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Q3 2021 Atlantic Union Bankshares Corp Earnings Call

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PRESENTATION

Operator

Good day, and thank you for standing by. Welcome to the Atlantic Union Bankshares' Third Quarter 2021 Earnings Conference Call. (Operator Instructions) Please be advised that today's conference is being recorded. (Operator Instructions)

I would now like to hand the conference over to your speaker today, Mr. Bill Cimino. Mr. Cimino, you have the floor.

William P. Cimino ***Atlantic Union Bankshares Corporation - SVP of IR***

Thank you, Chris, and good morning, everyone. I have Atlantic Union Bankshares' President and CEO, John Asbury; and Executive Vice President and CFO, Rob Gorman, with me today. We also have other members of our executive management team with us for the question-and-answer period.

Please note that during today's earnings release and through the accompanying slide presentation we are going through today on the webcast are both available to download on our investor website at investors.atlanticunionbank.com.

During today's call, we will comment on our financial performance using both GAAP metrics and non-GAAP financial measures. Important information about these non-GAAP financial measures, including reconciliations to comparable GAAP measures is included in our earnings release for the third quarter of 2021.

Before I turn the call over to John, I would like to remind everyone that on today's call, we will be making forward-looking statements, which are not statements of historical fact and are subject to risks and uncertainties. There can be no assurance that actual performance will not differ materially from any future results expressed or implied by these forward-looking statements.

We undertake no obligation to publicly revise or update any forward-looking statement. And please refer to our earnings release for the third quarter 2021 and our other SEC filings for further discussion of the risk -- company's risk factors and other important information regarding our forward-looking statements, including factors that could cause actual results to differ from those expressed or implied in any forward-looking statement.

All comments made during today's call are subject to that safe harbor statement. And at the end of the call, we will take questions from the research analyst community.

And now I'll turn the call over to John Asbury.

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John C. Asbury ***Atlantic Union Bankshares Corporation - President, CEO & Director***

Thank you, Bill, and thanks to all for joining us today. Reflecting on the big picture over the third quarter, we were pleased to see reason for optimism in the outlook for COVID-19, declining unemployment and the most benign credit environment I've witnessed in my 34-year career. On the other hand, supply chain disruptions continued unabated, pressures on wages and the ability of our business clients to fill open positions remained a challenge, and we don't expect any improvement in the short-term rate environment for perhaps another year.

Having said that, our business clients are holding up well and most report strong demand for their services, but are challenged in filling orders due to the scarcity of needed inventory supplies and equipment.

The good news is this is a supply problem. It's not a demand problem, and the supply challenges should improve in the coming quarters. While the economic outlook may have been muted somewhat by these factors, it's still a positive outlook, and we remain decidedly in an optimistic camp.

All of this has pros and cons for us with the pros being the absence of credit problems and what appears to be a coiling spring for loan growth and the cons being surplus liquidity, elevated loan paydowns and wage pressures. The decline in loan balances we experienced over the quarter was more than we expected. It was, in fact, a record level of payoffs as stabilized commercial real estate was sold or refinanced into the long-term institutional markets and surplus liquidity was used by clients to pay down bank debt.

We are encouraged by the outlook for loan growth, though, as new loan production was the highest we've seen in any quarter, year-to-date and new construction loans set a record high. However, initial fundings were not enough to offset payoffs, and closing should have been higher still where it not for the project delays, we've been seeing all year long.

We do believe we are set up for a solid finish in Q4 with quarterly loan growth looking good month to date, and I'll elaborate more on that momentarily. I typically begin in my comments on these calls with familiar statements, and I do that intentionally to demonstrate consistency in our strategy and how we run the business.

So I'll do that again now. Our mantra of soundness, profitability and growth in that order of priority serves us well and continues to inform how we run the company. A sound bank is and will remain our single highest priority.

A prudent and conservative credit culture served the company well during the Great Recession, and it's serving us well in the current environment as evidenced by our credit quality, which remains pristine. Our second priority is profitability, and we did incur added expense to maintain competitiveness in the current labor environment, particularly for our retail branch network.

We also had some onetime expenses related to both hiring and severance. We continue to balance investment in the business for the long term while remaining mindful of the continuing challenges of the low rate environment, though expense control will be of supreme importance for as far as the eye can see. It's very clear wage pressures are real, and we'll mitigate this through additional expense actions.

With the noise of PPP and provision releases subsiding, we now have enough line of sight to 2022 to reestablish our top-tier financial targets as we said we do. Rob will walk you through the details on that during his section.

As for growth, we remain optimistic in our economic outlook, and we believe we have a long runway ahead of us to grow both organically and through takeaway from our larger competitors that dominate market share in our home state of Virginia, supplemented by our operations in Maryland, North Carolina and our specialized lending capabilities in government contract finance and equipment finance. We are focused on and believe we're benefiting from the disruption occurring at 2 of our largest competitors.

As mentioned, elevated commercial real estate payoffs and commercial and industrial line paydowns were the headline for loan balances in Q3. Loans, excluding the impact of PPP, averaged down 0.6% over the course of the quarter, and that's approximately 1.3%

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point to point due to CRE payoffs having been the highest we've experienced to stabilize properties were sold or refinanced into the long-term nonrecourse institutional markets and C&I borrowers continue to pay down bank debt with surplus liquidity.

C&I line utilization ticked down 3 percentage points to 25% should be about bottomed out. As mentioned, while production was strong, initial fundings were not enough to overcome outsized paydowns last quarter.

October has been busy to date, and we have recaptured more than half of the reported third quarter loan balance decline in our commercial loan portfolio, excluding PPP. Bookings should continue to be active in the seasonally strong Q4, and we expect to close out the year with good loan growth.

We're also encouraged that construction lending activity has been rising for some time and construction loans outstanding grew over the quarter, first time we've seen that. For a while, construction loan new commitments dropped significantly in the first half of 2020 with the onset of COVID, and we're missing 2 quarters of normalized funding ramp-up from them, construction lending rebounded beginning in Q3 '20, has been running strong since then and set a record level in Q3 '21.

Borrowers first need to burn through their equity as projects proceed before making drawdowns on their financing. And while this has been a very strong headwind throughout 2021, it does set up a nice tailwind in 2022 for loan growth.

Traditionally, we can offset CRE paydowns with construction fundings that have not been able to do so this year due to the combination of new construction loans having been suppressed through much of last year, and historically high payoffs. As I mentioned before, that headwind is now abating as construction loans are funding up and growing.

Based on what we see at this time, we're expecting more normalized loan growth in the fourth quarter and in 2022 as our pipeline strength, expanded lending capabilities, new hires, market dynamics and economic outlook support that opportunity, we do believe we're on a growth footing.

PPP loan forgiveness during the third quarter was steady, approximately 3,000 clients from both round 1 and round 2 received forgiveness totaling approximately $392 million during the quarter, bringing the total amount forgiven to date to approximately $1.7 billion.

Our current PPP balances are $482 million. Overall, the PPP loan forgiveness process is running smoothly, and it should largely wrap up over the next 2 quarters. Turning to credit. The headline here remains the absence of credit problems. As we continue to climb out of the systemic downturn, our credit losses have been minimal so far.

Impressively, for the second consecutive quarter, charge-offs netted to 0 basis points. Realistically, though, at some point, credit losses will normalize. But given all the liquidity that remains in the system, declining unemployment and the strengthening economy, we see no sign of a systemic inflection point, and all of that feels distanced to us.

And to that point, the economic outlook remains positive, and we're optimistic. Here in our home state of Virginia, September unemployment came in at 3.8% and down from 4.3% in June, and that was 1 percentage point better than the national average of 4.8%. While that's all good news, the employment challenge in our markets is not the unemployment rate, it's the ability of businesses to fill their open jobs.

Rob will talk you through the provision for credit losses in our CECL modeling that file indications and metrics, credit peers to have never been better. The past year challenges in new and unexpected ways bringing out our best to meet the unprecedented needs of our customers and teammates. And as I said before, we've come out on the other side as a stronger and more capable organization.

Also, as I said before, we've learned to work differently, and our customers have learned to bank differently. We've seen usage in our digital channels increase substantially. For example, Year-to-date, approximately 17% of new checking accounts originated online, 28% of savings accounts originated online and 9% of consumer loans originated online. We expect to further drive these numbers up as we

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continue to refine our digital offerings and capabilities.

Digital log-ins are up 23% since this time last year with 76% of those logins coming from a mobile device. Mobile check deposit utilization continues to grow and now accounts for 19% of our deposit transactions and Zelle users are up 71% year-over-year with more than 49,000 users and transaction dollar amounts are up 176%.

We continue to work on new projects and improve the omnichannel customer experience with quarterly releases and upgrades to our product offerings. During the third quarter of the year, a more significant accomplishments and major undertakings were having completed the transition to a universal banker model in our branch network -- This is a big structural change and that enabled us to update our pay scales to remain competitive while also making brand staffing more efficient and productive.

While this did increase our salary expense run rate in Q3, it's a good example of an investment. One that makes us more productive, efficient and scalable over the long run. We added a new commercial team to our Maryland operations.

And we finalized plans in our equipment finance division to launch a new specialty vehicle financing team in the fourth quarter that further expands our growing specialty financing strategies.

Looking ahead, our goal remains to achieve and maintain top-tier financial performance regardless of the operating environment, as evidenced by our newly reestablished financial targets. We will continue to work on ways to make the company more efficient and scalable while improving and automating processes and the customer experience, we should see operating leverage results as -- coming from this.

I remain convinced, we're emerging from the pandemic stronger, better and more efficient than before, and that will give us opportunities, both organic and possibly through M&A. We are leveraging our learnings and ingraining our newfound capabilities, agility and innovation into the company's culture so that we're flexible and adaptable and the current lower-for-longer rate environment and forthcoming post-pandemic next normal, while also delivering a differentiated customer experience.

I also remain confident in what the future holds for us and the potential we have to deliver long-term sustainable performance for our customers, communities, teammates and shareholders.

And of course, I'll close with my customary reminder that Atlantic Union Bankshares remains a uniquely valuable franchise, dense and compact in great markets with a story unlike any other in the region. We're scalable with the right capabilities, the right markets and the right team to deliver high performance even in the most trying of times.

I'll now turn the call over to Rob to cover the financial results for the quarter.

Robert Michael Gorman ***Atlantic Union Bankshares Corporation - Executive VP & CFO***

Well, thank you, John, and good morning, everyone. Thanks for joining us today. Now let's turn to the company's financial results for the third quarter. In the third quarter, reported net income available to common shareholders was $71.6 million and earnings per share -- per common share was $0.94, down approximately $10.8 million or $0.11 per common share from the second quarter.

The non-GAAP pretax pre-provision earnings were $72.1 million, which was down from $77 million in the prior quarter. For the third quarter, return on equity was 10.9%. The non-GAAP return on tangible common equity was 18.8%. Return on assets came in at 1.47%, and the operating efficiency ratio was 53.91%.

Turning to credit loss reserves. As of the end of the third quarter, the total allowance for credit losses was $109 million, comprised of the allowance for loan and lease losses of $102 million, and a reserve for unfunded commitments of $7.5 million. In the third quarter, the total allowance for credit losses declined by $19 million, primarily due to lower expected losses than previously estimated as a result of economic improvements in our footprint, benign credit quality metrics to date, risk rating upgrades during the quarter, and an improved macroeconomic outlook over the forecast period.

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The total allowance for credit losses as a percentage of total loans was 83 basis points at the end of September, which was down from 94 basis points in the prior quarter. Excluding SBA-guaranteed PPP loans, the total allowance for credit losses as a percentage of adjusted loans decreased 14 basis points to 86 basis points from the prior quarter.

As a reminder, our day 1 CECL reserve came in at 75 basis points. The $19 million decline to the company's total allowance for credit losses took into consideration the COVID-19 pandemic impact on credit losses, both through the 2-year reasonable and supportable macroeconomic forecast utilized in the company's quantitative CECL model and through management's qualitative adjustments.

Beyond the 2-year reasonable and supportable forecast period, the CECL quantitative model estimates expected credit losses using a conversion to the mean of the company's historical loss rates on a straight-line basis over 2 years.

In estimating expected credit losses within the loan portfolio at quarter end, the company utilized Moody's September baseline macroeconomic forecast for the 2-year reasonable and supportable forecast period.

Moody's September baseline economic forecast for Virginia, which covers the majority of our footprint, has improved from the June baseline forecast as it now assumes that the Virginia unemployment rate will average 2.7% over the 2-year forecast period, which is down from the 3.2% 2-year average state unemployment rate assumed in the June baseline forecast.

On an absolute level, the September baseline forecast now assumes GDP will increase by 6% in 2021 and 4.3% in 2022. In addition to quantitative modeling, the company has also made qualitative adjustments for certain industries viewed as being highly impacted by COVID-19.

Additional economic scenarios were considered as part of the qualitative framework. In order to capture the economic uncertainty and concerns related to the path of the virus, vaccination distribution efforts and the potential for other more unfavorable economic developments.

The negative provision for credit losses of $18.8 million in the third quarter was lower than the prior quarter's negative provision for credit losses of $27.4 million, and represents a decline of $25.4 million from the $6.6 million positive provision for credit losses recorded in the third quarter of 2020.

The decline in the provision of credit losses as compared to the same quarter in 2020 was driven by the benign credit impact since the pandemic began. The significant recovery in the economy since last year as well as the improvement in the economic forecast utilized in estimating the allowance for credit losses as of September 30.

In the third quarter, net charge-offs were de minimis of $113,000 or less than 1 basis point compared to $69,000 in the prior quarter and $1.4 million or 4 basis points in the third quarter of last year.

Now turning to the pretax pre-provision components of the income statement for the third quarter. Tax equivalent net interest income was $140.7 million, which was down $3 million from the second quarter, primarily driven by the decline in PPP loan fee accretion interest income from $11.5 million in the second quarter to $9.4 million in the current quarter.

Net accretion of purchase accounting adjustments of $4 million, added 9 basis points to the net interest margin in the third quarter, which was in line with the 9 basis point impact in the second quarter. The third quarter's tax equivalent net interest margin was 3.12%, which is a decline of 11 basis points from the previous quarter as earning asset yields declined by 15 basis points from the second quarter due to the impact of the low interest rate environment on core loan and investment security yields and the increase in low-yielding cash balances due to excess liquidity, which was partially offset by a 4 basis point decline in the cost of funds from the second quarter.

The loan portfolio yield decreased to 3.7% from 3.76% in the second quarter, primarily driven by the impact of core loan yield compression of 10 basis points due to paydowns of higher-yielding loans and lower loan yields on loan renewals and new production. The

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core loan yield compression was partially offset by the increase in the yield on average PPP loans, which was 6.45% in the third quarter, up from 4.91% in the prior quarter.

In addition, earning asset yields declined by approximately 7 basis points from the prior quarter due to elevated levels of excess liquidity held in low-yielding cash equivalents and an additional 2 basis point decline due to lower investment securities portfolio yields, resulting from the reinvestment of portfolio cash flows and the deployment of excess liquidity into the investment securities portfolio at lower market rates.

The quarterly decrease in the cost of funds to 19 basis points from 23 basis points was primarily driven by a 4 basis point decline in the cost of deposits to 14 basis points in the third quarter. Interest-bearing deposit costs declined by 5 basis points to 20 basis points in the third quarter, primarily due to the maturity and repricing of high-cost time deposits in the quarter.

Noninterest income increased $1.5 million to $30 million in the third quarter, up from $28.5 million in the prior quarter, primarily driven by the recapture of $1.1 million worth of unrealized SBIC fund investment losses recorded in the prior quarter in other operating income. In addition, deposit and other service charges increased $591,000, Mortgage banking income increased $199,000, and asset management fees were higher by $210,000.

These quarterly increases were partially offset by declines in other noninterest income categories, including a decline of approximately $500,000 in bank-owned life insurance income due to life insurance proceeds received in the prior quarter.

Noninterest expense decreased $3.3 million to $95.3 million from $92 million in the prior quarter. The increase in noninterest expense was primarily driven by increases in salaries and benefits of $2.8 million, driven by higher salary costs of approximately $1 million as a result of branch banking pay structure changes and other market-driven salary adjustments made during the third quarter of 2021.

In addition, increased performance-based variable incentive comp and profit sharing expenses increased $655,000 and employee-related recruiting, severance and other cost increases of approximately $900,000.

In addition, other expenses increased by $1.6 million for the quarter, primarily due to OREO and related credit expenses increasing by $1 million, reflecting the impact of gains on the sale of closed branches, which were recorded as a reduction in other expenses in the prior quarter. Noninterest expense increase was partially offset by declines in professional services fees of $616,000. Noninterest expense for the third quarter of 2021 also included approximately $200,000 in expenses related to PPP loan forgiveness processing compared to approximately $250,000 in expenses in the second quarter.

The effective tax rate for the third quarter decreased to 18% from 18.3% in the second quarter. For the full year of 2021, we still expect the effective tax rate to be in the 17% to 18% range. Turning to the balance sheet. Period end total assets stood at $19.9 billion at September 30, which was a decrease of approximately $54 million from June 30 as declining loan balances due to PPP loan forgiveness were partially offset by increases in cash and cash equivalent balances due to excess liquidity and by net growth in the investment securities portfolio.

At period end, loans held for investment were $13.1 billion, which is inclusive of $467 million in PPP loans. A decrease of $558 million from the prior quarter, primarily driven by $392 million in PPP loans that were forgiven during the quarter, and declines in commercial loan balances ex-PPP of approximately $165 million.

Loan balances, excluding PPP loans in the third quarter decreased by $166 million or 5.1% annualized driven by declines in commercial loan balances of $165 million or 6% annualized as a result of historic levels of paydown activity outpacing loan production levels across the portfolio.

Consumer loan balances were flat to second quarter levels driven by a 13.9% (inaudible) growth rate in indirect auto balances, offset by the strategic runoff of a third party consumer loan balances. At the end of September, total deposits stood at $16.6 billion, a slight decline of $37 million or approximately 0.9% annualized from the prior quarter, driven by a decline of $113 million in high-cost time

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deposits.

At September 30, low-cost transaction accounts comprised 56% of total deposit balances, which was up from 54% in the second quarter. For the shareholders, stewardship and capital management perspective, we remain committed to managing our capital resources prudently as the deployment of capital for the enhancement of long-term shareholder value remains one of our highest priorities.

At the end of the third quarter, Atlantic Union Bankshares and Atlantic Union Bank's capital ratios were well above regulatory well-capitalized levels. During the third quarter of 2021, the company paid a common stock dividend of $0.28 per share, which was consistent with the prior quarter and also paid a quarterly dividend of $171.88 on each outstanding share of Series A preferred stock.

The company repurchased 2.3 million shares for $82.7 million in the third quarter, which fully utilized its $125 million share repurchase authorization from May 4, 2021. In total, the company repurchased 3.4 million shares under the repurchase program since May. We continue to operate in a challenging operating environment, and the impact on revenue growth caused by the linear effects of the pandemic and the intractable lower for longer interest rate environment are now expected to persist into 2022.

However, with the financial impact of the PPP loan program winding down and the pandemic-driven volatility related to expected credit losses and credit loss reserve levels subsiding, we are now in a position to reestablish our top tier financial metric targets to the following: return on tangible common equity within a range of 13% to 15%; the return on assets in the range of 1.1% to 1.3%; and an efficiency ratio of 53% or lower.

Our financial performance targets are dynamic and are set to be consistently in the top quartile among our peer group regardless of the operating environment. And at this time, we believe these new targets are reflective of the financial metrics required to achieve top-tier financial performance in the current economic environment.

In summary, Atlantic Union delivered solid financial results in the third quarter and is well positioned to generate sustainable profitable growth and to build long-term value for our shareholders.

And with that, I'll turn it over to Bill to open it up for questions from our analyst community.

William P. Cimino ***Atlantic Union Bankshares Corporation - SVP of IR***

Thank you, Rob. Chris, we're ready for our first caller, please.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Casey Whitman of Piper Sandler.

Casey Cassiday Whitman ***Piper Sandler & Co., Research Division - MD & Senior Research Analyst***

Maybe we'd start with expenses just because there was a lot of movement this quarter. Rob, can you walk us through what you kind of consider the run rate for expenses over the next quarter or 2 from that, I think, $95 million that you guys had this quarter?

Robert Michael Gorman ***Atlantic Union Bankshares Corporation - Executive VP & CFO***

Yes, Casey. So as we noted in our prepared remarks, we've actually increased during the quarter, the run rate for the company. And our view is, as we go forward here, we're going to be in the $95 million to $96 million range as a result of the pull forward, if you will, in terms of increased salaries related to both the universal banking operating model we went through this quarter as well as some market salary adjustments that were made in the quarter.

So we do expect that, that will continue as we go forward in the fourth quarter and into 2021. In addition, we're also looking, as noted, as John noted, we've lifted out a couple of teams, 1 in Maryland, and we're also launching a specialty vehicle financing unit, and that's going

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to increase our run rate a bit.

So again, we're looking at the $95 million to $96 million run rate going forward.

As we look forward, though, we are looking at all aspects of managing our expenses and we're currently going through our budget process for 2022. And our target for growth from that run rate is 1% to 2%. We feel like we've got a lot of opportunity to mitigate any additional expense growth going forward. And that's the current outlook as we speak. We'll obviously update that in the fourth quarter earnings call.

John C. Asbury ***Atlantic Union Bankshares Corporation - President, CEO & Director***

Yes, I just want to underscore that point. Wage inflation is real. We are investing in the business, as we should, but we have to mitigate that. And so there's a reason why we published our go-forward financial targets. And Rob is right, we will manage to the lower net overall expense growth target.

Casey Cassiday Whitman ***Piper Sandler & Co., Research Division - MD & Senior Research Analyst***

Okay. And those financial targets that you put out there, does that assume some help from rates or not?

Robert Michael Gorman ***Atlantic Union Bankshares Corporation - Executive VP & CFO***

It doesn't -- well, it does expect some help in rates to get to the higher end of the ranges that we put out there. We feel pretty good about our OTC and return on assets at the lower end of the range in 2022, but expect that, that should improve throughout the year next year.

In terms of our projections, in terms of rates, we aren't expecting much of a material increase in the short-term rates until late next year in the fourth quarter where we think the Fed will start moving at 0.25 point -- 0.25 starting in the fourth quarter of next year, but topping out around 1% into 2023.

So not a lot of help in terms of the rate environment. But to get to the higher end of those targets, we'd be looking for some help. But again, we don't expect that help from the margin as an interest income component until 2023 and then beyond that period.

Operator

And next, we have Catherine Miller of KBW.

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

Just wanted to get an update on your outlook for growth. I think, John, you mentioned that you think fourth quarter will look better than -- or you'll see better growth in the fourth quarter. So what's the -- do you think a good target? Do you still think kind of mid-single digit is the range that you could get to as we move into 2022?

And then I guess, as we look towards that -- question 1 is just on growth. And then question 2 is just how do you think about other revenue levers that you can pull as we move into next year to try to get us closer to that 53% efficiency target? It feels like a long way from where we are today if we pull out PPP. And so just any kind of path or things that you're thinking on the revenue side, I think, would be helpful to help us get to that number.

John C. Asbury ***Atlantic Union Bankshares Corporation - President, CEO & Director***

Yes. Catherine. Exactly what happens in Q4 on the loan growth side is mostly going to be a function of just the level of payoffs that we see. We hope that we are bouncing around bottom on utilization. But I will point out, if you look at -- production is strong. This was the best production quarter of the year. Construction lending new production is the highest we've ever seen, and that's really important.

So what's happening now is the pump is timed. As I mentioned, we're missing 2 vintages of kind of normalized quarters, that's Q1 and Q2 of '20, of construction lending funding up. It didn't go to 0, but it was down. That's kind of through the system now. And so we can see the schedules of construction loans funding up, and that plays an important role in offsetting the payoffs. So we see that, we see loans booking.

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C&I balances quarter-over-quarter, excluding PPP, actually weren't down that much. It was $18 million point-to-point. And so what that's showing you is that even though line utilization came down, we're landing new clients and we're booking new fundings. So as we look at the pipeline, we feel pretty good about Q4, exactly what the number will be point to point. It's kind of hard to say.

Could it be and the sort of normalized low -- pardon me, upper single-digit growth rate possibly, 5%, 6%, 7%, point-to-point, something like that, we think, based on what we're seeing right now. And then as we get into next year, we think we should be in a position to where we ought to be able to accomplish what we would call normalized organic growth, which for us, normalized organic growth traditionally means high single digit, I wouldn't look for 9%. I would look at the lower end of that band. So we think that's possible. And so obviously, that's a big driver in terms of revenue.

As we look at other forms of fee income, the spot business, which is really our largest capital markets item, has been slow this year because we just haven't seen a whole lot of fundings. And typically, you'll see that oftentimes as loans roll out of the construction bucket into permanent mortgage for developers who choose to keep them. So sometimes they'll swap for 3 or 5 years, that sort of thing. And we see some of this in the commercial business as well.

We're adding new capabilities. We now have a syndications effort where we can originate larger deals, and we have a head of syndications and we are beginning to book syndication gains that helps on the margin. We have a new foreign exchange program with a new head of foreign exchange that came out of one of the larger banks that's comfortable -- or pardon me, that is familiar with these markets.

And that's going to be an incremental revenue add -- And of course, we continue to look to other businesses such as wealth management, treasury management, et cetera. And we're seeing more activity going on. We've seen a rise in terms of the consumer base, we grew net households in the consumer bank about 3%. That's actually pretty good. You look at industry averages based on our data, it's less than 1%. So we feel like we've got a bigger book of business spending is up, so we're seeing more debit cards.

So I guess what I would say to you, Catherine, is it's not going to be one thing other than additional revenue from loan growth, but it's going to be a series of things. And we have some other initiatives that we're working on as well. But at the end of the day, we have to take action to help offset some of the additional salary and benefit costs that we are incurring as a result of this environment.

That's just the reality. We can't simply absorb that. And we'll have more to say about that as we come back to you with Q4 earnings. Do you have anything you'd add?

Robert Michael Gorman ***Atlantic Union Bankshares Corporation - Executive VP & CFO***

I'll just add to that, the efficiency ratio target of 53% or less is probably the most challenging of the metrics in the top tier ranges we've set. It's going to be difficult to achieve that in 2022. But as we go in and get some help from the rate increases going into '23, we think we've got a path to get there.

Our working assumption for next year is ex-PPP to see 5% to 6% growth in net interest income and 8% to 10% in noninterest income, some of which was, as John mentioned. More swap activity, more FX activity and there's just general increases in deposit service charges and things like that.

Operator

Next, we have David Bishop of Seaport Research.

David Jason Bishop ***Seaport Research Partners - Senior Analyst***

The slide on 6 is pretty informative here in terms of the different channels in terms of opening some of the deposit accounts here with the targets here. Are those near-term targets, long-term targets? Do you think the (inaudible) channel connect gets even higher level? And can that inform even further windowing of the branch system over time?

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John C. Asbury ***Atlantic Union Bankshares Corporation - President, CEO & Director***

So David, I think that your -- you broke up a little bit. I think your question is that when we show the new account digital activity, the current percentages versus targets, are they near term or longer term? I would say that those are very near term.

We do have industry data that benchmarks, call it what you want to call it, midsized banks, super community banks. We're not allowed to sight specifics that I can tell you, we're over-indexing. And we feel very good about the ability to continue to drive up usage and we have some new offerings coming on that we can talk about as well, including for consumer lending. Maria Tedesco is here, President. Anything to add, our view is that the targets that we've laid out on that slide are short term, and we think we can move from there.

Maria P. Tedesco ***Atlantic Union Bank - President***

Yes. We completely agree. I'm not sure I have anything to add.

John C. Asbury ***Atlantic Union Bankshares Corporation - President, CEO & Director***

By the way, that has implications -- that does have implications for branch staffing, branch network, et cetera, as we see more digital adoption.

David Jason Bishop ***Seaport Research Partners - Senior Analyst***

Got it. And then maybe a few -- a little bit of color in terms of the details for the Maryland team and the new Specialty Finance Group. Maybe just talk about expectations for those 2 groups.

John C. Asbury ***Atlantic Union Bankshares Corporation - President, CEO & Director***

Certainly, David Ring, Head of Commercial Banking, is here. Dave, do you want to take that? What's going on in Maryland as well as what's going on in equipment finance?

David V. Ring ***Atlantic Union Bankshares Corporation - Executive VP & Wholesale Banking Group Executive***

Sure. We continue to invest in our growth markets, one of which is Maryland. And we've brought over a team that will cover Montgomery County, which is a county we did not cover prior to hiring, bringing the team in. So we feel like well, #1, they've already produced, I know they just started 3 weeks ago, we've already booked $9 million of fundings from that team.

So we expect them to be very active. It's a 3-person team. So our typical production per banker is something in the range of $20 million to $25 million to give you an expectation there. And they've hit the ground running. So we're very happy with that.

John C. Asbury ***Atlantic Union Bankshares Corporation - President, CEO & Director***

That's a C&I focus.

David V. Ring ***Atlantic Union Bankshares Corporation - Executive VP & Wholesale Banking Group Executive***

Yes. And it's all C&I. On the flip side, we have also hired 2 folks to cover real estate in there. Right now, they've just started. And then on equipment finance, it's been very successful. We're now 1 of the top 100 largest equipment finance companies, whether bank or nonbank by Monitor Magazine.

Now the specialty finance unit is a vertical, which will cover shuttle buses that are under contract, coaches under contract and school buses and smaller ticket items. Our average ticket right now is around $6 million per deal with about a note side of [$1.8 million]. In this business, it will look more like high volume, lower ticket. So a more granular portfolio. So the average ticket would be between $250,000 and $350,000 per.

John C. Asbury ***Atlantic Union Bankshares Corporation - President, CEO & Director***

So we continue to look for opportunities to extend the capabilities of the equipment finance team and that helps us both in our footprint, and they can also operate out of footprint as well. So that's been a big success for us. We built that from scratch. And that's a good example of the type of organic growth opportunities that we're interested in. And they also are looking at a really good pipeline.

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To almost any measure, if you read the data, the outlook for capital equipment investment is very strong. The issue is simply getting the equipment of assembly lines, off ships to the extent that it's imported and getting it in place supply chain disruption is an issue, but we feel good about the outlook for Equipment Finance in '22.

David Jason Bishop ***Seaport Research Partners - Senior Analyst***

Got it. And then just 1 final question. Obviously, the port down to Norfolk probably a key distribution hub. I know up in Baltimore, they're clearing some of that core traffic containerships pretty quickly. Just curious how the -- any sort of backlogs or supply chain issues or distribution issues that are impacting Norfolk are they may be benefiting from more...

John C. Asbury ***Atlantic Union Bankshares Corporation - President, CEO & Director***

Yes, David, as you're probably recalling I'm on the Board of the Port of Virginia. So I love having this point of insight. The Port of Virginia is the fifth largest container port by volume in the United States, the third largest on the East Coast. There are no backlogs. It's actually one of the most modern ports in the industry based on the investment that's been made.

So the good news is they're able to process pretty much in real time that you're not seeing the number of ships lined up off the shore that you're seeing at other major reports on the East and the West Coast.

The limiting factor right now is really the ability to haul containers and whatever the cargo is once they come off the ship. That's the problem. So from time to time, the railroads are placing embargoes, which means that they want to allow the railcars to be loaded and put on the track because they don't have space. That's a problem because it's too congested. And it's very difficult if you don't have contract freight haulers, truck lines lined up, it's hard to find capacity to -- for someone to come get the cargo. But they are -- it's a terrific operation.

They continue to book record month after record month. Part of what's happening now is we're getting more first port of call, ship lines coming in. So more ships are coming here as the first stop, and they're doing that because they don't have to go wait in line somewhere else. And so that's good for us. It has lots of implications for logistics.

The biggest problem we have to be able to take advantage of that here in Virginia is the lack of warehousing to put the cargo, and it also has implications. We actually don't want the cargo to be warehoused and shot off on the railroad or truck line somewhere else. You look for more value-added manufacturing. So we're very bullish on logistics and we're very bullish on the port and its implications.

It's also the hub for the offshore rent. We have -- what should be the largest wind energy field going on in federal waters, certainly off the East Coast and that's a big project underway. So these are -- this bodes well for the Greater Hampton Roads in Virginia.

Operator

And next, we have Brody Preston of Stephens Inc.

Broderick Dyer Preston ***Stephens Inc., Research Division - VP & Analyst***

I just wanted to circle back on the financial targets. And John, I know it's going to be a lot of different things that maybe get you there. But I just -- when I kind of look at this quarter, you're at like a [1.28%] kind of ex-PPP, PPNR ROA. And '18 and '19, you all provisioned 12 bps on average assets. So when I kind of like put all that together, I get to like an ending tax affected kind of ROA in the 1% range.

And so it seems like getting to the 1.1% to 1.2% because I know you're kind of skewed more towards the lower end without much help from rates is going to be reliant on growth. And so I guess just when you look at the forward projections, do you think 7% ex-PPP loan growth is enough to get you to that 1.10% to 1.20% ROA? Or is there going to be other things that need to happen in between to get you there?

Robert Michael Gorman ***Atlantic Union Bankshares Corporation - Executive VP & CFO***

Yes. I think the upper single digits will also get there in that range from a loan growth perspective. Real drivers of that are really keeping expense growth down while improving growth in the revenue stream ex-PPP. One of the things, as I mentioned, was we are looking for

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about 8% to 10% growth in noninterest income, which will be helpful towards those targets as well as the 5% to 6% ex-PPP growth in what I'll call core net interest income.

So if you take those factors altogether, we should be seeing, again, ex-PPP, we should be seeing about call it, 8% to 10% growth in our pre-cash provision numbers, which should guess, as I mentioned to those lower end of the ranges on return on tangible common equity in ROA. Also, as I mentioned, it won't get us to that 53 or less efficiency ratio, but that's where we're going to have to rely on some margin expansion due to increased rates going forward plus continued growth in the loan book.

Broderick Dyer Preston ***Stephens Inc., Research Division - VP & Analyst***

Understood. Understood. And then I think John had mentioned, Rob, in his prepared remarks that there were some onetime costs this quarter. Do you happen to have what those were?

Robert Michael Gorman ***Atlantic Union Bankshares Corporation - Executive VP & CFO***

Yes. If you look at a couple of things probably in the $800,000 range or so. We've had some severance costs, which we wouldn't expect to be continued. We had some sign-on bonuses, although we expect that we'll incur some of those this quarter as well. So my estimate is about $800,000 in that 95-plus.

Broderick Dyer Preston ***Stephens Inc., Research Division - VP & Analyst***

Yes. There wouldn't be normal run rate items.

Robert Michael Gorman ***Atlantic Union Bankshares Corporation - Executive VP & CFO***

Right. The real issue is we are -- we have increased the run rate due to the salary adjustments that were made in the quarter.

Broderick Dyer Preston ***Stephens Inc., Research Division - VP & Analyst***

Understood. On the CRE payoffs, I just want to ask, is it customer refis? Or are customers selling their properties? And then are there any specific geographies within the footprint where the payoffs are more concentrated than others?

John C. Asbury ***Atlantic Union Bankshares Corporation - President, CEO & Director***

It's pretty broad-based. The larger books of business are going to be places like here in the Greater Richmond area and larger traditional markets like Fredericksburg would be an example. And it's really across the key markets. Brody, a couple of things are going on here. More than half of it is going to be sale of property.

Now this is not that uncommon. So if you're a developer you construct it, we finance your construction, the property goes out of construction into -- we would categorize it as nonowner-occupied and then it stabilizes. It leases up, it gets a track record if it's a merchant developer, meaning their principal intention is to build which creates value and sell, that's been going on at a very accelerated pace.

There are several reasons for that. If you look at the low cap rates, there's a good argument that commercial real estate values could be as good as it gets in the short term. There is some anecdotal evidence that there's a foot race going on, trying to get ahead of a potential rise in capital gains tax, a potential elimination of 1031 exchanges.

Now based on what we heard the President say recently, maybe people should be a little less concerned about that, I don't know. But we're clearly seeing these properties sold then if you intend to hold them and some do, if you're going to hold it for the long term, what you should do is you should go to an institutional nonrecourse fixed rate term lender like an insurance company multifamily is kind of ground zero for this.

You can see it based on the drop in multifamily balances because there are so many places you can go to get nonrecourse fixed rate term financing, 20-year amortization more and that in term, and that's not something we do. We do see banks out in the market competing with institutional lenders, booking very long-term fixed rate loans. We generally are not going to do that Dave Ring, do you want to comment on what you're seeing?

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David V. Ring ***Atlantic Union Bankshares Corporation - Executive VP & Wholesale Banking Group Executive***

We just have set up a business where we can act with intermediary for those permanent placements outside to investor communities.

John C. Asbury ***Atlantic Union Bankshares Corporation - President, CEO & Director***

So part of our capital markets effort is we can actually place fixed rate, nonrecourse term debt institutional lenders and capture some of the value chain, if you will. We can, for example, do a construction loan and have our own takeout in place. So we may as well take advantage of that because that's the normal course.

So Brody, that's what we see going on. It's at a record level. It's been elevated for a while. And I guess on a positive note, it's demonstrating that we're financing high-quality projects with high values and there's a lot of demand for them. But the good news is that the construction pipeline and the commercial real estate pipeline looks terrific.

We did have a record quarter of new bookings. And I can't emphasize enough the comment I made about what I call it the missing vintages of new construction loans that they were suppressed in Q1 and Q2. And so we didn't have them kind of refilling, think of it as draining out of the commercial real estate back to faster than we were refilling it. And so now the faucet is on and it has been for a while. So that actually will create a tailwind and hopefully help mitigate this.

Operator

Laurie Hunsicker, Compass Point.

Laurie Katherine Havener Hunsicker ***Compass Point Research & Trading, LLC, Research Division - MD & Research Analyst***

Rob, I'm hoping you could help us think about core margin a little bit here. PPP fees, obviously, 21 basis points accretion, 9 basis points and for your release going to potentially 3 basis points next quarter. If you can just remind us what is unamortized fees remaining in PPP?

And then just kind of netting that, you're getting to a [$2.80] number, how we should be thinking about that and how you're thinking about that, I guess, with respect to your targets? Any help you could give there with you.

Robert Michael Gorman ***Atlantic Union Bankshares Corporation - Executive VP & CFO***

Yes, Laura, in terms of what's remaining from a PPP deferred fee level, it's about $15 million. And we do expect that material amounts should come in this quarter as we have about $450 million or so outstanding loans that are in -- could be in the process of being forgiven over the next 2 quarters is what we estimate probably the bulk of that hopefully will be in this quarter and some would bleed into the first quarter.

So in terms of the core margin, as you probably calculated this quarter, if you take out PPP and you actually take out accretion, we were about $2.89, which was down about 11 basis points from the prior quarter. Again, a lot of that being driven by the lower yields that we're seeing on the loan side due to lower interest rate environment and pay downs that would consider higher-yielding loans out in the portfolio and securities yields coming down a bit due to continued reinvestment at the low market rates that we're seeing is kind of twofold.

One is we're probably seeing about $40 million to $50 million in mortgage-backed cash flow is coming through that we're reinvesting. And then we've also added to the securities portfolio due to the excess liquidity and increase that $200 million to $300 million in the quarter. I expect that, that will kind of stay at that relative position. We're about 19% of the total as we could get closer to 20% before it's all said and done. We do have $600 million of excess liquidity that we want to put to work, both in the loan book and then probably some of that going into the investment securities book.

So all that said is we're expecting the core margin kind of the bottom out around this level and start to see some, hopefully, increasing throughout next year, although not a lot until we start to see some of the interest rate movements and the Fed starts to move late next year and into the next year '23, but we're kind of in this -- a couple 2 to 5 basis points as we go into next year is the way we're thinking about it, primarily because we're reinvesting that excess liquidity, it's a higher-yielding assets. I hope that helps.

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Laurie Katherine Havener Hunsicker ***Compass Point Research & Trading, LLC, Research Division - MD & Research Analyst***

Very, very helpful. Yes. And then just a follow-up question on credit. I guess, both for you and maybe Dave. Just looking at your overall reserves alone, 77 basis points if you exclude PPP 80 basis points, how do you think about holding that line? How do you think about where the right level in terms of reserves to loans should be?

John C. Asbury ***Atlantic Union Bankshares Corporation - President, CEO & Director***

Yes, you kind of broke up there.

David V. Ring ***Atlantic Union Bankshares Corporation - Executive VP & Wholesale Banking Group Executive***

How do you think about the appropriate reserve under CECL? How low is it going to go?

John C. Asbury ***Atlantic Union Bankshares Corporation - President, CEO & Director***

Yes. So yes, you're right. Laurie, of course, we've been releasing reserves really since the end of last year in each quarter this year. The way we're looking at that is CECL, day 1 CECL was about 75 basis points. And if you look at just the allowance for loan losses, it was about 71 basis points.

Including in that, while our working assumption is that we think we'll be kind of stabilizing in that area. However, it could actually go a little bit lower, but it all depends on continued economic forecast looking good and the credit metrics continue to be good. But there is a case to be made that it could go lower than that because if you look at our day 1 CECL allowance, that included almost $300 million of third-party consumer loans that are in runoff mode.

Those are down to about $87 million as we look at the end of this quarter. And $24 million of our original CECL allowance reserve was related to that portfolio is pretty heavily reserved for. And if you look at it from the commercial and the other categories of loans, we are more in the 60 basis point range, blended to about 75, but it was about 60 if you take out PPP or third-party consumer. That's come down nicely. That will continue to come down. So there's a possibility we could drop a little bit below that day 1 CECL, although we're not calling for that at this point.

Laurie Katherine Havener Hunsicker ***Compass Point Research & Trading, LLC, Research Division - MD & Research Analyst***

Okay. Okay. Great. And then just really quickly, do you have an update on deferrals? I know there were somewhat de minimis, but do you have a dollar number there?

David V. Ring ***Atlantic Union Bankshares Corporation - Executive VP & Wholesale Banking Group Executive***

It's de minimis. Deferrals are just not a factor at this point.

Laurie Katherine Havener Hunsicker ***Compass Point Research & Trading, LLC, Research Division - MD & Research Analyst***

Okay. And then, John, last question. Can you help us think how you're approaching M&A? Are you still actively looking? Have things changed from last quarter? Just any thoughts, your currency is strong. How are you thinking about that?

John C. Asbury ***Atlantic Union Bankshares Corporation - President, CEO & Director***

Sure. Thanks, Laurie. Not a lot new to add here. I always preface any comment with the same statement, so I'll do it again for the record. This is -- we view ourselves principally as an organic strategy that can be supplemented or complemented by M&A.

We are interested. We do think it could be helpful. The goal here, which we try hard to achieve, you want to actually do (inaudible) that puts you in a good position. So sure, we'd be interested. Nothing has changed there. Anything that we would consider would have to make strategic and financial sense or we wouldn't consider it.

We think about the continuum from a larger to smaller. And we're sort of -- we have this running debate in the company about how small is too small, how large is too large, but we feel like it's all about optionality, Laurie.

And from our standpoint, these -- I don't like the term opportunistic events whenever I hear the term opportunistic M&A because that

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sounds like something just came along or somebody did a process or an auction, and that's not our style. So we need to make sure that there's good strategic alignment, good cultural fit.

And I would just reiterate, as we've said before, if and when we did something, I don't think we would surprise anyone in terms of why we did what we did because it would have to check all of those boxes. So fair point, we're disciplined. I see this as a 2022 opportunity, perhaps. And I've been here 5 years now, and their conversations have been engaged in for 5 years in some cases. So there's always some degree of conversation going on out there.

So that's really the best answer I can give you, but I can assure you anything we do would make financial and strategic sense and it would be something where we had supreme confidence in our ability to execute it well and we simply wouldn't do it because it does too much damage otherwise.

Operator

And I think, we have William Wallace of Raymond James.

William Jefferson Wallace ***Raymond James & Associates, Inc., Research Division - Research Analyst***

I have a couple. But on the expense side, you highlighted some -- I think you classified as market adjustments at the branch level due to wage inflation pressures. And I'm just curious were you losing people? Or are you worried about losing people, struggling to recruit? Just kind of some indication of why now rather during the normal Cola time?

John C. Asbury ***Atlantic Union Bankshares Corporation - President, CEO & Director***

Yes, all of the above. This issue was especially pronounced in terms of wage inflation at the entry-level roles and sort of the lower tiers of the pay scale. And so we were having challenges. And remember, we're talking -- there's still a pandemic out there. And we're talking about front-line client-facing roles, and that's -- that added to the challenge.

But the reality is that wages have gone up, period, for these types of roles. We were having some challenges in terms of attrition nothing crazy, but it was definitely higher than we wanted to see.

We were having challenges filling open jobs. And you can see headcount went up, and some of that was simply the fact that as we made this change, we began to be able to more successfully recruit, we've seen attrition go down. There's another -- I think this is one of the better things that we've done in the sense that it wasn't simply let's raise wages in the branch. This is really a strategy, and I compliment Shawn O'Brien, Head of Consumer Banking with the fundamental strategy, which is like let's change these roles around.

So instead of having traditional tellers, we now have universal bankers, these are higher value-added roles, they're trained where the branch is not busy. They're able to come off the [Teledyne] and assist customers with advisory services, sales activity, et cetera, and they can go back to the Teledyne when we need help there.

It's just a higher value-added role. There's nothing new about the universal banker model, but it was a change for us. So we had to bite the bullet. We did the right thing, and I think that positions us more competitively.

Shawn, do you have anything you want to add to that in terms of kind of what we did and why?

Shawn E. O'Brien ***Atlantic Union Bankshares Corporation - Executive VP and Consumer & Business Banking Group Executive***

Yes. I think that was a good summary, John. The only thing I'd add is, obviously, the universal banker role allows us to run these branches with less staff. So that is helpful as post-COVID, we are running with smaller staff. It has helped us with attrition. As you mentioned, we've seen that drop considerably. We are able to start bringing talent in again. We were struggling with that earlier in the year. And then last, we are seeing a significant increase in sales, as you've talked about. We are seeing significant growth in customers. We are seeing our highest months ever as far as checking sales and we're even seeing a return to consumer lending growth, which is the first time in a long while. So a very positive trajectory for us in the branch network.

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John C. Asbury ***Atlantic Union Bankshares Corporation - President, CEO & Director***

Good timing, too, because some of you recognize Project Sundown, which is our focused effort on the Truist merger, and then I guess we should also throw in that other big competitor that's experiencing challenges. We are seeing outperformance as branch closures are happening now. Maria, do you want to comment on?

Maria P. Tedesco ***Atlantic Union Bank - President***

Sure. I'm glad you mentioned Project Sundown because it really wasn't -- it started out as sort of the Truist target, but we've widened it because there's several opportunities in our market with this consolidation happening with other banks and mergers.

The program really is designed to acquire consumer and business market share from these competitors given the disruption that we've seen in the market. So we've had several programs that are targeted specifically when there were branch closings or lots of disruptions that we're hearing on the ground. So we have targeted these programs.

And last March, we knew there was specifically like 33 branch closings in our market. That campaign that included media, digital advertising, feet on the street, really guerilla warfare kind of marketing. We saw about a 28% increase in new checking accounts in that month. And then again, this fall, we've seen the same thing happening. So we go in and out of the market depending on what's happening at that time.

Next year, we do have some new market intelligence that there's about 40 Truist branches, which is the largest branch closing. So we're going to expect to institute the exact same program at that time, and we expect very strong results as well.

John C. Asbury ***Atlantic Union Bankshares Corporation - President, CEO & Director***

So you can see while we took the bull by the horns in terms of the consumer bank, we're getting good results from that team, which we appreciate.

William Jefferson Wallace ***Raymond James & Associates, Inc., Research Division - Research Analyst***

Okay. I appreciate all that color. One last question. On the C&I line utilization, you said, I believe, 25%, and you hope you've troughed. I wonder if you've gone back in time and just kind of looked at how utilization rates have rebounded in times when they've troughed and maybe based on historical data, how quick could rates -- could utilization rebound and to what magnitude?

John C. Asbury ***Atlantic Union Bankshares Corporation - President, CEO & Director***

Well, those are all great questions, Dave, I'm going to ask you to chime in here in a minute since you are getting a little longer in the tooth in our careers. The first thing that comes to my mind is what we saw in the financial crisis, in the Great Recession when we saw utilization plans as companies begin to hoard cash and sales dropped off, et cetera.

Well, the complexion of our organization has changed as we've grown, added new capabilities. So it's kind of hard to say. If you ask me, what would you expect normal utilization to look like at Atlantic Union Bank a couple of years ago? I would have said 42%, low 40s is about what we would expect. It's hard to know what's normal from here, but I can tell you it's not 25%. I have never seen anything that low. David Ring, do you have any perspective on what to think.

Robert Michael Gorman ***Atlantic Union Bankshares Corporation - Executive VP & CFO***

Just to add on to what you said, if it just goes up 10 percentage points to 35%. We'd add another close to $250 million of outstandings. And so any sort of investment in the businesses will really help us.

David V. Ring ***Atlantic Union Bankshares Corporation - Executive VP & Wholesale Banking Group Executive***

The other thing is companies are also not investing in owner-occupied properties. They're just doing the maintenance of what they have. So we normally see a lot of (inaudible) property financing, and we're actually seeing a decrease in that year.

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John C. Asbury ***Atlantic Union Bankshares Corporation - President, CEO & Director***

And that's just normal amortization mostly. Those are term loans that pay back every month. And to your point, we've seen a reduction in that.

Robert Michael Gorman ***Atlantic Union Bankshares Corporation - Executive VP & CFO***

But so those operating companies borrowing on lines or real estate, just getting back to some sort of level of normal that will help us in the (inaudible).

John C. Asbury ***Atlantic Union Bankshares Corporation - President, CEO & Director***

Here's where supply chain disruption comes in, in my opinion, which is talk to any business client and we talk to a lot. They're going to tell you they're having trouble meeting their orders that they could sell more stuff if they had more inventory, more equipment, more people. And so this is my point I made in my opening comments.

This is a supply problem. And I think it's going to be with us for a while, but I think it's going to be on an improving trend. So what does that mean for us? What it means is it means increasing line utilization as they begin to build working capital, and we finance classic timing differences and that sort of thing.

So I think that there's reason -- there's good reason to be hopeful that we'll see some improvement in line utilization, we think. We'll continue to find excess liquidity, but business has seemed pretty confident, and we keep adding new clients as well, which is good. And then another point, I hate to keep coming back to construction lending, but it's such an important part of the headwind that we've faced. What was construction loans outstanding a year ago, $1.2 billion, which is pretty normal for us. And what is it right now, $877 million.

So there's another delta because of the ramp that's going on in that construction loan pipe, we should have the ability to drive that up. To Dave's point, it won't take too much increase in utilization to pick up. So these are things that give us some reason for optimism, but we don't want to be overly optimistic because there's going to be a lot of liquidity slashing around for a while. But these businesses are actually doing pretty well.

William Jefferson Wallace ***Raymond James & Associates, Inc., Research Division - Research Analyst***

So to put words in your mouth, is it fair to say that you would classify your 7%-ish type loan growth target as conservative?

John C. Asbury ***Atlantic Union Bankshares Corporation - President, CEO & Director***

I wouldn't say that. I wouldn't say. At this point, there's such -- it's so difficult to forecast anything, Wally. I would just say realistic, how is that -- we think we have a reasonable line of sight to making that happen. Anything could happen. Could it be better? It's possible. We'll continue to update you quarter-by-quarter.

William P. Cimino ***Atlantic Union Bankshares Corporation - SVP of IR***

Thanks, Wally, and thanks, everyone, for joining us today. We appreciate your time. We ran a little bit over, but the webcast will be available on our website on investors.atlanticunionbank.com. Have a good day, and we'll talk to you next quarter. Goodbye.

Operator

This concludes today's conference call. Thank you all for participating. You may now disconnect, and have a pleasant day.

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