Origin Bancorp, Inc.

Fourth Quarter 2020 Earnings

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CORPORATE PARTICIPANTS

Chris Reigelman – *Head of Investor Relations*

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Steve Brolly – *Chief Financial Officer*

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Jim Crotwell – *Chief Risk Officer*

Preston Moore – *Chief Credit and Banking Officer*

PRESENTATION

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

I would now like to turn the conference over 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 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 and 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.

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

Drake Mills
Thank you, Chris, and good morning. On our call last year at this time my closing comments spoke to business cycles changing. That our team was focused on adapting to those changes whilst always being mindful of the commitment to our culture, our people, and driving shareholder value. Those words foreshadowed what we experienced in 2020. For me, the highlight of this past year has been the performance and quality of the Origin team.

This was not accidental. We've made purposeful strategic decisions that put us in a position to be successful despite the challenges. The same mentality is what guides us as we move forward.

While I'm proud of the financial results for the quarter and the full-year, I'm most proud of the resiliency of our employees during the pandemic and the focus they have on serving our customers and communities. Being able to adapt and being committed to our culture is what has sustained us in 2020 and puts us in a position to take advantage of future opportunities.

We ended December with $7.6 billion in total assets; $5.7 billion in total loans; and $5.8 billion in deposits. Net income for the quarter was $17.6 million, an increase of $4.5 million from the third quarter of 2020 and $0.75 diluted earnings per share which is an all-time quarterly high for the company. Our net interest

margin for the quarter was 3.07% on a tax equivalent basis, and our efficiency ratio was just under 58%.

For the full-year, we had net income of $36.4 million and diluted EPS of $1.55. Our pre-tax, pre-provision revenue was $104.3 million, up 37% over 2019. Our efficiency ratio was just under 60% for the year which was an improvement over 2019.

Before I turn it over to Lance, I want to speak to something that I think gets overlooked in the Origin story and that's the success we have experienced in our Texas market. We entered Texas De Novo in 2008 during an economic downturn. Our strategy was to grow in the DFW market one relationship at a time. Now we have meaningful presence in two of the largest growth markets in the country. Our strategy has always revolved around relationships; having the right people with the right leadership and earning the trust and loyalty of our customers every day.

When I look at the incredible teams of seasoned bankers we have in place today, I think it's a testament to the Origin culture and our way of doing business. We have executed on our strategy over the last 12 years, allowing us not only to increase our presence in DFW but also experience tremendous growth in Houston starting in 2013.

As you can see on slide 7, our franchise in Texas has experienced compound annual growth rates on both loans and deposits exceeding 20% from 2016 through 2020. I believe we are well-positioned to continue to capitalize on our investment in people and infrastructure while increasing our franchise value for the company.

Now I'll turn it over to Lance.

Lance Hall
Thanks, Drake. I'll start on slide 8. As we've talked about through the pandemic, our bankers were extremely proactive working with our clients to support their needs. From a high of over 21% at June 30th down to less than 2% at December 31st, our loans under forbearance have declined more than 90% over the last six months of 2020.

As we look at PPP loans and the progress on forgiveness efforts in the fourth quarter, we have processed over $200 million in forgiveness requests as of January 20, 2021, which is over 35% of balances funded under the program. We're actively working with our customers to process applications for the second round of PPP funding. As was the case during the first round of PPP, our bankers are extremely focused and are being proactive in delivering for our clients. On slide 9 I'll highlight some of the things that we're currently working on to support our customers.

The vision statement we have clearly laid out is to combine the power of trusted advisors with innovative technology to build unwavering loyalty by connecting people to their dreams. With the rapid changes in consumer behavior and the effects of the COVID pandemic, we believe it's imperative to execute on our value proposition of combining high-touch personalized service and to partner with the appropriate technology partners to deliver innovative, mobile and online solutions.

The mission around our tech strategy is to continue to evolve and execute our technology plan to enable us to deliver our customer experience value proposition and create significant efficiency and capacity in costs. As you can see on the slide, our investment in technology has allowed our customers deeper utilization of our digital channels particularly in our mobile delivery, which has grown significantly across the platform during 2020.

You can also see that our mobile featured option rates are better than industry benchmarks. We've also

built strategies around consumer behavior trends, opportunities to better use data and analytics, opportunities to begin using robotics to eliminate manual processes, identify key mobile, digital, and technology partners such as MX, nCino, Precision Lender, Workday and others to improve the customer and employee experience. This will continue to be a focus of ours in 2021.

On slide 10 you can see an overview of deposit trends for the year. Our average deposits for the quarter were $5.9 billion, an increase of $1.7 billion over the fourth quarter of 2019. Of that increase, more than $500 million was non-interest bearing deposits.

A strategic focus of our has been to lower deposit costs, and our bankers have done an outstanding job, as our total cost of deposits was 31 basis points in Q4 2020; an 11 basis point decrease from Q3 2020 and a 73 basis point decrease from Q4 of last year.

On slide 11 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 up for investment have grown by approximately $1.6 billion during the year, due primarily to $800 million of growth in our mortgage warehouse portfolio and $547 million of growth in PPP loans.

Our mortgage warehouse team has done a tremendous job of capitalizing the market conditions and expanding our client base during the year. I want to point out that while growth in these two categories was significant, our bankers did a great job of growing relationships which has led to a 5.8% increase in loan growth outside of these categories and 7.5% increase in new loan production.

Relationship banking has and will remain at the center of who we are and what we do. It has proven effective again this past year, as our bankers have met the needs of our clients through impressive growth while staying focused on our sound and stable credit culture.

Now, I'll turn it over to Jim to take you through our credit trends and selective sector updates.

Jim Crotwell
Thanks, Lance. As we had previously reported over the past several quarters, we continue to closely monitor those industry sectors that could experience a more protracted attractive recovery as a result of the COVID pandemic, specifically the sectors of hotels, energy, nonessential retail, restaurants, and assisted living.

As you can see on slide 12, these sectors total $539 million down from $551 million in the third quarter and represented approximately 10.4% of total loans held for investment. Since the beginning of the pandemic, we have conducted focus reviews of these particular sectors to monitor the impact of economic downturn and to ensure the appropriateness of assigned risk ratings. We are pleased with the stability demonstrated by our portfolio and these sectors. And as Lance mentioned, we are pleased with the trends we are seeing in the reduction in COVID-related modifications across our portfolio.

On slides 13 through 17 we provide information on these specific sectors, including sector balances and levels of past dues, classified loans, and nonperforming loans. Over the past year we saw balance reductions in all the sectors, with the exception of nonessential retail, which actually increased $25 million during the quarter. This increase was driven by the expansion of two existing relationships one of which is supported by guarantor strength of over $150 million and the other supported by a strong credit tenant.

These sectors continue to hold up well from a credit perspective as evidenced by past dues of 1.03%; classified loans of 1.93%; and nonperforming loans of 1.1% for these sectors combined. While we are pleased with the performance of these sectors, we will continue to monitor them closely.

Slide 18 provides a recap of our asset quality trends which again demonstrate portfolio stability. Past due loans held for investment net of PPP were at 0.50% at year-end. While total levels of classified loans remained stable at 2.1%. I would like to point out that we've experienced a nice decrease in our ratio of nonperforming loans to total loans net of PPP, decreasing from 0.75% as of 12/31/2019 to the current level of 0.50%. Net charge-offs to average loans and that of PPP for the quarter remain stable at an annualized rate of 0.14% for the quarter and 0.24% for the year. Again, we are pleased in the resiliency and stability of our loan portfolio.

Lastly, we increased our allowance of credit losses to 1.51% from 1.45% of loans held for investment in the prior quarter and to 2.1% of loans held for investment net of PPP and mortgage warehouse loans. While we have experienced stability in our portfolio as noted above and have seen some improvement in economic forecast data, we felt that increasing our reserve while to a lesser extent than in previous quarters was prudent given the recent rise in COVID cases across the country and the continued uncertainty surrounding the deployment of the vaccine over the next several months. We will continue to closely monitor the impact of the pandemic but feel that our reserve build is behind us.

I'll turn it over to Steve now.

Steve Brolly
Thanks, Jim. On slide 19 you can see our yields, cost and loans held for investment portfolio. As Lance covered previously, our cost of deposits continued to decline partially offsetting declines and loan yields during the quarter. Our fixed-to-floating profile continues to remain at approximately 40%/60% split as in prior periods. On slide 20, I'll walk through our net interest income and then trends.

Net interest income for the fourth quarter was $51.8 million, which was up $1.2 million from the prior quarter. Our NIM declined 11 basis points to 3.07% of which 5 basis points was directly related to our $80 million sub-debt issuance in the fourth quarter. Slide 21 shows our net revenue distribution.

Historically our revenue would typically be about 80% net interest income and 20% non-interest income. In the fourth quarter approximately 23% of our net revenue was generated from non-interest income. Although a lower percentage than Q2 and Q3 of 2020, our percentage of non-interest income was higher than our historical levels. We finished our strong year in mortgage with revenue increasing $17.3 million to $29.6 million for the year. Mortgage revenue for the fourth quarter was $6.6 million, which was $3.2 million higher than Q4 2019.

On slide 22 you see our trend of non-interest expense composition. Our total non-interest expense was $38.9 million, just slightly higher than Q3 2020. You can see on this slide that our operating leverage continues to improve as revenue growth outpaces expense growth.

As Lance mentioned previously, we'll be focusing on technology enhancements in 2021 that will allow us to efficiently serve our customers and support the future growth to further enhance this operating leverage.

Now I'll turn it back to Drake.

Drake Mills
Thanks, Steve. On slide 23 you see our capital trends for both the bank and the holding company. On the bottom right we show the changes in our total capital ratio at the holding company. We completed a sub-debt offering in October which increased our total capital ratio by 130 basis points. The last sub-debt offering was an addition to the bank loan sub-debt raised in February 2020 which brought our total

subordinated debt raised in 2020 to $150 million.

And as Steve's pointed out, we had an incredible year and successfully navigated through an unprecedented time. As I think back on 2020 for this company, instead of thinking about the pandemic I want to think about how our bankers showed unwavering loyalty to our customers and our communities when we were needed most. We accomplished a lot from record mortgage production and revenue, significant increases in fee income year over year, record mortgage warehouse volumes and balances, raising $150 million of capital to further strengthen our balance sheet, and so much more. Now it's time to focus on efficiency, managing capital and enhanced shareholder value while continuing strong organic growth.

I am thankful to our employees, our customers, our communities and our shareholders, and I look forward to what we will accomplish in 2021. Thank you, and we'll now open up the call for questions.

QUESTIONS AND ANSWERS

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

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

Matt Olney
Great. Thanks, good morning, guys.

Drake Mills
Good morning, Matt.

Matt Olney
I want to start on credit. The 4Q trends look strong, charge-offs were contained, and nonaccruals went down and allowance levels are still well-above 2% once we back out the PPP, which I guess would give you room for any surprises you guys see this year. I'm curious about how you guys are thinking about 2021 with respect to provision expense and charge-offs. I think the consensus forecast are assuming around $25 million for both provision and charge-offs. I'm curious with what you see today how that lines up with your expectations.

Drake Mills
Matt, at this point I'm going to go back to 2020 for a second. I'm proud of where we ended up, but I will remind you that we decided to get very aggressive and clean up some things that traditionally we would have worked through had it not been for the pandemic and the unknown. So as you look for 2021, I think about how I felt in March of 2020 and how I feel today, and I just think we're in an unbelievable position, but there's still some unknown for us.

We have a new administration. We have a number of factors that make you pause and want to be conservative in the process. As I see 2021 from a net charge-off perspective, I think it's difficult to say. If I sat here and said okay this is where I believe we are, it would be somewhere of an increase from maybe 2020 based on what we're seeing today. But I'm pausing and I'm not trying to be vague here, it's just very difficult because of the lack of clarity around 2021.

Our portfolio quality today is—I feel better about it than I have in a long time. I mean we've done so much work around the portfolio. When you look at our energy migration, when you look at the sectors that were pandemic-impacted, we just don't see losses, but again I'm going to be extremely conservative through 2021, and I'm going to make sure that we're in a position to be able to manage whatever comes down the pipe from this pandemic.

So it's difficult to say. I think you're in line with expectations at this point, and we'll see how things go.

Matt Olney
Okay. Perfect. Thanks for that. And then switching over to the operating expenses, in the prepared remarks I think you and Lance talked about carefully managing expenses this year but also investing in technology. Any more color you can provide, and I guess ultimately what type of growth do you think we'll see from the fourth quarter of 2020 throughout the year? Thanks.

Drake Mills
We have I think tremendous strategies right now. Lance and his team were talking a little bit about doing this around technology. We are committed to doing this and reinvesting the knowledge that we're saving, and I think that's the key term in everything from robotics to a number of things. We're focusing on this from the long-haul perspective; technology from the long-haul perspective, but every technology dollar that we're utilizing today is going to create cost savings.

At this point, for instance yesterday we opened up a new office that we talked about, Medical City in Dallas. Our president called and said "You're not going to believe this. So many accounts were opened today." There's 7,400 employees in that park, and that is an expense for us as well as moving an office in Houston. But at this point even investing heavily in technology doing the things we're doing, based on the fourth quarter we see a flat expense profile for 2021.

Matt Olney
Got it. Okay. I'll hop back in the queue. Thank you, guys.

Drake Mills
Thank you, Matt.

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

Brady Gailey
Thanks. Good morning, guys.

Drake Mills
Good morning, Brady.

Brady Gailey
I know the period in warehouse balances were pretty flat, but the average balances continue to go up pretty nicely. Looking at average balances the warehouse is now 16% of total loans. So I mean you guys have had a lot of great success there. Maybe just talk about the outlook for that as we head into '21. I know that naturally the mortgage market is going to slow down a little bit, but it feels like you all are all taking market share, and then 16% of average loans is a big number. What's the limit on how big this thing could get?

Drake Mills
Well it's as big as it's going to get I believe today. We're [indiscernible] to run this. We want to make sure that it runs about 8% to 10% of our outstandings. In a normalized environment we believe that we might see that by the end of 2021. We still are taking on clients, but if you look and you project out based on mortgage projections and where we think mortgage warehouse will fall, it's coming in exactly where we're planning to be around that 8% to 10% number.

Now I don't mind running it slightly over 10%, but this is our strategy, and we've been very fortunate to be able to take advantage of the market dislocation and be able to attract and build some relationships, and I think that's the key to mortgage warehouse. I read some of the thoughts around that being a cyclical business and everything else, but what we're being able to do is take these significant client acquisitions and turn them into relationships both on a personal and investment side. We're being able to get some non-interest bearing deposits out of these relationships that are really driving this, so it's a business philosophy today. And again, we're not going to run it much more than 10%.

Brady Gailey
Okay. All right. And then I was a little surprised to not see any share repurchases in the fourth quarter. Your stock is still pretty cheap at around one times tangible. I mean that makes the bank M&A game hard, but it makes the buyback game pretty easy. Why did we not see revex in the fourth quarter, and maybe talk about your appetite for buybacks in 2021.

Drake Mills
I suspect you'll see some activity in the first quarter and some technical reasons that we didn't get off in the fourth quarter, but I think you're exactly right. If you look at our capital build through 2021 and what our TCE looks like at the end of the year especially our total capital levels, you'll see some activity.

Brady Gailey
All right. And then finally from me I know in the past you guys have talked about low to mid-single digit loan growth. I think if you x out the warehouse and PPP you all were at about 5% this quarter; 6% last quarter so it seems like you're kind of right there. Is that still the right way to think about loan growth in 2021?

Drake Mills
Our strategy through 2021 is to really focus on loan yields and the relationships that we've already known. I think an important fact here is that when we bring on relationships it's not just about loan yields. We're able to expand the wallet and have significant returns on these relationships, but if you look at our underwriting criteria and the strategies that we have there, our prices for that criteria, we see about mid-single digit growth through 2021 at this point. And again, that's pulling back on mortgage warehouse significantly in that process or there near.

Brady Gailey
Great. Thanks, guys.

Drake Mills
Thank you.

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

Brad Milsaps
Hi. Good morning.

Drake Mills
Good morning, Brad.

Brad Milsaps
I just wanted to follow up on Brady's question regarding the warehouse. I think you said last quarter that you thought it might settle out between $500 million and $600 million, but just curious if you picked up even more clients. I think you alluded to it a little bit. You're still adding folks maybe in the fourth quarter that in your mind might make it run a little bit higher than what you talked about last quarter.

Drake Mills
We have picked up. I think we went from 21 at the beginning of the year to now 44, a couple more in the queue. Our folks at mortgage warehouse and their projections are showing closer to $600 million than $500 million outstanding at the end of the year. And we've been surprised at January pipelines on our end and that's market-wide, and that could run slightly higher, but I still think that $600 million number is a pretty good number.

Brad Milsaps
Great. That's helpful. And then in terms of the new loans that you're putting on away from warehouse and PPP, curious where those rates are coming on the books and what that means for your NIM outlook as you move through the year.

Drake Mills
I'm going to turn that over to Lance. He and Steve have been doing a lot of work with Chase around NIM and outlook and pricing, and that's as I said a strategy of ours going into 2021. Lance?

Lance Hall
Great. Good morning, and thanks, Drake. We're very confident and fortunate we think that rates are stabilizing. Steve would tell you that we're going to have a few basis points NIM compression throughout the year as we continue to see some refinances that will lower some rates, but we're actively working on the deposit side to offset that. From a loan yield perspective, clearly for us it depends on market.

In Louisiana where we actually have a really nice pipeline for '21, we're still able to get rates in the fours. Texas is more mid to high-threes in the mix for us. We'll see a little bit of compression, but the coupon rate even that we've seen in Q3 and Q4 has been very, very stable and so very optimistic about it.

Brad Milsaps
Great. Thanks, and just a final follow-up from me. If my numbers are correct, it looks like your PPP loans were fairly flat late quarter. Many of your peers have seen more of a decline with forgiveness. Is that by design from you guys or just haven't gotten as many through that forgiveness process yet? Just trying to get a sense of how you're thinking about those running off and recognizing those remaining fees.

Lance Hall
I just think it's the automation through our nCino platform. That's coming, so I would say that we see a lot of that here in the next 60 days on the forgiveness side so just part of the process.

Brad Milsaps
Understood. Thank you, guys. Appreciate it.

Drake Mills
Thank you.

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

Kevin Fitzsimmons
Good morning, everyone.

Drake Mills
Good morning, Kevin.

Kevin Fitzsimmons
Drake, in the past you've talked about wanting to or on the lookout for the right acquisition candidate, merger candidate, and obviously over the past year or so there's been less activity on that front. We're starting to see in the industry a little more activity, a little more in terms of conversation going on. What are your observations on that front? Obviously it would be easier if you had more currency in the stock, but just curious what you're sensing from would-be sellers and what you're viewing as opportunities. Thanks.

Drake Mills
Certainly there seems to be more opportunity popping up, and I'm really ignoring our valuations at this point to continue to build relationships, because the opportunities that we have to talk about are really about building partnerships as they continue to determine what they're going to do. We think that we're in a position—we're a strong organic growth story, and we're going to continue to focus on organic growth. As one of the strategies that drives my office is to build these partner relationships, and so we are going to be able to put capital to work from an organic growth standpoint, but I do think that you will see us active in discussions and hopefully we've talked to our bankers and a number of different folks to be on the lookout. But we do have a handful of ongoing discussions and relationships that we think hopefully will be productive at some point.

Kevin Fitzsimmons
Great. Thank you. And just on PPP, I know it's tough to project this, but is it fair—you guys did give in the slide deck the remaining fees that are out there to be recognized—is it reasonable to assume this forgiveness process takes place over the course of the next two quarters for the most part about evenly, or do you see it being more backend loaded into the second quarter? And then separately how you guys are feeling about PPP round two. A number of banks are saying they think the demand for round two will be only something in the neighborhood of maybe 30% or 40% of what you did in round one. I'm curious what you guys are thinking.

Lance Hall
Some of the forgiveness is going to depend on the $150,000 in less loans. I think we would think we were probably going to get about 65% of the forgiveness in Q1. We're seeing a little better demand than that in PPP round two. I would say that our number of notes—I'm not going to say the balances obviously, because the balances are different because you're capped at $2 million versus $10 million, but the number of notes for the clients that we're supporting will probably be about 55% of what we did the first round.

Surprisingly seeing clients that didn't take it the first time that we're doing for the second round which was a little interesting, but our bankers are on it. The first time around was a huge success for us. Our

bankers worked themselves to death through a manual process. We have it automated now with nCino. That process is going well, and again I think for a bank our size that's so community-focused this will be a nice win again.

Kevin Fitzsimmons
Okay. Great. One last one on the subject of PPP and the margin is good news. You're getting the accelerated PPP fee accretion. Bad news you have another slug of excess liquidity coming in theoretically from the SBA. Do you all expect you'll have the opportunity or willingness to build the securities portfolio with that, or will you just be taking a little temporary hit on the core margin from that excess liquidity? Thanks.

Drake Mills
I think our strategy has been through this from a balance sheet management standpoint is to use low-cost funding temporarily. As you've been able to tell, we had almost a 27% growth in core deposits in the year over and above what we have done from a wholesale standpoint. If we see that type of influx of liquidity, then we would certainly start to reduce our borrowings with that. Because I think where we are at $1 billion with our investment portfolio you'll see that pretty much remain there a little bit flat.

Kevin Fitzsimmons
Great. Thanks very much.

Drake Mills
Are we still connected to the call?

Chris Reigelman
Sara, are you still with us for the next question?

Drake Mills
Hey, Wally, are you available?

Operator
Pardon me, this is the conference operator. It looks like we're experiencing some technical difficulties. I can announce the next questioner. The next one is William Wallace from Raymond James. Please go ahead.

William Wallace
Thanks. Good morning, guys. That was weird.

Drake Mills
Good morning, Wally.

William Wallace
Good morning. Drake, one point of clarification just to make sure I heard it right. Did you say your loan growth thoughts with a focus on yield would be mid-single digits? You said something about warehouse. That's ex-warehouse right? You don't think you can growth the whole portfolio mid-single with warehouse coming down so much do you?

Drake Mills
That's ex-warehouse.

William Wallace
Okay. All right. That's what I figured. All my modeling questions have been answered. I wanted to ask a bigger picture strategic type question.

In your prepared remarks you mentioned that you feel one part of the story that might be missed is the expansion in Texas and the attractiveness of those markets. In the past you've talked about the profitability of those markets. I'm wondering if you could talk a little bit about how profitable those markets are today. If you continue to grow at an annualized rate around 20% plus or so over the medium term does that profitability expand? In other words, can you continue to leverage whatever you have there to a point where that's even additive to the franchise profitability? And then how do you think about the cost transfer of having lower cost operations in your Louisiana markets? Just want to think bigger picture about what the Texas expansion means for profitability at Origin over the medium term.

Drake Mills
For us, we have to look at where our profitability is in the core markets. You're running at 240 to 250 pre-ROA, and in Houston we're sitting here at a 103 pre-pre [ph] at this point with what I think is a significant build opportunity. That did back up a little bit from 2019, but I would say it was because of our energy migration. We went from basically $128 million in energy to $30 million to $40 million in energy, which was a big move for us and it was strategic that we went through that process. We feel very good about where we are but that backed up a significant piece of profitability for Houston, so at 103 we see significant opportunity there to ramp it up.

And strategy-wise, we're looking at Texas as a whole right now with the 152 pre-pre. We have plans to continue to push that up to look similar to what we do in Louisiana, but I really want to talk about Texas for a second, because in 2020 13% loan growth and $980 million in new loan production. But the real story for us in Texas was deposit growth; 38% deposit growth. We had $8.7 million in loan fees, so we're starting to see some real buildup of opportunities from a profitability standpoint, and to be able to push the flow from where we are today from the 152 to that middle-level twos that's where we have to get.

Fortunately for us we have the right infrastructure in place. We certainly have the right teams, but we'll continue to look at teams especially from a granularity standpoint. I'm bullish on Texas, and this is really starting to be a Texas story overall.

William Wallace
If we look at the profitability of the overall organization and maybe looking at it from a return on tangible common perspective, do you feel you're at a point—let's assume that we have an economic recovery and we're not having elevated charge-offs that can't be covered by reserve—do you think you're at a point now where we could transition and really see that return on equity start to expand and expand up to and perhaps surpass what you might see at a group of peer banks, or do we still have investment needed to drive that final lag of the equation?

Drake Mills
We do not need investment. We have everything in place. And 2021 strategically for us is a focus on driving efficiency. For us it's around loan yields and a number of different things, but absolutely. Where I thought we were in 2020 is where we are today, and unfortunately this pandemic got in the way. Our teams have tremendous capacity. We have the infrastructure. We have the support with the exception of maybe a few credit support folks. We're in an unbelievable position to be able to continue to grow, and if we can add the rate of growth that we have since '16 then we're going to get there pretty quickly.

William Wallace
And can you tell us what that looks like from an ROE perspective or an ROA and efficiency perspective?

Drake Mills
Well, I could. I would say this, from an overall efficiency we have where we are today if you look at some of the factors that are impacting efficiency especially from a PPP fee and a number of those things are going to go away, we have some work to do to get us into the mid-50s where we think we can get by the end of 2022. And certainly think that we can be similar to where we are at the end of 2021 today, but from a Texas perspective, we think that from an ROA perspective which would drive significant ROE, we should see some—and I have to try and say this to not back us in a hole—but we can see some pretty 20% growth there in 2021 and put us in a position to really start piling on to that.

But that's a little difficult to say when we're going into a period of time that we still have some unknowns that are facing us from the pandemic and impact of potential losses. We don't see it today, but certainly we're being uber conservative, but Lance and his teams are focused on what we're talking about right here, and we have to be successful here going through the end of 2021 with good ramp up through 2022.

And I know I didn't answer your question, but I tried.

William Wallace
No. That helped. That's helpful. I appreciate that bigger picture commentary, Drake. Thank you, and look forward to hopefully seeing losses come in lower than we've all expected.

Drake Mills
And I hope so. That's what we feel today.

William Wallace
I'll step back in the queue.

Drake Mills
Thanks, Wally.

Operator
Again, if you'd like to ask a question please press star then one. Our next question is a follow-up from Matt Olney with Stephens. Please go ahead.

Matt Olney
Thanks for taking the follow-up. I want to dig more into fees and specifically on the mortgage front. I think the mortgage fees were $6.6 million. I know a lot goes into that number from originations to the MSR to the hedge. Any details you can provide that we would see in the queue, and I'm looking I guess specifically for the originations gain on sale in the fourth quarter. I think the comparable number last quarter was around $7.4 million.

Steve Brolly
Yes, Matt, the comparable number gain on sale was $6.3 million for Q4.

Matt Olney
Perfect. Okay. Thanks for that, Steve. I guess circling back to the discussion around the margin and the puts and takes there, I think you mentioned that on the deposit side there's still room to bring that down. I think we're at around 44 basis points right now on interest-bearing. I 'm curious where you think

that could ultimately land down the road once you finish repricing the deposits over the next few quarters. Thanks.

Steve Brolly
We think the next few quarters it will be definitely in the mid-30s, and with big leads [ph] coming off after the fourth quarter it could be in the low-30s.

Matt Olney
Okay. Perfect. And I guess just to clarify the commentary on the margin, Steve, there's some room there to bring that down on the deposit side, but even with that, it still feels like there's some pressure on the margin because of the pressure on the core loan yields. Did I get that right?

Steve Brolly
That's correct. We definitely have more pressure with the loan yields than deposits. Deposits are if you're at 40, you can only go down to 30. Loan yields you could possibly go down a little bit more based on competition, but our goal is to only have if we can one or two basis points compression each quarter. That's the low part. Hopefully we can sustain it, but to be conservative we're going to say one to two basis points per quarter, and hopefully we can keep it flat.

Matt Olney
Okay. Perfect. 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
Well, thank you very much for the time and opportunity. I'll tell you that this is a franchise that has significant upside. We have put ourselves in a position where I think our balance sheet has been significantly strengthened; liquidity is in a very strong place; capital we really will see some capital buildup as the balance sheet normalizes through 2021.

What I think we have is real upside from an earnings perspective. We will continue to drive significant shareholder value. I appreciate your interest, your investment, your partnership, and overall your support. Thank you for the call, and thank you for your time.

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