Origin Bancorp, Inc.

Q1 2020 Earnings

April 23, 2020 at 9:00 a.m. Eastern

CORPORATE PARTICIPANTS

Chris Reigelman - *Investor Relations*

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Lance Hall - *President and Chief Executive Officer, Origin Bank*

Jim Crotwell - *Chief Risk Officer*

Stephen Brolly - *Chief Financial Officer*

Preston Moore - *Chief Credit and Banking Officer*

PRESENTATION

Operator
Good morning, and welcome to the Origin Bancorp, Inc. Q1 2020 Earnings Conference Call. All participants will be in listen-only mode. Should you need assistance, please signal a conference specialist by pressing the star key followed by zero. After today's presentation there will be an opportunity to ask questions. To ask a question, you may press star then one on your touchtone phone. To withdraw your question, please press star then two. Please note this event is being recorded.

I would now like to turn the conference over to Chris Reigelman. Please go ahead.

Chris Reigelman
Good morning, and thank you for being with us. We issued our earnings press release yesterday afternoon, a copy of which is available on our website along with the slide presentation that we will refer to during this presentation. Please refer to slide 2 of our slide presentation, which includes our safe harbor statements regarding forward-looking statements and the use of non-GAAP financial measures. For those joining by phone, please note the slide presentation is available on our website at www.origin.bank. Please also note that our safe harbor statements are available on page 6 of our earnings release filed with the SEC yesterday. All comments made on today's call are subject to the safe harbor statements in our slide presentation and earnings release.

I'm joined this morning by Origin Bancorp's Chairman, President and CEO, Drake Mills; our Chief Financial Officer, Steve Brolly; President of Origin Bank, Lance Hall; our Chief Risk Officer, Jim Crotwell; and our Chief Credit and Banking Officer, Preston Moore. After the presentation, we'll be happy to address any questions you may have.

At this time, the call is yours, Drake.

Drake Mills
Thank you, Chris, and good morning. As you listened to our earnings calls in the past and had conversations with our team members, you know that at Origin we talk about a company that is different, that is responsive, that is nimble. We are a company that delivers for our employees, our customers, communities and shareholders and prides itself on our culture. Over the past 1.5 months, those claims and statements have been tested like never before, and our team has delivered.

While we will get into specifics of our first quarter numbers and the impact of the COVID-19 pandemic, I want to start off by noting how proud I am to lead an incredible organization with extraordinary people who in these tough times have not wavered in their commitment to our company, our culture, our customers and our core values. Across our company, there has been a can-do attitude, and because of that, our banking facilities remain open for drive-through business and scheduled appointments. And many of our people are working around the clock at home to continue to service our customers.

We are helping small businesses with SBA loans, and we are actively working every day to meet the responsibility we have as a resource for our customers and our communities during this crisis. Currently, these are challenging times and I don't want to diminish the challenges that our industry, our people and our country have faced and will continue to face in coming months. But I have seen what we can do when faced with such challenges, and I am confident in our ability to manage through these

trying times.

Turning to the financial results on page 3 of our presentation. We ended the quarter with just over $6 billion in total assets. Net income for the quarter was $753,000, down $12.1 million for the linked-quarter. The decline was driven by increase in provision expense of $16.2 million from the prior quarter. Provision expense was elevated during the forecasting nature of CECL and the economic uncertainty surrounding the impact of COVID-19.

Our pre-tax, pre-provision earnings for the quarter was $18.9 million, a 3% increase on a linked quarter and prior-year quarter basis. Diluted earnings per share was $0.03 per quarter and our efficiency ratio continued to decline, ending the quarter at 65.7%, down 84 basis points from the linked quarter.

I'll turn it over to Lance to provide more details on our COVID-19 response.

Lance Hall
Thanks, Drake. There's a tremendous amount of focus within our organization. Our bankers understand that we have unprecedented opportunity to make a difference in the lives of our employees, clients and in our communities. The state of Louisiana have experienced high per capita levels of positive COVID cases, but I wanted to put that into context. At this time, the markets we serve across North Louisiana have not been impacted at the level of the New Orleans metro area and other parts of South Louisiana. We're also monitoring cases within our Texas and Mississippi markets on a daily basis.

You can see on slide 5, some of the steps we've taken over the past 45 days to respond to the pandemic. The health and safety of our employees and customers has been our top priority. And based on that, we took the step of activating our pandemic response plan. As Drake mentioned, our drive-thru's remain open, and we are handling appointments on a one-on-one basis as needed throughout all our markets.

We've also successfully managed our employees who were able to work remotely. One of our main goal throughout this process has been to consistently communicate internally and externally to our stakeholders. Our bankers have done a great job staying in contact with our clients on a regular basis, and we also utilize email, our website and social channels to effectively communicate.

Another key step we took was establishing an internal SBA payment protection plan task force to work to prepare us for the increase in volume associated with delivering this program in a meaningful way to our clients and our communities. I expressed to our bankers that during these uncertain times, our reason for being was very clear. It will be up to us in our industry to be the conduit to provide much needed relief to our small businesses. From the onset of change in economic conditions, it has been our desire to be proactive in our approach to supporting our community. Our initial response came in the form of conversations our bankers were having with our clients related to forbearances.

Slide 6 provides a detail of how we have supported our clients during this pandemic, including a breakout of COVID-19 related forbearances. Also, as guidance became available from the US Treasury and the SBA related to the Paycheck Protection Program, our team responded quickly in delivering more than $480 million in loans to approximately 1,700 customers throughout our markets until the program's funds were fully exhausted. We estimate that approximately 39,000 employees of our clients will be positively impacted by the efforts of our bankers.

The way in which our team has responded during this time is a reflection of our core purpose in our underlying belief that we are trusted advisors. Our economy has seen a sudden and abrupt impact

from the effects of the COVID-19 pandemic. We appreciate that our investors seek further clarity on the makeup of our loan portfolio.

Slide 7 speaks to the diversification within our credit book. Fifty-five percent of our loan portfolio is comprised of C&I, owner occupied construction and development, and owner-occupied commercial real estate as well as our mortgage warehouse business, a testament to our commitment to the businesses that drive the economies within the communities we serve.

I'll turn it over to Jim Crotwell, our Chief Risk Officer, to take a deeper dive into selected sectors of our portfolio.

Jim Crotwell
Thanks, Lance. If you will turn your attention to slide 8, I'll walk you through a deeper dive into the sectors of our loan portfolio that we believe are more sensitive to the COVID-19 effect on the economy, both in the near and intermediate future. Sectors we looked at totaled approximately 22% of our loan portfolio at quarter-end and included healthcare, retail shopping, restaurants, transportation, energy, and hotels.

The first segment broken out is healthcare, which represents 8.5% of the total portfolio at quarter-end. We further broke down the portfolio and provided additional data on each sub-sector. For healthcare, we currently have total commitments of $431 million with $382 million outstanding. The allowance allocated to the healthcare sector is $9 million, of which $5.8 million is attributed to assisted living.

Non-performing loans totaled $11.4 million at quarter-end, of which $10.2 million was attributed to assisted living as well. I'd like to point out that the past dues as well as non-performing loans in the assisted living segment are primarily driven by a single relationship, which has been previously disclosed. Excluding this one relationship, there were no past dues for the remainder of the assisted living segment. In addition, the $1 million in non-performing loans in all of the healthcare also represents a single relationship, which has been previously reported and is the main contributor to the level of past dues for this segment within healthcare.

On slide 10, we provide additional information on our retail shopping portion of our portfolio. This segment represents 4.7% of our loan portfolio, with 59% consisting of loan supported by national credit tenants. The non-performing loans in the CRE retail store segments represents a single credit that was placed on non-accruals in the first quarter of this year. Overall, debt service coverage ratios for the retail shopping sectors are sound at 1.41 times, while overall loan to values are low at 36%.

On slide 11 we have a snapshot of our restaurant sectors which account for 3% of our loans held for investment. You can see we have no past dues and no non-performing loans as of March 31.

Moving to slide 12, we provide information on transportation sector. We have broken down the sector into three sub-sectors where you can see our exposure to the airline industry is just over $20 million. The $4.9 million in non-performing loans in the airline sub-sector is a single relationship that has been non-performing for quite some time, and is also the sole contributor of past dues in this sub-sector.

On slide 13, we have a breakdown of our energy credits, which represent only 1.9% of our total portfolio. We have no direct exploration and production exposure in our energy portfolio, as to the non-performing balance in the energy services it is comprised of one relationship that has been reduced from an exposure of over $40 million several years ago to the current remaining balance of only $2.3 million.

Moving on to slide 14, our hotel portfolio. It totals 1.4% of loans held for investment and has historically performed well as evidenced by no non-performing loans or past dues as of quarter-end.

The last thing I want to cover is on slide 15. You can see over the last five quarters, several of our asset quality ratios are shown, they have either remained stable or improved over that time. At the end of March, our ratio of classified loans to total loans was at 1.67%. Past due loans did increase to 1.14% at quarter-end. However, upon review of our past due loans, approximately $10 million were essentially administrative past dues as our bankers were focused primarily on COVID-19 related forbearances and SBA loan request. These loans notwithstanding, quarter-end past dues would have been less than 1%.

At the bottom of the slide, we have some information on reserve for the quarter. You can see that our Day 1 impact on CECL was just over $1.2 million. The economic situation in Q1 began to destabilize due to the pandemic. We adjusted our economic forecast, incorporated a sharp increase in unemployment and a decline in the overall US economy during the year 2020, contributing to a $17.3 million increase in our reserve for the quarter.

We will continue to evaluate any updated economic indicators or drivers, as we move throughout the year. While it's difficult to predict the long-term impact of COVID-19, as the situation is rapidly evolving, we continue to actively monitor the impact of COVID-19 on our business, employees, customers, and the general economy, both nationally and in the markets we serve.

I'll turn it over to Steve now.

Stephen Brolly
Thanks, Jim. As we look at net interest income and NIM on slide 16, you could see our net interest income is down from a quarterly high in the third quarter of 2019, but $784,000 higher than in the prior year first quarter. Additionally, margin has compressed 36 basis points from the first quarter 2019 to the first quarter 2020. The margin compression has been caused by our asset-sensitive balance sheet.

During the same time period, loan yields have declined 43 basis points from 5.28% to 4.85% and the cost of interest bearing deposits and borrowings have declined 15 basis points from 1.20% to 1.05%. You will notice that our cost of interest bearing deposits and borrowings did not decline as much as cost of interest bearing deposits during the most recent quarter. This was due to the issuance of $70 million in subordinated debt during February, which beared interest at 4.25% for the first five years.

The next slide shows our asset sensitive profile quarter-end and the mix of exposures to indexes as it pertains to loan yields. Approximately 44% of our loans are fixed at quarter-end, which includes about $265 million of LIBOR ARMs that are not coming out of their initial fixed rate period until at least 2021. Without that allocation of ARM loans, the fixed rate loans would account for 38% of the loan portfolio at quarter-end. The percentage of variable-rate loans has increased compared to December 31st, due primarily to the significant increase we saw in mortgage warehouse lines of credit in the quarter, which are all variable rate loans. Aside from these changes, we are pretty well aligned with our prior quarter fixed floating mix of loans.

On slide 18, our non-interest revenue was up from prior quarter and from the prior year first quarter. We continued to have about 20% of revenues in the non-interest lines. The biggest driver of the increase in non-interest income was insurance commissions and fees. As we have mentioned before, this revenue is seasonal and the first quarter typically has some larger contingent income and profit sharing distributions.

Mortgage banking revenue was down in the first quarter, due to loss of value in MSRs prepayments accelerated due to refinance activity. We saw an increase in gain on loans held for sale during the first quarter to partially offset some of the MSR write down. At March 31st we had a robust mortgage funding pipeline, which will fund in the second quarter.

I will briefly touch on expenses on slide 19. Expense management continues to be a focus of ours, as we have stated in the past. Non-interest expense came in just over $36 million for the quarter, down from the December quarter.

Next, Lance is going to take us through the deposit trends.

Lance Hall
Thanks, Dave. On slide 20 and 21, I want to talk about our deposit growth strategy. You can see our average deposits have grown by nearly $485 million in the last year or over 12.5%. As we've talked in the past, Louisiana continues to supply low-cost deposits for our growth markets in Texas. As I look back over the last 18 months or so, and I think about where we were from a deposit cost perspective in early 2019, the market for deposits was highly competitive. The Federal Reserve cut rates in the third quarter, and we knew we had to quickly and aggressively address deposit costs due to our asset sensitivity. We ended the first quarter 2020 with 95 basis points of total deposit cost, 24 basis points off our five-quarter high of 119 basis points.

In the top right of slide 21, we have a time deposit maturity schedule where you can see our time deposit book, which is about 17% of our total deposits, is really short. We're seeing time deposits right now at or below 1% in many of our markets, which should help us reduce our total time deposit costs of 188 basis points. Our big focus in cost reduction has been around non-maturity deposits. From June 2019 to March 2020, our bankers have cut our run rate deposit cost contribution on nearly two-thirds of our deposits by over 40%. The majority of these cuts came in March, so we should see a meaningful reduction in deposit costs in the second quarter due to these efforts. We also have some deposits that are indexed to markets that have yet to come down as drastically. But with the recent decline in market rates, we expect those to come down from mid-1% ranges to 50 basis points or less in the first half of the second quarter.

Now, I'll turn it back over to Drake.

Drake Mills
Thanks, Lance. On slide 22, you can see the detail on our current liquidity position during the first quarter and where we ended at March 31st. At quarter-end, we had over $2.2 billion in primary and secondary liquidity sources available and our cash on hand increased approximately $270 million, largely due to additional short-term Federal Home Loan Bank advances of $300 million. We are confident in our liquidity position with sufficient availability to fund future loan growth.

As we look at our capital trends on slide 23, I want to point out our increase in total capital on the top right of the page. This is driven by the $70 million sub debt offering at the bank level that we completed in February. While we did repurchase our shares during the first quarter, we suspended buyback activities as we begin to develop a better understanding of the pandemic and the potential impact it could have on businesses in our economy.

Heading into any type of downturn, capital becomes front and center. We've worked hard to stay focused on maintaining healthy levels of capital, as evidenced by our recent sub debt offering. Our company is positioned well from a capital perspective, and we'll be very mindful of steps we take moving forward.

Lastly, our strategic focus is on four primary areas. Number one is that the health and safety of our employees is paramount, and this has been our priority as this pandemic began. Our bankers on the front line is providing assistance to our customers and communities and we will continue to take necessary steps to enable them to do their jobs safely and effectively. Number two is the support we can provide to our customers and communities. As I said at the beginning of this call, our teams have had an incredible attitude and done an incredible job of providing support to our customers and communities and this will be at the forefront of what we continue to do as a company. Our ability to deliver for our stakeholders during this time will strengthen our relationships and reputation in the markets we serve and pave the way for our country's and communities' recovery.

Our third focus is balance sheet protection. During the quarter, we took steps to enhance our balance sheet liquidity and bolster our capital position. Historically, we've had sound asset quality management and is important now more than ever.

Finally, expense management remains a top priority. This has been a major focus for us and is emphasized further during these times. Our team will continue to be disciplined and will look for ways to effectively manage our cost structure throughout the year. Based on where we are in this pandemic in the current economic situation, I would be misguided if I indicated we could model this out over the next few months, but we are watching developments on a daily basis and we'll respond as the situation progresses.

I am confident in our company and our ability to manage through this situation. Our team has responded in incredible ways and will continue to represent the values and culture that have been with us for over a century.

I'll open up for questions now.

QUESTIONS AND ANSWERS

Operator
Thank you. We will now begin the question-and-answer session. To ask a question, you may press star then one on your touchtone phone. If you are using a speakerphone, please pick up your handset before pressing the keys. To withdraw your question, please press star, then two. At this time we will pause momentarily to assemble our roster.

Drake Mills
I appreciate everyone taking the time today to be on the call and I would like to ask for your patience as our team is practicing social distancing and it's important that our team stays healthy. We are in different locations. I will quarterback the call, take the majority of the questions, and from there, pinpoint those that can best answer your questions. So, I appreciate the patience with us. Thank you.

Operator
Our first question comes from Matt Olney with Stephens. Please go ahead.

Matt Olney
Thanks, and good morning. And first off, thanks for all the great details in the earnings release and slide deck, some really good disclosures on your various asset classes. I appreciate all that data. I want to start on loan growth and try to get more details behind what drove the strong growth in the first quarter. It looks like a lot of it was from mortgage.

But even if I exclude the mortgage, still very strong growth. So what else helped drive that growth in the first quarter? And I understand it's tough to have much of a crystal ball, given the circumstances, but what are your expectations around the balance sheet growth over next few quarters? Thanks.

Drake Mills
Yes, Matt. Mortgage warehouse was $167 million of that growth. We actually had about $92 million in Houston; North Texas was about $50 million; and then Louisiana came in about $40 million, with Mississippi being flat. So, we saw a pretty robust pipeline across our footprint. That was really touched on all sectors. Outside of mortgage warehouse, it was like we had seen going through most of 2019 as we move forward. Certainly, when you start thinking about underwriting credits today, the playing field has significantly shifted. And so, we are focused on our customer base that we have today, those credits that we know extremely well. We also have a pipeline of clients and customers that we have worked with for a number of quarters attempting to build business relationships with them.

We are getting some of those opportunities now, but again, we're looking at our concentrations, our areas of concern, staying away from some of those areas and really focusing on our core competencies which we think is going to continue to drive decent loan growth overall.

Matt Olney
Okay. That's helpful, Drake. And then, one of the investor concerns that we hear more recently is the footprint of Origin and the potential indirect impact of energy within your various markets. And I think the perception from some investors is that, all of Louisiana, all of Texas have quite a bit of indirect exposure to energy. So, I'm curious how you would respond to the indirect impact to your various markets of concern?

Drake Mills
Matt, I want to start off with Louisiana, obviously, as we promoted ourselves ever since we went public that we're focused on the I-20 corridor in Louisiana, which we know very well, obviously been here for years. And that economy has significantly shifted more to a technology cyber-driven type of economy more so than energy. Now there is certainly still indirect concerns that we have in that market, but we are seeing this market hold up pretty good as you can see with growth in Louisiana from not only loan but deposit.

And from the deposit side, Louisiana is doing what it's done for years, low-cost deposit growth. So as we shift our concerns, I think the market that we are most concerned about is the Houston market, more so than DFW. And for that reason, I'm going to ask Preston Moore to give us a little insight. Preston is a career-long Houstonian, has had significant success in those markets.

So Preston, if you would give more color on the concerns we have in the potential impact that the energy has on the Houston market.

Preston Moore
Thank you, Drake. Good morning, Matt. I know you asked about indirect. I'm going to apologize. I'm going to start off with direct exposure because obviously this is something we are closely monitoring. We feel very fortunate that our direct exposure is limited at 18.5% of total loans. We have a very experienced team here in Houston led by Carmen Jordan. I think we have at least three lenders that I could think of with over 20-plus years energy services experience and then two more that have 15 years-plus here. So, we have a very experienced team. We take a very conservative approach both from a leverage, kind of a cash flow leverage standpoint, don't exceed 2.75 times and from a collateral standpoint, as you saw from the slide deck, about 57% of our facilities are working capital.

And then finally, I would just say these are longtime relationships that have been through cycles before. Several cases we have good sponsors. A lot of cases, they're still access to capital, which is important. I would tell you here in Houston, there's a saying, what's the solution to $12 oil? And the answer is $12 oil. It is an industry that over time does right itself. But to get to your indirect question, yes, that is something we're also concerned about and monitoring. We are looking at the spillover effect, how it might spillover into real estate, both residential and commercial.

I would just tell you, the people that I talked to in the industry rightly or wrong are very focused on kind of the next six months. And there seems to be a fair amount of, I'll say hope, I guess at this point from a supply standpoint that you would see the market addressed and then from a demand standpoint that you would also start to see as economies come back and we get out from under these stay-at-home and stay-in-place orders that you would see demand start to pick up too, but it is something we are monitoring closely.

Turn it back to you, Drake.

Drake Mills
Thank you, Preston. Matt, I would say that, as we have always discussed, we're boutique in nature in private banking in Houston with long-term relationships. I think that's been a strength of us in the Houston market and DFW and the surrounding area. Very experienced teams that are dealing with customers have dealt with for a number of years. And I think that when you look at that portfolio in North Texas, it's down the fairway from the standpoint of where our core competencies lie.

Really pleased with the way multifamily is holding up in those markets and overall still think that the Dallas economy will continue as we get through this in the next six months to be one of the shining stars of our footprint. And as we go into Mississippi, obviously there, we have a team that is steeping [ph] relationships that they have banked for a number of years, similar to most of our markets, but we, again, feel very good about the diversification, lack of concerns that we have for some of the other areas of the portfolio like we say.

And I would also like to discuss for just a second, when you look at what we disclosed from the sectors that are concerning from a COVID-19 perspective, we went ahead and included healthcare, which was 8.5% and transportation was 2.7%. If you look at the areas that are seeing most often discussed, hotels, energy, and restaurant and retail shopping. That's 11% of our portfolio and it's well divided out through our footprint. So at this point, indirect exposure, I really like the way our balance sheet looks and feels at this point. Obviously, clarity is going to come in the second quarter, but we have stressed and tested and continue to look at those portfolios and today feel pretty decent about where we stand.

Matt Olney
Okay. Thanks for the details, Drake. And I guess my last question is just around the provision expense. Obviously, elevated in the first quarter and we're seeing that across the board from all your peers and the allowance levels had a nice jump in the first quarter. Can you talk more about the assumptions that you used to justify the higher provision expense and where we stand today? Do you think it's reasonable to assume another significant provision expense in 2Q and continued built of the allowance, any commentary around that? Thanks.

Drake Mills
Yes, and I am going to turn over—I'll answer part of that question, turn it over to Jim Crotwell because Jim has done significant amount and very proud of Jim's work around those assumptions and what model base he used. As you can imagine, unbelievable amount of discussion and strategy around that. But I do feel that what we are attempting to accomplish is based on what we know through the first

quarter and into the first couple of weeks of the second quarter, is to try to address the best we can and provide our sales with adequate coverage now.

Certainly, clarity, as I said earlier, is going to come in the second quarter, more so, and it would make sense that we could potentially see additional reserve after we get more clarity. But we certainly want to attempt to try to get that behind us and not drag this out through the balance of 2020. I would, at this point, expect that we would see additional reserve going into the second quarter. I don't know that I can sit here and say to the level we saw in the first quarter.

But, Jim, if you wouldn't mind please address the question as far as the assumptions and model.

Jim Crotwell
Thank you, Drake. Good morning, Matt. Just to kind of start, if we indicated we did increase our allowance about $17 million. The vast majority of that, over $16 million, was directly COVID-related as we looked at our portfolio. In fact, the loss migration section of our allowance did not really change at all, which speaks to the soundness of our portfolio going into this pandemic. So, that means it's really all in Q [ph] factors. And as we looked at any loans that were individually evaluated, we currently have about 35 pools in our model and we do use third-party economic forecast as a significant driver in that allocation.

I would say the primary third-party economic data we used was from Moody's analytics, and we looked at the various scenarios. And based on that review, I would summarize it this way, Matt, that we kind of lean toward that we will believe have a deeper recession in Q1 and Q2, partial to modest rebound later this year in Q3 dependent upon how successful the opening up of America, that Preston referred to earlier.

Also as far as looking out beyond that, we really think that's going to be dependent upon how quickly we can get the economy back opened up and quite honestly the possible recurrence of COVID-19 during the normal flu season. As far as some specifics, peak unemployment, we looked at 13% range in the second quarter of 2020, peak to trough GDP could be down 6% to 9% and then return to full employment really stretching out to 2023 to 2025. So, we increased—once we ran those assumptions through our model, obviously all the economic assumptions were considered a major risk within the model and that drove the $17 million increase in the allowance, which was about a 45% increase in the overall allowance from our Day 1 CECL calculation.

Matt Olney
Okay, guys. Thanks for the update. I appreciate it.

Drake Mills
Thank you, Matt.

Operator
Our next question comes from William Wallace with Raymond James. Please go ahead.

William Wallace
Thank you. Good morning, Drake.

Drake Mills
Good morning, Wally.

William Wallace

I understand you had a 60th birthday this week. Happy birthday to you.

Drake Mills
Yes, and I apologize, if I would have been running the question you ask, you would have definitely been included.

William Wallace
Thank you for that. I might just send you something on my own. We talked a little bit about the CECL assumptions, maybe since we were just on that with Jim on the line, I'm kind of curious if you're kind of thinking a really kind of partial rebound and full unemployment not until 2023 to 2025. If we start seeing losses elevating maybe in the fourth quarter or early next year, do you think that you'd actually be able to use your CECL reserves against those losses or do you think you'd have to maintain the reser ves where they are with unemployment remaining so high in your models, and maybe is there a flipping point where you can use the reserves versus maintain them against losses?

Drake Mills
No, Wally, from our discussions and strategies it's certainly early on to try to build, so we can use those reserves as we get more clarity around. It's tough to sit here and think about full unemployment '23 to '25 and the impact that has on certain sectors. We're fortunate that we're not as heavy consumer-driven, credit card-driven, those type of things, but I know the impact of the consumer buying power and how that impacts your portfolio, but if you look at some of those areas that are impacted directly through that, still feel very good about the portfolio makeup. So, I'm going to answer your question like, as we're going to try to build through these quarters, so we can utilize that reserve.

William Wallace
Okay. Thank you. Alright. I have a few questions on net interest margin, then I'll hop out and let somebody else ask questions. So let's kind of worry about PPP secondary. If I were to look at your first quarter net interest margin and then based on the commentary around the March reduction in deposit prices, can you maybe help us get a sense of the amount of NIM pressure you would anticipate in the second quarter exclusive of the PPP program?

Drake Mills
Yes, Wally, I want to make everyone understand the way we're managing PPP is we've almost set up like a sub-bank out there that drives the asset and the funding mechanisms and the incoming fee levels in that and to the bank. So, we're going to do—most of our calculations and model is going to be without PPP because we certainly plan to, if there is an opportunity to exit that as quickly as possible.

So at this point, based on what we know and I will say we're extremely active on the deposit side and also the floors perspective on loans as we go forward. At this point, I'm going to give you an idea that for every quarter cut, we see between 4 basis points to 6 basis points NIM compression. And that's obviously based on also the diminishing LIBOR.

So, we continue to model that out, think that we can hopefully have better luck as we're seeing early in this quarter, some active deposit strategies around how to reduce the impact of that overall. But at this point, that's what we expect.

William Wallace
Okay. So, on the high end that could be as much as 6 basis points times 6, you're saying for every 25 basis point cut, is that what you mean by rate cut?

Drake Mills

That's correct.

William Wallace
Okay.

Drake Mills
That's correct.

William Wallace
Okay.

Drake Mills
And I knew that you'd go to the high-end instead of the low-end on that.

William Wallace
Do you think you could beat the 4 basis point level with what you're doing on the deposit side? And let's assume that LIBOR doesn't hold up.

Drake Mills
That's going to be extremely difficult, I would say that. Certainly, our teams are active. One thing that we do have to be concerned about through this process, we can get super aggressive, but there's also liquidity strategies as we move forward. And we certainly, don't want to price ourselves out of seeing the deposit growth to support the loan growth we have coming down the pipeline. So, that's what makes me pause about beating that 4 basis points per quarter.

William Wallace
Okay, thank you. And then on the PPP, are you funding that with the Fed facility?

Drake Mills
At this point, we are not, but we plan once we ramp up the second round. I mean at this point, we have, let's say 500 loans in the pipeline, that represents about $58 million, so that'll put us about, let's say, $525 million, $530 million in the deal at this point. So we have some Federal Home Loan Bank maturities coming up that are priced at 35 basis points. So that puts us in outside of the dividend rebate that we get from utilizing Federal Home Loan Bank, we can offset that with PPLF. And I think that's the way we're going to drive and fund it.

William Wallace
Okay, thanks. And then lastly on the PPP, assuming you put these back to the SBA, the forgivable portion, are you going to run those fees through net interest income? Are you going to treat it as held for sale and run it through non-interest income?

Drake Mills
A lot of discussion around that. What we are focused on right now is getting this. I mean you can imagine, we took a very aggressive approach Day 1 on PPP. We went with the manual process. We have a 130 people that have access into e-transit [ph]. We've been very active in a manual process and that's why we're successful in the first round. So all our people are focused on that. Once we get this behind us, Steve, myself, Chase Anderson, the team is going to sit down and look at what the best route is for us to structure that for the benefit of them. But I'm kind of thinking it's through margin, but we'll see what's best for us when we go through that process.

William Wallace

Okay, thanks. And then just last question on housekeeping. Steve mentioned in his remarks, the dollar amount of the MSR write down, I missed it. Could you repeat that?

Drake Mills
Hi, Steve. You want to handle that real quick?

Stephen Brolly
Sure. We had a write down of MSR—hold on for one second—it was $2.4 million.

William Wallace
Okay. Thank you very much. I'll step down and let somebody else ask questions. Appreciate it.

Operator
Our next question comes from Brady Gailey with KBW. Please go ahead.

Brady Gailey
Hi. Thanks. Good morning, guys.

Drake Mills
Good morning, Brady.

Brady Gailey
So Drake, you talked about expense management as one of the kind of top four focuses right now. I know before we talked about expenses growing around 4% this year. Given the headwinds that are coming up on margin and elevated provision levels, how are you thinking about expense management now and what do you think can be done on the expense side?

Drake Mills
Boy, I feel like I'm dancing around questions this morning and I'm not. That's priority one for us right now. As you saw and when I discussed the four strategic focuses, we are looking at every single thing we can do. Postponing any type of project where, even as the country opens backup, you won't see us from a travel standpoint and something else. And I'm not going to sit here and say it can be flat, but we're certainly pushing toward that direction because we think that there's opportunities. We're even looking at things, how does the country come back together, what does it mean from a branch footprint standpoint and the utilization of those, is there a cost cutting opportunity there.

But, at this point, we feel like that could potentially be flat to up 2%. And certainly, that's going to be dictated by the depth and severity of this as we move forward. My concern there is—and that's why I don't want to say this is what I think we can do—if we do get into a protracted situation and see credit deterioration, and certainly we're going to have collection expense, legal expense and those type of things that can certainly drive up those numbers, and that's why I'm cautious at this point.

Brady Gailey
Alright, that's helpful. Thanks for all the color on the slides. That was very helpful. When you look on slide 8, you look at those six categories that make up 22%. Which of those categories do you think will be most problematic for Origin, as we go throughout the rest of the year?

Drake Mills
You know what's interesting, we were breaking those down. And at this point, this is going to sound odd, we feel very good about our hotel and restaurant portfolio. Retail shopping is, we feel pretty

decent about this point. Transportation, we need some clarity around that, especially from the standpoint of the overall portfolio on trucking versus, say, barge activity and that type of stuff.

Healthcare, especially assisted living, is probably where I would say not healthcare overall, but assisted living, the portion of that is my concern at this point, how that holds up because we have some of those properties that are ramping up and are they going to continue to be able to ramp up or are we going to see a stall there? So at this point, the percentage of healthcare that is assisted living is my overall concern, from an energy perspective. And by the way, assisted living as you can see on page 8, 9 is 31% of that healthcare portfolio.

The energy, we, at this point, because of the type of structure we have on those, and a 57% that's operating lines, we feel pretty good about. That is going to be an area of concern and how it holds up, but very good sponsors, Carmen Jordan and her team, very experienced and feel that those relationships are in very good hands.

Brady Gailey
Alright. And then lastly for me, I know you raised the sub debt, not necessarily for buybacks, but more just to have some cash around in case you're successful at getting the M&A deal. And given the backdrop, is it safe to assume that M&A is on pause for you guys?

Drake Mills
Absolutely. And we certainly are continuing to stay close to those relationships we have. We actually reached out and offered assistance on PPP for insiders and those type of things because we want to continue to drive those relationships, but that's off the table, and look, I'll just say this, at this point, worrying about our own shop, I'm somewhat pleased that I didn't have two or three deals I had to deal with right now. So for us, the sub debt was timely. It certainly gives us a cushion. It gives us some comfort that we can navigate through this.

Brady Gailey
Great. Thanks for the color, guys.

Operator
Our next question comes from Brad Millsaps with Piper Sandler. Please go ahead.

Brad Millsaps
Hi. Good morning, guys.

Drake Mills
Good morning, Brad.

Brad Millsaps
I would echo the comments on the disclosure, really great, thanks for all that. Just a couple maybe follow-ups for me. Maybe just to follow up on the PPP program, the reserve and kind of the expense discussion. Drake, as those origination fees roll in, would you maybe imagine maybe allocating some of those either to higher expense accruals as you discussed or possibly dropping some of those fees in the reserve? Have you guys kind of thought through any of that yet?

Drake Mills
We are in discussions with that, and like I'm going to tell you we are going to take a small percentage of those fees because obviously, incentives, they're all off the tables and those type of things, but I'm going to take care of some of our employees that have worked overtime and really, I look at PPP as

sustainability for these businesses in which people worked and they didn't work because they thought they were going to get incentives. But, a small percentage of that is going to go to them. And I do think that that's going to give us some firepower to bolster reserves and do some other things that we can offset some of the expenses.

Brad Millsaps
Okay, great. And then, secondly on the slide where you talked about the—I think it's slide 6 where you have the level of forbearance that you guys granted during the quarter, can you talk a little bit more about that process, kind of how you worked with borrowers or was it more if they made the inbound call, you just want ahead and granted it, and then you're going to kind of reevaluate in 90 days?

And then maybe as a follow-up to that, any sense for kind of the hit rate on the PPP loans versus those loans that went to forbearance? Did the PPP money get to those, maybe most stressed borrowers? Did you have a sense of that yet? I can see the categories, but just kind of curious if the actual PPP loans matched up with the guys that asked for forbearance.

Drake Mills
Yes. And listen, this would be, I feel like I'm hogging the call here. And Lance Hall, our President, CEO of the Bank, when I tell you this individual took plans and responded to these companies from a forbearance. And we started early. Matter of fact, I had discussions with the Federal Reserve early on before any of this came out about restructured debt and how they would handle that because we got busy early putting these—and I will tell you that for me, there is as much a psychological aspect of this to manage in these businesses and keeping them in the game versus giving up and filing bankruptcy.

And so, early on, we got aggressive contact with our customers. Lance Hall and his team just did an awesome job. So, I'm going to let Lance answer the question around forbearances and PPP and where that money, actually the direction it went. Lance?

Lance Hall
Yes. Thanks, Drake. And I think Drake said it right. One of the things we pride ourselves on is how close are our relationship. So I think while it's a mutual conversation and obviously we are taking inbound calls, I would tell you that we made a tremendous amount of outbound calls to really work with these clients. In a lot of ways, we see forbearance preservation of portfolios. Drake made it right. Drake has pounded it to all of us the entire time, the psychological effect on these clients to make sure that they understand the support that's behind them. So, we were aggressive on that. I think it turned out to be about 17% of our loan book.

On your second question, I would say, I don't have a percentage, but I would say the vast, vast majority of these clients also have PPP. Obviously dependent on their size, but I would say, our clients have been incredibly well supported. And I think the loyalty we're going to build on the back-end is going to be tremendous. One of the things we take pride in as we talk about the number of notes and we talk about, we really had our focus on the amount of employees of these businesses that we're supporting. And we talk a lot of here about what our why is, I mean the fact that we've been able to support over 49,000 employees of these businesses, it means a lot to us.

Brad Millsaps
That's helpful. And maybe just a final question. I know it's probably still early, but do you guys have any early sense from the regulators that the forbearance might be granted beyond this initial 90 days? Just kind of curious, if you have had any of those conversations and kind of what that outlook might be?

Drake Mills

Yes, I'll say this. And through 36 years, you've gone through cycles and you've dealt with regulators. I couldn't be more pleased and proud of our relationship with our regulators and the support and the attitude of the regulators. Most of you don't know this, but during the middle of this, we were in the process of a full-on safety and soundness exam. So, we had the pleasure and the opportunity to be able to deal with our regulators on a daily and ongoing basis there in the early steps of this process. And I found that the ability—and there was even a comment to me, Drake, your value of your company is going to be gauged on what you do for these businesses and how you keep them going.

I felt that to be extremely supportive and the belief that another 90-day period and own these regulators are wanting us to do what we have to do to keep this economy moving.

Brad Millsaps
Great. Thank you, guys.

CONCLUSION

Operator
As a reminder, if you would like to ask a question please press star then one.

Drake Mills
Okay. Well, I can't say how much I appreciate the support of our investors and our partners during this time. And I can assure you that we are focused on—as Lance and I sit here, our net worth's are in this company and everything we have.

So, I can assure everyone out there that we are working diligently to make sure that we do the right things and we stay focused on what is best for this company moving forward. Thank you for your time and I appreciate the relationship with each one of you.

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