Origin Bancorp, Inc.

Third Quarter 2021 Earnings

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CORPORATE PARTICIPANTS

Chris Reigelman – *Head of Investor Relations*

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Steve Brolly – *Chief Financial Officer*

Lance Hall – *President and CEO, Origin Bank*

Jim Crotwell – *Chief Risk Officer*

Preston Moore – *Chief Credit and Banking Officer*

PRESENTATION

Operator

Good day and welcome to the Origin Bancorp, Inc. Third Quarter Earnings Conference Call. Today all participants will be in a listen-only mode. Should you need assistance during today's call, please signal for 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 that today's event is being recorded.

At this time I would like 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 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 not 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; Chief Financial Officer, Steve Brolly; President and CEO of Origin Bank, Lance Hall; Chief Risk Officer, Jim Crotwell; and Chief Credit and Banking Officer, Preston Moore.

After the presentation we'll be happy to address any questions you may have. Now the call is yours, Drake.

Drake Mills

Thank you, Chris and good morning. Throughout Texas, Louisiana and Mississippi, the economic outlook continues to be positive and our bankers are highly engaged with our customers and prospects in driving growth for your company. I'm very pleased with our performance for the quarter and how we are positioned as we move forward.

Diluted earnings per share was $1.14 for the quarter, with net income over $26.9 million. Net interest income was $52.5 million and non-interest income was $15.9 million. Our non-interest expense was $39.2 million and our efficiency ratio was 57.2%. We released credit reserves of $3.9 million for the quarter.

I'm proud of the growth we showed in our loan portfolio this quarter, with over 9% annualized growth excluding PPP and mortgage warehouse. Our focus on core deposit relationships has continued to be evident, as non-interest bearing deposits grew 6.4% in the third quarter. We will get deeper into the numbers, but I want to spend a little time talking about strategy and the long-term value we're creating as a company.

As I reflect on where we are strategically, I am extremely pleased with the performance of our company and the key areas that our team has remained focused on over the past year. Organic growth has been one of our key areas of focus and this has been evident in our Texas market. As we show in our slide

deck each quarter, our Texas market continues to mature and we are experiencing positive operating leverage in two of the largest, fastest-growing areas in the country. Our expansion strategy in DFW and Houston and the success we've enjoyed with lift-outs creates tremendous opportunity to continue strong organic growth.

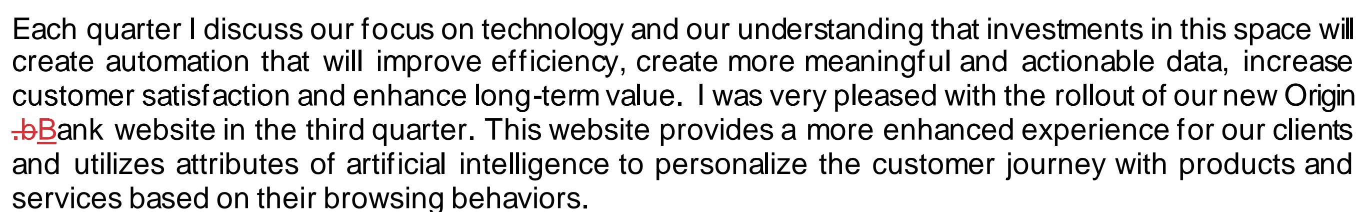
Another key area of focus for us, particularly coming out of the pandemic, has been credit quality. As we'll get into later in the presentation, our credit profile continues to strengthen. We have been purposeful in our efforts surrounding client selection and maintained our focus on knowing our customers and expanding key relationships. Coupled with strong risk management, the profile of our company puts us in a strong position to take advantage of opportunities.

Efficient growth has been a focal point of our organization. Our strategy to be an elite financial performer drives us, as we continue to create efficiencies, invest in technology and use data to drive strategic decisions. I am very proud of our company and the results for this quarter.

Now I'll turn it over to Lance.

Lance Hall
Thanks, Drake. As mentioned earlier, our bankers have been highly proactive in our relationship focused process of providing value to our clients and driving results for the company. Before I get into the details of our loan and deposit growth for the quarter, I do want to draw your attention to slide 10, where we provide an update on PPP.

At the end of the third quarter we had just over 72% of PPP loans forgiven, with another 4% of the loans in the forgiveness process. We've collected over $26.5 million in fees since the beginning of the program, with $6.3 million in net fees outstanding. I'm very proud of the bankers and how they've continued to provide value to our clients throughout the PPP process.


Each quarter I discuss our focus on technology and our understanding that investments in this space will create automation that will improve efficiency, create more meaningful and actionable data, increase customer satisfaction and enhance long-term value. I was very pleased with the rollout of our new Origin ~~.b~~Bank website in the third quarter. This website provides a more enhanced experience for our clients and utilizes attributes of artificial intelligence to personalize the customer journey with products and services based on their browsing behaviors.

I'm also excited about a new partnership with Podium, a technology company specializing in conveniently connecting businesses to their clients through mobile-based conversations and interactions. This will allow us to better engage with our clients, track net promoter scores, enhance the client experience and eliminate manual processes within our touch point plans.

I'll move to slide 12 of the presentation and talk through our deposit profile. As Drake mentioned earlier, our bankers have been extremely focused on driving core deposit relationships. Our average non-interest bearing deposits grew $128 million in the quarter, which now represents 31.7% of total average deposits. This creates significant future opportunity to drive growth and value for our company. Reducing our total cost of deposits has been a priority for us and I'm pleased with how we've continued to stay focused. Over the past year our cost of total deposits has declined 50% and we remain committed to finding additional opportunities.

As Drake mentioned earlier, we saw very positive loan growth in the third quarter, with over 9% annual growth excluding PPP and mortgage warehouse. New loan production is up 21% through the first nine months of 2021 compared to the same period in 2020 and loan fees were up 15% year-over-year. We

are seeing strong growth in Houston, Dallas and North Louisiana, with increases for the quarter across C&I, owner-occupied commercial and development and owner-occupied commercial real estate excluding PPP.

I continue to be encouraged by our pipelines and what we're hearing from our clients. The new hires we mentioned last quarter are off to a great start, and we expect to see them ramp up more throughout the fourth quarter and into 2022.

On the mortgage warehouse front, NE ~~[ph]~~ balances for the quarter was $713 million, which is in line with our expectations and what we discussed last quarter. As I look at what our bankers were able to accomplish in the third quarter, I'm optimistic about how we will finish the year and the momentum we have going into 2022. We have the right teams in place to take advantage of opportunities, and as always, we continue to focus on the areas of dislocation that we can capitalize on.

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

Jim Crotwell
Thanks, Lance. We continue to be extremely pleased with the performance and credit quality of our loan portfolio. As reflected on slide 14, we experience reduced levels of past dues, non-performing loans and classified loans during the quarter. Past due loans reduced to 0.52% net of PPP loans, while non-performing loans reduced to 0.49%, also net of PPP loans. Classified loans reduced $8 million for the quarter and totaled 1.52% of average loans held for investment net of PPP loans, while net charge-offs remained stable at 0.24% annualized.

As mentioned on previous calls, the resiliency of our portfolio is a direct result of our focus on relationship banking, which has delivered a well-diversified loan portfolio. Based on continued improving credit metrics and forecasted economic conditions, our allowance for loan credit losses reduced by $7 million to $69.9 million, which represents 1.35% of loans held for investment and 1.63% net of PPP and mortgage warehouse loans.

We continue to closely monitor economic forecasts, particularly the impact of inflation, labor pressures and continued supply chain disruptions as well as the impact of COVID. Again, as we have shared previously, we are extremely pleased with the performance and resiliency of our loan portfolio.

I'll now turn it over to Steve.

Steve Brolly
Thanks, Jim. With the forgiveness of PPP loans and a normalized level of mortgage warehouse lines, our loan portfolio has trended towards a more historic mix and the yield on total loans held for investment has stabilized. For the last three quarters our total loan yields without PPP loans were approximately 4%. We decreased our cost of funds one basis point this quarter. Going forward we believe we can continue to reduce our total cost of deposits as higher-cost CDs were priced lower in a continued focus with reducing our overall costs on non-maturity deposit accounts.

Our slide 15, you see our fixed and variable loan composition. The FOMC has signaled that they are prepared to taper their bond purchases later this quarter, a sign of future interest rate hikes. In September the FOMC's dot plot indicated that 9 of the 18 members expect a rate hike in 2022. As an asset-sensitive bank with approximately 60% of our loans floating, increased interest rates will be beneficial for Origin.

Slide 16 shows our recent net interest income and NIM trends. The graph on the left shows our five-quarter trends of income and NIM and you can see the large impact of quarter one and quarter two that

PPP loan forgiveness had on both income and NIM. As anticipated, interest income for our mortgage warehouse portfolio has normalized from the recent heightened activity. We were able to offset the decrease in growth in other areas within our portfolio.

Excluding PPP and mortgage warehouse, our net interest income increased from $41.3 million to $42.9 million quarter-over-quarter. As the majority of our loan growth occurred in the latter part of the quarter, we believe that our net interest income will continue to improve in quarter four. The bottom graph shows our NIM quarterly changes, with excess liquidity contributing to the largest negative impact. Similar to our loan growth, the majority of our investment security purchases were during the latter part of the quarter and at September 30th our total cash balances were more of a normal level. Excess liquidity should be less of a headwind to our NIM in Q4.

Slide 17 is our net revenue distribution. The top graph shows our net revenue growth since our IPO and the Q3 ’21 over Q2 ’21 increases of $1.7 million. The bottom graph details are non-interest income lines. Mortgage banking revenues have stabilized coming off of historic nationwide mortgage production in the refinance boom.

During the quarter we reported swap fees of $727,000, which was a $700,000 increase from 2Q 2021 and represents an approximate increase of $250,000 over our quarterly average swap fee income of $475,000 since our IPO. In other non-interest income, we reported $3.1 million in LP income or $2.3 million higher than 2Q ’21. The majority of this income this quarter was due to fair value increases in two of our five LP investments.

Over the last ten quarters we have averaged $600,000 income per quarter, while that average has increased to $1 million for the last six quarters, as we are approaching the expected termination of these funds beginning 4Q ’21.

Slide 18, our non-interest expense analysis. We reported total non-interest expense of $39.2 million, which was in line with our expected $38 (million) to $39 million quarterly range for the year. The largest variants compared to 2Q was a $1 million increase in our medical self-insurance costs related to a one-time large procedure deductible that was required to be paid prior to the stop loss coverage. We continue to focus on efficiencies to support our loan growth and the bottom graph represents our quarterly operating leverage and efficiency ratio trends.

Now I’ll turn it over to Drake.

Drake Mills
Thanks, Steve. Through the first three quarters we have executed a high level on our strategic goals, putting us in a great position to finish the year strong. Our capital position supports our strong organic growth while allowing us to continue to take an opportunistic approach to building partnerships through M&A.

I mentioned in my closing comments last quarter that we were working on an insurance acquisition. I’m very pleased to announce that we assigned a purchase agreement to acquire the remaining 62% of the Lincoln Agency, which gives Origin full ownership of that agency. Combined with our other agencies, we will increase current insurance revenues by approximately 20% while reducing operating expenses in 2022. These strategic partnerships have been and will continue to be key components of building non-interest income.

As we close, I will say that I’m excited about the position we are in moving into 2022. We’re in the best growth markets in the nation while we enjoy stable core market growth, allowing our team to leverage

low-cost rule deposits to fuel the dynamic growth markets in DFW and Houston. We've created a flat expense structure while enhancing technology and the customer experience. We continue to build market presence and value through our lift-out strategy and we are well-positioned for future margin expansion based on our asset-sensitive profile.

If you remove the noise from across the industry that's on banks' balance sheets and income statements from PPP, the effect rates have on the mortgage origination and mortgage warehouse business, the excess liquidity throughout the system and you look at the core fundamentals of our business, we are very bullish on our ability to continue to drive organic loan growth, improved loan yields, effectively manage expenses and enhance net interest income.

Thank you for being on the call today, and we'll open it up for questions.

QUESTIONS AND ANSWERS

Operator
We will now begin the question and answer session. As a reminder, to ask a question you may press the 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 it, please press star then two. At this time, we will pause momentarily to assemble our roster.

Today's first question comes from Matt Olney with Stephens. Please proceed.

Matt Olney
Thanks. Good morning, guys.

Drake Mills
Morning, Matt.

Matt Olney
I want to start on loan growth. It sounds like the growth you saw in the third quarter was weighted towards the end of the quarter. Is there anything we should read into the timing of that growth being more weighted towards September? I mean, any change in utilization rates or confidence in borrowers? Just trying to appreciate that there was an inflection there in the quarter. Or, is it more just coincidence based off something else?

Lance Hall
Hi, Matt. Good morning. This is Lance. No, it was really coincidence. Actually if you look at it, it was really strangely split from the very beginning of the quarter and in the end. We booked a really nice C&I book of business almost the first day or two of the quarter that we thought was going to come into Q2, which was a big client of ours here in North Louisiana in the timber business. Then we had nice production, I think I even commented in the write-up, if you look through new loans and lines that we've booked, we're up 21% first nine months of this year over last year. Then we pushed out one assisted living piece that was about $30 million which hid some growth in the middle of the quarter, and then we saw some really nice growth at the end. So it really was just a little bit of quirkiness in timing.

Matt Olney
Okay. Thanks for that, Lance. And then any more thoughts on loan pipelines for here? I think you talked about that high single-digit loan growth. Is that still a fair outlook once you think about the footprint and some of your recent investments in some of your new hires?

Lance Hall
Yes, we feel really positive. Obviously as we talked about last quarter, seven new hires, almost all in the Texas markets where we're focused on production, really spread out between private banking and commercial banking. We'll have two that we'll announce next quarter, one being a really strong private banker, another one in the Houston Woodlands market coming from another big bank competitor. The individual that we've talked about probably the most that we hired in the Woodlands, her production has really been strong for us. The other six in Q2 and Q3 are really just starting to ramp up, so we see that production starting in Q4 and rolling into next year.

The loan pipeline is as good as it's been this year. So I would say, from thinking through what Q4 looks like, I think it will be comparable to what we did in Q3 but probably a little bit stronger.

Matt Olney
And, Lance, you mentioned you pushed out another loan, it sounds like it was a pretty decent size in terms of credit cleanup. I think that was something you started doing last year and earlier this year. Just an update on where we are on that credit cleanup process at this point. Thanks.

Lance Hall
Yes. At the beginning of the year we really talked about high single-digit growth and when we were thinking through it, I didn't foresee that we would have the real strong opportunity to do some of this cleanup. Again, we talked about client selection in a big way. We talked about our ability to find clients that are interested in our value proposition, wanting to be strong deposit partners, wanting to have treasury management with us. So on top of the $40 million we did in Q2, we took the opportunity to do another $30 million around one assisted living.

We've been telling the market for two years now that assisted living was the one area that we were wanting to shrink from that was in our portfolio. So that's consistent with the message we've been delivering. Again, this year for us has been an awesome opportunity to have both. Our ability to drive growth, our ability to hold onto yield because of our client selection and then at the same time ability to really, really clean up our credit portfolio. So I feel awesome about it.

Matt Olney
Okay. Thanks for the color, Lance. Then switching gears over to the fees, mortgage banking pretty flat sequentially. I think in the second quarter we talked about a mark that went against you guys. Any color on the third quarter mortgage banking and any kind of outlook you can provide? Thanks.

Steve Brolly
Matt, this is Steve. That mark I think you're referring to was the mark-to-market on the hedge and that was $2 million in 2Q. This quarter that was $1.046 million, and that's related to two reasons. We did have a decrease in our pipeline on a volume basis and also our gain on sale, as the whole industry did decrease a little bit.

Going forward into the fourth quarter, we really think that's going to be either a negative or slightly positive. So we hope to pick up that $1 million that we had in the third quarter into the fourth quarter.

Drake Mills
Hi, Matt. This is Drake. I also want to respond to the first part of your question about really production. I've seen it written a couple times that as we fared against our southwest peers, I think something that's important for the market to understand is that our current production footprint is heavily weighted towards Louisiana and Mississippi at this point. So as you look at maybe our more southeastern peers versus southwestern peers, I think we look a lot like that, and so if you take our $1 million club members, four of

the top five are in Louisiana and Mississippi.

Now on the other hand, we're making big time progress on recruiting out of DFW and Houston MLOs that I think are significantly going to change that the next couple of quarters. But I just want to remind you that this is an issue that we deal with when we start looking at production volumes, and that had a strong impact not only on production volumes but on pipeline hedge moving forward and pipeline size. But I think we'll see some, I would call it stabilization where we are right now, and certainly Warrie Birdwell, Carmen Jordan and Russ Chase are making some significant progress in recruiting MLOs and changing the profile of our mortgage production more slanted towards the southwest.

Matt Olney
Okay. That's good commentary, Drake. Thanks. Thanks for that. Just lastly for me, gain on sale margins within the mortgage business, any color you can provide as far as what you saw in the third quarter and outlook from here?

Steve Brolly
The gain on sale margin did decrease from second quarter to third quarter and there's a couple different ways to look at this. So if we say one number and you look at another bank, they may net commissions out. So generally it went down roughly 20% and actually in our forecast we have it going up next quarter, and that's partly because of the rate move and also the mixture between refinance and purchase. So we think going forward it's going to increase. And last quarter, when we looked to the third quarter, we actually did have it going down and we were almost spot on with our production, both the production value and also the gain on sale. So I'm pretty confident that we're going to be picking up some in the fourth quarter.

Matt Olney
Okay, guys. That's all for me. I'll hop back in the queue. Thank you.

Drake Mills
Thank you, Matt.

Operator
The next question comes from Brady Gailey with KBW. Please proceed.

Brady Gailey
Hi, thanks. Good morning, guys.

Drake Mills
Morning, Brady.

Brady Gailey
Maybe if you could just talk us through some of the accounting impacts for you guys picking up the rest of the insurance agency. I know if you look in insurance you've been doing around $13 million a year. So maybe talk about the incremental revenue that you're picking up from this acquisition and the incremental expense and any sort of impact to tangible book value.

Drake Mills
Yes. Brady, I think I thought with this addition—and I'll go back and make sure I have those numbers correct—but I think this'll take us to total revenue from insurance annually around $22 million. So this is about a 20% bump or a $3.65 million in additional revenue. So I'll have to go back and make sure my numbers are accurate when you say $13 million.

I feel at this point I think what's important about this insurance acquisition is not that it's a significant dollar impact to what we're dealing with. But from a strategic standpoint what we did with this 62% is allow us to take our agencies—well I think we'll complete this in the first quarter—and consolidate the three agencies we have, and we also have with the owners of the Lincoln Agency, management that will manage the entire insurance network. So we're very pleased with what we see as ability to create a more efficient model overall. Plus we have a couple of acquisition opportunities that will add to this that one could potentially close first quarter of '22 and maybe even get both of them in. But this would give us some additional revenue and start to focus on this being 10% to 15% of our total revenue.

Again, this strategy that we're taking with insurance, we now have significant markets. We have significant infrastructure. We have great management with succession built in. We now can go out and bring on some smaller insurance agencies, and this strategy is going to take us, as we begin to cross $10 billion, is going to give us an opportunity to replace lost revenue through non-interest income through the insurance business. I really like this model. The impact from a tangible book standpoint, Steve. Let me see if I have this.

Steve Brolly
Tangible book, if you realize, it's a very, very immaterial transaction, so we weren't putting a lot of information out there. But tangible book unlike a bank where you'd expect possibly a three-year payback, insurance companies are usually a little longer. So I'm going to say that's about double the normal bank that you would see. But again, insurance is a little bit different animal because it's really driven on your commission revenue that you have. And because it's such a small piece to our total balance sheet and income statement, we didn't go through a lot of that math.

Brady Gailey
So, Steve, the impact of tangible book value from this acquisition, I mean, would you consider it kind of minimal?

Steve Brolly
Yes.

Brady Gailey
Fair enough. Alright. [Audio skip].

Steve Brolly
Brady, what I was saying, it's so minimal that I mean it may take a couple more years in a bank, but it's so small that it's not really worth talking about. I mean, it's a very minimal piece.

Brady Gailey
Got it. Understood. Then, Steve, you guys made a lot of movements in the bond portfolio. I know a lot of them happened near quarter end, so next quarter we're going to see a larger impact there. I was just wondering, if you look at your combined taxable and non-taxable bond book, I think the yield was about 175 basis points in the third quarter. With you guys adding so many balances, what do you expect the bond yield to be going forward? I'm guessing it's going to come down a decent amount just with these new purchases.

Steve Brolly
Yes. So the half a billion dollars we put on was about 112, and so it could be about 150 total bond portfolio. Now that 112, because we went short, what we didn't want to do is have that $500 million extra in cash getting 7.5 basis points. So it will help us because it's not in cash and hopefully during next year we will convert that into loans and more than double the 150 that we're getting for securities.

Brady Gailey
So it's on the bond book. Would you consider it a temporary increase and not likely to see this amount of addition of the bond book again, but hopefully the bond book will shrink every time and you can put it in higher yielding loans? Is that the way to think about it over the next couple years?

Steve Brolly
Yes. The only difference is seasonality. A lot of our North Louisiana public funds come in towards the end of the year, December and January, and instead of having a lot of cash we may go out and purchase a couple securities in the latter part of the fourth quarter. But after that, we're not going to be increasing securities that should be running off. And the runoff is roughly $18 million a month, so where we are today.

Brady Gailey
Okay. And then last for me, just on the $1 million of one-time compensation/benefits medical costs, so that, you had $23.6 million in that line. Is it safe to assume that could come down by about $1 million next quarter?

Steve Brolly
Yes, that's the one-time—and we may have some procedure costs, but that $1 million I really do expect to come down next quarter.

Brady Gailey
Okay. Alright, great. Well thanks, guys.

Steve Brolly
Alright, Brady.

Operator
Our next question comes from Brad Milsaps with Piper Sandler. Please proceed.

Brad Milsaps
Hi. Good morning, guys.

Drake Mills
Good morning, Brad.

Brad Milsaps
Sorry, I was making sure I was coming through there. I just had a question on loan yields. It looks like fairly stable, in some cases maybe up a bit in some categories linked quarter. Most banks we're talking to are seeing pressure there. I noted you guys noticed stability. But also, Lance mentioned the impact of loan fees. Just curious what you're seeing out there and if this was an outsized quarter for loan fees and that was something that was sort of propping those up. I just want to think about what new loan yields are coming on versus the current book.

Lance Hall
Yes, hi. This is Lance. I'll take that, and maybe Steve wants to jump in. I think we've done a really nice job of really this client selection, we're talking about holding loan yields as flat as we can. Now there's no doubt that the environment is very, very competitive. But I think if you go back through the last three or four quarters, we've been right there at about 4% on loan yields. We're seeing some tougher competition around owner-occupied real estate. So I would think that we'll see a few basis points decrease in loan yields, as we say competitive, to fight off for the relationships we want and the

relationships we're bringing in.

At the same time, I think our bankers have done a great job on the fee side. Now I will say we had one really large swap fee in Q3. Hard to determine if we'll be able to close that opportunity again in Q4 around the similar dollar amount, but just the traditional loan fees I think continue to do really well for us.

Steve Brolly
And that swap fee is not in NIM. That's below the line. So I agree with Lance that our fourth quarter will have a little bit of a challenge, so we may have a one or two basis points decline there.

Brad Milsaps
Got you.

Lance Hall
I would say at the same time, I don't think we quite bottomed out on deposit costs yet. I mean, that is at this point obviously it's hand-to-hand combat, but I know our bankers are working hard. We've taken a fresh look at our pricing across all of our platforms and gone through our markets and looked at any variance pricing we have on money markets. Obviously CD pricing is coming in our favor. So I would expect us to be able to get another basis point or so on the deposit costs.

Brad Milsaps
Great. And, Steve, I think you mentioned that 60% of the loan portfolio is variable rate. Can you just talk about how you feel the margin would react if we got 25, 50 basis points from the Fed last next year/early '23? Just want to get a sense of maybe the impact of floors and just how you feel about what a move in short-term rates would do to your margin.

Steve Brolly
So on a 25 basis points increase we would overall get about 19 basis points of that because of some of the loans that are in floors. Then if it goes up 50 basis points, that's closer to 40% of that. Well not 40%, but 40 basis points. And then if it hits 75, that's where we're closer to 100. So we still have a couple that are between 50 and 75 below floor, but again, if it goes up the first 25 we should get 19 of the 25.

Brad Milsaps
Great. That's helpful. And then finally for me, I don't want to belabor the insurance thing too much, just heard several different numbers there. In the prepared remarks you said basically a 20% increase to revenues, which I think run around $13 million for you guys. Is that basically a push with the partnership income? It sounds like you're going to lose in 2022 I think, Steve, you said that was about $1 million a quarter normally and those are going to go away in the fourth. So do those two items offset?

Drake Mills
Yes, they do. And I realize now that I heard the number 13-something million on revenue, because of a third of the ownership or 38% of the Lincoln Agency, we weren't booking that revenue. So actually instead of the 62% of their revenue, we'll be bringing on 100% of their revenue, which is running about $6 million.

Brad Milsaps
Okay, got it. But then you'll bring on 100% of their expenses as well, right?

Drake Mills
Exactly.

Brad Milsaps
Okay. And do I need to think about that as the normal kind of like 75% or 80% efficiency ratio type insurance business?

Drake Mills
Yes.

Brad Milsaps
Okay, great. Thank you.

Operator
As a reminder, if you do have a question please press star then one on your touchtone phone.

The next question comes from Kevin Fitzsimmons with D.A. Davidson. Please proceed.

Kevin Fitzsimmons
Hi. Good morning, everyone.

Drake Mills
Good morning, Kevin.

Kevin Fitzsimmons
A lot of questions have been asked and answered already, but one thing I wanted to ask about, Drake, was mortgage warehouse and where trajectory you expect and where's the settling point for those loans as we look out over the next several quarters. Thanks.

Drake Mills
Yes. I've said from the last couple years that we plan on running mortgage warehouse between 10% and 12% of outstandings. We're down to 14%. So we're tracking pretty close to what we expect to do and still think that that number we talked about for fourth quarter of $600 million would be pretty close to where we think we're going to end up at fourth quarter as far as outstandings. We're up to 48 clients and we have two clients that we're in the process of booking now. About 50% our clients use us as our primary.

When you look at our strategy around how we price, we've been very aggressive at trying to hold pricing and price at top of market. We're not the cheapest out there. We certainly could have brought on some additional transactions if we would have reduced/had an impact to margin, but we have stay focused on this being 10% to 12% of our business and we feel we're going to be able to hold that pretty well, but yet have decent pricing compared to the marketplace. So about like I said, 50% of those are our primary. We like these clients to have multiple uses and be able to maneuver through bulges and those type of things. But when we got up to 20% of outstandings, the majority of that was through bulges. Most of those bulges have rolled off to this point. So as those bulges finalize, we'll see us probably come down in the second quarter to around 12% of outstandings, where we expected to be.

Kevin Fitzsimmons
Okay, great. Very helpful. If you can just, thinking about growth, there's obviously organic growth from just what you have in place in the markets. There's future team lift-outs, and I'd imagine there would be some, especially with a very large deal about to close down in the Texas region and there's M&A and you guys have seen your multiple improve. Although I sense that that hasn't been as front of or as top of a priority as it seems like it has been in the past in terms of what you guys were looking for.

So between those three variables, can you talk about where your priorities for growth? And with team lift-outs I would imagine there could be tremendous opportunity but you also want to balance it. You don't want to take too much on at once, you want to maybe let the guys you brought in in recent quarters get up to a certain point before you bring new ones on. But just how you're looking at all that, those expansion bullets. Thanks.

Drake Mills
Kevin, thanks for that because that's a great opener for really how I closed my conversation today before we went into questions, is that we are in a significantly strong position and DFW and Houston continue to have opportunities to follow who we are from an organic growth strategy and continue lift-out strategies. And I'm going to congratulate Warrie Birdwell in North Texas Group. They have been significant in focusing on client selection.

We keep talking about client selection. I want to stop for just a second and talk about this could have been a year that we would have had double-digit growth without a doubt, but we're here for the long haul. We're an organic grower. We have had opportunities this year, and I'm not going to use the word "cleanup" our portfolio, but really focused on the strength of our portfolio and exit things that we might not want to be long-term players in. We have been highly successful with that, and thank goodness we've had a strong market with a lot of liquidity because there's a lot of players out there looking for loan growth.

We have stayed focus on attempting to do the best we can at managing loan yields. I'm proud of where we are. We have passed on a number of credits that I don't think really fit the client selection profile, but would have been good credits that would have been transactions, but they would have certainly impacted our margins negatively. So I think our growth when we start looking at credit quality down the road, the quality of the people that we're bringing in—and we talk about client selection, but when I look at our problems from the past, there was also a component in there it was around lender and relationship manager selection. We have done an excellent job of ratcheting up the quality of the people that are representing us and the loans that they're bringing on the books.

So we will continue to focus on our strategy around organic growth, lift-outs of quality people that fit our portfolio, client selection and attempt to continue to manage yields, and through that we see high single-digit growth and maybe getting back into the low double-digit growth in '22 and '23. But right now we're focused on quality, quality, quality and we're focused on trying to maintain some form of loan yields, and I think we're doing an awesome job.

Kevin Fitzsimmons
Great. Thanks, Drake. One last one from me. The allowance ratio now adjusted for PPP and warehouses, I think it's down to 163. Do you have a long-term settling point for that when we think about the credit leverage that's ahead but yet you're going to be growing loans at a decent clip too? When we take that ratio down over time, where do you think it settles long-term? Thanks.

Drake Mills
Yes. You know we're going to have balance methodology with growth coming in. And, Kevin, when you take back and I think it's $80 million of credits we've pushed out that necessarily we wouldn't have lost money on, I think there was an earlier question how much more of that's out there. I don't think there's a tremendous amount of that left because we are where we want to be with assisted living for the most part now.

So, as we look at methodology I would love to take a very conservative approach and allow us to grow into some of this. I think that we're going to be pushed to release some. But on the other side, as I've had a conversation with our people from a conservative perspective, there are still significant unknowns

in this economy out there and the impact of supply chains, labor, inflation, a number of different things and we're looking deep in the portfolio where we feel credits potentially could be impacted through those issues. I feel very good about our credit—I've never felt better about our overall credit, the trajectory of our credit quality and current credit quality. So you will see some further release probably because methodology is going to force us, but I'm hoping these guys continue to see significant pipeline growth and that we can start applying some of that to growth instead of a release. But that's where I feel like we are today.

Kevin Fitzsimmons
Okay. Thanks very much.

Drake Mills
Thank you, Kevin.

Operator
The next question is a follow-up from Matt Olney with Stephens. Please proceed.

Matt Olney
Thanks, guys. Just a few clarifications. On the PPP side, I think you mentioned around $6.3 million of remaining fees. Any estimates or guesses on how much of that could be recognized in the fourth quarter versus next year?

Steve Brolly
Matt, it's about $1.5 million of the 6.3 for the fourth quarter. The second quarter was 4.2, and the third quarter was 3, and that's because of a lot of the forgiveness. We'll still have some forgiveness brought ~~[ph]~~ this quarter, but we think it's going to be the majority first and second quarter.

Matt Olney
Okay. Got it. Then I guess going back to the insurance acquisition, Drake, what did you mention the timing of that closing would be?

Drake Mills
Oh, 12/31.

Matt Olney
Got it. And then I think you also said on the insurance piece the acquisition's going to give you a chance to consolidate other agencies as well. And I guess just taking a step back, it sounds like insurance is going to be an important part of the Origin strategy, and we haven't talked too much about insurance over the last few years on some of these calls. So any more color you can give us on insurance and how important that is to the overall Origin strategy over the next few years?

Drake Mills
Matt, I think it's a significant part of our strategy because what we're trying to do is continually drive this company to a better, higher mix of non-interest income to total income. This is a business that I understand. Before I was a banker I was actually a Licensed P&C and life and health agent, so I have that background, but what I enjoy about this business is it's low-risk; it's not capital-intense.
We have significant management and succession in these agencies. It's a hand-in-glove fit with our C&I business, and through the Lincoln Agency we feel like there's significant more relationships to be able to pick up there.

But what I really have enjoyed about it recently is taking the model, very similar to what we do with the

bank, we take a rural approach to these smaller agencies that have a lot of consistency that's allowed us to ramp up our commission payout rates. Also, our loss share revenue is enhanced because of the consolidation of these markets. When we take a large agency like Thomas & Farr, and Rees, Coon & Funderburg and now the Lincoln Agency, combine those three agencies, there's going to be some reductions in the back end.

So all those things start to build some efficiency, allowing us to have the infrastructure and the model to go out, roll up some of these smaller rural agencies in our marketplace and then allow us to put significant agent relationships in the metro markets and not have to pay up to get some of those books that, by the way as in the metro market markets, they'll take that book and move on when you have an impairment situation. So we like the fact that we're going to use a rural model to go into the metro markets with significant market representation and be able to drive some real value. We've already seen that start happening in Dallas. Our next move is Houston.

Matt Olney
Okay. That's perfect. Thanks for that, Drake. And just lastly on the operating expenses, Steve, you mentioned that the salary line was a little bit heavy this quarter. I guess taking a step back, just overall non-interest expense, where would you point us towards more in the short-term for the fourth quarter, Steve?

Steve Brolly
About 39, seeing as we had said 38/39 prior, so we think it's going to be closer to 39 this quarter.

Matt Olney
Okay, great. Thanks, guys.

Drake Mills
Matt, I also want to talk about, we are working diligently to continue to manage a very flat expense structure, and this is I think an important component to us garnering efficiency and still driving what we think is a significant growth engine. As I said with enhancing the customer experience and enhancing technology, this is one of the strong focuses of this institution and we're seeing some real progress with it.

Matt Olney
Okay. Thanks for that, Drake. Appreciate it.

CONCLUSION

Operator
At this time, there are no further questioners in the queue and this concludes our question-and-answer session. I would now like to turn the conference back over to Drake Mills for any closing remarks.

Drake Mills
My true appreciation and thanks for each one of your time today. And I will say as I opened today, that I've never felt more bullish about this organization as a whole. When you look at the quality of the people internally, the succession of the organization, the capital position we're in, the opportunities we have in the footprint, the dislocation in the footprint, the asset sensitivity of this institution, all the things line up to put us in a significant position. And we have impacted 2021 from a growth standpoint slightly to improve the overall quality of the institution.

So as I put all these things together and I sit back and start planning strategy for '22 and '23, we've never

been in a better place. I think our growth trajectory and profile in '22/'23 is going to be significant. We are in markets that are going to continue to hold up. We're making some strong moves in Houston from a mortgage standpoint. So again, all these things put together, bullish, very pleased to have each one of you as investors and supporters and thank you. My phone's always open: 318-243-2525. Call me if you have any questions and I'll give you the answers.

But anyway, thank you again for your time.

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