People’s Utah Bancorp

Q4 Earnings Release Conference Call and Webcast

Wednesday, January 29, 2020, 12:00 P.M. Eastern

CORPORATE PARTICIPANTS

Mark Olson – *Executive Vice President and Chief Financial Officer*

Len Williams – *President and Chief Executive Officer*

PRESENTATION

Operator
Good day and welcome to the People's Utah Bancorp Fourth Quarter Earnings Release Conference Call and Webcast. All participants will be in 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 (*), then one (1) on a touchtone phone. To withdraw your question, please press star (*), then two (2). Please note this event is being recorded.

I would now like to turn the conference over to Mr. Mark Olson, Executive Vice President and Chief Financial Officer. Please go ahead.

Mark Olson
Thank you and good morning. Thank you for joining us today to review our fourth quarter and year-end 2019 financial results. Joining me this morning on the call is Len Williams, President and Chief Executive Officer for People's Utah Bancorp and Altabank.

Our comments today will refer to the financial results included on our earnings announcement released last night. To obtain a copy of our earnings release, please visit our website at www.peoplesutah.com.

Our earnings release contains forward-looking statements. All statements, other than statements of historical fact, are forward-looking statements. Such statements involve inherent risks and uncertainties, many of which are difficult to predict and beyond the control of the company. We caution readers that a number of important factors could cause actual results to differ materially from those expressed in, or implied, or projected by such forward-looking statements. These forward-looking statements are intended to be covered by the Safe Harbor for forward-looking statements provided by the Private Securities Litigation Reform Act of 1995. Forward-looking statements speak only as of the date they are made, and we assume no duty to update such statements.

Our earnings release and accompanying 8-K also contain statements that may be considered solicitation material. Shareholders and other third parties may obtain additional information from the proxy statement to be filed in conjunction with the company's 2020 annual meeting, the company's most recent annual report, and other documents filed by the company with the Securities and Exchange Commission.

I will now turn the call over to Len Williams. Len?

Len Williams
Thank you, Mark, and good morning. Thank you all for joining us on the call today. Before I discuss our financial performance, I would like to take just a brief minute and express my deep appreciation for Rick Anderson, our President and Chief Operating Officer here at Altabank. As previously reported, Rick will retire next week after 12 years of service with the bank. I appreciate Rick's vision, guidance, leadership, friendship, and the selfless hours of service that he has provided to the organization. Rick will be missed, but he deserves this time for himself and his family. I wish Rick and his family the very best as he transitions into his new chapter.

People's Utah Bancorp achieved strong financial performance for the fourth quarter and the 12 months ended December 31, 2019. We accomplished a return on assets of 1.9% for the fourth quarter and all of 2019.

Our return on equity was 14.1% for the same respective periods even as our tangible common equity to tangible assets increased to 12.8% and our allowance for loan losses to loans grew to 1.9% at year-end.

Total assets grew 10.2% from a year ago. This growth is primarily the result of strong low-cost core deposits. Total deposits were up $179 million or 9.6% year-over-year, as our retail branches, commercial group, and commercial treasury management team focused on raising deposits from existing clients as well as the acquisition of new client relationships. We are in the process of rolling out a new treasury management platform that we believe will help us continue to grow our low-cost commercial deposit base and improve our fee income.

Our total cost of deposits was 44 basis points for the fourth quarter and 46 basis points for all of 2019, which we believe highlights the strength of our deposit franchise. Non-interest-bearing deposits to total deposits increased to 35% at year-end. We continue to experience significant competition for deposits and anticipate that deposit betas will be lower than in prior interest rate reduction cycles. Loans held for investment remained flat at $1.68 billion at December 31, 2019, compared with a year ago.

During 2019, we focused on reducing our concentrations in our acquisition, development, and construction portfolio as well as our overall commercial real estate concentrations. ADC loans to total capital declined from 113% at December 31, 2018 to 84% at December 31, 2019. Commercial real estate loans to total capital declined from 250% to 204% for the same respective periods.

We recently created a business vertical focused on construction lending to homebuilders. We believe the centralization of this key area will improve our ability to meet our clients' needs from both the service and product offering perspective, while ensuring that we effectively manage our credit exposure. We are experiencing long -- strong loan volume in this business vertical presently.

Our major focus continues to be on expanding our C&I portfolio through commercial banking centers. We operate two commercial banking centers in the Salt Lake County and have recently hired a commercial banking center manager in Utah County. We anticipate increased organic growth in our C&I portfolio from our commercial banking centers during 2020.

To replace Rick Anderson's role, we promoted Judd Austin to the position of Chief Banking Officer. In this capacity, Judd will oversee our entire branch network, bank card, call center, and bank operations. Judd formerly held the position of Market Area President for Cache County. He has been with the company since 2006, and has provided outstanding leadership, innovation, and execution to the organization. We are excited to be able to more fully utilize Judd's talents and leadership across the entire retail bank platform.

With Judd's promotion, we have hired a strong regional manager in Cache County, who has extensive period -- experience in the Cache Valley market and has proven track record of growing commercial relationships.

We also recently hired a seasoned commercial banking leader for the St. George market, who has a 40-year track record of building markets. We anticipate strong loan growth in our retail banking operations during 2020. As mentioned on previous calls, we made the decision to rebuild our oldest -- actually our second oldest branch in the system in Alpine, Utah. We have completed the rebuild of the branch and expect to have the grand opening in February. The Alpine branch is one of our largest branches with over $120 million in deposits.

In the fourth quarter, we successfully implemented an online commercial lending origination system. nCino is an industry leader in the commercial banking LOS space. The goal of this project is to ensure that we continue to provide our historical high touch and unparalleled responsiveness to our clients and to be able to offer the same client service as we continue to grow in size and complexity and expand our geographical footprint.

During 2020, we anticipate implementing nCino's point of sale application, which we expect will further improve our responsiveness to our clients. We recently hired a Head of our mortgage banking division with a strong national and local history of growing the mortgage business. He is currently in the process of replacing our mortgage loan origination system and hiring a number of mortgage loan officers. We anticipate higher loan mortgage volume during 2020 as we significantly strengthened the leadership, systems, and staffing in our mortgage banking area.

Over the past 15 months with the promotion of our current Chief Credit Officer, the hiring of a General Counsel with extensive loan workout experience, the hiring of a season -- of seasoned credit underwriters, the promotion of a loan workout specialists, and the hiring of a loan review manager, we have significantly improved our overall underwriting and loan monitoring processes and procedures. As a result, we believe we have improved the identification, credit risk rating, and resolution of credit-related issues in our loan portfolio over the past several quarters. The overall quality of our loan portfolio remains strong as does the overall economic climate in Utah.

During the fourth quarter, we announced the change of the name of our Bank from People's Intermountain Bank to Altabank, combining our three existing brand names, Bank of American Fork, Lewiston State Bank, and People's Town & Country Bank under one unified name. We believe the Altabank name also better represents the Bank's mission to be the best bank for your business.

We remain the largest community bank in Utah. Our prior outside research indicated that our clients have a highly favorable opinion of us, based on our high-touch model, driven by excellent client service. That reputation of service, speed, and value reached prospective clients as well, but confusion by our numerous geographically limiting names caused some perception that we were too small to meet all their banking needs. We believe that bringing our operating units under a single name clarifies our market position, bolsters the view that we have the size and scale to handle the full range of banking needs for both current and prospective clients, and makes clear that clients will receive the same personalized service from Preston, Idaho to St. George, Utah from bankers and decision makers who work with clients to understand their specific needs and designed customized financial solutions.

Through the first 60 days since the rebrand launch, the research has held true. As part of the transition to a new unifying brand with a broader regional market appeal, we plan to change the name of People's Utah Bancorp to Altabancorp. We intend on seeking the required shareholder approval for that name change as part of our 2020 annual meeting, as well as requisite regulatory approvals. In addition, we have reserved with NASDAQ the ticker symbol ALTA, and we intend to change the ticker symbol in conjunction with an approved name change of the holding company around June 30, 2020. Ultimately, we anticipate these efforts will result in greater loan and deposit growth and higher overall revenues.

We fortified our balance sheet in 2019 as we increased our capital and allowance ratios and managed our overall loan concentrations. We believe these strategic initiatives position us for strong growth in 2020 and anticipate that our loan portfolio growth rate will return to historic levels. The economic outlook for the Utah market continues to be strong, which provides us further opportunities to provide high quality growth. We also continue to evaluate potential acquisition opportunities throughout the Intermountain West.

I am also pleased to announce that the Board of Directors declared a 7.7% increase in the quarterly dividend payment to $0.14 per common share. The dividend will be payable on February 18, 2020 to shareholders of record as of February 10, 2020. The dividend payout ratio for earnings for the fourth quarter of 2019 was 22.63%.

I will now turn the call back over to Mark to discuss our financial results. Mark?

Mark Olson
Thank you, Len.

Net income was $11.7 million, or $0.61 per diluted common share for the fourth quarter of 2019, compared with $11.1 million, or $0.59 per diluted common share for the third quarter of 2019 and $10.7 million, or $0.56 per diluted common share for the fourth quarter a year ago. For the 12 months ended December 31, 2019, net income was $44.3 million, or $2.33 per diluted common share compared to $40.6 million, or $2.14 per diluted common share for the same period a year earlier.

For the fourth quarter of 2019, net interest income declined $0.9 million, or 3.5% to $27.1 million, compared with $28.1 million for the same period a year earlier. The decline is primarily the result of net interest margins narrowing 72 basis points to 4.69% for the same comparable periods offset by average interest earning assets increasing $235 million, or 11.5% to $2.3 billion for the same comparable period. The narrowing of net interest margins is primarily the result of three consecutive 25 basis point benchmark rate reductions by the Federal Reserve and an increase in the average amount of lower yielding cash and investment securities held by us stemming from average core deposits increasing $179 million, or 9.6% for the same respective periods.

The percentage of average loans to total average interest earning assets decreased to 73.6% for the fourth quarter of 2019, compared with 83% for the fourth quarter of 2018. Yields on interest earning assets declined 72 basis points to 5.08% for the fourth quarter of 2019, compared to 5.8% for the same period a year earlier.

The decline in yields on interest earning assets is primarily the result of average amounts of cash in investment securities held by us increasing $256 million, or 74% to $603 million for the same comparable period with a yield on cash and investment securities declining 10 basis points to 1.95% for the same respective periods. In addition, the yield on loans declined 36 basis points for the same comparable periods and average loan outstanding decreased $20.6 million, or 1.2% to $1.69 billion for the same respective period.

For the fourth quarter of 2019, total cost of interest-bearing liabilities increased 3 basis points to 0.67% compared with 0.64% for the same period a year ago and is the result of the cost of interest-bearing deposits increasing 4 basis points to 0.67% compared with 0.63% for the same period a year earlier.

For the fourth quarter of 2019, the total cost of funds increased 2 basis points to 0.44% compared with 0.42% for the same period a year ago. For the fourth quarter of 2019 acquisition accounting adjustments, including the accretion of loan discounts and amortization of core deposit intangibles added 8 basis points to net interest margin. For the 12 months ended December 31, 2019, net interest income grew $1.7 million, or 1.6% to $110 million compared with $108 million for the same period a year earlier.

The increase here is primarily the result of average interest earning assets growing $130 million, or 6.3%, offset by net interest margins narrowing 24 basis points to 5.05% compared with 5.29% for the same comparable periods. The narrowing of net interest margins for the year is primarily the result of the Fed reductions I mentioned earlier, and an increase in the average amount of lower yielding cash investment securities held by us stemming from average core deposits increasing $155 million, or 8.4% for the same respective periods.

The percentage of average loans to average interest earning assets decreased to 77.3% for all of 2019, compared with 83% for all of 2018. For the 12 months ended December 31, 2019, yields on interest earning assets declined 17 basis points to 5.47% compared to 5.64% for the same period a year earlier. The declining yields on interest earning assets is primarily the result of an average amount of cash and investment securities held by us increasing $150 million, or 44% to $490 million for the same comparable period. The yield on cash and investment securities increased 17 basis points to 2.12% for the same respective periods.

In addition, the yield on loans increased 7 basis points to 6.45% for the same comparable periods, and average loans outstanding decreased $17.5 million, or 1% to $1.68 billion for the same respective periods. For the 12 months ended December 31, 2019, total cost of interest-bearing liabilities increased 13 basis points to 0.71% for all of 2019, compared with 0.58% for all of 2018, and as a result of cost of interest-bearing deposits, increasing 22 basis points to 0.71% for all of 2019, compared with 0.49% for all of 2018.

For the 12 months ended December 31, 2019, the total cost of funds, increased 8 basis points to 0.46% compared with 0.38% for the same period a year ago. For the 12 months ended December 31, 2019, acquisition accounting adjustments, including the accretion of loan discounts and amortization of core deposit intangibles added 9 basis points to the net interest margin.

For the fourth quarter of 2019 provision for loan losses were $1.2 million compared to $3.2 million for the same period a year earlier. For the fourth quarter of 2019, we incurred net charge-offs of $0.2 million compared with net charge-offs of $1.2 million for the same period a year ago. The decrease in provision for loan losses in the fourth quarter of 2019 is due primarily to a decrease in charge-offs and no loan growth quarter-over-quarter. For the 12 months ended December 31, 2019, provision for loan losses were $7 million compared with $8.6 million for the same period a year earlier.

For the 12 months ended December 31, 2019, we incurred net charge-offs of $0.8 million compared with net charge-offs of $1.7 million for the same period a year ago. The decrease in provision for loan losses for all of 2019 is due primarily to a $0.9 million decrease in charge-offs and no loan growth year-over-year. For the 12 months ended December 31, 2019, annualized net charge-offs were 0.05% compared to 0.10% for the same period a year ago.

Non-performing assets increased to $8.8 million at December 31, 2019, compared with $4.5 million at December 31, 2018. Nonperforming assets to total assets was 0.37% at December 31, 2019, compared with 0.21% a year earlier. Of the $4.6 million increase in NPAs quarter-over-quarter, half the amount was one relationship that we actively managed out of the bank, which fully paid off this month. The remaining loans have either been charged down to their net realizable value or we have set aside specific reserves.

The allowance for loan losses increased $6.2 million, or 24.5% to $31.4 million at December 31, 2019, compared with $25.2 million for the same period a year ago. The allowance for loan losses to loans held for investment was 1.87% at the end of the year, compared with 1.5% a year earlier. In accordance with acquisition accounting, loans acquired from the Utah branches, the Banner Bank and from Town and Country Bank were recorded at their estimated fair value, which resulted in a net discount to loans -- to loan contractual amounts, a portion of which reflects a discount for possible credit losses. Credit discounts are included in the determination of fair value and as a result, no allowance for loan losses is recorded for acquired loans at the acquisition date. The discount recorded on acquired loans is not reflected in the allowance for loan losses or related allowance for coverage ratios. The remaining discount on acquired loans was $6.1 million at the end of the year.

In June 2016, the Financial Accounting Standards Board or FASB issued Accounting Standards Update or ASU regarding current expected credit losses. The ASU significantly changes the accounting for credit loss measurement on loans and debt securities. For loans and held to maturity debt securities the ASU requires a current expected credit loss or CECL measurement to estimate the allowance for credit losses or ACL for the remaining estimated life of the financial asset, including off balance sheet credit exposures. Using historical experience, current conditions, and reasonable and supportable forecast, the ASU eliminates the existing guidance for purchase credit impaired, or PCI loans, but requires an allowance purchase financial assets with more than an insignificant deterioration since origination, otherwise known as purchase credit deteriorated or PCD assets.

In addition, the ASU modifies the other than temporary impairment model for available for sale debt securities to require allowance for credit impairment instead of a direct write-down, which allows for the reversal of credit impairments in future periods based on improvement in credit. This ASU is effective for interim and annual reporting periods beginning after December 15, 2019. On October 16, 2019, the FASB voted to delay the adoption by two years to January 2023 for private companies, not-for-profit companies and certain small public companies that meet the definition of a smaller reporting company or SRC as defined by the Securities and Exchange Commission.

To meet the requirements of an SRC and entity must be an issuer, as defined by the SEC and have public float of less than $250 million or public float of less than $700 million in annual revenues of less than $100 million. As of June 30, 2019, our public float was $466 million in annual revenues for 2018 were $130 million. As a result, we are not an SRC and therefore we are required to adopt ASU effective January 1, 2020. In implementing the ASU, we intend to recognize an ACL for health maturity and available for sale of debt securities. The ACL on available sell of debt securities will be subject to a limitation based on the fair value of the debt securities. Based on the credit quality of existing debt securities, we do not expect the ACL for debt securities to be material.

We expect to use the weighted average remaining maturity or warn approach adjusted for prepayments to calculate CECL. As described in the FASB staff question and answers, we intend to use a qualitative approach to adjust historical loss information for current conditions and for reasonable and supportable forecasts. As noted in the section of ASU 320-20-39, an entity shall not rely solely on past events to estimate credit losses. When an entity uses historical loss information, it shall consider the need to adjust historical information to reflect the extent to which management expects current conditions and reasonable and supportable forecast to differ from the conditions that existed for the period over which historical information was evaluated. The adjustments to historical loss information may be qualitative in nature and should reflect changes related to the relevant data such as changes in unemployment rates, property values, commodity values, delinquency or other factors that are associated with credit losses on the financial asset or in the groups of financial assets evaluated.

We expect the ACL to increase upon adoption because the ACL is required to cover the full remaining expected life of the portfolio that is greater than one-year rather than the incurred loss model that assumes annual credit losses under current US GAAP. In addition, a portion of the increase will be due to PCI loans that will be reclassified as PCD loans with the credit related non-accretable discount increasing both ACL and loan balances, but not retained earnings. However, accretable discounts held on non-PCD loans are not allowed to be moved to ACL as part of the adoption of this ASU.

We will set aside additional ACL for the non-PCD loans through retained earnings upon adoption of this ASU. As a result, we will continue to hold accretable discounts that will be recorded to interest income over the remaining life of non-PCD loans as well as a similar amount in ACL. We expect greater volatility in earnings, and those of other banks after adoption to the nature and time horizon used to calculate CECL. In addition, we expect a potential negative impact of credit availability and reduced loan terms to borrowers as this ASU is adopted by financial institutions.

Lastly, we expect a lack of comparability with financial performance to many of our peers as we adopt this ASU, due to the delayed adoption for public companies with total assets similar in size to us. The ultimate effect of CECL on our ACL will depend on the size and composition of the loan portfolio. The loan portfolio's credit quality and economic conditions at the time of adoption as well as any refinements to models, methodologies and other key assumptions used.

We expect an increase in ACL of approximately $10 million to $14 million, or approximately 30% to 45%. This increase will include the gross up for non-accretable discounts on PCD loans up between approximately $2.5 million to $5 million or approximately 10% to 15%. We expect the cumulative tax affected impact of total shareholders' equity of between $6 million to $8 million, or approximately 2% to 2.5%. We expect our regulatory capital amounts and ratios to be negatively impacted. An increase in our ACL will result in a decrease in regulatory capital amount and ratios. Bank regulatory agencies are provided regulatory capital relief for an initial capital decrease from the adoption of this ASU, by allowing a phased adoption over three years on a straight-line basis, which we expect to utilize.

For the fourth quarter of 2019, noninterest income was $3.8 million compared with $3.6 million at the same period a year ago. The increase was primarily due to a $0.2 million increase in mortgage banking income resulting from higher loan originations which is attributable to a lower interest rate environment for the same comparable period. For the 12 months ended December 31, 2019, noninterest income was $15.2 million compared with $15.1 million for all of 2018. The increase was primarily due to $0.6 million increase in mortgage banking income resulting from higher loan originations, which was attributable to a lower interest rate environment for the same comparable periods.

For the fourth quarter of 2019, noninterest expense was $14.6 million compared with $14.8 million for the same period a year earlier. For the fourth quarter of 2019, our efficiency ratio was 47.3% compared with 46.9% for the same period a year ago. For the 12 months ended December 31, 2019, noninterest expense was $60.3 million compared with $62 million for the same period a year earlier.

For the 12 months ended December 31, 2019, our efficiency ratio was 48.2% compared with 50.3% for the same period a year ago. The decrease in noninterest expense from both the three and 12 months ended December 31, 2019 was primarily the result of lower salaries and employee benefits resulting from lower incentive payments and lower FDIC premiums due to the application of small bank assessment credits. These lower amounts were partially offset by higher data processing costs resulting primarily from the implementation of our new commercial loan origination system and higher marketing and advertising costs associated with the rollout of the new brand.

For the fourth quarter 2019, income tax expense was $3.4 million compared with $2.9 million for the same period a year earlier. For the 12 months ended December 31, 2019, income tax expense was $13.5 million compared to $12.1 million for the same period a year ago. For the fourth quarter of 2019 the effective tax rate was 22.5% compared with 21.5% for the same period a year ago. For the 12 months ended December 31, 2019, the effective tax rate was 23.4% compared with 22.9% for the same period a year ago.

I will turn the call back to Len.

Len Williams
Thank you, Mark. We have had a lot going on with this CECL implementation for sure. We are pleased with the strong financial performance and positioning we achieved in the fourth quarter and for all of 2019. In particular, we are pleased with the momentum we have experienced with our treasury cash management commercial program, and the resulting growth in deposits. We continue to focus on taking the advantage of the outstanding economic prospects in the markets we serve. We are passionate and enthusiastic about our prospects to expand our commercial relationships to small and medium-sized businesses throughout our branches and commercial banking centers. In addition, we continue to actively pursue potential acquisition opportunities throughout the Intermountain West, which we believe is a crucial component of our business strategy and shareholder value creation model going forward.

We appreciate you all joining us today and we now will turn it back to the moderator to open it up for questions.

QUESTIONS AND ANSWERS

Operator
We will now begin the question-and-answer session. To ask a question, you may press star (*), then one (1) on your touchtone phone. If you are using a speakerphone, please pick up your handset before pressing the keys. If at any time your question has been addressed and you would like to withdraw your question, please press star (*) and then two (2).

The first question comes from Jeff Rulis from D.A. Davidson. Please go ahead.

Jeff Rulis
Thanks. Good morning, guys.

Len Williams
Good morning, Jeff.

Mark Olson
Hi, Jeff.

Jeff Rulis
I have several CECL questions, nah just kidding.

Len Williams
Thanks a lot.

Jeff Rulis
Really the expense line, I think, there is some items there. I want to make sure I get my hands around and I think here at 14.5% you mentioned some items there. I am trying to get a run rate and kind of where you are on the lifecycle of the kind of the name change and some of the other investments you have made. $14.6 million this quarter, if I were to think about the comp line, is there kind of some year-end maybe some true-up on that line. Then, you have talked about the – let us see, FDIC credits if you could touch on kind of how many more if or when you use those in the future and then I guess the data processing. So, some pieces there, just trying to get some clarity on the expense run rate, thanks.

Len Williams
Jeff, I will turn the meat of the numbers back over to Mark in a second, but you hit on a point that was real. Our incentive plans in the organization were highly weighted toward loan growth, and we were flat for the year, so there was an accrual reversal that was relatively significant, because of the lack of loan growth for the year. Mark can get more into the numbers with you on that.

Then we are now getting to a stabilization rate, although, it will be increased from where we were last year on our marketing expenses with the brand change. So, we have through all the one-time expenses. Now it is just re-launching advertising, marketing, and some of those community events with putting the name out there that will be more familiar with years past than last year.

So, Mark?

Mark Olson
Sure. With respect to salaries, the accrual adjustment was about $1 million as we trued up at the end of the year. When you look at the data processing costs, we will run about the level we are running this quarter going forward.

With respect to FDIC premiums, we have about one quarter left of the credit. So, the first quarter will have no premiums then, but then going forward, you will see the full assessment for the rest of the year. Len mentioned marketing and advertising and where we -- for the most part, have gone through a lot of those numbers. So, we will see a more normalized line item there going forward.

Jeff Rulis
Okay. So, it sounds like bumps to maybe 15.5% on the comp line. Add that $1 million back and then I guess if one more quarter of the FDIC kind of low cost, but -- and then just kind of growth off that, is it a fair number?

Mark Olson
That is exactly right. Now keep in mind though that in the first quarter we do have our annual merit increases and so that will increase salaries in the first quarter and then we will stabilize from there.

Jeff Rulis
Okay, great, and Len, on the loan growth, you have referenced back to historical levels. If you could kind of range bound of a mid to high single digit. Obviously there has been some years going -- a couple of years back, where you were outstripping that by some margin, but given kind of the movement within the construction book, reducing net exposure, but then bringing on your homebuilder vertical, I am just trying to get a sense of what the historical level would mean in present day?

Len Williams
Yes. That is perceptive of you Jeff. What we would -- without providing too much guidance, I think it will be tough to predict double digit, just given the cautiousness with which we operate. But that said, we would hope that we would utilize all that incentive that we have budgeted for this year with people hitting those numbers.

So, we have processes in place with the loan origination system that in time will make it easier and more consistent. We feel we have got an incredible arm around our portfolio as far as knowing what is there and to the point where we are actually taking on some larger deals again and where we have gone below our floor of comfort frankly on the ADC. So, we are actually willing to take on a little -- a few more projects, a little bigger projects that pipeline is building. So, I think the mid-single digits is a fair number.

Jeff Rulis
Okay, great. I will step back, thank you.

Len Williams
Thank you.

Mark Olson
Thanks Jeff.

Operator
Again, if you have any question please press star (*), then one (1).

The next question comes from Andrew Liesch from Piper Sandler. Please go ahead.

Andrew Liesch
Good morning guys. How are you?

Len Williams
Good Andrew. How are you? You have gone through a rebrand yourself?

Andrew Liesch
Yes, yes, certainly have. I just wanted to touch on the margin a little bit. It certainly seems like loan yields are coming in, but also the excess liquidity is pressured. I mean, how do you think the margin can react from here, just given what you are seeing on loans right now and loan yields and maybe an improvement in the earning asset mix as loan growth comes on?

Len Williams
Yes. You are right on I mean, we had strong deposit growth and as a result we are holding a lot more cash in investment securities than we typically would like to do. What I will tell you is after we kind of finish the -- the end of the year and looking at kind of the overall liquidity in the market, we feel comfortable in putting more of that cash to use. And so, we have purchased more investment securities, amortizing security, so that we can get a little more yield on that side. But because we are amortizing, the cash will come back and we will be able to redeploy that cash into loans as the loan book starts to build. Clearly, the faster that we grow the loan book the – we will see margins kind of rebound, given the level of yield that we are able to get on our loan portfolio. So, if we hit that strong loan growth that we are talking about, then we should see margin stabilized and/or increase, depending upon the amount of growth that we see.

Andrew Liesch
Got you. Are the loan yield pressures continuing into this quarter from what you are seeing?

Mark Olson
No. I think, we are kind of where we would want to be. Again, if you look at our portfolio, it is very short. Our duration is less than two years. In fact, when you look at last year, our loan volume was $1.1 billion to maintain the $1.6 billion that we hold. So, we turned the portfolio rather quickly and as a result, we are kind of at market now. And again, with growth we should see those yields improve and particularly in the construction portfolio that portfolio churns, depending on the type of asset 3 to 4 times a year. And with the one-time fees that we get with that that can certainly improve our margins overall.

As Len mentioned, we were below kind of the target level that we would like to be from a construction portfolio perspective, and we would like to see that grow a little bit more than where we are at right now and with that -- with the higher margins as well.

Andrew Liesch
Got you. That is very helpful. Thanks for taking the questions, I will step back.

Mark Olson
Thank you.

Operator
The next question is a follow-up question from Jeff Rulis from D.A. Davidson. Please go ahead.

Jeff Rulis
Yes. Thanks. Just on the NPA. So, it sounds like half of that new accrual -- non-accrual balance has been taken care of subsequent to quarter end. The other add and maybe just for edification,

just the -- what was added? What kind of loan segment or category was that in, what type of loans?

Len Williams
It is really mixed and there are several -- nothing incredibly outstanding. I think there was an assisted living item in there for a little over $1 million, I think, which is the largest one. So the rest of them, there is a little bit of everything. There is some ag. There is an ag-related item in there. And then, it is not really in our builder, our construction. I think there might be some hospitality unit or two in there, but we were pretty dynamic in the management of that. Our Chief Credit Officer meets monthly and goes through the whole portfolio. And anything has a sniffle, he will take a look at it in and adjust.

So, we manage that not as necessarily to tell the world. That is an internal manageable number that we utilize to keep our eyes on. We have not -- you have seen it has been dynamically used over the last couple of years and we have not had any significant losses. Reserves are in pretty good shape and we feel we are well reserved.

Even as you will see items go in and out, you are not seeing them going to the charge-off buckets. We are working through those. So yes, we have had, half of it reduce already this month from quarter end, but again, it is not the end of the quarter. So, there may be some others that will go in and come out by the time we all see it again.

Mark Olson
The other thing I would say is that, that we are also very aggressive about charging off amounts or setting aside specific reserves quickly and so we feel like what is in that book is fairly valued and aggressive from a marked perspective. Again, I guess, the number is very small as well. Right. I mean, we did see the increase, but it is still at very low levels.

Jeff Rulis
Right. The ag piece is that -- what in particular without getting too much into detail. I maybe total ag exposure would also be helpful. I did not know that was a major part.

Len Williams
Yes. We have a little bit up in Lewiston, up in the Cache Valley that we have got a few agricultural clients and the one in particular happens to be a mink farm, and for some reason mink stoles are out of style.

Jeff Rulis
Okay. Did not know that. All right. The tax rate, just they were creeping up I guess 23% and change for the year, anything Mark on 2020?

Mark Olson
Yes. I think that higher level is what I would expect. In previous years, we had a lot of disqualifying dispositions, and we are doing RSUs now rather than stock options. So, we are not seeing that benefit going forward. So, the run rate that we have right now is what I would expect going forward.

Jeff Rulis
Okay, great, thanks.

Len Williams
Thanks Jeff.

Mark Olson
Thank you.

Operator
There are no more questions in the queue. This concludes our question-and-answer session. I would like to turn the conference back over to Len Williams for any closing remarks.

CONCLUSION

Len Williams
Great, thank you. Well, I think as we stated, we are pretty bullish on the fundamentals where the organization sits today, where the focuses are, where we have built production staff to drive us forward. So, we are feeling pretty good about 2020.

The Utah economy is holding strong. To date, there is still an under-supply of residential places to live. There is still growth in in-migration here, wages continue to increase with no unemployment virtually. So, we are -- we now feel we are even better positioned to take advantage of that than we had been in the past. We wanted to ensure that the store was minded. We knew where the bugs were, and we feel pretty strong that we have got exceptional identification in our credit portfolio as well. So, full speed ahead.

Thank you all for joining us on the call. Thank you for your support of the organization and we are looking forward to 2020 being a great year. Have a great day.

Operator
The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.