a material degradation in the slope of the curve or something unexpected or we're not able to manage deposit costs as well as we would anticipate or we really have mix going against us, I don't expect any of those -- all 3 of those to occur at the same time. I do think that we can hold margin, call it, at 4% plus even with a couple of cuts here this year.

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

My other question was on just expenses and post conversion, kind of want to -- if we -- well, one, are there more core conversion costs expected going forward? And two, maybe just kind of reorient where we are on a core basis? And do we see just moderate expense growth from here, expectations on cost would be great.

Keene S. Turner

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Senior EVP & CFO

Sure. Sure thing, Jeff. So this last quarter, you should see core conversion-related expenses. If there's anything that trickles, we likely will just have it in the run rate. There's really no material change that we can see to run rate on data processing from that project. And I would say from a recurring expense basis, I think that the quarter is roughly $98 million if you strip that out. And I think that there were some seasonally high items in there that will be replaced by some seasonal first quarter items. And with the growth offsetting some improvement in ECR, I think deposit-related expenses are roughly level.

So I see expenses roughly level to modestly growing throughout 2025. And then I just -- whatever you feel like is going to happen from a rate environment perspective, obviously, we gave that sensitivity on the expense line item. But if we get 2 reductions with some of the seasonality working out, it's plausible that we have essentially flat roughly $97 million, $98 million, $99 million a quarter of noninterest expense for the year.

Operator

Your next question comes from David Long from Raymond James.

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

The noninterest-bearing deposits, you talked a little bit about some of the moving parts there. But does it feel like that is temporary or permanent in the noninterest-bearing side of the deposit growth?

James Brian Lally
President, CEO & Director

David, this is Jim. I would say that -- we saw -- typically in our business, what you see is a fourth quarter elevation in DDA just based upon the growth of service-oriented businesses. As Keene mentioned in the last question that will dissipate somewhat in the first quarter. But nonetheless, our model is such that with the C&I model, even the CRE business, we do demand full relationships relative to onboarding clients and what have you. So I think our ability to grow deposits, I'm confident in and the mix being such that we'll still continue to have DDA in that low 30% range.

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

Got it. And then switching to credit. You guys called out a couple of relationships that are being actively monitored. Do these represent any early warning signs in any specific segments or anything like that in regard to your overall loan portfolio?

Douglas N. Bauche
Senior EVP & Chief Credit Officer

Yes. Thanks, David. It's Doug Bauche. Listen, just to kind of level set too on where we ended the year, just keeping in mind, net charge-offs at 16 basis points and nonperformers at 30 bps. And classified, as Keene pointed out, too, just really remained level. We're at about 11% of capital.

So credit quality has simply just kind of returned as we expected to our longer-term historical norms. I'm pleased with the way the portfolio performs today. I think a couple of the material movements in the quarter really were, one, it was a net charge-off largely related to a C&I chemical distribution company that invested heavily to vertically integrate into manufacturing and quite simply, just failed to execute on the strategy. So our exposure -- remaining book balance to that credit is less than $1 million.

And then just relative to a couple of nonperformers. We saw nonperformers just tick up in the fourth quarter, really concentrated to 2 relationships. One is a $9 million loan to a C&I company that's a medical management and consulting firm. The company is seeking refinance opportunity right now, and we feel cautiously optimistic that there's a path to exiting the credit in its entirety here in the coming quarter. And then smaller and less significant would be a $2 million owner-occupied real estate loan in our Kansas City

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market. So generally speaking, no, we feel really good about the performance of the portfolio and kind of back to historically normal levels.

Operator

Your next question comes from Damon DelMonte from KBW.

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

Just wanted to start off with some commentary on loan growth. Jim, it sounded like lots of opportunities for you guys to capitalize on market disruption and benefits from recent hiring efforts in recent quarters. But at the same time, I think somewhat cautious not to push for growth for the sake of getting growth. So just kind of wondering how you'd frame the kind of the full year outlook. Do you think kind of that mid-single-digit range is still achievable?

James Brian Lally
President, CEO & Director

I do. I think the mid-single digits is very achievable. And to the extent that some of the headwinds I referenced in my comments come to fruition, it might tick up slightly higher than that. But I do think those opportunities, Damon, allow us to Keene's point about margin is being selective nonetheless to make sure that we achieve the margin that we target. And again, it's full relationship oriented and really not doing transaction lending. We feel good about just the tempo that we're seeing with our teams and not just the ones that recently came on, our established teams as well who have deeply rooted in those communities. So I do feel that mid-single digits is a very safe number.

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

Okay. And then out of curiosity, with your operations on the West Coast, were there any impacts to any of the businesses due to the wildfires? Or are you guys not really in those areas?

James Brian Lally
President, CEO & Director

Damon, thank you for bringing that forward. First of all, we're pleased to report that all of our associates are safe. And then with respect to our client base, we did not suffer any type of collateral issues based upon the loans we have out there. And then going forward, I think we'll just monitor the situation, certainly serve our communities well, serve our clients well in that regard. There's going to be a long rebuild in those communities, and we'll be there to help.

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

Great. Okay. Good to hear on that front. And then I guess just lastly, kind of circling back to the credit. When you look at where the reserve level is now, it seemed like you had a little bit of normalization in credit net charge-off trends this last quarter or so. Do you think you kind of keep the reserve here in this, call it, almost mid-120 range? Or do you think you need to kind of add to that?

Keene S. Turner
Senior EVP & CFO

Damon, this is Keene. I would say, I think we feel good where we are. In my comments, I mentioned that we've got a fairly decent pessimistic view in the qualitative with some downside weighting, and it's about 1/3 of the reserve. So I think there's sufficient pessimism there. And I think that, as Doug mentioned, to the extent that there's a credit or 2 that has a reserve against it with a favorable resolution that's a reserve release or a reduction in the reserve.

So I feel like we're well positioned. I wouldn't expect coverage to move up or down dramatically. And we're 1.35% on unguaranteed loans. So that feels pretty robust, I think, at this point on pure commercial.

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Operator

Next question comes from Andrew Liesch from Piper Sandler.

Andrew Brian Liesch
Piper Sandler & Co., Research Division

You've covered nearly all my questions, but I just want to ask on capital. Regulatory ratios have been growing nicely. I mean, is there -- can you remind us if there's a ratio that you specifically target over the long term?

Keene S. Turner
Senior EVP & CFO

Yes. Andrew, our capital targets are 10%, 12% and 14% on CET1, Tier 1 in total. We're a little bit higher on CET1 right now, and we've been managing there. And I think the rest has sort of grown correspondingly. So we're trying to be steady with what we do on capital management. Obviously, we had a really great quarter from a growth perspective, and we're still -- it doesn't look like we're done yet in terms of having fair value move around.

So we try to be below 9% TCE, but it doesn't feel like it's hurting us or anyone in the market that's a little bit higher. So we'll continue to buy back smartly on the fringe, and we're trying to just make sure that we're being prudent. But we feel pretty good about what we've done over the course of the year with both buybacks, dividend policy growth, et cetera.

Andrew Brian Liesch
Piper Sandler & Co., Research Division

Got it. And Jim, you've mentioned on many calls, don't want to disrupt organic momentum with the deal. But any commentary you may have on any sort of M&A outreach or inbound interest you've been getting?

James Brian Lally
President, CEO & Director

Yes. Thank you, Andrew. I'd say this, we are keenly focused on executing the organic plan. And certainly, my day-to-day is such that we do talk to companies and iBankers and what have you. And to the extent that's something that really allows us to accelerate what we're doing, not just to get bigger, but really accelerate what we're up to, we'll stop and take a look. But it's not a high priority in 2025.

Operator

[Operator Instructions] Your next question comes from Eric [indiscernible], private investor.

Unknown Attendee

I just had a question on the deposit side. You had pretty good growth in the regions and the deposit verticals. So I was just curious on the deposit verticals, is there any geography that is driving that besides -- I mean you break it down by homeowners association, property management, legal and escrow. But is there a geography where that's coming from, particularly on the community association and the property management or not?

Scott R. Goodman
President

Eric, this is Scott. I can take that one. I think just by nature of some of those businesses, particularly HOAs, you find it a little heavier in the Southwestern and Western states. On the property management side, that's probably a little bit more well dispersed. There are some states in particular where you need to have a physical presence to actually have some of those accounts, and that's the branch that we opened in Florida that we've talked about in the past was because of that. We have another one in Las Vegas because of that. But predominantly, it's pretty well spread out when you talk about the property

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management accounts. And then the escrows are really national in scope and not really geographically focused at all.

Unknown Attendee

Sure. And just one last thing. Most analysts want to know, gee, you have a loan relationship where is the deposit relationship, right? But the other way around on these community associations and the property management, to what degree do those relationships have a loan tag with them as well? Is it pretty small -- I mean homeowners association, maybe not so much there, but maybe I'm wrong. What kind of color can you provide on that?

Scott R. Goodman
President

Yes. We're focused on the deposit side. We don't really have a lending vertical focused on those things. We might have a small loan here and there, but it's not something we're focused on or not something that we really need to do in order to handle or grow that base.

Keene S. Turner
Senior EVP & CFO

Eric, this is Keene here. I would just add on that, the hook there is the technology and the onboarding and the structuring. It's specialized to those businesses, and I think that's where we're differentiated.

Unknown Attendee

Yes. No, I -- my background, having been a Board Director at Metro Phoenix, that was a big business for the bank. No, I get it. That is super important for getting the customers in and keeping them on board. Yes. No, I understand.

Operator

I'd now like to hand the call back to Jim Lally. Thank you.

James Brian Lally
President, CEO & Director

Thank you, Ellie, and thank you all for joining us this morning, and thank you for your interest in our company. We look forward to speaking with you at the end of the first quarter, if not sooner. Have a great day.

Operator
Thank you for attending today's conference call. You may now disconnect. Have a wonderful day.

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