Origin Bancorp
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OPERATOR: This is Conference # 072922origi

OPERATOR: Good morning, ladies and gentlemen, and welcome to the Origin Bancorp, Inc. Second Quarter 2022 Earnings Conference Call. All lines have been placed on a listen only mode and the floor will be open for questions and comments following the presentation. If you should require assistance throughout the conference please press "star," "0" on your telephone keypad to reach a live operator. Please note this event is being recorded.

I would now like to turn the conference over to Chris Reigelman, Head of Investor Relations. Please go ahead.

CHRIS REIGELMAN: Good morning. Thank you for joining us today. 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 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 7 of our earnings release filed with the SEC yesterday.

All comments made during 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 and CEO 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. The call is yours, Drake?

DRAKE MILLS: Thanks, Chris. Good morning. Origin had another impressive performance this quarter, and I want to start by thanking our employees. They do an incredible job of executing on our strategic plan and living out our vision every day. We are committed to our culture while building valued relationships, and this will continue to be our focus. Our growth and success always points back to our employees and their unwavering loyalty and serving our customers, communities and shareholders.

The results for the second quarter were strong. Our diluted earnings per share were $0.90, up from the previous quarter, and our net income increased quarter-over-quarter to $21.3 million. We talk a lot about relationship banking as well as our strategy of lifting out high-quality bankers. Our loan growth for the quarter was a direct reflection of executing on that strategy.

Total loans held for investment, excluding PPP and warehouse were $5 billion which is a $336.3 million or a 29% annualized increase compared to the linked (ph) quarter. We have discussed previously, Origin is well positioned in a rising rate environment, and we are seeing that play out as our net interest margin was 3.23% for the quarter, a 37 basis point increase from the last quarter.

I'm certainly proud of our loan growth, but I'm equally as proud of our credit metrics for the quarter. Jim will walk you through the numbers, but I want to point out that we showed a reduction in charge-offs, past dues, nonperforming and classified loans over the quarter. This is impressive as you think about the strong loan growth we experienced and speaks to the quality relationships that we have added, both organically and through lift-outs. I'm so pleased with Jim Crotwell, Preston Moore and their teams for all they do to make our company stronger.

On Slide 8, you'll gain a deeper understanding of the impressive growth we continue to see in our Texas market. Our Texas franchise now represents 60% of loans held for investment, excluding warehouse. This is important to the Origin's story, and I think it's important to understand the wide array of opportunities we have in our Texas markets.

We are also excited about the opportunity we have in East Texas, Dallas and Fort Worth with the partnership with BTH. This past quarter, we received all regulatory and shareholder approvals for the transaction, and we are on pace to close at the beginning of the third quarter.

I've had the pleasure of being in every BTH location and have started developing great relationships in these markets. The team that BTH has built is impressive, and the shared culture and commitment to serving customers that both of our companies have is dynamic. We have gained commitments from the commercial lending teams throughout the BTH markets, and we're excited about what this partnership means as well as the opportunities to enhance long-term value.

Lance, Jim and Steve will get into specifics about the quarter. Lance?

LANCE HALL: Thanks, Drake. I'm very pleased with where we are at the halfway point of the year. While I'm proud of the results, I'm more so proud of our process and the way our team has followed and executed on our vision and our strategic plan. The growth that we have seen throughout 2022 isn't accidental.

As per our plan, we strategically continue to leverage our award-winning culture and our geographic management model to attract best-in-class bankers and banking teams. Our belief is that the lift-out strategy provides Origin deep credit perspective as well as growth opportunities because of our bankers' insight into their longtime relationships. This creates an environment where we can consistently create appropriate growth without compromising credit.

As Drake mentioned, backing out PPP and warehouse, we saw over $336 million of loan growth in the second quarter compared to last and $834 million compared to the same time last year. In 2022, we have grown loans excluding PPP and warehouse by $497 million.

On Slide 11, you can see the impressive growth throughout our loan portfolio. We pride ourselves on being trusted advisers to our clients, and we believe one of the more meaningful ways to measure that is due to growth in our C&I portfolio which also leads to noninterest-bearing deposits, treasury management and other services, which enhance market profitability.

Quarter-over-quarter, we grew C&I approximately $103 million or 8%. We had nice growth throughout our portfolio, which came from all of our markets throughout Texas, Louisiana and Mississippi. We really like our loan mix as we move into the second half of the year.

Moving to deposit trends on Slide 12. You can see an overview of trends for the past year. Total average deposits did decrease in the quarter, but this was based on 2 factors: first, the strategic decision to part with approximately $225 million of high-priced market index deposits as well as the timing of deposits, which can be lumpy from quarter-to-quarter with some of our larger relationships. We feel very confident in our ability to drive meaningful deposit growth through the second half of the year.

I'm very pleased with our performance related to average noninterest-bearing deposits. We've increased over $450 million compared to the second quarter of last year, and NIVs (ph) now represent almost 35% of our total average deposits.

Steve will get into more detail on our cost of funds, but I'm proud of how we are able to hold deposit pricing in the second quarter. Our strategy of attracting the right bankers to our team continued this past quarter. We added 7 new producers, bringing our total for the past 4 quarters to 30. We believe this strategy, coupled with our seasoned team of existing bankers in the markets will continue to drive meaningful core loan and deposit growth.

Now I'll turn it over to Jim to go through our credit quality metrics.

JIM CROTWELL: Thanks, Lance. As you can see on Slide 13, we are extremely pleased to report the strong performance of our loan portfolio and the improvement in all of our credit metrics for the quarter. Pass-through loans held for investment to total loans held for investment net of PPP loans ended the quarter at 0.13%, a reduction from 0.42% as of March 31 of this year.

During the quarter, classified loans held for investments decreased $18.3 million, a 26% reduction from Q1 2022 levels and represented 0.94% of total loans held for investment, net of PPP, compared to a level of 1.36% as of Q1 2022. We are also pleased to report a $7.1 million or 33.5% reduction in nonperforming loans held for investment to total loans held for investment, net of PPP, coming in at 0.25% for the quarter down from a level of 0.41% for the prior quarter.

Lastly, annualized net charge-offs for the quarter to average loans held for investment came in at 0.12%, down from 0.14% for Q1 2022. Our continued focus on relationship banking, along with sound underwriting and credit structure are the drivers behind the solid performance of our loan portfolio.

For the quarter, we increased our allowance for credit losses to $63.1 million, a $950,000 increase from the prior quarter to support our strong loan growth that Lance spoke to earlier. As of 6/30/2022, our reserve represented 1.14% of loans held for investment and 1.25% of loans held for investment net of PPP and mortgage warehouse loans reducing from levels of 1.20% and 1.33%, respectively. The decrease in the reserve on a percentage basis was driven by the continued improving credit metrics discussed previously.

While we continue to experience resiliency in our portfolio, there exists uncertainty as to the impact of inflation and the potential for an economic recession as well as the continued pressures on labor supply, wages, supply chain disruptions and geopolitical concerns and their impact on the performance of our portfolio.

However, the markets we serve are dynamic and currently reflect lower levels of potential recession impact than many other areas of the country as reported by Moody's Analytics.

Based upon conversations with our customers, we agree and feel that the markets we serve will be impacted to a lesser degree than other areas of the country if we do experience a recession. All in all, we are pleased with the overall performance and outlook for our portfolio.

I'll now turn it over to Steve.

STEVE BROLLY: Thanks, Jim. Slide 14 is our yields, cost and loans held for investment portfolio slide. During the second quarter, our total yield on loans held for investment increased 18 basis points, which includes the impact of PPP loan for again this quarter-over-quarter. Excluding this impact, our yield on loans held for investment increased 26 basis points in Q2 which represents a loan beta of 33% on the quarterly average of Prime and LIBOR indexes.

As we mentioned last quarter, we intended to have a minimum impact on all non-indexed deposit products for the first 100 basis point increase of rates. For this past quarter, our cost of total deposits only increased 2 basis points representing a 3% deposit beta.

On the bottom left graph, you see our fixed and variable loan composition. As an asset-sensitive bank, increased interest rates will be beneficial for Origin. We expect to generate an incremental $13.1 million or 5% in net interest income from a 100 basis point parallel shift in interest rates. Increased interest rate affected our total loans at or above their floors.

The bottom right graph shows at June 30, over 98% for $1.9 billion of our Prime and 1-month LIBOR indexed loans have a current interest rate at or above their full interest rate. Therefore, these loans have a 100% beta to interest rate increases. At March 31, only 68% of these loans were at or above their floors.

Slide 15 shows our recent net interest income and NIM trends. The graph on the left shows a 5-quarter trend of NIM and income. Our total net interest income increased $7 million during the quarter. The largest contributor were higher loan volumes, $1.8 million increase, higher loan yields, $2.8 million increase and higher investment yields, $1.3 million increase.

Excluding PPP and mortgage warehouse loans, our net interest income increased from $46.2 million to $54.2 million or 17.4% quarter-over-quarter. Drake mentioned earlier, our net interest margin was 3.23% for the quarter, a 37 basis point increase from last quarter.

The bottom graph details the 44 basis points increase in NIM, excluding PPP and mortgage warehouse. The largest contributor to this increase was due to putting our excess liquidity to work by reducing cash balances and increasing loan balances.

Slide 16 is our Investment Security slide. The top left graph shows a 5-quarter trend of investment, average balance and yield. The growth in average balances is due to excess liquidity during the periods presented. During this past quarter, the vast majority of the investment purchases were made in the month of April.

The bottom left graph is a 5-quarter trend of our accumulated other comprehensive income or AOCI. As short end of (ph) the yield curve continues to steepen during the second quarter, the net tax effect of the change in the unrealized loss on fair values in our available for sale securities was reported through AOCI. To fund the future loan growth, we do not intend to sell any securities with an unrealized loss.

In addition to approximately $50 million a quarter in expected cash flows from these securities, we have the proven ability to grow our deposit base over $3 billion of additional available funding and over $400 million of available liquidity from the BTH partnership in the third quarter.

Slide 17 is our net revenue distribution. The top graph shows our net revenue growth since our IPO. The $73.7 million second quarter net revenue represents a 7.8% increase from the first quarter.

The bottom left graph details our noninterest income lines. Mortgage banking revenues decreased $1.7 million from the first quarter, driven by the volatility of the market interest rates and the fair value of our pipeline in MSR (ph). The insurance agency acquisitions that closed on December 31, 2021, continuing to drive year-over-year increased commission and fee income.

Slide 18 is our noninterest expense analysis we reported total noninterest expense of $44.2 million, an increase of $1.4 million. The increase in salaries and employee benefits was primarily driven by addition of new employees that were hired during the quarter and the full impact of the cost of living increases in annual raises effective March 1.

In addition, there were $807,000 of merger transaction expense in the second quarter compared to $571,000 in the first quarter.

On the top right graph, we show a 5-quarter trend of our efficiency ratio as well as our adjusted efficiency ratio. As detailed in a later slide, we exclude the mortgage and insurance related income and expenses to calculate the adjusted efficiency ratio.

Moving to the next slide. We show trends on our regulatory capital ratios as we continue to be well capitalized. The bottom right graph reports the details of the change of our leverage ratio. Similar to the change of MIM, putting our excess liquidity to work by reducing cash balances was a primary contributor to higher leverage ratio.

Now I'll turn it back over to Drake.

MILLS: Thanks, Steve. We are committed to executing on our strategy and have proven throughout our history that we can successfully navigate economic cycles. Origin's focus on people and relationships is one of the main factors that have allowed us to be successful. We are continually finding ways to strengthen our company by adding the right people to have a shared vision and deep commitment to Origin's future.

As we strategically grow this company, roles, expand and additional opportunities arise. We are adding Wally Wallace (ph) to the team as Chief Financial Officer and Steve Brolly will devote his full time and energy Chief Accounting Officer. This partnership between Wally and Steve and Financing County positions Origin in a powerful way to capitalize on future opportunities.

So partnerships like this are not new within our executive team. Myself and Lance Hall is a great example. Jim Crotwell, our Chief Risk Officer; and Preston Moore, our Chief Credit and Banking Officer, have proven that by working together in risk and credit, we can produce amazing results. I believe wholeheartedly that Wally and Steve will do the same with our finance and accounting team.

As I mentioned earlier, we are ecstatic about where we are with the BTH partnership. The opportunity this presents to fuel our Texas growth of contents. Look, when we entered Dallas in 2008, this country was in the throws (ph) of an economic meltdown. We got after -- I finally remember being in that market most every week for the first 3 years, talking to prospects about our relationship-based approach to banking. It's paid off tremendously as I look at where we are today.

We will continue to invest in people and markets that will drive long-term value for this organization. Origin is in a strong position. I'm bullish on what we've done and what we will continue to do in creating value for our employees, customers, communities and shareholders.

Thank you for being on the call today. Now we'll open up the line for questions.

OPERATOR: Thank you. Ladies and gentlemen, the floor is now open for questions. If you do have a question please press “star” “1” on your telephone keypad at this time. If you’re using a speakerphone we ask that while posing your question you pick your handset to provide favorable sound quality. Once again, ladies and gentlemen, if you do have a question or comment please press “star,” “1” on your telephone keypad. Please hold as we poll for questions. And our first question comes from Matt Olney from Stephens.

MATT OLNEY: Thanks. Morning, everybody.

HALL: Morning, Matt.

OLNEY: I want to start with loan growth, robust levels in 1Q and even more so in 2Q. Love to hear commentary about the back half of the year and how pipelines are shaping up and what the expectations are?

HALL: Matt, this is Lance. Like years, we've been incredibly bullish on our opportunity to grow at a double-digit click. And I think that we've proven our ability to do it and it's is just executing on the plan of our lift-out strategy as well as the markets that we serve.

So when we kind of talked at the beginning of the year, I think we really thought we would be 10%, 11% loan growth -- feels like some of that in the back half of the year maybe gotten pushed into the quarter as you look at a lot of the banks, it seemed like there was extraordinary growth for all the banks. Ours, I love the mix of it. I love how spread it was. I love the C&I focus.

It was about $150 million in DFW (ph), $100 million in Houston, nice growth in Louisiana as well as Mississippi. We still have a strong pipeline as we kind of sit here and work on our forecast, we're thinking $100 million loan growth in Q3 and another $100 million in Q4, not counting PPP or warehouse.

And for us, the lift-out strategy continues to pay dividends, and we'll probably talk about this later when we talk about deposit funding, (INAUDIBLE). It's a nice mix of employees that we've been able to bring over the last 12 months, a combination of really experienced bankers, but also people that are very focused on the funding side of the organization, business development officers, deposit specialists understanding where we want to take this company, making sure that we have the appropriate loan support in the hires that we're doing from a credit perspective and making sure that this engine is continuing to roll.

So incredibly optimistic about our -- where we're going on this.

OLNEY: Okay. Lance, and then you're right, I guess deposits are the other important topic here. I think you mentioned you expect some meaningful deposit growth in the back half of the year. I just want to dig more on this. Are there any more index deposits that are moving out of a bank? Or do you think you captured all that in 2Q?

And I guess just more broadly, what's the plan for funding the growth the back half of the year? Is it purely on deposit growth? I mean, it looks like you utilized some borrowings in 2Q. Would you consider that incrementally in the third quarter and fourth quarter? Just trying to appreciate kind of the funding plan for the back half of the year.

HALL: Yes. And I'll take a little bit of this and probably Drake will speak to some of it as it affects BTH and our plans to how we can access liquidity from them as well. I wouldn't see us pushing out any other deposits. I think for us, where we were at the end of Q1 with the cash buildup we had, we wanted to understand how to really kind of flip that into earning assets. So that was sort of a timing issue for us.

Knowing us as well as you do sort of the benefit of this organization is the strength of the ability to grow deposits in North Louisiana versus maybe just a Texas-only bank. So as Drake always talks about it, like as we're Texas plus which I like. So I think you'll see us get much more aggressive on the deposit side.

We understood that we had an opportunity in time to really enhance margin in the first 100 points of rate hike. I think we took advantage of that in a nice way. I think we're still well positioned from a liquidity perspective. I think that you'll see us do a nice job. I think it's going to be a challenge for all banks on the deposit side.

As you see, brokerage companies and insurance companies getting very aggressive on rates as you're seeing some customers use noninterest-bearing to pay off debt in a rising rate environment. I mean all that will be a challenge, but I think that we're well positioned by the way that we structure our company to be a winner when it comes to making sure we get this funding correct.

MILLS: Matt, this is Drake. To add to Lance's comments, I mean, it was really a strategic opportunity for us to take advantage to be able to enhance NIM as we deploy cash. But it was -- we did have an opportunity to reduce some expensive deposits. We did that. Those are still available.

But I think the other aspect when you talk about borrowing is that we knew that we were going to have an opportunity to mark BTH's investment portfolio and market that, and that would be very close to what our borrowings were. So that in my mind is a temporary position, but it allowed us to really impact NIM for the quarter and moving forward.

OLNEY: Okay. That's helpful, Drake. And I guess just taking a step back, obviously, some really good numbers in 2Q on both the NIM and the NII (ph) and it feels like there's more tailwinds there in the third and in the fourth quarter with respect to just the balance sheet growth, higher rates. And I guess you layer in BTH as well. As you kind of blend all those things together. Any commentary about how we should be thinking about the margin or the NII, the back half of the year as you kind of mix all these things together?

MILLS: Yes. And first off, BTH, let me talk about BTH and then I'm going to give you what I believe will look like without BTH from a NIM and NII perspective. But BTH is, so far, their performance has been really good. And when you look at their -- I think from a growth standpoint, I've been very pleased overall with where we thought they would be and where they are today.

Credit quality improvement has been phenomenal. They've done an unbelievable job and then look at net income for the full year 2021, I think it was $22.7 million and through the first half of '22, they're at $15 million. So very good progress they're making. I'm very pleased with what the addition is going to bring.

But for us, I'm looking at a net interest income, I think, it's going to be in, let's say, the 64-65 range (ph) when we look at what we expect pipeline and the impact of interest rates in our NIM, I think it's going to be in that mid-3 (ph)% range through the end of the third quarter.

OLNEY: Okay. That's helpful, Drake. And just to clarify, those numbers you gave with rate, those are x BTH (ph), but obviously capture kind of the rate move we got or (ph) this week?

MILLS: Absolutely.

OPERATOR: And our next question comes from Kevin Fitzsimmons from D.A. Davidson.

KEVIN FITZSIMMONS: Good morning, everyone. I hope you all are doing well. Just curious about you detailed in your comments about the -- the lift-out strategy and the new producers that have been added. I'm just wondering as you look out over the next few quarters, whether you think that's -- I know it's something you always look for, but is it something you all you think is going to be a bigger opportunity for you? Or not so much in terms of what you're seeing out there from competitors and inbounds in terms of interested loan officers coming in?

MILLS: Yes. With the dislocation in the markets, and I'm going to talk primarily even though we're seeing some opportunities in Mississippi that we just took advantage of. But it's primarily Texas, significant dislocation. We are taking our time because we're not just trying to ramp up a bunch of new people. They've got to fit -- their portfolios have to fit in with our portfolios. We are C&I focused.

But what's been interesting about the opportunities we've seen in this past quarter is we had an opportunity to pick up some deposit specialists. And this is something -- this is a strategy that we deployed several years ago in Dallas and then even in Houston. And I think Preston Moore and his team with Carmen Jordan (ph) showed us that they could fund themselves through some of the private banking and deposit specialist they had. So we're seeing that activity pick up, and we've been focused on that.

So what great timing for us. We've got about 1/3 of the new hires this last quarter were deposit specialists. So we see that opportunity continuing, but we're passing on some because again, a lot of real estate that they might bring to the table. That's not our mix, and we're going to stay focused on what works for this company, but I do see opportunity going in the third and fourth quarter.

FITZSIMMONS: Okay. Maybe as it goes to credit, I understand that credit remains very strong and your comments that your footprint will probably hold up better. Just curious how we should think about the pace of provisioning relative to loan growth, where you see that ACL (ph) ratio going? Can it still grind down lower? Or do you think that will stay pretty stable until you get more clarity on the environment?

MILLS: Yes. And (INAUDIBLE), thanks for that because I'll tell you, I am super conservative. And when you have all your eggs in one basket, you're going to do the things that puts you in a good position to make sure you weather any storm where we are very comfortable with what we think from looking at numbers and even thinking about our analytics service and a recent publication that they made that showed our footprint holds up extremely well.

In a potential recessionary period, we are going to continue to look and push methodology as much as we can to ensure that we are -- we can wear the storm. So what I would say to your question is, I see a flat to slightly increasing reserve, but nothing significant other than just for loan growth because our credit metrics are extremely good. The best I've seen him in my career. And that's not just something that we think is just temporary. Everything we're doing is focused on ensuring that our credit quality continues to stay pristine.

FITZSIMMONS: And I'm sure looking back over the past year or so, I recall you describing some of the proactive steps you all took with client selection. And I'm sure you're happy you did that now when you're looking out at the potential for things slowing down.

MILLS: Well, yes, you heard in my opening comments and given Jim Crotwell and Preston Moore credit, but I'll tell you, it started in 2019. The pandemic accelerated that and it continues. And it's not just because the market is strong. We are doing the things that are necessary. If that credit doesn't fit, we get it out of here. And I would tell you, I am so confident in our credit moving forward.

And not only that the credit metrics are good, but what we're putting on the books, we just don't see any new problems. And that's -- that gives us a very good indication that we're doing the right things. 13 basis points of past dues, that's a great indicator of what's to come.

OPERATOR: And our next question comes from Woody Lay from KBW.

WOODY LAY: Good morning. Yes, so maybe just to hit credit one more time. I mean the improvement quarter-over-quarter and a lot of the metrics really was impressive. Just any color on what drove that improvement?

MILLS: Yes. I feel like I dominate this and Jim Crotwell is here and Jim, when I tell you the job that he does and his ability to manage this as exceptional. So I'm going to ask him to give color around that question. I appreciate it. Jim?

CROTWELL: I would say it's a combination of a lot of hard work over several quarters that came to fruition in the second quarter. The most impressive, I guess, component of that is that we were successful, had a significant amount of payments either through companies that were in the classified categories ultimately sold assets and paid us off.

We've had some that actually were -- they moved and refinanced or they sold components of their business. So we are very, very fortunate, and we've been working towards that. And like I said, we were able to get many of those across the finish line, if you will, and get to fruition of what we've been targeting to work towards. So good quarter. We'll continue to, as Drake said, to really focus on asset quality.

And also, as Drake said, as we've been fortunate to be able to move these out or work them down we're not seeing it back field. And I think that goes to what we've been focused on relationship banking and the client selection as we've talked about. And so very, very pleased overall credit profile.

LAY: That all sounds great. And then on the loan growth front, it sounds like growth is expected to remain strong in the back half of the year. Just as we get BTH in the mix, how should we think about the growth profile longer term? Is it -- does BTH impacted at all? Or is it relatively unchanged?

MILLS: No. I think BTH impacts it, but we we're going to try to drive this organization to annually see 8% to 12% growth in loans, and we took advantage of some significant opportunities in the third quarter. I mean in the second quarter, I do think it was front-loaded into that quarter, why you'll see probably $100 million of additional growth in the third and fourth quarter.

But I've got to say this because I've spent some time -- some meaningful time with all the BTH lenders, their relationship managers, been in those offices, but spent time in East Texas. And I am so bullish on opportunities in East Texas and the incredible economy to have, the opportunities that exist, I believe we're going to see some significant improvement in growth in East Texas as we give -- as we provide them resources and allow them to continue to grow.

But it's -- I just got to say this. If you drew up the perfect deal, and we stay on the sideline. We waited, we passed on deals and we waited to the perfect deal. But if you had to draw it up BTH is the perfect deal, cultural fit, geographic fit, financial fit, this footprint fit is just crazy good for us. And so as we mentioned when we announced the unicorn, they are truly living up to the unicorn. So we feel like we're in very good shape. But I will say that they're going to be a significant addition in growth for us.

LAY: That's great to hear. And then last for me, just real quick, I'm assuming the plans to still stay under the $10 billion in asset threshold by year-end. Any changes there?

MILLS: No. I feel good about that where we are today. I mean we have -- we continue to see multiple levers to pull, remix our balance sheet while continuing our strong organic growth. But we actually, monthly, we sit down and look at the position and some of the reasons why you saw some of the deposit mix change and move out and go to funding -- and we didn't talk that earlier, but that's a big part of our 10b (ph) strategy. So at this point, I'm still very comfortable that we'll be able to maintain under 10b position by year-end.

OPERATOR: As a reminder, ladies and gentlemen, that's “star” “1” if you do have a question of comment. And we'll go back to Matt Olney from Stephens.

OLNEY: I got a follow up. Just want to ask about the mortgage warehouse. It looks like there were some nice market share gains in 2Q. Would love to hear the commentary about the back half of the year and then I guess, longer term, as you layer in BTH, the overall mix of the warehouse relative to the overall size of the balance sheet is going to decline. So I would love to hear kind of more about the short-term plan for the warehouse, but also kind of the longer-term plan as far as the size?

MILLS: Yes (INAUDIBLE) BTH, they were using mortgage warehouse is really an investment tool and participating in some deals. We're going to be exiting (ph) that. we're going to continue to focus. And Matt, the last couple of years, as we went into this and started growing this business, I've always said that I would love to run that through the cycles from 5% to 10% of the balance sheet. And obviously, we're going to see that pare (ph) down because one thing that we are not going to do -- we're going to support our relationships. And -- but we're not going to chase volume just for the sake of keeping volume up because pricing is getting tough, and we're just not seeing the reward at this point.

But I see by the end of the third quarter, we're going to be somewhere in the 6% of outstandings and then by the end of the fourth quarter, we might be slightly below that. But I see that range from $300 million to $500 million over the next 4 quarters. And -- but the next 2 quarters, I think we're going to see -- this is all about -- we've got a strong mortgage in strong mortgage markets. This is all about lack of inventory. I wish we had the inventory because we'd see some pretty strong numbers on mortgage warehouse.

But the rates I see and what we're doing to try to increase balances, I just don't think that fits in especially with the consideration that we have strong loan growth at this point of loan opportunity. So we'll continue to monitor that. But I'm going to say for now that we'll see that in the 6% range of outstandings by the end of the third quarter.

OLNEY: Okay. Got it. Appreciate that. And then going back to BTH, I think it's closing. I think you said this weekend. Just remind us of the conversion time line and the associated cost saves, how we should be thinking about that at the back half of the year?

MILLS: Yes. I think what's been amazing about this deal, even with the AOCI considerations is how in line it is with what we announced and we feel good about the cost saves were going to close by Monday. The conversion is going to be early October. We feel very comfortable with that. Mapping (ph) is going very well. And then we'll go through the name change quickly after conversion.

So good people working on this. I do feel good about the cost saves. We are picking up. I will tell you this, we're picking up some high-quality people that and fill in some of our open positions now from BTH. So it's working out in a very good way.

And I'll also say we're very fortunate that with the labor (ph) markets the way they are and how hard it is defined great people. One thing that BTH did, they hired high-quality people. They incented (ph) them and they are loyal to that organization, and we're very blessed to be able to partner with them. So I see good cost saves like we announced -- there's nothing that right now that you can go back in our disclosures and look at what we announced, that I feel is not in it.

OLNEY: Okay. Great. And then just a few more here. On the fee side, it looks like insurance was strong in 2Q. I think we talked about a $21 million run rate for the year. Is that still a number you feel good about on the insurance side? Or any update to that outlook?

MILLS: Yes, yes. I'd increase that by $1 million. And I feel pretty comfortable with that conservatively.

OLNEY: Okay. And then it looks like the tax rate had some noise in it in 2Q. Any commentary on the tax rates over the next few quarters?

BROLLY: Matt, it's Steve. We expect the tax rate to be about where it is right now with the AOCI for the various states that we're in, we're actually leading to losses. So we're not going to have state tax expense. And then also with the BTH merger, there's going to be some transaction expenses that is going to help.

So typically, we would say 21% is where we normally look at it but somewhere around the 18% to 19% for the next 2 quarters, I think is pretty accurate.

OLNEY: Okay. Thanks to that, Steve. And I guess just lastly, Drake, just thinking about strategic priorities. You closed on the insurance deals that we've talked about, you're going to be closing on BTH here the next few days. Just taking a step back and you think about the next year or 2, any other strategic priorities that are at the top of the list at this point?

MILLS: Well, let's talk about the next 6 months before we get into 2 years because I am, one thing that's going to be extremely important to us is, as we announced what I think is a down the fairway deal with BTH and bringing that on. First off, we are completely focused on a flawless integration. I think that's the next piece of the puzzle that's going to be critically important. And I can tell you, I feel very good about our operational teams and what they're doing, the mapping process, as I said earlier, going extremely well.

And just the attitude of the BTH people towards integrating their customer base. So flawless integration. We're going to focus on, and I'm going to say this and our focus is going to still be on strong organic growth and taking advantage of the right lift (ph) outs at the right time. We have significant opportunities.

As I said earlier, we're not picking them all up because they just don't fit the portfolio. But what does we're picking up and we're just continuing to see. So we're going to focus on strong organic growth and moving that forward. And then our methodical expansion as we close the gaps in the metro markets is extremely important.

We have picked up several strong opportunities, as I would say, in Preston Center South Lake (ph), what we're looking at in Houston. That's not going to be meaningful from the standpoint of expense run rate, but it's going to be meaningful in filling some of the holes in these markets that are really starting to provide opportunities for us.

So that's going to be our strategic focus over the next 6 months. Obviously, from there, continuing to ensure that we're doing the right things to enhance organic growth in these metro markets and to fully focus on East Texas and provide them resources. I think there's expansion opportunities in East Texas. But (INAUDIBLE) and she will be involved in that process. Obviously, our teams will be involved in that process. But I am so bullish on East Texas.

I know we talk about Dallas-Fort Worth, but East Texas is going to be something that I think over the next year, we're going to have some significant strategic focus on.

OLNEY: Okay. Great. Thank you.

MILLS: Thank you, Matt.

OPERATOR: And there are no further questions at this time. I'd like to turn the floor back over to Mr. Mills.

MILLS: Well, first off, thank you, everyone, for their time today, the opportunity to discuss the performance of the institution. But as we move into a recessionary period, I can't tell you how confident I am that our strategies, along with the strength of our footprint places us in a very strong position to continue to take advantage of significant opportunities in people, infrastructure, to ensure, as I'm saying with Matt, that we have strong organic growth opportunities.

I am bullish on our footprint. I'm bullish on our position, especially a condition of the bank with our capital position, our credit quality, the people we have the addition of Wally and Steve and how they'll be working to ensure that our decisions moving forward are right and also the partner opportunities that we see coming down the line.

Even though we're talking recession, I'm bullish -- I appreciate each one of you, your support, your investment, and we will do everything in our power to make sure that we continue to provide high performance and high returns on this investment.

So thank you for the opportunities. Thank you for your time today. We hope to see you soon.

OPERATOR: Thank you. Ladies and gentlemen, this does conclude today's teleconference. We thank you for your participation. You may disconnect your lines at this time, and have a great day.