Origin Bancorp

Q1 2021 Earnings Conference all

Thursday, April 29, 2021 at 9:00 a.m. Eastern

CORPORATE PARTICIPANTS

Chris Reigelman – *Head of Investor Relations*

Drake Mills – *Chairman, President, and Chief Executive Officer of Origin Bancorp*

Steve Brolly – *Chief Financial Officer*

Lance Hall – *President and Chief Executive Officer of Origin Bank*

Jim Crotwell – *Chief Risk Officer*

Preston Moore – *Chief and Banking Officer*

PRESENTATION

Operator
Good day, and welcome to the Origin Bancorp First Quarter 2021 Earnings Conference Call. All participants will be in a 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 a touchtone phone. To withdraw your question, please press star, then two. Please note this event is being recorded. I would like now to turn the conference over to Chris Reigelman, Head of Investor Relations. Please go ahead.

Chris Reigelman
Good morning and 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 a 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 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 and Banking Officer, Preston Moore. After the presentation, we will be happy to address any questions you may have.

Now, I'll turn the call over to you, Drake.

Drake Mills
Thanks, Chris, and good morning, everyone. To start, I am very pleased with the results of the first quarter of this year, and I'm equally pleased with the process that our teams are going through to elevate the performance of our company.

As vaccines are more available throughout our markets and economic activity continues to improve, I am encouraged and optimistic about how Origin is positioned as we move forward in 2021.

Looking at the results for this quarter, net income was $25.5 million, up $8 million from the prior quarter. Pre-tax, pre-provision earnings were a record high for Origin at $32.9 million for the quarter, compared to $28.3 million for the prior quarter. Net interest income was $3.4 million higher this quarter, for a total of $55.2 million, another historic quarterly high. Provision expense came in at $1.4 million, which is the lowest level we've recorded in a quarter since the pandemic began early last year.

Diluted EPS for the first quarter was $1.08, up 44% from the prior quarter. Our total assets ended at $7.57 billion and total loans held for investments were $5.85 billion at March 31st, up $125 million from the previous quarter. I'm not going to continue to go through the strong performance metrics for the quarter, but I'll let Lance, Jim, and Steve provide more detail as they go through our slide presentation.

The success we've enjoyed in Q1 is a direct result of the hard work and effort put in by our teams over the past year. As I often say on these calls, we are guided by our strategic plan, which I view as an intentional and methodical process to position us for success. In the past, we have talked about investments we have made in infrastructure and teams throughout our footprint, and our focus and commitment to those investments are paying off in a big way.

On Slide 6, you can see the results of some of the investments we've made, with the success we've had in Houston and DFW. We still see tremendous opportunities for growth in Texas, based on our current infrastructure and quality teams of bankers, as well as opportunities that exist, based on disruptions in the market that we anticipate capitalizing on.

We were highly successful in the first quarter, and I'm looking forward to what our teams will accomplish in 2021.

Now I'll turn it over to Lance.

Lance Hall
Thanks, Drake. We take a great deal of pride in what the numbers on Slide 7 represent. Our mission from the beginning of the pandemic was to support our customers in a meaningful and dynamic way when they faced a tremendous amount of uncertainty. Our loans under COVID forbearance at June 30th of last year were just over $1 billion. At March 31st, only $5.3 million of loans remained under the COVID-related forbearance.

Our support for our customers during this past year has created a tremendous amount of loyalty, allowed us to strategically attract new clients, and strengthen long-term relationships that will continue to pay off in the future.

At the bottom of the slide, we provide an update on our PPP metrics. We've originated over $767 million in PPP loans in round one and round two, with almost $200 million in round two alone. In total, we originated nearly 5,000 loans across both rounds of the program. We had over 61% of PPP loan balances that have been applied for forgiveness, with 28% having been fully forgiven at March 31st. We have collected over $24 million in PPP fees, and at March 31st have around $11.5 million in net PPP fees unearned on our balance sheet.

We have seen the direct impact of this program with our clients and their employees. I am proud of our response and our bankers' commitment to delivering for our clients when they needed us most.

On Slide 8, you can see our continued focus on leveraging technology to deliver a meaningful client experience. We see growth across our platforms to continue to have above industry adoption of mobile banking features within our customer base. Our Technology Committee has been very active over the past quarter, evaluating our current product offerings and working with our fintech partners on new opportunities. Our commitment to aligning ourselves with leading fintech partners and the elevation of our technology experience remains a primary focus and is a central component of our vision statement.

On Slide 9, you can see an overview of deposit trends. As Drake mentioned at the beginning of the call, our bankers have an intentional and methodical process for success. The deposit growth we have seen over the past year and the relationships we've developed speak to the commitment our bankers have in driving results for our company.

Our average deposits for the quarter were $5.9 billion, an increase of $1.5 billion over the first quarter of 2020. Over the same time, our NIBs have increased 55% from an average of $1.1 billion to $1.7 billion. Over the past year, we've improved our deposit mix, as average NIBs have grown from 25.4% to 29.3% of total deposits. This increase in NIBs, along with the focus of our bankers, has reduced our deposit cost to 26 basis points for the quarter.

Our cost of time deposits have decreased significantly over the past five quarters, declining 52%, and we still have an opportunity to manage that cost even lower.

On Slide 10, you can see our loan composition. In the bottom left of the slide, we show the trend of our loan portfolio over the past four quarters. You can see our loans held for investment have grown by approximately $1.4 billion over the past four quarters, due primarily to $653 million of growth in our mortgage warehouse portfolio and $584 million in growth in PPP loans.

In the current quarter, our loans held for investment excluding PPP and mortgage warehouse grew by 2%, for an annualized growth rate close to 8%. Based on recent pipelines, I'm optimistic about our loan growth opportunities in 2021.

As we look at our mortgage warehouse line of business, not only have we seen growth in loan and deposit balances over the past four quarters, but our customer base has also grown strategically. This growth is based on the incredible job our warehouse team has done in growing existing relationships and capitalizing on new relationships due to disruption in the broader market.

I'm very proud of the commitment and execution of our bankers and am very confident in our ability to drive meaningful growth.

Now I'll turn it over to Jim.

Jim Crotwell
Thanks, Lance. For the past quarter, we have continued to closely monitor our portfolio, particularly in the sectors of hotels, nonessential retail, restaurants, and assisted living. As reflected on Slide 11, these sectors total $510 million as of March 31st, and represented 9.7% of total loans held for investment, excluding PPP loans.

As we have reported throughout the pandemic, we feel very comfortable with the quality of our relationships within these sectors. As mentioned earlier, we are extremely pleased with the reduction in COVID-related modifications for our entire portfolio, and that is true for these targeted sectors as well, with only $1.9 million, representing 0.37% of these sectors still under modification.

We continue to be pleased with the resiliency and performance of these sectors, as evidenced by past dues of only 0.16%, classified loans of only 1.16%, and non-performing loans of only 0.22% for these sectors.

Looking at the portfolio as a whole, as reflected on Slide 12, we continue to see stable and improving credit trends, perhaps most evidenced by the reduction of classified loans to total loans, excluding PPP, to 1.81% as of the quarter end. Past due levels remained stable at 0.50% while net charge-offs for the quarter totaled $2.9 million, or .23% annualized, which compares to 0.24% for all of 2020. While we did see an increase in the ratio of nonperforming loans to .63% as of quarter end, the ratio is still below pre-pandemic levels.

As a result of the above portfolio trends, particularly the reduction in classified loans and the improving economic outlook, we reduced our allowance for loan credit losses from 1.51% to 1.46% of loans held for investment from the prior quarter. Excluding PPP loans and mortgage warehouse, we reduced our allowance from 2.1% to 2.02% of loans. We will continue to closely monitor the economic outlook, particularly the impact of the ongoing vaccination progress by our experience and the recent global increases in COVID cases.

With that said, we do anticipate continued improvement in economic conditions throughout the remainder of this year, which should positively impact our required reserve levels.

I'll turn it over to Steve.

Steve Brolly
Thanks, Jim. On Slide 13, I will cover a couple of points on our asset yields and cost of funds. As Lance discussed previously, our cost of deposits continued to decline to five basis points decrease during the quarter, which is a 16% decline from the prior quarter, and is 73% lower than the first quarter of 2020. Loan yields ticked up during the first quarter to 3.99%, up ten basis points from the prior quarter.

Excluding PPP, our loan yields had a slight decrease of three basis points. Our fixed floating profile has remained relatively unchanged from prior quarters and we continue to remain asset-sensitive.

On Slide 14, our quarterly net interest income hit another historic high, both including PPP and excluding PPP. Total net interest income was $55.2 million, including $6.1 million of PPP interest and fee income. The PPP interest and fee income was elevated during the quarter from acceleration of fees as a result of loans paid off in the forgiveness process. Our NIM fully tax equivalent for the quarter was 3.22%, up 15 basis points from the prior quarter.

When excluding the impact of PPP, our tax equivalent NIM was down two basis points from the first quarter.

Slide 15 shows our net revenue distribution and the breakdown of non-interest income. In Q1, our non-interest revenue was 24% of net revenue. During the quarter, we saw an increase in insurance commission and fees, which were in line with the first quarter of 2020 and expected due to the cyclical nature of the insurance revenue stream.

Other income sources were $2.7 million higher than the prior quarter, as you can see in the graph on the right of the slide. This included increases of $1.4 million in gains on sales of securities and $1.4 million in limited partnership investment income. Mortgage banking revenue declined during the quarter, but remains 55% higher in quarter one 2020, which is a more comparative quarter due to the seasonal nature of the mortgage business.

The linked quarter decline was primarily driven by a decrease in our mortgage pipeline, impact of the winter storm, and the rise in the five- and ten-year U.S. Treasury rates.

The next slide has some trending information about our non-interest expense. For the quarter, non-interest expense was $39.4 million, which is $552,000 higher than Q4 2020. During the quarter, we terminated some federal home loan bank advances and incurred a pre-payment penalty of $1.6 million, which is shown in part of the other category in the chart on the left of the page.

Salaries and benefits continued to remain stable, declining $150,000 on a linked quarter basis. The cost controls and efficiency measures continued to improve our operating leverage, as you can see in the bottom right, with our efficiency ratio for the quarter at 54.49%.

With that, I'll turn it over to Drake.

Drake Mills
Thanks, Steve. On Slide 17, you see our capital trends for both the bank and the bank holding company. In the bottom right, we show the changes in our total capital ratio at the holding company. Strong earnings for the quarter supported our growth, while increasing capital levels, enhancing our position to take advantage of market opportunity.

After raising $150 million in sub-debt in 2020, we are well positioned from a capital standpoint. As you've heard throughout our call today, we had an impressive quarter and are prepared to perform at a high level throughout 2021. From a strategic perspective, Origin is in a strong position. We have plenty of runway in our current infrastructure. Our teams of talented bankers has the capacity to continue to drive strong organic growth. We have a corporate culture that has and will continue to attract best in class bankers and teams.

Our liquidity and capital level put us in a position to deploy capital ways that will be beneficial to our shareholders and drive long-term value.

I am proud of our team and what they do every day to serve our customers, communities, and shareholders. My optimism for this company and what I know we can accomplish is extremely high and is reflected in our 30% increase in our dividends this quarter.

Thank you, and we'll now open the call up for questions.

QUESTIONS AND ANSWERS

Operator
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. If at any time your question has been addressed and you would like to withdraw your question, please press star, then two. At this time, we will pause momentarily to assemble our roster.

Our first question will come from Matt Olney with Stephens. Please go ahead.

Matt Olney
Great, thanks. Good morning, everybody.

Drake Mills
Good morning, Matt.

Matt Olney
I want to start on the organic loan growth, ex-warehouse, ex-PPP. Would love to hear more about the investments you've been making in recent years—new teams, individuals, where they're located and what types of lending they're most focused on. And then, what's the pipeline look like for new hires, new investments this year? Can you compare the pipeline today to previous years? I think some of your peers, especially in the Texas markets, have talked about losses, M&A disruption that's creating opportunities for new hires. I'm curious if you're seeing those opportunities in your markets in Texas or Louisiana, Mississippi. Thanks.

Drake Mills
Yes, Matt. Absolutely. I mean, I know our model is based on lift-outs and the success of that, and certainly I feel this institution is positioned better than ever to take advantage of—as we've said for the last couple years—we're going to put ourselves in a position to take advantage of dislocation. We're starting to see that, a lot of activity. But what we're seeing is opportunity throughout our entire footprint, when it comes to lift-out opportunities, loan growth, pipeline growth, a number of different things.

I'm actually going to ask Lance at the tail end of this comment to give you some color around pipeline growth and what we're expecting. But our driver—we're a strong, organic growth story. We are going to continue to focus on the infrastructure we built as we continue to communicate. I've actually never felt better about the position this company's in than I do right now, because not only dislocation and the opportunity for us to continue the lift-out strategy, which by the way, a lot of conversations are going on, again, across footprint—not just in Texas. Really pleased with what's going on in our Texas markets, though.

But when you look at the capacity that we currently have within our current teams, we have a lot of runway there to continue to organically grow. Our infrastructure and the scalability of that infrastructure is phenomenal, and I think we're in a really good place. We're obviously going to add a couple pieces here. But in doing that, I think we're going to, for the most part, keep the expense structure flat.

But I think the strong part of this story is the fact that where we are positioned as interest rates potentially move forward, and you have to think that with the things going on and the inflationary pressures we're having, that certainly is in our future. We are just so well positioned to take advantage of the disruption in market, lift out the teams, get these relationships on board. We continue to see significant growth in relationships on even mortgage warehouse that I thought maybe would slow down.

So, just overall, Matt, I think we're in an awesome position, and we are going to continue to focus on the organic growth story and be successful through that and other opportunities are just going to add icing to the cake.

So, Lance, if you would, let's go through just a little bit of pipeline color to answer Matt's question.

Lance Hall
Yes. Thanks, Drake. Good morning, Matt. Drake's 100% right. The reality is we never slowed down from our strategy of continuing to add on dynamic RMs and producers. We were very fortunate that we added one in our Houston market in the last few months. The pipeline that she has already built, moving clients over from the bank that she came from has been tremendous. One in north Texas, Mississippi—this strategy is sort of developing the corporate culture and attracting talent continues to pay dividends for us.

Drake is right. We still have tremendous capacity from the lift-outs that we've delivered over the last five years. And we think specifically in Texas, but also in Mississippi has been a big win for us. As you saw in the first quarter, we had 2% loan growth, not including PPP or warehouse. We feel incredibly confident that we can continue on that path.

As I'm sitting here looking at pipeline reports now, our north Texas and Houston markets specifically are showing very strong in residential real estate and multi-family construction draws that we know are coming—owner-occupied real estate. We've been able to grow, despite having pull-backs in our revolving lines, as I'm sure everybody does.

If you look back a year ago, we were at 56% utilization on our revolving lines. Today, we're at 44%.

That's a $200 million reduction, and yet we've achieved growth even on top of that. Of the $200 million in reduction, $50 million of that was energy that we were sort of pushing out, then obviously the rest is the liquidity in the marketplace. And so, incredibly optimistic. And as we've built this company, this loan growth engine, I think, is about to pay real dividends for us.

Matt Olney
Okay. That's great commentary, Lance and Drake. Thank you for that. And then just one more, shifting over towards credit quality. It sounds like that the—you're feeling better about credit and maybe the ultimate loss content in the portfolio isn't what we thought it was six months ago or even three months ago. So, I'd love to hear more about how the team is thinking about net charge-offs in 2021. It seems like last year the bank cleaned up a few lingering credits that have been out there for a while. Would love to hear more about 2021 charge-off. Thanks.

Drake Mills
Yes, Matt. For 2021, I think we're going to continue to feel that we can drive—and I'm going to say this—where we had some cleanup in '20, we still have a couple pieces that we're still cleaning up in '21 that's going to impact our charge-off levels somewhat higher than what traditionally you would see from this company.

So, we still believe that 25 basis points is a number that we can achieve throughout the year. But I'll say this: Outside of those lingering issues that are credits that we've dealt with for a number of years, I am bullish and feel very strong about the quality of the portfolio. But as I've talked about in the fourth quarter, 2021 for us was a year that we were going to drive loan growth down somewhat, focusing on loan yields and quality client selection. And these are the two elements from an incentive concept that we're utilizing that I think is going to drive rewards.

The surprise to this was the strong pipelines that we're seeing and what we think, where we were leading towards 5% or 6% growth. I think this 8% growth is sustainable for us through the year, then comes equally through the rest of the three quarters for '21.

So, I think our credit quality is stronger than it's ever been. And I think moving forward, what we bring on the books and put on the books is going to have sustainability around credit quality.

Matt Olney
Okay. Perfect. That's all from me. Thank you, guys.

Drake Mills
Matt, thank you.

Operator
Our next question will come from Brad Milsaps with Piper Sandler. Please go ahead.

Brad Milsaps
Hi. Good morning, guys.

Drake Mills
Brad, good morning.

Brad Milsaps
Drake or Lance, just wanted to start to follow up on the loan growth, maybe on the warehouse side of the equation. I know, I think, Lance, you mentioned you continue to pick up customers. Just curious if

you added any more in the first quarter and what your crystal ball shows for how you guys can maintain that. You guys bucked the trend this quarter and showed a link quarter increase in the average warehouse, where a lot of banks were down. So, just any additional color there would be helpful.

Drake Mills
Yes. Brad, disruption still providing quality opportunities for us, and again I'm going to go back to the client selection, because we are going to make sure that the acquisition of these customers that we bring on are going to be—that's going to add quality overall. We did increase from 41 clients in mortgage warehouse to 45. We have, I think, a couple in the pipeline now that are high quality. But we're just seeing significant opportunity.

And it's really given management the opportunity to look at what mortgage warehouse ends up being as a percentage of outstandings for us and we're still working through that. But I will say what I talked about in the fourth quarter that I saw mortgage warehouse from an outstanding perspective, I think is going to be somewhat higher than that. And I think that $700 million-$800 million range is achievable, sustainable for us, with quality acquisition of these clients.

So, it's certainly producing strong fee income. It's producing non-interest-bearing deposits that are very good for us at this point. So, I'm bullish on that. And I'm going to try not to say the word bullish again, but it feels good and mortgage warehouse is a good business for us.

Brad Milsaps
Great. And then just a follow-up. Can you guys comment on what you're seeing in terms of new loan yields coming on the books? You guys are obviously seeing great growth, but I'm sure it's coming at a little bit diluted to the current book yield. Just curious, kind of where those new loans are coming on the books.

Drake Mills
Well, as I opened up and talked about our client selection and loan yields and trying to push loan yields more peer-like, even though we do have a short portfolio and C&I heavy, it is a focus, and we're seeing on the low end, on high-quality deals, the 325s we're pushing to see the 375s in the Texas market where in the core markets we're more in that 375 to 400 range. So, where we are seeing pressure, I do think our client selection and passing on deals just from pricing.

And Lance, I want Lance to talk a little bit about the type of pressure we're seeing in the marketplace and what's going on and how we're fending it off. Lance?

Lance Hall
Yes. We talk periodically on these calls about what are we seeing from a competition perspective, both on covenants, on risk and it comes to pricing. So, we've had some pretty strong examples here recently on competition that's been lax in all of those. We saw one the other day. It was a good C&I opportunity, where competition came in with no covenants and then really, really, really loose and so we let that go.

We also had a very interesting—one of the big national banks came into north Louisiana, one of our markets, and made a call on to one of our really good C&I clients, offered them 1.8% fixed for two years to move their business. They ended up staying with us because of the relationship, the loyalty, the relationship with Drake personally and other things. So, we were able to fend that off, but that clearly goes to show you what some of the bigger banks think of what the rate environment's going to be the next two years.

So, as Drake said, we're clearly feeling pressure across our markets. I think we saw a couple of basis points compression. We're doing everything in our power to fend that off with deposit reductions. I think we've done a good job getting cost deposits down to 26 bps. Here across north Louisiana, it's even less than that. So, we are fighting the good fight on loan yield. At this point, we have 68% of our floating rate loans have floors and we're at the floor of 52% of that. Obviously, we think when rates go up, we have a real advantage. But it clearly is a fight right now on yields.

Drake Mills
And I add to that I don't think we have a lot of gap in those floors to feel the increased rate impact. So , we're in a good position there. I will say that we are reminding these long-term clients of some of these big banks' strategies of just coming in and just don't have nothing more but low rates, and then as industries start feeling some stress, they pull out and leave them hanging.

So, we're doing everything we can. I hate to use a competitor's name, but I'm pulling a little Johnny Allison on them here and there about remember when and how that counts. So, I think we're in good shape.

Brad Milsaps
Okay. Thanks for the colors. Certainly better than a bond, for sure. Nice quarter, guys. Thank you.

Drake Mills
Thank you.

Operator
Our next question will come from Woody Lay with KBW. Please go ahead.

Woody Lay
Hi. Good morning, guys.

Drake Mills
Good morning, Woody.

Woody Lay
So, on the credit front, just wanted to touch on during the quarter we saw a pickup in MTAs, but a declined and criticized the loans. Could you just give some color on what drove the changes in those two buckets?

Drake Mills
Yes. Jim Crotwell, our Chief Risk Officer, is here to respond to that. I have a stick, about to hit him in the head, so.

Jim Crotwell
Good morning, Woody. Yes, on the increase and the nonperforming loans, that was just a couple of, I would refer to as legacy credits that were previously classified and in reserve for, so unfortunately, they did shift over into the nonperforming levels. I would point out when we look at the—that's an area of focus on that we've really over the last year and before, and we've worked to that level of nonperformings down. So, where we find ourselves, even with the increased quarter to quarter, we look back. We're still at a level that's very comparable and actually lower than pre-pandemic levels.

So, we'll continue to manage that. As it relates to overall classified reductions, very pleased, and I think that's really an indication of what Drake was speaking to as the overall quality of our portfolio and continuing improvement. You know, when we looked at that, we had several credits that actually paid down in reducing that level and we also had upgrades in the category of classifieds that drove the overall levels down.

So, when we look as a portfolio as a whole, look at levels of past dues as an early indicator, we just really feel good and we continued our deep dive through the course of the—over the last year. When we do, we feel resilience within our entire portfolio. So, really pleased with where we are from a credit metric perspective.

Woody Lay
That's great color. Thanks for that. And then I wanted to touch on the FHLD prepayment. What rate did those long-term advances have? And when exactly in the quarter did you repay them?

Steve Brolly
Sure, Woody. They were at a 5.2% and we paid them about the very end of February. So, they were sitting—we had them on for two months, basically, and one month off for the quarter.

Woody Lay
Okay. Got it. So, I guess with that in mind, I think earlier on the call you mentioned excluding PPP, the NIM was down two basis points. How do you see that going forward here, the next couple quarters especially with the pressure on loan yields a little bit just from competition?

Steve Brolly
Well, the pressure on loan yields, we're definitely managing. The hardest part we're going to have is with all the liquidity adding to cash and investments and bonds, you'd rather have it in loans, where you have the higher yielding. So, we still think it's going to be tough. Maybe it's going to be very hard to keep it flat with liquidity. But we think it's going to be about the same, maybe one to two basis point decrease next quarter.

But it really depends on how fast the cash comes in and what can we do with it?

Woody Lay
All right. Great. That's all from me. Thanks, guys.

Drake Mills
Thank you, Woody.

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

William Wallace
Yes. Thanks, guys. Drake, you endorsed a kind of 8% growth level in loans for the quarter, but Lance, when I was listening to your commentary about the pipelines, it—reading between the lines, it sounds like the pipelines are actually growing pretty meaningfully. Is that a fair read-through? Or am I getting too optimistic?

Lance Hall
Well, I think the 8% number feels good for us right now. We are seeing pipelines build. I'll say they're better today than they were three months ago and six months ago. Kind of working through some timing and some closings of some deals in north Louisiana. So, yes, you heard me. I'm very optimistic, but I feel like the 8% number is for the right guidance.

William Wallace
Okay. And then, Drake, when you're discussing the opportunities for potential lift-outs, did I hear you say that you would consider lift-outs, but your goal would be to keep expenses flat? Or are you saying you're hiring opportunistically and trying to manage expenses, but lift-outs would be hard to keep expenses flat?

Drake Mills
Yes. No, I'm with our team. I think we're driving to keep expenses flat, less or added any lift-outs that we have. And that's where the point that I wanted to make sure everybody was clear on, because we're going to continue to do the things that we built this company on and feel like we're leveraging in our efficiency and the direction we're going, that we have some runway to be able to do that, but yet still manage core expenses flat.

William Wallace
Okay. And then if I look at the first quarter, that 37.8 after backing out the prepay penalty, is that the right run rate? Or was there some comp related to PPP, etc., that would come back in? Just help us think about where we should be a starting point.

Drake Mills
Yes, I'm going to make this simple for all, for everyone. I'm going to look at a 39 run rate for the balance of the year, and that puts us right at where we thought we'd be, about 1.9% increase in expenses.

William Wallace
Okay. And then, you guys have done a good job talking about the investments in technology that you've made. And if I look at one of the slides that you show, some of the partners that you've made, it seems like a lot of that is really to help the customer experience. And then, I know obviously there's some investments you've made to help streamline the production processes, etc. Are there continued technology opportunities that would really help you streamline on the back office, on the customer acquisition front, just across the platform that could severely change or dramatically change the way you think about the branch network? You guys are not a branch-heavy bank, but you do seem to be forward-thinking on technology, so, I'd love to know your thoughts on how technology could change the branch system at your bank and perhaps at others.

Lance Hall
Yes, hi. Thanks, [indiscernible]. This is Lance. You're exactly right. This is something that we're focused on all the time now. We've created technology committee inside of the organization, that includes our operation partners. We have a dedicated robotics automation person at our accounting groups. So, internal automation is the key for us right now, as well as what we're doing on the client experience.

What I am finding—and I think other banks would probably agree—is the ability to accomplish both. We're finding the right fintech partners that are going to deliver a more meaningful experience, but they're also coming at a cheaper price than what we're getting from our traditional core providers. So, we're able to enhance, at the same time create some efficiency on the cost side.

There is a lot of interesting technology coming around. We had an ongoing conversation right now with a direct payment provider that's using blockchain that's going to be pretty fascinating to work through. We've been vetting some ideas around how to use more and more virtual environment in drive-throughs and so, just a lot of conversations going around about how do we continue to drive automation to reduce expenses but enhance the experience? And I think it's an exciting time.

William Wallace
Okay. Thanks for that color and commentary. I appreciate. I'll step down.

Operator
Our next question will come from Kevin Fitzsimmons with DA Davidson. Please go ahead.

Kevin Fitzsimmons
Hi. Good morning, everyone.

Drake Mills
Good morning, Kevin.

Kevin Fitzsimmons
Drake, I wanted to ask about M&A, because it seems like in the past you guys have put that out there as something you were really looking closely for, an opportunity. But now, understandably, the tone — you've used the word a number of times—bullishness on organic growth, on the opportunity to get, to take advantage of disruption from other competitors, deals you feel better about, mortgage warehouse, lift-out potential. On the other side, you have a much better multiple today than when we've talked in past quarters.

So, I'm wondering how you net those two in terms of M&A opportunities. Are you less on the hunt for those, even though you got a better multiple, just because of all the organic opportunity you have in front of you? Or is it still a high priority? Thanks.

Drake Mills
Well, I'm going to go back to who we are and who we sell ourselves as. We're an organic growth story, and I feel so much better right now than I did last couple years about our opportunity in this dislocation marketplace. And what we're going to see is that continues. We are in a better position, I think, today to take advantage of that and keep the bones of the company as strong as they are today, which I think is important.

And I would say that as you look at capital deployment and the opportunity to make mistakes, I now feel that we could do nothing and continue to do what we do consistently and very well and be highly successful now. Now, it also puts us in a position to continue to have these conversations, as we are, because there are some opportunities to partner and fill in some gaps in our footprints that make a tremendous amount of sense.

But it's not going to be at the mistake of applying capital to a deal that doesn't make sense for us. So, we're being more selective, I would say, and we're optimistic about—the lift-out opportunities with this dislocation and also our currency to give us some conversations to find true partners. And I think for us, M&A's all about our geographic structure and how we account and how we manage. That's an attractive partnership for some of these companies that we're having some conversations with.

So, we're still in the ballgame. It's not something that I feel we have to be successful with, but I think eventually will be.

Kevin Fitzsimmons
Okay, great. And is it fair to say the whole issue of being more selective, that if maybe opportunities might be more likely in Louisiana and Mississippi, where you can get cheap deposits, as opposed to

paying up for opportunities in Texas, where you already have this opportunity for organic growth? Is that a fair statement? Or is that off-base?

Drake Mills
Well, actually, the opportunities that we are visiting with are in each of the three states in our marketplace. But I'll tell you, a couple of these less metropolitan Texas opportunities have just as low cost deposits as some of the things that we're seeing in our Mississippi opportunities and Louisiana opportunities, because they're very good banks in those markets and they're in good markets that have some quality franchise on the pot side. So, I've been pleased with what we've seen from an overall cost of deposits in some of the Texas plays.

Kevin Fitzsimmons
Okay, great. And just as a follow-up on the whole topic of deploying excess capital—so you did buy back shares this quarter, but you also made a big statement with a big increase in the dividend, which makes a statement about how you feel going forward. Just given where the stock's trading, is it more likely now that buy-backs probably fall off in terms of priority level, in terms of deploying capital?

Drake Mills
Well, the buy-back program that we built and the guardrails around that pretty much have us out of the market at this point, based on what we built and what it allows us to do. Now, I hope we don't have this conversation that we have to change those guardrails because we see a pull-back in economy and other things that put us back in the market. But for now, that's well down on the list of opportunities to deploy capital.

Kevin Fitzsimmons
Okay. Great. Thanks very much.

Drake Mills
Thank you.

Operator
Again, if you have a question, please press star, then one to be joined into the queue.

Our next question is a follow-up from Matt Olney with Stephens. Please go ahead.

Matt Olney
Yes, thanks. Just a follow-up on the topic of mortgage. I think for all banks this quarter we're trying to understand mortgage trends and figure out where it's going to land at the end of the year as the refi volumes slow and we get to the other side of this mortgage surge. So, for Origin, it seems like it's twofold. It's on the warehouse and on the traditional gain on sale or margin on the fee side. On the warehouse, I think Drake kind of addressed this already, trying to keep that mortgage warehouse balance and that $700 million to $800 million range when the surge, the other side of that.

What about on the gain on sale on the fee side? I think it was $4.5 million in the first quarter. Any color or any data points you can provide us that would help us appreciate where this could land over the next few quarters and towards the end of the year. Thanks.

Drake Mills
Yes, Matt, before Steve answers that question, I do want to—our mortgage volume certainly decreases. We saw some other institutions have some upticks there. And I would say that not only the interest rate environment on the refinance side, but the storms that we experienced that actually slowed down those

pipelines have been an influencer, but what we're seeing now and not as impactful on a mortgage warehouse, because we have a footprint that's not as regional as, say, our mortgage footprint.

We're just seeing inventories and lack of inventories as a significant hurdle point to get those volumes up and hopefully—there's not an answer for that, but we're just seeing some crazy, crazy deals around trying to purchase homes in this market. We have a lot of applicants that can't pull the trigger because of value. So, that's going to continue to be a problem.

Steve?

Steve Brolly
Sure. We had a $4.6 million for total banking revenue for the quarter. We think next quarter is going to be definitely higher than that. We should definitely have a little bit more origination. The gain on sales still continuing to come down. But we think it's going to be more driven by volume. So, we think the number will be probably 10% to 15% higher—start with a 5, but it would be in the low 5s for the next quarter. The third quarter is generally a very good quarter also, but then historically the fourth quarter will decrease.

Matt Olney
Okay. Thanks for that, Steve. And then just as a follow-up on the warehouse, I'm curious what the funding strategy of the warehouse is today, with all the liquidity in the system. Are you funding it differently today than a few years ago?

Steve Brolly
Yes. Right now we're funding it mostly with low-cost deposits. When you compare federal home loan bank advances today, they're about 8%, but there's so much liquidity out there you could get broker deposits for 1%. I'm sorry. Eight basis points. Yes. Eight basis points and then one basis point for brokered.

So, when you look at our non-core funding dependency, it's the lowest it's been. And so we are funding it mostly with deposits. And every once in a while we'll go out and borrow some either home loan bank at eight basis points or broker deposits at one basis point.

Matt Olney
Okay. Thanks for that. And Steve, one more follow-up. I apologize for taking up the time here. You pay down some of the FHLP this quarter. Are there any more similar opportunities in the future of paying down higher-cost deposits?

Steve Brolly
We were just talking about that today. We're going to run the numbers and take a look at it. What we have on the balance sheet right now is we have a $250 million and that's at 165. And then the other amount is long-term also. So, we definitely have a chance for the $7 million, the 250. We're going to have to run the numbers and really take a look at it.

Matt Olney
Okay. Thank you, guys.

Drake Mills
Thank you, Matt.

CONCLUSION

Operator
This concludes our question-and-answer session. I would like to turn the conference back over to Drake Mills for any closing remarks.

Drake Mills
Thank each and every one of you for participating today and I just want to reiterate that this company and the position that we're in today is very positive. I've used the word bullish. I'm going to continue to. Our opportunity for organic growth and to take advantage of market opportunities has never been better.

And I just appreciate our investors and the questions. And hopefully, if any of you have any additional questions, most of you have my cellphone number and I'd look forward to hearing from each and every one of you. But thank you for your support.

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