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Market Intelligence

Byline Bancorp, Inc. NYSE:BY

Earnings Call

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Call Participants

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Presentation

Operator

Good morning and welcome to Byline Bancorp's second quarter 2026 earnings call. My name is Ben 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, the head of investor relations for Byline Bancorp to begin the conference call.

Brooks O. Rennie

Head of Investor Relations

Thank you, Ben. Good morning, everyone. And thank you for joining us today for the Byline Bancorp second quarter 2026 earnings call. In accordance with the 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 of the financial performance of the company. We caution that such statements are subject to 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 the earnings release. For additional information about risks and uncertainties, please see the forward-looking statement and non-GAAP financial measure disclosures in the earnings release.

As a reminder for investors, during the quarter, we plan to participate in two upcoming conferences, the Raymond James Bank Conference here in Chicago on September 9th and the Stephens Bank Forum in Little Rock in September.

With that, I will now turn the conference call over to Alberto Paracchini, President of Byline Bank Corp.

Alberto J. Paracchini

President & Director

Great, Brooks, and good morning, everyone, and thank you for joining us to go over our second quarter results. With me today, as usual, is our Chairman and CEO, Roberto Herencia, our CFO, Tom Bell, and our Chief Credit Officer, Mark Fucinato.

In terms of the agenda for today, I'll kick us off with the highlights for the quarter, followed by Tom who'll take you through our financial results. I'll come back to wrap up before we open the call for questions. As always, you can find the deck for this morning on the IR section of our website, so please refer to the disclaimer at the front.

Before we get started, I'd like to pass the call over to Roberto for his comments.

Roberto R. Herencia

Executive Chairman of the Board & CEO

Thank you, Alberto, and good morning to all. We appreciate you joining us today and taking the time to engage with Byline. And please excuse my voice, which hasn't been a friend in the last few days. Our second quarter results were excellent, a record net income. The consistency of our execution continues to shine. We are very proud of the work our people do, and we thank them for another strong quarter.

We are also grateful to our Board of Directors for their engagement, support and quality of advice. When we started the creation of Byline, Alberto and I were intent on having a Board of Directors that could really serve us well, the Board of Directors with different experiences, the Board of Directors that could make us better. And I believe that we have achieved that from day 1.

Our objective remains clear: to become the preeminent commercial bank in Chicago. This is not about being the biggest bank or pursuing scale for scale's sake. Success for Byline is defined by the quality of our customer relationships, the strength of our credit discipline, the talent of our people and our relevance to middle market businesses throughout the markets we serve and of course, of course, what we do for our shareholders.

We have built a relationship-driven commercial bank grounded in the principles that have long defined successful commercial banking organizations. First and foremost, exceptional talent, disciplined underwriting, local decision-making and a commitment to serving customers over the long term. We believe those fundamentals remain enduring competitive advantages.

I've been hearing the scale argument for a long time that if you don't buy banks, they'll be more expensive. If you don't buy banks, you won't be able to compete. If you don't buy banks, there will not be enough banks left. And here, we are 45 years later, and it's still the same argument. Scale matters, but only to the extent that it allows us to serve customers well, attract talent and invest in capabilities. I think scale matters to a lot of banks that are not clear on their purpose and their objectives.

We believe we have a significant opportunity in front of us, and Byline will likely be a much larger organization in the next 3 to 5 years. But that growth will come first and foremost, organically, and it will be disciplined. It will come from deepening customer relationships, growing deposits, maintaining strong underwriting standards, attracting quality bankers as we have done and of course, selectively pursuing strategic opportunities that are within the metrics that we have discussed with the investment community.

The area that continues to differentiate Byline is our people. During the quarter, Byline was recognized as one of the 2026 Best Workplaces in Illinois, making the third consecutive year we have received that distinction. The recognition is especially meaningful because it is based largely on employee feedback and reflects the culture we continue to build across the organization. We have long believed that engaged employees create better outcomes and recognitions like this reinforce the strength of that philosophy.

I would also like to recognize our SBC team. Byline was recently named the 2025 Illinois SBA 7(a) Lender of the year, marking the 17th consecutive year we have received that recognition. We were also recognized as the 2025 Illinois SBA Expert Lender of the Year. Consistency like that doesn't happen by accident. It reflects the expertise of our SBA professionals, the strength of the customer relationships and our long-standing commitment to helping small businesses access capital.

We are delighted with our performance throughout the first half of 2026. More importantly, we think we're very well positioned for the second half of the year. We have a strong capital base, and Alberto will talk to you more about that. And we have a talented and engaged workforce and a strategy that remains focused on long-term value creation.

With that, Alberto, I'll turn it back to you.

Alberto J. Paracchini
President & Director

Great. Thank you, Roberto. And picking up on the theme of execution, this quarter, we felt was a good example of what disciplined execution looks like in practice. We grew profitability. We continue to manage risk carefully. And more importantly, we continue to deliver value to our shareholders. Record net income and excellent profitability really stood out this quarter. So let's start with that.

We delivered net income of \$40.2 million or \$0.90 per diluted share, up from \$37.6 million and \$0.83 last quarter. Excluding significant items, adjusted EPS was \$0.91 per share, up 10% linked quarter and 21% year-on-year. For the quarter, return on average assets was 1.63%, up 7 basis points linked quarter, and return on tangible common equity was just under 14.5%, up 70 basis points.

Pretax pre-provision ROA came in at 249 basis points, up 20 basis points, which marked our 15th consecutive quarter above 2%. Noninterest expenses remained well managed and declined this quarter, while revenue grew.

Our efficiency ratio improved 285 basis points to just under 47%, our fourth consecutive quarter of improvement and our best since becoming a public company in 2017. Put another way, we generated positive operating leverage. Revenue of \$118 million was up 4.7% against expenses that actually moved lower, and that combination drove improvement in returns. Tom will walk you through the details of all of that in a moment.

Before I finish with the rest of the highlights, I want to spend a moment on the operating environment we find ourselves in today since it provides a backdrop to a lot of what you'll hear. We came into the year expecting rates to come down. And once again, that hasn't played out the way we or the market expected. Strength in the labor market, combined with firmer inflation points to a higher for longer rate environment for the balance of 2026. Against that backdrop, demand for credit remains solid, particularly in our C&I book, though we are seeing price competition pick up, particularly in commercial real estate.

On the liability side, competition for deposits remains elevated, and it's largely a function of banks competing to fund loan growth with deposits. We think this environment rewards discipline over volume, and that theme runs through the rest of what I'll cover.

From a balance sheet standpoint, trends remain stable with total assets ending at \$9.9 billion. Deposits increased 3.5% to \$7.9 billion, reflecting growth in interest-bearing deposits, while loans grew 4.2% to \$7.6 billion. Net interest income was \$101 million, consistent with previous guidance, even as our margin moved marginally lower.

I'll spend a second on the margin since it's a natural area of focus given what I just described on rates and competition. Our margin declined slightly for the quarter, largely due to mix changes, but remained stable and healthy at 4.28%. That said, we manage the business to grow net interest income in dollars since it's what drives profitability and returns, not to a specific margin level. When we see opportunities to add high-quality relationship-oriented business that's accretive to earnings, even at a somewhat lower spread, we are going to take it. Tom will cover the specifics on the margin drivers shortly.

On the asset quality front, credit costs for the quarter were \$7.2 million, driven by net charge-offs of \$4.4 million and a reserve build of \$2.8 million. Our allowance now stands at just under 1.5% of total loans, up 2 basis points from last quarter. NPL stood at 92 basis points, essentially flat on a year-on-year basis. Our capital levels remain well above regulatory requirements across the board, providing us with significant flexibility. TCE increased to just under 11.5%, CET1 increased to 13% and our tangible book value per share increased 14% year-on-year to \$24.48.

During the quarter, we repurchased approximately 275,000 shares totaling \$9.1 million, leveraging our capital flexibility. Between dividends and share repurchases, our total payout ratio to shareholders for the quarter was 36%. In addition, yesterday, we announced that our Board approved a 16.7% increase in our quarterly dividend to \$0.14 per share, which will be paid in the current quarter. This is reflective of the strength of our capital position as well as the earnings profile of the company.

I want to take a minute to talk about how we think about capital allocation more broadly. We look at things like share repurchases the same way we look at any other use of capital against the returns we could otherwise generate by deploying it to support loan growth, invest it back into the business or opportunistically into M&A. Our approach is to keep building capital and return it in a disciplined, thoughtful way, which gives us flexibility to play offense as opportunities arise.

With that, I'll turn the call over to Tom, who will walk you through the financials.

Thomas J. Bell
Executive VP & CFO

Thank you, Alberto, and good morning, everyone. Starting with our loans on Slide 5. Total loans increased 4.2% annualized and ended at \$7.6 billion for the quarter. Origination activity was solid with \$234 million in new loans, while payoffs were elevated at \$339 million. We are seeing higher payoff activity rather than a pullback in originations as we recycle acquisition loans into new customer relationships.

Loan commitments grew slightly during the quarter, while draw activity on existing lines supported loan growth. Line utilization increased to 60% from 59% linked quarter. Our origination activity remains healthy as we head into the second half of the year. Assuming payoff activity normalizes in the back half of the year, we expect full year loan growth in the mid-single digits.

Turning to Slide 6. Total deposits were \$7.9 billion for the quarter, up 3.5% annualized from the prior period. From a mix perspective, growth was driven by interest checking balances that was partially offset by lower money market balances. Our loan-to-deposit ratio ended the quarter at 96%, up 16 basis points from the prior quarter. We remain disciplined on pricing and continue to prioritize relationship deposits over more rate-sensitive funding.

Turning to Slide 7. Net interest income was \$101 million in Q2, up modestly from the prior quarter and within our \$99 million to \$100 million range we provided last quarter. The increase was driven primarily by favorable day count, partially offset by higher funding costs. The net interest margin remained healthy at 4.28%, declining 5 basis points from last quarter. The decrease was primarily driven by higher funding costs related to a maturing balance sheet hedge and changes in earning asset mix. We remain focused on growing net interest income, which we did this quarter. Given the rate outlook and our balance sheet forecast, we expect net interest income range of \$100 million to \$102 million for the third quarter.

Turning to Slide 8. Noninterest income totaled \$17 million in Q2, an increase of \$4.3 million or 35% compared to the first quarter. The increase was primarily driven by favorable fair market value marks, higher gain on sale revenue and stronger swap fee income. Gain on sale revenue totaled \$6.1 million compared to \$5.5 million in the prior quarter. Additionally, wealth management surpassed the \$1 billion in assets under administration. We expect gain on sale revenues to average \$5.5 million per quarter and our noninterest income to be in the \$14 million to \$15 million range for the third quarter.

Turning to Slide 9. Expenses came in at \$56.5 million, down 1.2% from the prior quarter. The decrease was primarily driven by lower salary and employee benefits, lower occupancy expense and lower OREO-related costs. We continue to focus on operating efficiencies and expense discipline. And as a result, our adjusted efficiency ratio was 46.5% compared to 49.8% last quarter. And our noninterest expense to average assets improved 8 basis points to 2.29%. Looking forward, our noninterest expense full year guidance remains unchanged at \$59 million to \$60 million per quarter.

Turning to Slide 10. Credit quality trends remained favorable again this quarter. Net charge-offs were \$4.4 million or 24 basis points, down from the 32 basis points last quarter. Criticized loans declined to 3.9% of total loans, down from 4.5% on a linked quarter and year-over-year basis. Nonperforming loans were \$69.1 million or 92 basis points of total loans, up marginally linked quarter and flat year-over-year. Our allowance for credit losses was \$112 million or 1.48% of total loans, up 2 basis points from last quarter, driven primarily by an increase in the individually assessed category. Overall, credit trends remain consistent with our expectations.

Moving on to capital on Slide 11. Capital levels grew across the board during the quarter. Tangible common equity increased to 11.4% and CET1 increased to 12.9%. Our capital position remains a competitive advantage, providing flexibility to support growth, return capital to stockholders or pursue strategic opportunities.

With that, Alberto, back to you.

Alberto J. Paracchini

President & Director

Thank you, Tom. So to wrap up, let me give you a few thoughts on how we're thinking about the rest of the year. First, on the quarter's results, that's reflective of work that's been underway for several quarters now. And we see room to keep building on it through the same focus on disciplined execution.

Second, given the environment, solid but selective credit demand, sharper loan and deposit competition that isn't going away, we intend to stay disciplined rather than chase volume or spread that doesn't compensate us properly for the risk.

Third, credit quality remains a priority. The trends this quarter support that our underwriting and portfolio monitoring are working as intended. But that said, we need to stay vigilant given the evolving macro environment.

Fourth, we continue to prepare for crossing the \$10 billion asset threshold, and that preparation informs how we think about growth, expenses and capital in the meantime. Looking ahead, we enter the second half of 2026 with solid momentum. Our pipeline remains healthy, and we believe we're well positioned to capitalize on opportunities and continue to create value for our shareholders.

And with that, Ben, let's open the call up for questions.

Question and Answer

Operator

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

Nathan James Race

Piper Sandler & Co., Research Division

Alberto, I appreciate your commentary around just a healthy pipeline. And I think Tom alluded to a mid-single-digit growth expectation for this year. But with loans up, call it, 1% annualized through the first half of the year, that would imply kind of a ramp to the high single-digit range for the back half of the year. So I'm just wondering if you could shed some light on the visibility you have into payoffs in the back half of the year and how you expect production to trend as well?

Alberto J. Paracchini

President & Director

You hit the nail on the head on that, Nate. The area that is usually the most uncertain one is related to timing of payoffs. As you know, our guidance on -- in terms of loan growth has been consistently in that kind of mid- to single-digit range. And in the past, I know you guys sometimes have given us a hard time because we've exceeded that. And yet we stuck with continuing to give guidance in that kind of single -- mid-single-digit range.

And I think what you're seeing here is actually that effectively being flipped. If you look at our level of originations, those have continued to be pretty consistent. I know if you look at the comparisons on the page, yes, year-over-year is down. But if you look at it more or the recent 3 or 4 quarters has been pretty consistent in terms of the activity level as far as new business is concerned. And we continue to feel confident around that. What we're probably less confident is the other part, which is the payoffs.

That being said, I think part of that, I point to what Tom said, which you've also heard us talk about in the past, where when we've done acquisitions, our approach has been really acquiring deposits for the purpose of recycling those assets over a period of time so that we can redeploy that liquidity into our lending businesses. And I think what we've seen over the past couple of quarters, particularly with some of the acquisitions that we've done over the last couple of years has been that recycling. And I think that has a lot to do with the elevated payoff activity. We think we're past the bulk of it, Nate.

That being said, that's the variable that is always more challenging to forecast for obvious reasons. But when we think about like the underlying originations and that kind of underlying, call it, rate of growth, in that mid-single-digit range, we feel pretty confident about that. That being said, that volatility of payoffs, as we've seen in the last couple of quarters is what is going to ultimately impact the numbers that you're looking at, which is ending balances and calculating growth rates over that. So just be mindful that, that volatility of payoff activity may impact that.

But when we think about -- the way we run the business is we think about it in the standpoint of we want to see that kind of mid-single-digit range, and that allows us, as you also probably saw from the numbers and from covering us for some time now, we're really looking to drive that and fund it with core deposits. So those 2 really can't deviate too much from one another. So hopefully, that gives you color and gives you an answer to your question. Probably a more full answer to the question than what you were hoping for. But hopefully, that provides enough color on that.

Nathan James Race*Piper Sandler & Co., Research Division*

It does and very appreciate all that, particularly the commentary around the acquired portfolios. Not to give you guys a hard time to your earlier point, but, Tom, on expenses, the guide for the back half of the year, that implies a decent step-up from the first half. So just curious kind of where you're seeing those upward expense pressures. Is it tied to some additional hires you're anticipating in the back half of the year? Or any other color you can shed just in terms of kind of the increased expense outlook for the back half?

Thomas J. Bell*Executive VP & CFO*

Nate, yes, it's employee expenses, health care costs, those types of benefits are probably going to be likely higher in the second half of the year. We normally have some higher commissions as well just due to production for the year. So it's kind of compensation related. And that's why we're giving the higher guidance. By the way, if you look at last year, I think you kind of see some of the same trends from last year.

Nathan James Race*Piper Sandler & Co., Research Division*

Yes, for sure. And then...

Alberto J. Paracchini*President & Director*

Nate, you brought up a good point -- just to give you some additional color on that, you brought up additional hires and so forth. We're actually seeing good -- there's, call it, opportunities in the market to do that, and we're always looking for attractive talent. We don't have anything to announce. But if we were to bring on a team of people or be doing hiring additional bankers where we see an opportunity outside of, call it, normal course of business, then we would separate that, and we would tell you that, listen, our expenses are higher this quarter because we added a team or we added a couple of teams. But the market, there seems to be enough flux in the market at the moment that maybe some opportunities will present themselves to be able to add high-quality talent.

Nathan James Race*Piper Sandler & Co., Research Division*

Got you. And that sounds like it's kind of embedded in the guide in terms of those opportunities?

Thomas J. Bell*Executive VP & CFO*

Yes.

Nathan James Race*Piper Sandler & Co., Research Division*

Okay. Great. And then if I could just ask lastly, to your earlier comments, Alberto, around just how you're managing excess capital. You guys, of course, have the high-quality problem with how quickly you're building capital just given the profitability profile. But eventually, it's going to kind of depress or kind of bring down your returns on tangible common. So within that light, curious kind of what you're seeing on the M&A front these days? And if you could also just remind us how you think about kind of the appetite for buybacks around earn-back periods and so forth.

Alberto J. Paracchini*President & Director*

Yes. I think you hit the nail on the head. I think putting aside just, call it, growth in risk-weighted assets, balance sheet growth. And obviously, you saw the increase in the dividend that the Board approved, which is obviously a return of capital back to shareholders as well. I think you're left then with M&A opportunities in the market. And I think the environment is active.

Obviously, you saw somewhat of a market acquisition here, obviously, more Indiana than Chicago being announced the other day. And I think it's fair to say that conversations are, not that they're never completely inactive, but I think it's fair to say that there's plenty of chatter. You've seen certainly more M&A broadly speaking, in the kind of the under \$10 billion range than you have seen in terms of much larger transactions. And I think that trend is likely to continue. But I would describe the, call it, the general chatter around M&A as constructive.

But going back to your capital deployment question, absent M&A opportunities that we execute on, then given the fact that we've kind of run through the priorities, we would be looking to the buyback program to return capital back to shareholders.

Nathan James Race*Piper Sandler & Co., Research Division*

Okay. I appreciate all the color. And hope you feel better, Alberto.

Operator

Your next call comes from the line of Brendan Nosal with Hovde Group.

Brendan Jeffrey Nosal*Hovde Group, LLC, Research Division*

Maybe starting off here on asset quality. A lot of nice trends for the quarter compared to sequential year-over-year, you kind of name it. If I look at Slide 10, I see some really nice cleanup in kind of criticized asset ratings. Can you just offer a little bit of color on what you worked out this quarter, how you managed to avoid meaningful loss content? And then just any broader commentary on kind of your overall observations on the health of your commercial borrowing base?

Alberto J. Paracchini*President & Director*

I'll let Mark take this question, but just a general comment, particularly when you're looking at criticized and classified, our approach always is going to be we're going to be quick to downgrade. So in other words, we would much rather err on the side of downgrading something very, very quickly and then waiting for plans or improvements to occur. And then we later -- if that's the resolution, then we'll go back and upgrade the credit and go from there.

So just be mindful that our bias is always -- any time that we have -- we see a weakness, I'll call it, even a general weakness or a well-defined weakness in the credit, we're going to be probably early to downgrade as opposed to waiting and seeing what develops before making that decision. Just keep that in mind. But I'll pass the call over to Mark.

Mark Fucinato*Executive VP & Chief Credit Officer*

Thanks, Alberto. So Brendan, the reduction in the criticized classified was driven by a few deals that were large in size, but they had been performing much better and the trends we saw with the operating companies were over an extended period, so we felt comfortable increasing the risk rating to more of a past credit. So that was one factor. And then we had a large resolution from one of our workout situations where an operating company had a large mortgage exposure also, and they were able to sell that asset and pay off our exposure completely. And that was a nonperforming loan that we had reserved against. So we got a bit of a recovery also on a previous charge-off.

So those are the 3 main factors in driving the numbers down. And as you know, with our portfolio, we tend to have idiosyncratic situations that come up. We don't see a trend in any of the asset classes for our line of business. But those 3 specific ones were the reason that we saw the big improvement quarter-over-quarter.

Brendan Jeffrey Nosal

Hovde Group, LLC, Research Division

Okay. That's helpful color. I appreciate it. Maybe just to circle back to the topic of conversation earlier in the call on deposit competition. Can you just unpack the environment a little bit more on kind of what sort of institution you're seeing push the envelope on pricing? And then just how it's evolved over the course of the year and kind of what the temperature is today on funding competition versus over the prior 6 months?

Alberto J. Paracchini

President & Director

I think I'll start and then Tom, I'm sure, will jump in as well. But I think it's interesting that we're having this discussion today because there was an article in the Wall Street Journal this morning talking about larger institutions kind of coming back into the commercial real estate market. And I think specific to that particular book or that particular business, that's exactly what we're seeing, and that's consistent with what we have kind of noticed and have noticed in the market going back a couple of quarters.

I think that's largely due to clarity around Basel III. If you recall, probably 18 months ago, 24 months ago, we were having exactly the opposite conversation, risk-weighted asset diets and the larger banks were a bit more -- had a bit more lack of clarity in terms of where Basel III was going to end up. They were looking at potentially increases in capital. Now they're kind of looking at an environment that's going to be flat to potentially declining. And I think they had let those books either stay relatively stable, if not declining because of office exposure. And I think what we have seen, particularly in asset classes like multifamily, like industrial is those larger institutions have been coming back to market. There's more capital that they're trying to put to work.

Transaction activity in the market in general, I would say, relative to before the rate hikes is still lower. So there's less deals, more capital and then you have a compression in pricing, which is kind of what we're seeing in that particular book. As far as the rest of the business, C&I is always competitive and rightly so. You're looking at hopefully having long-term relationships that you're trying to fund with deposits, and there's an acquisition cost of those relationships upfront, and that's reflected in pricing. But I think in general is what you're seeing one, what we just covered on the asset side and then just banks looking to fund that loan growth with deposits. And Tom can add more to that.

Thomas J. Bell

Executive VP & CFO

Yes. I would say on the commercial side, it's business as usual, not extremely -- the deposit -- the relationship is competitive, but it's not exception pricing going on, on the deposit side. So the core deposits we get from that are very stable and very low cost. On the margin, if you're trying to increase your deposit base and you're using the consumer network to do that, 2 things I would say. One is the expectations of the Fed going from cutting rates earlier in the year to now potentially raising rates later this year. You're seeing more extension of CDs, if you will. Our book has been very short just because of the expectations of a cut that we thought was going to happen. That's certainly reversed course.

So it's not like we're going to have a lot more repricing on lower levels. So it just comes down to the short curve, meaning overnight to 1 year is steeper that you're going to pay incrementally more in rate, but spreads haven't really materially changed. I think it's still competitive, as Alberto alluded to, but not -- it's still rational relative to where it's been in the past.

Operator

Your next call comes from the line of Brian Martin with Brean Capital.

Brian Joseph Martin*Brean Capital, LLC, Research Division*

Maybe can you just touch on with the credit quality this quarter, just kind of a bigger picture question on that is as the SBA book has gotten smaller just as other businesses have kind of outgrown them. When we think about the big picture on charge-off trends kind of going into the future, I know this quarter had some recoveries and what you just talked about. But just should we think about the charge-off rate maybe being a little bit lower than it has been historically?

Just as that dynamic continues to play out and you're growing the organic piece of the business maybe a little bit faster than the commercial side rather than the SBA side, given kind of commentary today, it sounds like it continues to keep similar pace in terms of what it's delivering. But is that an accurate way to frame it as we look in kind of the out years?

Alberto J. Paracchini*President & Director*

I think it's -- Brian, I think that's an acute observation. And I think what you're saying is accurate. I think also what I would say is in the short run, we're still in that kind of -- if you're asking us, what's your view, what -- how should we think about charge-offs. I think in the short run, we're still in that category of 30 to 40 basis points. I think what you have seen the last couple of quarters is that we're being certainly going towards the lower end of that range. I think as Mark alluded to, we had some nice recoveries this particular quarter. So we went lower than the range. But I would say still in the short run, that 30 to 40 basis points is still a good range.

That being said, in the long run, I think what you're saying is correct, meaning as the balance sheet continues to grow and as proportionately that business and that portfolio continues to be proportionately a smaller part of the portfolio and the balance sheet in general, yes, I think that those charge-off levels are probably going to end up migrating a bit lower.

Brian Joseph Martin*Brean Capital, LLC, Research Division*

Okay. No, that's helpful, Alberto. It seems like we're going. So just a little color there is helpful. And just in terms of, I guess, the NII or NIM outlook, I don't know if you can give any thoughts. I mean your comments about being disciplined on pricing in terms of both loans and deposits and the competition in the market kind of feels like maybe the focus on maintaining the margin kind of where it's at here and maybe that would be the outlook without -- maybe just general comment if you can provide on the margin.

But maybe a bigger picture question is, is it better to think about it in terms of the NII growth, which is what you guys usually offer a bit more on if maybe a mid-single-digit growth in NII is how we should be thinking about the balance sheet and I guess, that NII number going forward, maybe into next year, that's the best way to think about it as you manage the business here for the environment?

Thomas J. Bell*Executive VP & CFO*

Yes, NII, I think we gave guidance for the quarter. I mean, pretty consistent. As we talked about, payoffs are the wildcard, so to speak, that if they are slower, certainly, earnings could be higher. As far as, again, deposit-wise, I think we're doing well on the margin. The deposit costs aren't bad relative to the spreads we're getting. Certainly, there's repricing going on, on the asset side that's going to help us.

But I think the cost of fund side is probably flat moving forward here. We did have a balance sheet hedge that was material in the maturity size and impacted the margin a couple of basis points. So that's kind of out of the way right now. And I think as we continue to grow relationships and get our fair share of business, the margin should be stable in the coming quarters.

Alberto J. Paracchini*President & Director*

Yes, Brian. And just to add -- just an additional -- some more perspective on that. I think Tom answered it well in terms of kind of net interest income really being the kind of how we manage the business as opposed to thinking margin always first and therefore, you kind of -- net interest income as a result of that.

That being said, as we said earlier, we kind of look to net interest income because that's ultimately what drives profitability. It's obviously what drives returns. We don't manage specifically to a margin, call it, target, so to speak. But when we think about growth, it's -- I kind of think of it as a -- and Roberto even touched on it on his remarks at the beginning. Discipline is a good thing. In certain cases, we're going to look at taking a lower spread, which say it may impact the margin negatively to do business that we think in the long run is going to make sense for the institution to do because it will build franchise value and it will generate long-term returns, which at the end of the day is what we're trying to achieve.

So we may have situations where you may see, okay, there's margin pressure, we're adding to the business. but we'll be selective on those. And there'll be times when maybe that's emphasized more because of opportunities in the market as opposed to times where we don't see those opportunities, in which case, maybe we don't grow as fast or you see the margin expand, but that's a high-class problem.

And as you saw this quarter, what happens then is if we're not supporting growth, then we're building capital. So then the decision that we have to make is how do we return that capital back to shareholders, and you saw us do that this quarter as an example. So it's a balance that we're playing, right? It's balanced between long-term growth and balancing that against the short-term opportunities that we see in the day-to-day aspect of the business.

Thomas J. Bell*Executive VP & CFO*

And I would just add -- sorry, Brian, one last thing just to remember. You talked about the SBA business, right, is becoming a smaller piece of the overall organization. Over a longer period of time, that will continue. And obviously, that's a higher risk, higher return business. So that would have an impact on the margin in a longer-term way, not necessarily next quarter or the following year. But just gradually, you would expect those higher-yielding assets to be a smaller piece of the overall earning assets.

Brian Joseph Martin*Brean Capital, LLC, Research Division*

Got you. No, I appreciate it. And you mentioned asset repricing time. Is there something that -- I guess, deposits may be being stablsh. But remind me what assets -- just the asset repricing looks like here in the next couple of quarters?

Thomas J. Bell*Executive VP & CFO*

There's about roughly \$300 million of loans and leases that are repricing in the next quarter. And call it, \$250 million to \$275 million in the fourth quarter. And those are at yields that are kind of in that \$630 million range. So on average, we're probably slightly higher than that as new production comes in on a blended basis.

Brian Joseph Martin*Brean Capital, LLC, Research Division*

Got you. Okay. That's helpful. And I think the comments about the NII, the way to think about it in terms of just that mid-single-digit growth seems like what you guys are suggesting. So okay.

And then maybe just the last one for me was on the -- you spent some time talking about the M&A environment and just kind of the capital flexibility and how you think about those returns. Just remind us, if you are successful in finding something on the M&A side that fits your wheelhouse, the discipline that you have on the cost for that -- for any type of transaction, can you just run through the parameters on what your discipline is on the M&A front, how you're thinking about when we see a deal, if there is one for you guys, what those parameters are, what your guideposts are there?

Alberto J. Paracchini*President & Director*

I mean, generally speaking, and it's going to be -- obviously, Brian, it's going to be dependent on the quality of the franchise. But I think what we have stated in the past is we're looking for an earn-back that's inside of 3 years. We're looking for reasonable tangible book value dilution relative to the earnings accretion that the institution would add to a company. And obviously, you have to adjust that for size. Obviously, a smaller acquisition now at the size of the company in terms of accretion is going to be impacted by size. But that's generally the parameters that we manage to.

Operator

Your next call comes from the line of Daniel Tamayo with Raymond James.

Daniel Tamayo*Raymond James & Associates, Inc., Research Division*

Yes. Just -- I guess most of my questions have been asked at this point, but just on the balance sheet and the crossing \$10 billion, which you mentioned, it looks like you're almost there. Just thoughts on timing if that -- if you think that's still going to happen in the back half of this year or if that might be able to be pushed to '27.

Alberto J. Paracchini*President & Director*

It's a good question, Danny. We're not running the business today with really any constraint on that. So -- and we'll continue to do that, I would say, this quarter and probably the months of October and November. If we get to the beginning of December and we have the ability not to be over \$10 billion, then we would probably take you up on that, and we would just manage the balance sheet accordingly. But outside of a situation like that, that would really push the impact of Durbin out to kind of mid-2028, there's really no -- we're not doing anything out of normal course in terms of managing the balance sheet.

Daniel Tamayo*Raymond James & Associates, Inc., Research Division*

Okay. I appreciate that. And then maybe not to beat a dead horse on the margin here, but different side of it. The purchase accounting accretion, obviously volatile, but was kind of a little bit higher this quarter than it was last quarter. Just Tom, if you have any thoughts on where you think that might run and another way to kind of back into the core going forward, that would be helpful.

Thomas J. Bell*Executive VP & CFO*

Yes. We took the slide out because it's becoming nonmaterial. It's about \$1 million a quarter right now in accretion expectations. Obviously, if some loans pay off faster, we might get some recoveries, et cetera. But it's going to be -- it's less and less material forward. And you can refer to last quarter's deck for the guidance of the future quarters. But it will be under \$1 million coming up.

Daniel Tamayo*Raymond James & Associates, Inc., Research Division*

Okay. And maybe just a last one again on the margin. But it seems like maybe the environment in the second quarter was one where deposit costs started to rise in anticipation of a hike and banks were more willing to pay up for that, thinking maybe that we are going to get a hike with your balance sheet sensitivity a little bit on the asset side. Is it fair to think maybe if we do get that hike that the environment might normalize a little bit and deposit costs may not rise as fast as loan yields and you get a little bit more benefit from a hike than what your stated sensitivity is?

And I guess the flip side to that is if we don't get a hike, maybe the competition outweighs how you're thinking and the margin could decline. Is that fair? Or are you guys just kind of managing for -- I'm giving you an out here and just managing for the current environment and what happens.

Thomas J. Bell*Executive VP & CFO*

Yes, that's a good question. I think a couple of things to think about is, one, the market is already pricing in the tightening. So if the Fed were to raise rates, we're going to benefit from that. And we're already paying, in other words, for the tightening in the deposit side if somebody is going out and doing a 1-year CD, for example, because it's already expecting a 25 basis point increase. So we would benefit from that because all the assets would reprice higher with the exception of the fixed rate loans that aren't maturing or repricing.

So yes, we would definitely benefit more. And I think we showed -- we tried to show kind of the sensitivity on the deck on Page 7. But we benefit roughly for 25 basis points, \$2.1 million in rates up versus rates down of \$1.6 million.

Daniel Tamayo*Raymond James & Associates, Inc., Research Division*

And that sensitivity assumes -- sorry, go ahead.

Thomas J. Bell*Executive VP & CFO*

Yes. No, I was -- again, the deposit side is already starting to price it in, at least in the CD book. It's not in the money markets and now in savings. So I think we're -- we'll benefit.

Operator

Your next call comes from the line of Brandon Rud with Stephens Inc.

Brandon Jay Rud*Stephens Inc., Research Division*

Maybe just one, most of have been answered, but the success on the interest checking accounts, both on a period and an average basis, is there -- was there a specific initiative that helped drive that? Or is that just run-of-the-mill business there? Can you just kind of flesh out that increase on both, I guess, a sequential and year-over-year basis?

Thomas J. Bell*Executive VP & CFO*

It was more commercial accounts that were just converting or consolidating from money market. They maybe have both categories and they had moved to interest-bearing just for various reasons. Nothing like that I would point to drove the increase other than just consolidation of accounts within the organization.

Brandon Jay Rud*Stephens Inc., Research Division*

Okay. So then it explains [indiscernible] the money market a little bit.

Alberto J. Paracchini*President & Director*

Right. That's actually a really good question, Brandon, because that's usually not necessarily immediately, but that's usually a marker for when you see particularly corporate or companies doing that, it points to the fact that they're seeing or likely to see uses for that capital, and they don't want to have the restrictions that they have in a money market account relative to an interest-bearing checking account.

Operator

[Operator Instructions] Your next call comes from the line of Damon DelMonte with KBW.

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

Just a couple of quick ones as most have been asked and answered. But Tom, probably for you, the average securities increased again this quarter. Just kind of curious your thoughts on that going forward. Will future dollars be allocated to the portfolio? Or do you expect to use excess liquidity to be deployed into loans?

Thomas J. Bell*Executive VP & CFO*

Ideally, it's loans, Damon, probably flat on the securities at this point. And clearly, given where we're close to \$10 billion, I don't think we are looking to grow the portfolio at this point.

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

Got it. Okay. Great. And then I don't think this was asked already. But regarding like the provision outlook and kind of balancing that with the reserve level, I think, Alberto, I think you said net charge-offs should still probably be in that 30 to 45 basis point range or something in the near term. But as we think about the back half of this year and going into '27, can we expect the reserve level to kind of drift a little bit lower as credit quality continues to strengthen?

Alberto J. Paracchini*President & Director*

I mean it may, Damon. But as you well know, is it's going to be completely dependent on how actuals come in relative to the outlook. And what I mean by that is you see a pick more loan growth, the loan portfolio growth, we're obviously going to provision for that. I think that what you quoted me on in terms of kind of the short run kind of charge-off expectation in the 30 to 40 basis point range, that is -- that remains consistent. So just when you think about that math, just know that the variable that is harder to predict is that loan growth, that end of period kind of balance and the dynamics that plays into provisioning relative to where charge-offs are coming in. So hopefully, that gives you some color on that.

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

Yes. No, that makes sense. And then I guess lastly, the tax rate going forward, Tom, is something in the 25% range reasonable, 25.5%.

Thomas J. Bell*Executive VP & CFO*

25.5% seems reasonable.

Operator

Your next call comes from the line of Brendan Nosal with Hovde Group.

Brendan Jeffrey Nosal*Hovde Group, LLC, Research Division*

Just to circle back on the fee income outlook. I think, Tom, you said a range of \$14 million to \$15 million for the third quarter. I totally get that gain on sale is going to trend back to that \$5.5 million number on average. What are the other drivers of kind of getting into that lower range for next quarter just as we work through the various line items?

Thomas J. Bell*Executive VP & CFO*

Again, remember, fair market value of securities was higher this quarter and the servicing asset impairment write-down was lower. So we've been trending in that \$14 million to \$15 million range over the last 6 to 8 quarters. So I think that's a good guide for us right now. We're still trying to grow our noninterest income. As we alluded to, wealth management continues to improve. We have -- our customer swap business is helping us out, and we continue to try and collect fees where we can.

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, Ben. Thank you. Before I wrap up, I'd like to recognize an important milestone for us here at Byline. The end of the quarter marked our 13th anniversary as Byline and for a lot of people on the call, it was our ninth year as a public company. So thank you to all of you investors that have been investors with us over that ninth -- across that 9-year period and certainly to all of the analysts on the call and their firms for covering us as a public company. We very much appreciate that. And please know that we want to also thank everyone who has been part of our journey and contributed to our success along the way.

So with that, to everyone on the call, thank you for joining us today. We appreciate your continued interest in Byline and look forward to talking to you again next quarter.

Operator

This concludes today's call. Thank you for attending. You may now disconnect.

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