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Earnings Call

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Call Participants

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Executive Chairman of the Board & CEO

Alberto J. Paracchini

President & Director

Thomas J. Bell

Executive Vice President, CFO & Treasurer

Mark Fucinato

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ANALYSTS

Nathan J. Race

Piper Sandler & Co.

Brendan J. Nosal

Hovde Group, LLC

Brian J. Martin

Janney Montgomery Scott LLC

Terence J. McEvoy

Stephens Inc.

Damon P. DelMonte

Keefe, Bruyette, & Woods, Inc.

Presentation

Operator

Good morning, and welcome to Byline Bancorp Fourth Quarter 2024 Earnings Call. My name is Emily, and I will be your conference operator today. [Operator Instructions] Please note the conference call is being recorded.

At this time, I would like to introduce Brooks Rennie, Head of Investor Relations for Byline Bancorp to begin the conference call.

Brooks O. Rennie

Head of Investor Relations

Thank you, Emily. Good morning, everyone, and thank you for joining us today for the Byline Bancorp Fourth Quarter and Full Year 2024 Earnings Call. In accordance with Regulation FD, this call is being recorded and is available via webcast on our Investor Relations website, along with our earnings release and the corresponding presentation slides.

As part of today's call, management may make certain statements that constitute projections, beliefs, or other forward-looking statements regarding future events or the future financial performance of the company. We caution that such statements are certain risks, uncertainties and other factors that could cause actual results to differ materially from those discussed. The company's risk factors are disclosed and discussed in its SEC filings.

In addition, our remarks and slides may reference or contain certain non-GAAP financial measures, which are intended to supplement, but not substitute for the most directly comparable GAAP measures. Reconciliation of each non-GAAP financial measure to the comparable GAAP financial measure can be found within the appendix of the earnings release.

For additional information about risks and uncertainties, please see the forward-looking statements and non-GAAP financial measures disclosures in the earnings release.

As a reminder for investors, this quarter, we plan on attending the KBW Winter Financial Services Conference and the RBC Global Financial Institutions Conference.

With that, I'd now like to turn the conference call over to Alberto Paracchini, President of Byline Bancorp.

Alberto J. Paracchini

President & Director

Thank you, Brooks. Happy New Year to all of you, and thank you for joining the call this morning to review our fourth quarter and full year 2024 results. As always, joining me this morning are Chairman and CEO, Roberto Herencia, Tom Bell, our CFO and Treasurer; and Mark Fucinato, our Chief Credit Officer.

I'd also like to welcome Brian Doran, who's on the call this morning as well. Brian joined Byline this week as our new General Counsel.

Before we get into results, I want to pass the call on to Roberto to comment on a few items. Roberto?

Roberto R. Herencia

Executive Chairman of the Board & CEO

Thank you, Alberto. Good morning to all and best wishes for a healthy and successful new year 2025. I can't think of a better way to conclude last year, another strong top quartile performance for the final quarter of 2024, with a steady and healthy asset quality and record profitability for the full year 2024. We were also happy to approve a few days ago, another \$0.01 increase to our quarterly dividend, which represents an 11.1% increase from the previous dividend. Alberto and Tom will distill these numbers for you in a minute.

2025, we continue to feel excited and optimistic about our ability to build out the preeminent commercial bank in Chicago. A softer approach to bank regulatory environment and the expectation of higher M&A activity will continue to create disruption in our local market. We have thrived under those conditions as we're able to attract banking talent and execute on smaller talking acquisitions. I am a firm believer that the consistency of our results coupled with the uniqueness of our commercial banking franchise and the opportunity is deserving of a premium valuation. The market is recognizing it, albeit slower than I would like it.

Much of our success has been driven by our commercial banking strategy and the teams and the people who make up those teams. Our C&I lending strategy and teams specifically got super charged following the acquisition of First Bank & Trust in Evanston in 2018. The core leadership we have in place today in this area was part of First Bank & Trust. The Co-Founder and CEO of that bank was Bob Yohanan, who passed away peacefully last November.

Bob became a Director of Byline after the acquisition, serving at the highest level in our trust and ALCO committees and he retired in 2021. Bob was an extraordinary human being and had a gentle kindness to him that was recognized by many, coupled with a soft voice that I can still hear in my mind. He took hard work to heart, and you would rarely find investing as he was very active in the greater Chicago community, specifically in Evanston.

Bob's banking career spanned over 50 years, and he served 2 terms as a Director of the Federal Reserve Bank of Chicago, was a member of the Economic Club of Chicago, the University Club of Chicago and served as an adviser to DePaul University Financial Services Center. I first met Bob at the First National Bank of Chicago when I started my banking career and through a mutual friend, we kept in touch throughout the years, leading to us putting together our banks. Joan and Bob's 2 boys worked at Byline and 1 of them still has an important position with us today. Bob, our friend will always be remembered, and we remain grateful for his contribution and guidance.

With that, I'm happy to pass the call back to you, Alberto.

Alberto J. Paracchini
President & Director

Thank you, Roberto. In terms of the agenda for today, I'll start and give you the highlights for the full year and the quarter, followed by Tom, who will speak to the financial results, and then I'll come back to wrap up with some closing comments as well as our outlook for 2025 before opening the call up for questions. As a reminder, you can find the deck we're using for today's call on our Investor Relations website. And as always, please refer to the disclaimer at the front.

Turning to our performance on Slide 3 of the deck. Byline again reported strong results for the fourth quarter and full year 2024. I'd like to start by thanking our employees for their contributions this past year and for their hard work in serving clients on a daily basis. I'd also like to congratulate them on their performance.

At this time last year, I shared with you that I thought we were entering the year with good momentum and in solid footing to profitably grow the franchise and deliver value for our shareholders. I'm happy to report that our company accomplished that in 2024. We managed through an environment characterized by a moderate decline in short-term rates when compared to market expectations, a normalization of the yield curve and an economy that continues to prove resilient despite the inherent uncertainty of an election year.

Against that backdrop, we executed our commercial banking strategy well. We grew relationships, had balanced growth, maintained profitability, built capital and grew tangible book value per share by 12%. We continue to invest in the business, announced a transaction with First Security and rewarded shareholders with an 11% increase in our quarterly dividend.

In summary, 2024 proved to be another productive and successful year for the company. For the year, net income was \$121 million or \$2.75 per diluted share on revenue of \$407 million, which was up 5%

year-on-year. Returns and profitability metrics remained strong, with pre-tax pre-provision ROA of 205 basis points ROA of 131 basis points and ROTCE of just under 15%.

The year-on-year loan growth inclusive of managed runoff of the inland portfolio came in at 3%, and all that growth was funded by deposits, which grew 4%. Operating leverage was positive for the year, which helped drive our cost-to-asset ratio down by 22 basis points to 238 basis points for the year.

Lastly, all capital levels remained strong with TCE ending the year at 9.61%, CET1 at just under 12% and total capital at roughly 15%. All these ratios reflect increases for the year and are no higher than prior to the Inland transaction. Our balance sheet strength allowed for the early repayment of balances in our line tied to the transaction with inland ahead of schedule.

Turning to Slide 4. We results for the quarter were also strong, with net income of \$30.3 million or \$0.69 per diluted share on revenue of \$105 million. Profitability and returns continue to be solid with pre-tax pre-provision income of \$47.2 million, pre-tax pre-provision ROA of 204 basis points which marks the ninth consecutive quarter above 200 basis points. ROA came in at 131 basis points and ROTCE of just under 14% and given a growing capital base. Revenue was up 3% from the prior quarter and up 4% year-on-year, notwithstanding the lower rate environment. The revenue increase was driven by higher net interest income stemming from a 13 basis point increase in the margin and higher gain on sale income.

From a balance sheet standpoint, loans and deposits remained flat and stood at \$6.9 billion and \$7.5 billion, respectively, as of quarter end. Notwithstanding and net of loan sales, origination activity was strong at almost \$300 million for the quarter, with the increase coming primarily from our commercial banking and leasing businesses. Payoff activity came in a bit higher than anticipated at \$288 million and line utilization inched up to 60%. Our government guaranteed business had solid originations for the quarter with \$127.5 million in closed loans, which was consistent with the seasonality we tend to see at the end of the year.

Moving on to deposits. Noninterest-bearing stood at 23.5% of total deposits, and we saw an inflection in overall deposit costs, which decreased 28 basis points quarter-on-quarter. Tom will provide you with additional color on deposit trends, cost, the margin as well as our sensitivity to rates in the current environment.

Expenses continue to remain a focus and increase to \$57.4 million, largely due to higher incentive accruals. Correspondingly, our efficiency ratio increased to 53.6% for the quarter, and our cost-to-asset ratio moved up to 248 basis points as of quarter end.

Asset quality continued to moderate with overall credit costs coming in at \$6.9 million, down \$600,000 from last quarter. Net charge-offs also declined and came in at \$7.8 million, down \$700,000 compared to last quarter. The allowance remained strong and ended the quarter essentially flat at 1.42% of total loans. Nonperformers decreased 12 basis points to 90 basis points and criticized loans declined both on a linked quarter and year-on-year basis.

With that, I'd like to turn over the call to Tom, who will provide you with more detail on our results.

Thomas J. Bell

Executive VP, Treasurer & CFO

Thank you, Alberto, and good morning, everyone. Our strong earnings this quarter capped off a successful 2024. Despite a different rate environment than the we anticipated at the start of the year, we had higher net interest income, solid fee revenue growth and continue to have well-controlled expenses. As a result, we continue to deliver pre-tax pre-provision greater than 2% and we grew capital nicely again this quarter, which drove CET1 and all other regulatory capital ratios higher.

Starting on Slide 5 with our loan and lease portfolio. Total loans stood at \$6.9 billion at December 31, flat from the prior quarter. We originated \$297 million in new loans with the strongest growth coming from our commercial and leasing teams. Payoff activity increased for the third consecutive quarter coming in at \$288 million, up \$21 million linked quarter. The increase was largely due to runoff in noncore portfolios, which was offset by growth in new business relationships. Line utilization grew for the sixth consecutive

quarter, up 1% to 60%. Our loan pipelines remain strong, and we expect loan growth to continue in the mid-single digits for 2025.

Turning to Slide 6. Total deposits were flat for the quarter at \$7.5 billion and up 4% for the year. Consistent with the decline in short-term rates, we saw balances decrease in time deposits, offset by increases in money market accounts. Noninterest-bearing demand deposits grew for Q3 and accounted for 23% of total deposits. We lowered our overall cost of deposits in the quarter by 28 basis points to 2.48%, driven by higher DDA balances and disciplined deposit pricing.

Turning to Slide 7. Net interest income was \$88.5 million for Q4, up 1% from the prior quarter, higher than guidance, primarily due to lower interest expense on deposits. This was the third consecutive quarter of solid NII growth and reflects a 3% increase on a year-over-year basis. Our net interest margin grew to 4.01%, up 13 basis points linked quarter. The change in NIM was driven by a 37 basis point decrease in the cost of interest-bearing liabilities, offset by lower rates on earning assets. Our outlook for net interest income is based on the forward curve that currently assumes a 50 basis point decline in the Fed funds rate for 2025. This implies a net interest income range of \$86 million to \$88 million for the first quarter, which is partially driven by day count.

Turning to Slide 8. Noninterest income totaled \$16.1 million in the fourth quarter, up 12.3% linked quarter, primarily driven by a \$7.1 million gain on sale of loans which increased by \$1.2 million or 21% higher than Q3. The increase was due to higher volumes and higher premiums on loans sold, partially driven by the mix. Our gain on sale forecast for 2025 is on average, \$5 million per quarter, with lower Q1 expectations due to typical seasonality.

Turning to Slide 9. Our noninterest expense stood at \$57.4 million, which came in higher end of our Q4 guidance. The primary drivers of the expense increase was salary and benefits largely comprised of higher revenue-driven compensation, other benefit-related expenses and higher advertising spend. Having said that, we remain disciplined on expense management and continue to manage our expenses prudently. As we look ahead for 2025, we expect our quarterly noninterest expense to trend between \$55 million and \$57 million.

Turning to Slide 10. Credit quality continues to improve. Provision expense for the quarter came in at \$6.9 million, down from \$7.5 million in Q3, primarily due to a decrease in nonperforming loans. Net charge-off trends down by 8% this quarter to \$7.8 million compared to \$8.5 million in the previous quarter. On a year-over-year basis, NCOs were down by 36%. The ACL at the end of Q4 was \$98 million, down slightly from the end of the prior quarter. NPLs to total loans decreased by 12 basis points to 90 basis points in Q4. Excluding government-guaranteed loans, NPL stood at 76 basis points, down 10 basis points from the previous quarter and NPAs to total assets stood at 71 basis points in Q4.

Turning to Slide 11. During the quarter, our cash and securities stood at \$1.8 billion. The yield on our securities continued to increase nicely and was up 17 basis points to 3.17% driven by higher rates on new purchases and runoff of lower-yielding securities.

Moving on to capital on Slide 12. For the fifth consecutive quarter, we grew capital ratios and increased our tangible book value per share by 12% compared to last year. CET1 came in a strong 11.7%, up 35 basis points linked quarter and up 135 basis points year-over-year. Additionally, the TCE to TA ratio stood at 9.61%, up 55 basis points from last year. Again, we had another solid quarter and strong performance metrics, resulting in an excellent year. As a result, our Board authorized an 11% increase in our quarterly dividend payable in the first quarter.

With that, Alberto, back to you.

Alberto J. Paracchini
President & Director

Thank you, Tom. And moving on to Slides 13 and 14 of the deck. Our approach to the business and strategy remains consistent as we enter 2025. Over the past decade, we built a banking franchise capable of consistently delivering solid organic growth and strong profitability. This is made possible by having a great team who do their part and deliver for clients on a daily basis.

We've also developed a strong culture that enables us to attract and retain talented bankers, which in turn continues to fuel our growth. As we start this new year, we're optimistic about the opportunities we see in front of us and remain well positioned to win new clients, continue to grow deposits and loans and manage both the inherent risk of the business and the ever-changing operating environment.

With respect to the First Security transaction, we remain on track with our time line and consistent with prior guidance, expect the transaction to close early in the second quarter. We look forward to welcoming the customers and employees of First Security to Byline.

With that, operator, let's open the call up for questions.

Question and Answer

Operator

[Operator Instructions] Our first question comes from the line of Nathan Race with Piper Sandler.

Nathan J. Race

Piper Sandler & Co., Research Division

Alberto, I would like to start on SBA. Obviously, we saw some issues with some other notable SBA lenders that reported this week. So I would just be curious to hear in terms of what you're seeing in terms of delinquencies and just overall credit quality within that portfolio. It was obviously great to see charge-offs largely remain near expectations this quarter. And I think it would also be helpful just to remind everyone, just in terms of some of the initiatives you guys have undertaken over the last several years to kind of derisk that portfolio.

Alberto J. Paracchini

President & Director

Of course, great question, Nate. And I think I would start by just saying, I think we continue to see consistent trends in that book of business. As you know, and I think we've mentioned this in prior calls, going back to right after the COVID pandemic ended. We have been actively monitoring that portfolio, particularly given the amount of support SBA borrowers received. So we've been monitoring how those borrowers were coming out of the pandemic, how their business was resuming and then more importantly, how -- once that support ended how those companies were beginning to perform without really having that support in place.

So I think what we have seen is we've seen -- we expected deterioration in that portfolio to be, frankly, quicker than what we saw. We have seen gradual deterioration and have been prepared for that. And I think what you've seen in our results is just continuing to work with those borrowers, continuing to be proactive in terms of identifying problems and managing through a rate environment that frankly was difficult for a lot of them, just managing the book as best as we can to help essentially those borrowers get to the other side.

So I think I would summarize it by just saying it's something that we identified early on. We were very proactive with that portfolio, and we continued to essentially actively manage that really since probably the end of 2021 going into 2022 and 2023.

With respect to the second part of your question, just as a reminder, we track the unguaranteed exposure on our book, so to speak. So if we go back to 2016, that government guarantees the unguaranteed portion of that book was around just under 15% of our loan portfolio. Today, that book represents just around 6.1% of the portfolio. So that exposure has come down proportionately as the balance sheet has grown over the years. And in absolute terms is an exposure that frankly, we see continuing to remain in that range for the foreseeable future. So hopefully, that answers your question, Nate.

Nathan J. Race

Piper Sandler & Co., Research Division

Yes, that's really helpful. And changing gears and thinking about the margin and NII outlook, on the next quarter or 2, it seems like you guys kind of outperformed the kind of NII guidance that you provided in terms of the impact of rate cuts here in the fourth quarter. So just curious, if we have maybe the Fed on pause for this year, maybe just 1 cut in July, perhaps how you think NII can trend this year absent the impact of the acquisition and just what that implies for the margin assuming loan growth remains or reverts back to that kind of 4% to 5% range at least going forward?

Thomas J. Bell

Executive VP, Treasurer & CFO

Nate, it's Tom. I think generally, it's going to be flat to slightly up. Again, subject to what happens with the balance sheet, we have First Security coming in here in the second quarter. But generally speaking, if there's no more rate changes, we still have a lag in the SBA that will get us here this quarter for the 50 basis points that happened in the fourth quarter. But generally speaking, flat to slightly up.

Alberto J. Paracchini

President & Director

I think to add to that, Nate, just big picture. Naturally, as you know, we are an institution that naturally is asset sensitive. So certainly, to the degree that rates remain higher or that fewer cost cuts materialize over the course of the coming year, to Tom's point, I think we would expect net interest income to be up in that type of scenario.

Thomas J. Bell

Executive VP, Treasurer & CFO

And I would also just add, I didn't really have it in my prepared remarks, but we were able to reduce our sensitivity this quarter from last quarter. So that's still something we'd like to do. And at this point, it's a little bit more attractive to hedge that risk than it was, say, in the early fourth quarter.

Nathan J. Race

Piper Sandler & Co., Research Division

Got you. And just maybe one last one. If the Fed does remain on pause this year. Just curious if you can speak to kind of the repricing gap within the CD portfolio and how much additional funding cost leverage you guys may have on the non-CD side of the book?

Thomas J. Bell

Executive VP, Treasurer & CFO

Sure. And just to remind you, I think our interest rate risk profile kind of shares the combination of that. But generally speaking, we have on average, CDs are roughly yielding like 4.39% in total, and we're repricing at roughly 360-ish, call it, at this point. So definitely an improvement there. On the asset side, we have probably about almost \$900 million in loans kind of at a 5.26% yield, which should go up about 200 basis points, call it, or slightly more than that in reset.

And then the securities portfolio is roughly \$200 million at like \$264 million. So that's going to get you another 2.5% pick up there as well.

Alberto J. Paracchini

President & Director

Yes. One trend also, Nate, that we're paying close attention to. And actually, we saw a bit of that this quarter is we have a normalized yield curve now, which is making, frankly, kind of liquid accounts a bit more attractive than CDs. So we actually saw flows moving out of CDs and into more liquid accounts such as money markets. To the degree that the curve continues to remain in its current shape, so to speak.

So in other words, a positively sloping yield curve. I think we would expect that to continue, which may give a little bit more upside in terms of repricing liabilities a little bit lower. But 1 quarter does not make a trend. We'll see how -- if behavior continues to trend in that direction, but that's just something to keep in mind given the shape of the yield curve today.

Operator

Our next question comes from the line of Brendan Nosal with Hovde Group.

Brendan J. Nosal

Hovde Group, LLC, Research Division

Maybe just to start off here on asset quality. It's certainly nice to see the charge-off rate come down again sequentially, but it didn't look like there were any PCD charge-offs in the number this quarter. So maybe just spend a minute on where loss content originated from during the fourth quarter.

Alberto J. Paracchini

President & Director

Yes. I mean, I think consistent with our commentary in the last several quarters, where we're seeing loss content from is the SBA portfolio, which is largely where losses have been centered, Brendan. And that goes to the earlier comments in terms of making sure that we identify that early, that we provisioned and reserved appropriately, and then we work through those credits. And then what you're seeing is just the ultimate resolution of those loans.

Brendan J. Nosal

Hovde Group, LLC, Research Division

Okay. Perfect. That's helpful. Then maybe one on kind of the \$10 billion question. Just kind of curious, one, what's left on the punch list to wrap up internal prep of that threshold? And then two, the asset base is a little bit larger than I was thinking for the quarter. So I'm just wondering how much flex do you have across 2025 to keep the balance sheet below \$10 billion at year-end?

Alberto J. Paracchini

President & Director

Yes. Maybe let's take on the latter question, and then we'll talk a little bit about prep. So I think as far as guidance is concerned, we still think that from a time line perspective, in terms of crossing the \$10 billion asset mark is still kind of broadly speaking, latter half of '25 to really kind of the first to now moving into kind of the third quarter of 2026, if not really, frankly, 2026 at this point.

The other thing I would tell you, Brendan, is remember that once you cross, we're looking at 4 consecutive quarters above that \$10 billion mark before the actual, call it, set of regulations and expectations formally apply. So we're probably looking at the very much the latter part of 2026, if not really the beginning of 2027. So just to put that in context.

As far as the prep is concerned, so we have a project team. We've obviously performed an assessment of the things that we wanted to do, not just for purposes of complying with or planning to cross that \$10 billion mark. But really, the things that we need to have in place to go beyond that \$10 billion, both things that are actual regulations that would apply as well as leading regulatory expectations. So we're well on our way with that.

As I commented right at the beginning, making sure that we have in place a General Counsel was one of those steps. And we're fortunate that Brian came on board early this week. So I think in summary, I think the prep work and the work that we have to do is well on its way, and we are very confident that we will not only be able to meet, but will exceed the expectations of being a larger institution.

Thomas J. Bell

Executive VP, Treasurer & CFO

This is Tom. I would also add at the end of the quarter, we had a little bit more excess cash than we would normally carry just because of commercial activities that happened on the last day of the year. So we have room there to sort of shrink the balance sheet if we need to and call that \$400 million of flexibility. So that could be loans, so to speak.

Alberto J. Paracchini

President & Director

Yes, Brendan. And just to add one last comment to that. The guidance we just gave is consistent with the closing of the First Security transaction. So we're factoring that into the comments we just made.

Operator

Our next question comes from the line of Terry McEvoy with Stephens.

Terence J. McEvoy

Stephens Inc., Research Division

Maybe Tom, question for you. Tom, you talked about mid-single-digit loan growth. What are your thoughts on the payoffs, which you noted earlier, picked up in the fourth quarter? What are your assumptions there? And then when you take a step back, what markets or portfolios are positioned to generate that growth in 2025?

Thomas J. Bell

Executive VP, Treasurer & CFO

As Alberto mentioned in his comments, I mean, we definitely saw payoff activity from the Inland transaction and some legacy syndication loans that we had. So we're really happy with the fact that some noncore loans were paid off and we can redeploy those cash, if you will, into customer relationships where we get in deposits. So that was around \$100 million for the quarter, and that will -- the inland transaction will slow down over time, but the syndications group is certainly much lower and it probably stabilizes at this point.

Alberto J. Paracchini

President & Director

Yes. One thing to add there, Terry, is as you recall, the inland transaction to support that in context, that was about \$1.1 billion or so in terms of assets. This past year, and this was very much part of the strategy that came with that acquisition was to be able to essentially recycle cash flows coming from that loan book into loans that fall into our own originations.

So I thought we did an excellent job in 2024, just to put it in context and perspective. This past year, we had \$321 million of runoff in that portfolio that we were able to redeploy into our different lending businesses and still show year-over-year growth in the portfolio, which speaks to our asset generation capabilities and our ability to redeploy that cash on a measured basis and continue to show growth on the balance sheet. So just to put that in context.

And in terms of the businesses, we benefit from having a diversified group of businesses. So certainly, we anticipate commercial banking for all the reasons that you're seeing in the market today to have a good year again in 2025. Our leasing business continues to be strong. We're cautiously more optimistic with our real estate business in the sense that we're seeing an uptick in activity there. We're also seeing more competition coming into the market. That's going to be driven by whether or not we see transaction volume pick up. But we're cautiously optimistic there. So I think hopefully, that gives you color in terms of where we anticipate seeing growth in the portfolio.

Terence J. McEvoy

Stephens Inc., Research Division

And maybe as a follow-up. Tom, could you just run through your expense outlook one more time? I'm sorry, I was writing something else. Was that for the first quarter or particularly interested in kind of your thoughts on full year 2025?

Thomas J. Bell

Executive VP, Treasurer & CFO

Sure. I mean, we gave guidance for the full year, and the guidance was \$55 million to \$57 million per quarter, Terry.

Terence James McEvoy

Stephens Inc., Research Division

Okay. So that was more than just the first quarter.

Thomas J. Bell

Executive VP, Treasurer & CFO

Try to give full year for everything. I mean, obviously, we're always trying to err on the lower side if we can and beat expectations. But first quarter, you typically have some payroll and HR related compensation and benefits, et cetera and taxes. So -- but \$55 million to \$57 million is our range right now.

Operator

[Operator Instructions] Our next question comes from Brian Martin with Janney Montgomery.

Brian J. Martin

Janney Montgomery Scott LLC, Research Division

Tom, just one question. The margin -- where did the margin -- can you give any thought on where the margin exited the year versus kind of the quarter? Was it I guess, assuming it was trending higher than you got later in the quarter? And then just remind us the drag on the SBA given that most recent 50 basis point cut as we look at 1Q?

Thomas J. Bell

Executive VP, Treasurer & CFO

Yes. I mean the margin is really in that 4% range, Brian, for the quarter, for December, you asked for December. And as it relates to the SBA the Fed cut 50 basis points in the fourth quarter. And that is effective as a reset lower on prime for them at January 1. So that's 50 basis points on the SBA balances and the USDA balance.

Brian J. Martin

Janney Montgomery Scott LLC, Research Division

Okay. And then just in terms of the capital and kind of where it's at and the opportunities, are you seeing more opportunities today in terms of -- just given the disruption in the market in terms of adding? Or you think about this year and '25 as far as adding talent? Or is there other more opportunities today in terms of potential inorganic growth in terms of M&A -- full M&A opportunities, acquisitions? Just kind of thinking broadly what opportunity set in '25 as you kind of look at it.

Alberto J. Paracchini

President & Director

I think 2 things. I think it goes to Roberto's comment really right at the beginning of the call. Any time that there is disruption. And I think certainly, the expectations are that activity is likely to pick up, which we welcome because any time that we see disruption. So when you think about whether it's regional or super regionals, any time that we see an M&A transaction is going to have some degree of effect. And in the past, we've been able to capitalize very nicely on that. So I think we look forward to that.

As far as M&A picking up, I mean, certainly, conversations, there's a lot of talk in anticipation of perhaps a more benign regulatory environment that's conducive to M&A. For us, that really hasn't been a limitation. We've obviously been able to do transactions over the past several years and pursue those and have, frankly, a very favorable and quick regulatory approval process.

What we stick our neck with is really the drivers of M&A and those have not changed. There's plenty of institutions that lack succession plans. Their Board of Directors are getting up in age. Their shareholder base is now in the second, if not third generation and ultimately wants liquidity, which are really the factors that drive M&A. And I think we think at least here in Chicago, we are super well positioned to continue to be active participants on that. And we think we're a great partner for institutions that are looking to partner with somebody and provide liquidity to their shareholders.

Brian Joseph Martin

Janney Montgomery Scott LLC, Research Division

Perfect. And maybe just the last one for me. I think, Tom, maybe I forgot someone in the prepared remarks, I thought there's some commentary about kind of the government guaranteed business kind of being in that \$5 million-ish range a quarter. Just kind of wondering, as we think about fee income and the opportunity set in 2025, I mean, if you're if you are at a \$5 million run rate, it's a fair amount lower than what you produced in '24. So just kind of trying to think about the outlook for fee income in '25, if you give up a bit on the fee side from the government guarantee business that there's opportunities to kind of grow fee income in 2025? Or how we should be thinking about that?

Thomas J. Bell

Executive VP, Treasurer & CFO

Yes. I mean our goal is to obviously grow fee income. And I think we have some other categories. Customer swaps, for example, will help offset some of the potential decline in the SBA gain on sale. But again, SBA gain on sale premiums are still very strong. If we get the rate cuts, we could see some pickup as well in that side of the market, too.

Alberto J. Paracchini

President & Director

I think, Brian, maybe just to add to what Tom just said is what we're trying to do is really when we give guidance as far as the SBA business and particularly gain on sale is concerned, we're not -- I mean, we're giving you a sense on a quarterly basis where we would expect it. But as you know, we're really not paying attention to kind of quarterly volatility. We tend to look at this more on a year-over-year basis. And in that regard, what we are keenly focused on are the variables that we control, the originations, the pricing. We really don't control what the market thinks. These assets are worth.

So we try to be conservative in that regard. But certainly, to the degree that the market values these assets at a higher level than what we're assuming, which has been the case in the past and/or the mix of assets we originate because of the rate environment is more favorable to higher premiums that can create some variance to the positive in that estimate. So just keep that in mind.

Brian J. Martin

Janney Montgomery Scott LLC, Research Division

No, that's helpful. I'm just -- and like said, I was thinking more full year, just trying to understand if there's a trajectory to see some increase in fee income. It sounds like there is given some of the other opportunities elsewhere and maybe some potential better-than-expected performance on that -- on the government guarantee business to help out.

Operator

The next question comes from Damon DelMonte with KBW.

Damon P. DelMonte

Keefe, Bruyette, & Woods, Inc., Research Division

I hope everybody is doing well today. Just want to ask a little bit about fee income. Tom, I appreciate the guidance on the SBA gain on sale loan outlook. Could you guys just talk a little bit more about some of the other fee-generating categories you have and maybe some opportunities that you see gear up in the coming year?

Alberto J. Paracchini

President & Director

I think just broadly speaking, Damon, we're a pretty traditional commercial bank. So the things that we're paying attention to, when you think about like service charges, treasury management fees like this past year, that's an area that we've invested a fair amount in the past. We continue to invest in that area. So we want to continue to see growth in treasury management fees. So that's an example.

Another area that we have new leadership, we have a new team in is our wealth management business. That's coming off a very low base. I think over time, we want to see wealth management be a higher contributor to fees. So that's an area that we're paying close attention to. As you know, that doesn't happen overnight. We're really focused on that business and serving our commercial client base. But that's an area where we want to obviously grow and proportionately have that be a more meaningful part of the fee category and overall revenues.

And like Tom said, I think the rate environment is also today probably more conducive to doing derivatives with customers in terms of fixing rates and doing swaps, et cetera. So I think those are our general categories where we see drivers to inch that fee income category in total up.

Damon P. DelMonte

Keefe, Bruyette, & Woods, Inc., Research Division

Got it. That's helpful. I appreciate that color. And then I guess just secondly, as we think about provisioning and net charge-offs for the upcoming year, net charge-offs were 47 basis points in 2024. Do you feel like that you've kind of peaked and we should start to see more a lower level kind of something in the 30 -- upper 30 basis point range? Or do you think that there's still some loans to move through that would generate elevated net charge-offs?

Alberto J. Paracchini

President & Director

I think consistent with our guidance in the past, Damon, I think we still see kind of like that on a normalized basis, the range being somewhere between 30 to 40 basis points, somewhere in there. Just know that you're going to have some volatility to some degree, they're tied to resolution of PCD loans that came from prior transactions. So we'll try to continue to provide disclosure around that to give you clarity in terms of what happens and where charge-offs are coming from on a quarterly basis.

But I think on a normalized meaning, excluding resolutions of loans that are marked that we've acquired that we basically flushed through the system, so to speak, as we work it out of the bank. I think that 30 to 40 basis point number is still reasonable.

Damon P. DelMonte

Keefe, Bruyette, & Woods, Inc., Research Division

Got it. Okay. That's helpful. And then just lastly, Tom, any update on the tax rate outlook for '25?

Thomas J. Bell

Executive VP, Treasurer & CFO

Very consistent for us right now, Damon.

Operator

Our next question comes from Brendan Nosal with Hovde Group.

Brendan J. Nosal

Hovde Group, LLC, Research Division

Just one follow-up and point of clarification on the expense guide. Does that quarterly outlook for \$55 million to \$57 million include First Security? Or is that on a stand-alone basis?

Thomas J. Bell

Executive VP, Treasurer & CFO

It's stand-alone at this point.

Brendan J. Nosal

Hovde Group, LLC, Research Division

Got it. Okay. So take that and layer on for security. Fantastic.

Alberto J. Paracchini

President & Director

Yes. I think what Tom will do is certainly probably at the end of the second -- by the time of the second quarter call. But once we -- the transaction closes, and we have a quarter under our belt, I'm sure Tom will give you a bit more clarity in terms of that run rate on a go-forward basis.

Operator

Thank you for your questions today. I will now turn the call back over to Mr. Alberto Paracchini, for any closing remarks.

Alberto J. Paracchini

President & Director

Great. Thank you, operator, and thank you all for joining the call today and for your interest in Byline, and we look forward to speaking to you again in April. Thank you again.

Operator

Thank you, everyone for joining us today. This concludes our call, and you may now disconnect your lines.

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