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WSFS - Q1 2017 WSFS Financial Corp Earnings Call

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the WSFS Financial Corporation First Quarter 2017 Earnings Conference Call. (Operator Instructions) And as a reminder, this conference call is being recorded.

I'd now like to turn the call over to your host for today, Mr. Dominic Canuso, Chief Financial Officer. Sir, you may begin.

Dominic C. Canuso - *WSFS Financial Corporation - CFO and EVP*

Thank you, Saundra, and thanks to all of you for taking the time to participate on our call today. With me on this call are Mark Turner, President and CEO; Rodger Levenson, Chief Corporate Development Officer; Paul Geraghty, Chief Wealth Officer; Steve Clark, Chief Commercial Banking Officer; and Rick Wright, Chief Retail Banking Officer.

Before Mark begins with his remarks, I would like to read our Safe Harbor statement. Our discussion today will include information about our management's view of our future expectations, plans and prospects that constitute forward-looking statements.

Actual results may differ materially from historical results or those indicated by these forward-looking statements due to risks and uncertainties, including, but not limited to, the risk factors included in our Annual Report on Form 10-K and our quarterly reports on Form 10-Q, as well as other documents we periodically file with the Securities and Exchange Commission. With that read, I'll turn the discussion over to Mark Turner.

Mark A. Turner - *WSFS Financial Corporation - CEO and President*

Thank you, Dominic, and thanks, all, for your time and attention today.

We are pleased to report earnings of $18.9 million or $0.59 per share in the first quarter of 2017. This represents a 13% increase over our earnings per share from the same quarter last year.

As we've said previously, the first quarter of the year is by far our slowest-- due to fewer days and heightened seasonality, impacting both lower revenues and higher expenses. Despite that, we had strong showings this quarter, which included:

One, a 7% annualized increase in total loans, led by an 11% annualized increase in commercial loans and a 13% annualized increase in consumer loans, two of our more profitable lending segments;

Two, a 13% annualized increase in deposits, which excludes the $352 million in short-term trust deposits held at quarter end; and

Three, an 18% year-over-year increase in net revenues, including a 17% increase in net interest income and a 19% increase in fee income; these strong increases came despite a rate-related slowdown in mortgage activity in the first quarter 2017, which activity is now nicely rebounding in the spring months.

The tax line was also helped by a $1.3 million benefit, or $0.04 per share in the current quarter, from the accounting change for stock-based compensation, which we first adopted in the second quarter of 2016. This was about $0.02 per share more than we expected and $0.02 per share more than the $0.5 million benefit we recorded in the fourth quarter of 2016.

Credit costs returned to more normal levels, as these total costs, which include provision, OREO, workout and similar expenses, were $2.8 million in the quarter, or a little better than our annualized expectations, which equate to $3.0 million to $3.5 million per quarter.

Problem loans, delinquencies and charge-offs were all at good and more normal levels for this point in the cycle. Non-performers, while still at a reasonable overall level of 88 basis points of total assets, did increase almost $20 million, as four commercial credits were put on non-accrual status. In each case, a comprehensive impairment analysis has been completed and any expected loss has been factored in into our loan loss provision this quarter. The largest contributor to non-accruals was one local energy sector-related C&I loan, where we are a participant with many other national and local banks. Our portion of this loan is $9.7 million. We expect to be paid off in full through refinancing of this credit in near term, with no impact to net charge-offs.

Growth in expenses as compared to the fourth quarter of 2016 included some severance costs, annual merit increases and other costs to support overall franchise growth, including the full quarter of our combination with West Capital Management. However, the linked quarter increase came mostly from seasonable items and compensation, such as bonus true-up, and 401(k) match expenses and certain employer taxes until annual caps are met.

Our efficiency ratio started this year a bit higher than we would have expected a year ago, when we were in the midst of planning the Penn Liberty integration; as mortgage activity was down meaningfully in the first quarter, we issued $100 million in senior notes mid-last year, and in the second half of 2016 we acquired 2 fee-based wealth businesses, which naturally have higher efficiency ratios.

However, as mortgage banking activity is rebounding, as we plan to pay off our old senior notes in September at substantial interest savings, as our revenues also build from our asset sensitivity, normal seasonality and our good organic growth, and as we move past some seasonal first quarter costs, we expect the core efficiency ratio to trend down to the high 50s percentage range by the end of the year, fairly consistent with the pattern demonstrated last year.

More specifically, going forward and consistent with our 2017 Financial Plan and our 2018 Strategic Plan, we expect:

One -- loans and deposits to grow at mid- to high single-digit rates.

Two -- total credit costs to be consistent with our full year guidance of $12 million to $14 million (but again, these costs can be uneven).

Three -- the net interest margin to expand modestly as we benefit from rising short-term rates and our asset sensitivity position, especially now that The Wall Street Journal prime rate and the WSFS prime rate are aligned -- and we expect the net interest margin to benefit even more with the planned payoff on September 1 of our $55 million in 6.25% costing senior notes.

Four -- fee income growth to accelerate over the next couple quarters from 18% to closer to 20% year-over-year growth as we move past a slow quarter, especially in mortgage banking and ATM cash services.

Five -- as indicated, the core efficiency ratio to trend positively towards a high 50s percentage by the end of the year and about 60% for the full year, based on the dynamics previously discussed.

Six -- the effective tax rate to be just below 35% as we continue to benefit modestly from the stock-based compensation accounting change, but less so than in the first quarter (we caution here that this impact depends on exercise activity and share price).

And lastly, we believe we are on-track to achieve a core and sustainable ROA of near 1.25% for the full year of 2017; which is a stepping stone to achieving our stated Strategic Plan goal of a core and sustainable Return on Assets of at least 1.30% by the fourth quarter of 2018.

Thank you. And at this time, we'd be glad to take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Joe Gladue with Merion Capital Group.

Joseph Gladue - *Merion Capital Group LLC, Research Division - Research Analyst*

I wanted to touch a little bit on the increased operating expenses. Yes, with the increase in -- or the rebound in mortgage activity, I'm guessing that could push compensation expenses up even more in second quarter. Should we expect another increase as mortgage rates -- mortgage activity increases?

Dominic C. Canuso - *WSFS Financial Corporation - CFO and EVP*

So Joe, this is Dominic. While there typically will be an increase as mortgage volume increases overall, we expect very slight increase in expenses from 1 quarter to 2Q and for the remainder of the year, as we absorb the increased seasonality costs occurring in the first quarter, along with those onetimers.

Joseph Gladue - *Merion Capital Group LLC, Research Division - Research Analyst*

Okay. And on the occupancy, what was driving that up from the fourth quarter?

Dominic C. Canuso - *WSFS Financial Corporation - CFO and EVP*

So it's a couple small items. Half of the increase was really an adjustment that reduced fourth quarter costs. The other half was a combination of some seasonal items, such as snow removal and the opening of our King of Prussia branch.

Joseph Gladue - *Merion Capital Group LLC, Research Division - Research Analyst*

Okay. So those opening costs, would some of those be nonrecurring?

Dominic C. Canuso - *WSFS Financial Corporation - CFO and EVP*

That element would be reoccurring as the branch is now open. The seasonal snow removal and the onetime item would not be.

Joseph Gladue - *Merion Capital Group LLC, Research Division - Research Analyst*

Okay. And I guess, just to be clear, those trusts, that big slug of trust deposits, I take it that's all in a noninterest-bearing account?

Mark A. Turner - *WSFS Financial Corporation - CEO and President*

That's correct.

Joseph Gladue - *Merion Capital Group LLC, Research Division - Research Analyst*

Okay. All right. Lastly, I guess...

Mark A. Turner - *WSFS Financial Corporation - CEO and President*

Joe, let me correct that. It's a very, very -- they're not noninterest-bearing, but they're very, very, very low interest-bearing.

Joseph Gladue - *Merion Capital Group LLC, Research Division - Research Analyst*

Okay. All right. And on the net interest margin, just wondering, I think, some of the -- I think, in the press release, it said, the accretion impact in the -- from purchase -- accretion impact in the first quarter was less than it was in the fourth quarter. Can you quantify how much that was in basis points maybe?

Dominic C. Canuso - *WSFS Financial Corporation - CFO and EVP*

Sure. It was 22 basis points in the fourth quarter, coming down by 4 basis points to 18 in the first quarter, as we continue along the path of normalizing for the Penn Liberty acquisition.

Joseph Gladue - *Merion Capital Group LLC, Research Division - Research Analyst*

That's all I have, thank you.

Mark A. Turner - *WSFS Financial Corporation - CEO and President*

Joe, let me also add some color to one of Dominic's earlier responses, and please correct me, Dominic, if I'm wrong. There was an 8% increase in operating expenses fourth quarter '16 to first quarter '17. As we analyze it, about half of that increase came from seasonal items and onetimers, which are nonrecurring, and about half of the increase came from expected recurring expenses due to franchise growth.

Joseph Gladue - *Merion Capital Group LLC, Research Division - Research Analyst*

Thanks that's helpful.

Operator

And our next question comes from the line of Frank Schiraldi with Sandler O'Neill.

Frank Joseph Schiraldi - *Sandler O'Neill + Partners, L.P., Research Division - MD of Equity Research*

Just a couple of questions on, first, on the NIM or NII, just wondered if you could give us some color around now that we're sort of through the delta between Wall Street Journal prime and WSFS prime, what sort of NII growth or NIM growth you would estimate from a 25 basis point move in the yield -- let's just say in the yield curve overall?

Dominic C. Canuso - *WSFS Financial Corporation - CFO and EVP*

That's a good question. This is Dominic. You're correct. With the most recent rate increase, just under $600 million of our portfolio that was under the floor due to the WSFS prime rate is now at the floor. And going forward, we expect, with a 25 basis point increase, just about $750,000 annualized income or about 0.3% lift in NII.

Mark A. Turner - *WSFS Financial Corporation - CEO and President*

And that, if I could, that's based on a modeled beta of 50 basis points, and our actual experience with the betas over the last couple increases has been closer to 10 to 15 basis points. So we actually would expect to outperform the numbers that Dominic just gave you.

Frank Joseph Schiraldi - *Sandler O'Neill + Partners, L.P., Research Division - MD of Equity Research*

Got you. Great. And then, just wondered if you had a breakout of -- the fee income grew year-over-year 19%, I think was the number. If you could share what was attributable to acquisitions versus organic growth?

Paul D. Geraghty - *WSFS Financial Corporation - Chief Wealth Officer and EVP*

Frank, this is Paul Geraghty. In the Wealth area, so we posted about 49% growth in fee income. And most of that growth, with the exception of very low double-digit growth, was organic, and the rest of it was attributable to our two acquisitions. As we expected, they have meaningful size for us and they've performed consistent with our modeling and especially the growth in the equity markets over the last three months has really helped them to fuel our growth.

Mark A. Turner - *WSFS Financial Corporation - CEO and President*

And the other fee-related businesses, the fees coming out of the traditional bank, which would be almost all organic, that was mid- to high single-digit growth, and the same for the Cash Connect business. It's in the high single-digit organic growth.

Frank Joseph Schiraldi - *Sandler O'Neill + Partners, L.P., Research Division - MD of Equity Research*

Okay. So Paul, did you say the organic growth in Wealth Management was low double digits, and then, everything else above that would be acquisition? That's year-over-year?

Paul D. Geraghty - *WSFS Financial Corporation - Chief Wealth Officer and EVP*

Correct.

Frank Joseph Schiraldi - *Sandler O'Neill + Partners, L.P., Research Division - MD of Equity Research*

Thank you.

Operator

And our next question comes from the line of Catherine Mealor with KBW.

Catherine Mealor - *Keefe, Bruyette, & Woods, Inc., Research Division - MD and SVP*

Thanks and good afternoon, just one follow-up on the margin. And you kind of answered the question in talking about how your betas were coming in around 10 to 50 bps versus modeled at 50, but when I look at your change in deposit cost, particularly on the CDs, they felt higher than some that we've seen across the industry so far this quarter. And I didn't -- just would love to have any commentary on what you're seeing in your markets, how competitive that's been? Are you having to change your overall deposit rates? Or are these kind of one-off situations that are bringing deposit cost higher?

Mark A. Turner - *WSFS Financial Corporation - CEO and President*

So I'll jump in, and then, Rick will add some color. A lot of that had to do with some promotional rates as we opened some new branches or a new branch and as we entered PA and maybe kept some rates a little higher there than we would expect to in the long-term. Rick?

Richard M. Wright - *WSFS Financial Corporation - Chief Retail Banking Officer and EVP*

Yes, this is Rick. The one addition I'd make is that we've run CDs off considerably to where they're such an insignificant part of our deposit portfolio that we did make a decision to run a couple of promotions to just keep that -- those balances fairly steady during the quarter.

Catherine Mealor - *Keefe, Bruyette, & Woods, Inc., Research Division - MD and SVP*

That makes sense. Okay. And so moving forward, I guess, in -- is your gut that your betas are going to move closer -- I guess, how quickly do you think your betas are going to move closer to what you're modeling at 50 bps? Is it anecdotally from what you're seeing in your markets that could maybe offset the impact of what you're going to see once the next rate hike, when you get the full benefit of moving above with this prime?

Mark A. Turner - *WSFS Financial Corporation - CEO and President*

So it's a great question, and the answer is, nobody really knows because, obviously, it depends on both competitor behavior as well as customer reaction, but we actually poll the folks in our ALCO group on this question who'll have kind of different -- differing points of view on it. And the consensus amongst our people that study these things and know the markets are, for the next one to two rate increases, we think we can hold kind of a 10 to 20 basis point beta. But after that, then it'll start to move closer to the long-term expectations of 50 basis points.

Catherine Mealor - *Keefe, Bruyette, & Woods, Inc., Research Division - MD and SVP*

Thanks all you had a great quarter.

Operator

And our next question comes from the line of Austin Nicholas with Stephens.

Austin Lincoln Nicholas - *Stephens Inc., Research Division - Research Analyst*

Thanks, thanks for taking the question, maybe just on the nonperformers, are there any other -- I know you mentioned that the -- that one large credit was energy-related. Are there any other energy-related credits of size or note still on the book that you can disclose to us?

Stephen P. Clark - *WSFS Financial Corporation - Chief Commercial Banking Officer and EVP*

Austin, this is Steve Clark speaking. Relating to energy, and if we're really talking about the kind of exploration, refinery, utility space, our outstanding commercial loans are about $20 million outside of the one Shared National Credit that was disclosed. So very, very small portfolio in energy.

Austin Lincoln Nicholas - *Stephens Inc., Research Division - Research Analyst*

Understood. That's helpful. And then, maybe just bigger picture, with Penn Liberty closed and largely integrated, how -- what's the message on M&A from here maybe over the next year or so?

Mark A. Turner - *WSFS Financial Corporation - CEO and President*

Yes, so we continue prospecting because anything related to M&A usually has a very long sales time in the pipeline. But we've said publicly and we reaffirm with the potential exception of a small bolt-on, fee-based acquisition, you can expect us to be quiet this year, as last year, we essentially integrated four acquisitions. And we look to optimize what we're doing in Southeastern Pennsylvania as well as in the Wealth arena.

Austin Lincoln Nicholas - *Stephens Inc., Research Division - Research Analyst*

Understood Mark, thanks and that is all the questions I had.

Operator

And our next question comes from the line of Russell Gunther with D.A. Davidson.

Russell Elliott Teasdale Gunther - *D.A. Davidson & Co., Research Division - Analyst*

Good afternoon, just to follow up on the fee income guide, if I could. I think, if I heard you correctly, it's 20% year-over-year for the next coming quarters. You guys could just confirm that to start. But also, then, help me understand kind of where the drivers of that growth will be coming from? And I'd be specifically interested to hear your thoughts on the Cash Connect outlook.

Mark A. Turner - *WSFS Financial Corporation - CEO and President*

So yes, that's, for the next couple of quarters, that's what we reaffirm, closer to 20%. As we get to the end of the year, obviously, some of our acquisitions that occurred at the end of last year will mute that year-over-year growth because they'll be in both -- they'll be in the base. But where it's coming from, we really have 4 sources of significant fee income, one is the basic bank and deposits and loan fees, and that's expected to grow mid-single digits. We also have mortgage banking, and we also sell SBA loans, and that is kicking in nicely, and we expect that to grow kind of high single digits, maybe even low double digits. In the Wealth business, that's where we're seeing a really outsized growth coming from natural organic growth in the low double digits, but also, as you heard Paul say, with the two acquisitions kicking in, those numbers are very high with the West and the Powdermill kicking in the next couple of quarters, which were not there last couple quarters. And then, with Cash Connect, we had muted growth this quarter of 7%, where their last 5-year compound annual growth rate in revenues was closer to 15%. We expect that to get closer as the year progresses, back to high single digits, low double digits in Cash Connect growth as they had a couple of customers drop off. They had some margin compression and -- but they've invested in some new customers and some new products, and that should start kicking in as the year progresses.

Russell Elliott Teasdale Gunther - *D.A. Davidson & Co., Research Division - Analyst*

Okay. Great. Helpful. And then, I just had a follow-up on the expense commentary. So if I caught you correctly, you guys remarked that about half of the increase quarter-on-quarter was attributed to seasonal items that will not reoccur, is that correct? And if so, is that all in the salaries and benefits line? Or maybe just some help with the puts and takes there?

Mark A. Turner - *WSFS Financial Corporation - CEO and President*

Yes, so seasonal were onetimers like bonus true-up or severance, but the seasonal items would be like 401(k) match until caps are met, employer taxes and snow removal and those type of things, which, obviously, will reoccur next year. But if you're looking at a run rate starting in the second quarter, the items that I just mentioned should not be in there. And then, I'm sorry, the second half of your question, I forgot.

Russell Elliott Teasdale Gunther - *D.A. Davidson & Co., Research Division - Analyst*

No I think that's it. I mean, if the question was relating to the pickup in, I guess, total core expenses, quarter-over-quarter or just isolating for that salaries and benefits line?

Mark A. Turner - *WSFS Financial Corporation - CEO and President*

Yes so in -- predominantly, they were in the salaries and benefits.

Russell Elliott Teasdale Gunther - *D.A. Davidson & Co., Research Division - Analyst*

Okay. And so about half of that is going to go away next quarter.

Mark A. Turner - *WSFS Financial Corporation - CEO and President*

Yes. A little bit in like snow removal, which would be in occupancy, but that's like $100,000, $200,000.

Russell Elliott Teasdale Gunther - *D.A. Davidson & Co., Research Division - Analyst*

Thanks for taking my questions.

Operator

And our next question comes from the line of Matt Schultheis, Boenning and Scattergood.

Matthew Christian Schultheis - *Boenning and Scattergood, Inc., Research Division - Director of Research and Senior Analyst of Banks and Thrifts*

Good afternoon, I wanted to sort of follow up with some of the credit quality questions. We've seen a few quarters from you where they're in the one-off relationships. You had a seasonal business you were lending to that you had to resolve. You had the Wealth Management one, then you had this quarter. And I'm wondering, they're not related, so is there something going on within your system that's making you question your process for either underwriting or for portfolio review or collateral control? Or is this just sort of the price of doing business, and you're reverting back to more like a long-term norm for you guys?

Mark A. Turner - *WSFS Financial Corporation - CEO and President*

Yes, so I would answer that very confidently, the latter. As we look at our underwriting and processes and systems, including loan review and credit files and the reviews we get from outsiders, which we employ outside folks to come in and look at what we do frequently, there's nothing in any of those processes or those results, which are generally good to excellent. And nothing in the underwriting or underwriting changes that suggest there's something different going on here. I think, it is just the cost, the natural cost of our business, and moving back more over time to credit cost, which are in the kind of the 20 to 25 basis point range in terms of charge-offs and costs per year. I would also add to that, our leading indicators support that, so our delinquencies and problem loans all continue to be at low and relatively flat levels as well as our weighted average risk rating on loans.

Matthew Christian Schultheis - *Boenning and Scattergood, Inc., Research Division - Director of Research and Senior Analyst of Banks and Thrifts*

Thank you.

Operator

And our next question comes from the line of Thomas Smith, a private investor.

Thomas Smith - - *Private Investor*

Hello gentlemen how are you doing? This conference call, I think the simplicity of it is great. And I hadn't noticed it before, but it was posted correctly through an account brokerage house that I use through Schwab and down on your listing with your stock it gave a reference to this phone number, so I think it's a great thing. I wanted to compliment you guys on the workers you have up here at the branch at WSFS at Kirkwood Highway. That's a location I do business, and I think you've got some great people in there. My questions are a little bit more simplistic because I can detect some of these calls, probably most all of them, have come from brokerage houses, maybe, that handle a lot of your shares. But I've been a shareholder since probably 20 years ago, so referencing that with where the stock may have been when I went in probably at about $2 a share, somewhere around there, so I've watched it rather closely and, of course, have a fairly large portion of WSFS stock in my portfolio. So I'm a little concerned about the dividend that gets paid out, not that you may not be doing all that you can or all that you should be, but coming off of $0.59, and I don't know if you've already posted what you're going to do for this coming year, but I believe it was $0.07 a share last year. And so I ask for comments about that. And the other statement I want to make about the stock, the fluctuation in that stock has kind of amazed me over the last 3 or 4 years, as I've watched it rather closely. And I see periods of spikes in the stock that are kind of uncommon for most other bank stocks that I hold. Most of them trade in a very narrow range, even given the different kind of economic conditions we've been through. And I don't know, it could be all day trader activity from some local people, but the fluctuations sometimes are -- just seems to be rather large. And I guess, I have a question, whether or not this is watched or looked at, or you could shed any light on that? But once again, thanks for this opportunity to have what I say about what I think is a nice local bank.

Mark A. Turner - *WSFS Financial Corporation - CEO and President*

Yes, well, thank you, Mr. Smith. I appreciate that. We appreciate you being a good owner and a good customer, and especially appreciate those comments about our folks in the branch. They really are what make -- those folks really are what make us different and really are what drive our results. So I'll respond to each of your questions, and my crew here, if I forget one of them, please remind me. But with respect to the dividend, we actually put out a -- in this year's annual report, a nice section on our capital management strategy, which also goes into our capital return strategy, where we say that we are -- we do return a great amount of our earnings every year to our shareholders over the long-term, but most of that we prefer to do in buybacks rather than cash dividends for the flexibility it provides us as a company to manage capital, as well as the flexibility it provides our owners to take their cash and their tax burden as they see it. And at this point, about over 80% of our owners are institutional owners, and many of them prefer that strategy, so we try and be in alignment with our overall ownership base as well as what works for us. With respect to changes in the stock price, actually, no, we -- not something that we'd noticed. We -- it may be we have a large institutional base and it moves more than maybe other institutions that have a higher retail basis. But it's not something we notice or are concerned with, and frankly, think our stock has behaved quite nicely over the last several years, certainly, if you're a long-term holder and that's who we're interested in holding our stock. We operate for the long-term, so we look at -- don't look at daily fluctuations and look to perform. And then, tell our story well and have the share price reflect that over the long-term. And then, I think, there was one other question in there that I might have missed, or is that...

Thomas Smith - - *Private Investor*

No, that was basically it. There others were statement, unless someone else remembers something I said that I don't, which could happen these days, but...

Mark A. Turner - *WSFS Financial Corporation - CEO and President*

Thank you very much, and we appreciate you being on the call and appreciate your questions and comments.

Thomas Smith - - *Private Investor*

Thank you very much.

Operator

And our next question comes from the line of Stan Westhoff with Walthausen & Co.

Stanley M. Westhoff - *Walthausen & Co., LLC - Research Analyst*

Matt - Good afternoon everyone, you answered the questions I had for Matt a little -- a question ago. But I wanted to touch on the credit problems we've had here a little bit as well. I mean, what you gave Matt earlier was a pretty good color, and I appreciate that. I guess, looking at the credit problems we've had over the last 3 quarters, I guess, first, how long do you think it's going to take to work out some of these credits, especially maybe the ones that used to -- that started a couple of quarters ago? I mean, excluding the Shared Credit you have?

Stephen P. Clark - *WSFS Financial Corporation - Chief Commercial Banking Officer and EVP*

Yes, Stan, so this is Steve Clark again. Regarding the Shared National Credit, which made up about half of the uptick of nonperformings this past quarter, we expect that to be refinanced and we would be paid in full this quarter. That's our expectation. The other, about half, $10 million of nonperformers, really, were spread across three C&I credits in totally unrelated industries, one manufacturing, one agriculture and one health care. We have done our loss assessment, as Mark indicated in his comments, and that's reflected in our provisioning in the first quarter. It's hard to say when they'll be fully resolved, but they're being actively worked and we believe we're in a good place presently regarding our provision.

Stanley M. Westhoff - *Walthausen & Co., LLC - Research Analyst*

Well, I was kind of leaning a little bit more back to the ones that we had back in the third and fourth quarters that jumped up there. Do we have any time frame on a resolution on that?

Mark A. Turner - *WSFS Financial Corporation - CEO and President*

Yes, so the one in -- both of those are actually fully resolved at this point. The charge we took in the third quarter of last year was for a large nursery loan that was the charge taken to exit the credit, that was refinanced out and refinanced at a discount, so we're out of that. And the charge in the fourth quarter was essentially a full charge-off of an unsecured portion of a loan, so both of those are gone. We very actively work our nonperformers here and attempt to, obviously, get the best value for them for our shareholders, while at the same time making sure they don't accumulate and become a burden to us as an institution, either substantively or optically.

Stanley M. Westhoff - *Walthausen & Co., LLC - Research Analyst*

Okay. I guess, I can see that kind of moving from quarter to quarter going from the third to the fourth quarter, but I guess, we had a jump in the nonperforming loans of basically roughly $9 million, $9.5 million. At that point, I assume some of that charge-off in the third quarter was for that increase as well. Can you explain, I guess, a little bit more what happened going back to the third -- from the second quarter to the third quarter, that $10 million increase?

Rodger Levenson - *WSFS Financial Corporation - Chief Corporate Development Officer and EVP*

Stan, this is Rodger Levenson. I think you might recall from that call back then, we had just -- like similar to this quarter, we had a few unrelated credits that moved to NPA in that quarter. Each one of those situations is moving towards resolution. As Steve said, it's kind of hard to predict, but I would think, certainly, within the next year or so, we would expect those 3 to be resolved.

Mark A. Turner - *WSFS Financial Corporation - CEO and President*

And I'd just add overall context. So for our institution and the risks we take and how we manage having NPAs to total assets of somewhere between 50 and 75 basis points of total assets would not be unusual. We're above that right now because of that Shared National Credit at 88 basis points, but that's still kind of in line with peer medians and means. And if you exclude that, and then, we hopefully, again, will have that refinanced out and taken care of, resolved this quarter, we'd be back to around 74 basis points. So we're at a point in the cycle where we're kind of at expected rates, and we expect once the Shared National Credit gets taken care of, we're in a range where we will be managing inflows and outflows on a normal kind of recurring routine basis.

Stanley M. Westhoff - *Walthausen & Co., LLC - Research Analyst*

That was my only concern in the credits, you guys are doing a really good job with that.

Operator

(Operator Instructions) And thank you, all, and with no further questions in queue, I would like to turn the conference back over to Mr. Mark Turner.

Mark A. Turner - *WSFS Financial Corporation - CEO and President*

Okay. Thank you again everybody on the line for your time and attention. Rodger, Dominic and I will be on the road a few times in the second quarter, and we look forward to seeing many of you there. Have a great weekend.