Origin Bancorp
April 28, 2022
9:00 a.m. ET

OPERATOR: This is Conference # 157050

OPERATOR: Good morning, and welcome to the Origin Bancorp, Inc. First Quarter 2022 Earnings Conference Call. Please note, this event is being recorded.

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

CHRIS REIGELMAN: Good morning, 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 press release filed with the SEC yesterday. All comments made during today's call are subject to the safe harbor statement in our slide presentation and earnings release.

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

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

DRAKE MILLS: Thank you, Chris, and Good morning.

Looking at the start of 2022 and how we are positioned moving forward, I am pleased with the fundamentals of our core business. Despite the external factors that are affecting the broader economy, I am proud of how we performed in the first quarter and how our teams drove significant growth by adding long-term relationships. This continued organic growth reflects our strategy and focus on building value through our clients.

Total loans held for investment, excluding PPP and mortgage warehouse, were $4.66 billion, which is a 3.6 percent increase compared to last quarter and a 14.5 percent increase on an annualized basis and puts us in a great position to meet our expectations.

Total deposits grew $196.5 million or 3 percent compared to last quarter and 12.1 percent annualized.

Lance will get into more detail on our loan deposit growth, but I would add that our growth in loans, and specifically non-interest-bearing deposits, is a reflection of our strategy and focus on profitable relationships throughout our markets.

Looking at the income statement, we reported $20.7 million of net income, $25.6 million of pretax pre-provision earnings and a diluted EPS of $0.87. We released $327,000 in credit reserves. Jim will provide more color on our credit portfolio, but I am pleased with our overall credit performance.

Most of you are familiar with the Origin story, and you know that we are an organization who takes great pride in our corporate culture. It's not something we just talk about, but we build on it every day. It is truly a competitive advantage for us in our markets as we attract new customers, and equally as important as we attract new bankers.

During the first quarter, we added 7 new producers, primarily in our Texas markets. We continue to capitalize on opportunities in Dallas, Fort Worth and Houston. Slide 8 shows the consistent growth we've experienced in Texas from the standpoint of loans and deposits. I am optimistic that our new bankers, as well as our existing teams, will continue to drive meaningful growth.

Now I'll turn it over to Lance.

LANCE HALL: Thanks, Drake.

Origin is incredibly fortunate to have an amazing team of bankers who share a vision and a purpose to build the best bank in America with a unique approach to corporate culture, serving clients and growing communities. We strongly feel that our award-winning culture and geographic management model create a significant competitive advantage in hiring and retaining the best bankers in our markets.

This strategy, combined with our drive to expand our business in Texas, creates a platform that should allow Origin to consistently drive double-digit growth. As I share with you often, we spend a great deal of time talking with our teams about the concept of being a trusted adviser and the process we go through to manage and build meaningful long-term relationships. Our consistent growth in our core business is a reflection of our bankers putting that philosophy into action.

For the first quarter, total loans held for investment, excluding mortgage warehouse and PPP, increased $160.5 million or 3.6 percent. As Drake mentioned, this is a 14.5 percent annualized growth rate and puts us in a strong position as we begin the year. As planned, we saw the majority of this growth in our Texas market. We also continue to add experienced bankers and mortgage loan officers to an already impressive team of high performers throughout our markets.

On Slide 10, you can see a breakdown of our loan portfolio. I'm pleased with our diversification and the growth we are seeing. We have come down from our historic high levels in our mortgage warehouse book, but we remain in our expected range for 2022 of 8 percent to 10 percent of total loans held for investment.

Our commitment to building meaningful long-term relationships is also evident in our deposit growth for the quarter. Total deposits grew $196.5 million or 3 percent compared to last quarter, and, of that growth, total non-interest-bearing deposits grew $132.2 million or 6.1 percent compared to Q4 '21.

I'm very pleased that our non-interest-bearing deposits currently represent 34 percent of our deposit mix. We have confidence that our strategic plan and talented bankers will continue to drive results and build loyalty throughout our markets.

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

JIMMY CROTWELL: Thanks, Lance. As you can see on Slide 13, there are many reasons to be pleased with our credit quality. Past due loans held for investment to total loans held for investment, net of PPP loans, ended the quarter at 0.42 percent, which favorably compares to the 0.5 percent level reported over the past year. Classified loans held for investment was stable, coming in at 1.36 percent of total loans held for investment net of PPP, which compares to a level of 1.35 percent as of Q4 2021.

This is a 25 percent reduction from the level of a year ago, and we are very pleased with the trend of our classified loans. Nonperforming loans held for investment to total loans held for investment net of PPP reduced, coming in at 0.41 percent, down from a level of 0.63 percent a year ago. Lastly, annualized net charge-offs for the quarter to average loans held for investment came in at 0.14 percent, reducing 8 basis points from the last quarter levels.

It was a solid quarter from a credit perspective, reflecting reduced levels of past dues, stable levels of classified loans, reduced levels of nonperforming loans and reduced levels of net charge-offs. The stability and resiliency of our portfolio continues to be driven by our focus on relationship banking as well as our unwavering focus on sound underwriting and credit structure.

We decreased our allowance for credit losses to $62.2 million, a $2.4 million reduction from the year-end 2021. As of March 31st, 2022, our reserve represented 1.2 percent of loans held for investment and 1.33 percent of loans held for investment net of PPP and mortgage warehouse loans, reducing from levels of 1.23 percent and 1.43 percent respectively.

The decrease in the reserve was driven by the continued improving credit metrics discussed previously, with no material adjustments to our ACL model assumptions based upon economic forecast.

As it pertains to economic forecast, uncertainty remains due to risks related to rising inflation, labor pressures, continued global supply chain disruptions, as well as increased geopolitical risk. As we have shared on our recent calls, we are very pleased with the overall performance and stability of our loan portfolio. I'll now turn it over to Steve.

STEVE BROLLY: Thanks, Jim.

Slide 14 is our yield, cost and loans held for investment portfolio slide. During the first quarter, our total yield on loans held for investment decreased 3 basis points, which includes the impact of PPP loan forgiveness quarter-over-quarter. Excluding the impact of PPP loans, our yield on loans held for investment increased 1 basis point in quarter one, as the Fed didn't raise interest rates until later in the quarter. We anticipate our loan yields will increase, as the Fed is expected to continue their interest rate increases.

The top right graph shows a continued decrease of our cost of funds as our total cost of deposits decreased 2 basis points to 17 basis points for the quarter. Through our relationship-focused approach, our bankers have done a great job managing deposit rates, and we will continue to remain focused on this strategy.

On the bottom left graph, you can see our fixed and variable loan composition. As an asset-sensitive bank, increased interest rates will be beneficial for Origin. If a 100-basis-point parallel shift in interest rates were to occur, we would expect to generate an incremental $18.4 million or 8.1 percent in net interest income.

The bottom right graph shows, at March 31st, 68 percent or $1.3 billion of our prime and one-month LIBOR indexed loans have a current interest rate at or above the floor interest rate. Therefore, these loans have a 100 percent beta to interest rate increases. This amount increased approximately $339 million from Q4 2021.

With an interest rate increase of 50 basis points, 85.4 percent of our loans will have a note interest rate above their floor interest rate and will receive the benefit of the interest rate increase. With a total of 100 basis point increase, 94 percent of our loans will receive this benefit.

Slide 15 shows our recent net interest income and NIM trends. The graph on the left shows our 5-quarter trend of income in NIM. Our total net interest income decreased $1.7 million during the quarter, driven primarily by the decrease in PPP fees and mortgage warehouse average balances. Excluding PPP and mortgage warehouse loans, our net interest income increased from $45 million to $46.2 million or 2.6 percent quarter-over-quarter. We believe that our net interest income will continue to improve throughout 2022.

The graph on the top right shows the change in net interest income, excluding PPP and mortgage warehouse loans. Every component improved compared to the prior quarter, with the exception of an annual dividend received in the fourth quarter from one of our non-marketable equity securities.

The bottom graph shows our NIM quarterly changes, excluding PPP and mortgage warehouse loans, with excess liquidity contributing to the largest impact as our average cash balance increased from $442 million in the fourth quarter to $746 million in the first quarter.

Slide 16, investment securities, is a new slide. The top left graph shows the 5-quarter trend of investment average balance and yield. The growth in balance is due to excess liquidity during the periods presented. The bottom left graph is a 5-quarter trend of our accumulated other comprehensive income or AOCI. As the short end of the yield curve steepened at the end of the first quarter, the net tax effect of the changes in unrealized loss in the fair values of available-for-sale securities was reported through AOCI.

To fund future loan growth, we do not intend to sell any securities with unrealized losses, as we have adequate on-hand liquidity in addition to approximately $50 million a quarter of expected cash flows from these securities and the proven ability to grow our deposit base.

Slide 17 is our net revenue distribution. The top left graph shows our net revenue growth since our IPO. During the first quarter, non-interest income represented 23 percent of our net revenue. The bottom left graph details our non-interest income lines. Mortgage banking revenues increased 43 percent from the fourth quarter to the first quarter, driven by the increased market rates improving the fair values of our pipeline in MSR.

Insurance commission and fee income, which is a seasonal revenue producer, increased to $6.5 million in the first quarter of 2022 from $3.8 million in the first quarter of 2021 and $2.8 million in the fourth quarter of 2021. The insurance agency acquisition that closed in December 31st, 2021, contributed an additional $1.5 million this quarter.

The top right graph details the components of other non-interest income. Contributing to the $363,000 loss of limited partnership income was a $2.2 million decline in fair value from one investment. This represents a reversal of the fair value gain from the investment in the third quarter 2021.

Slide 18, our non-interest expense analysis. We reported total non-interest expense of $42.7 million, an increase of $2.4 million and in line with our expected $43 million quarterly run rate, including $346,000 of intangible amortization. Insurance agency acquisitions mentioned earlier added $1.2 million of non-interest expense.

Moving to the next slide. Similar to the change in NIM, our excess liquidity and growth of investment securities were the primary contributors to the lower leverage ratio. The bottom right graph reports the details of the change in our leverage ratio. Overall, as you can see, referencing the trends in our regulatory capital ratios, we continue to be well capitalized.

Now I'll turn it over to Drake.

MILLS: Thanks, Steve. We have a lot to be excited about this quarter. Even in this competitive environment, our bankers were able to drive strong growth. Origin remains focused on building meaningful relationships that drive long-term value. Because of our strategic investment in Dallas, Fort Worth and Houston, we have the luxury of not having to chase deals at the expense of yield, duration and credit quality for the sake of growth.

This is a strategy that our entire team is committed to, and we are proving that we can execute on that strategy while achieving our targeted low double-digit loan growth.

Origin is positioned to capitalize on the opportunities in our market and will benefit from a rising rate environment. We benefit from the new lift-outs over the past year. We benefit from the impressive teams who create value through our culture and our trusted adviser philosophy.

We also believe we benefit significantly through our partnership with BTH Bank. I'm very pleased with where we are in the process, and, as I said on our announcement call, this partnership gives Origin meaningful expansion across the I-20 corridor in east Texas and strengthens us in Dallas and Fort Worth. We have an incredible opportunity to add to what BTH has built in the attractive east Texas market.

In closing, we did announce the increase of our quarterly dividend, which signifies our continued belief that we are in a strong position to consistently execute at a high level and provide value to our employees, customers, communities and shareholders.

Thank you for being on the call today, and now we're opening it up for questions.

OPERATOR: Thank you. The floor is now open for questions. If you do have a question you may press “star,” “1” on your telephone keypad at this time. if you’re using a speaker phone we ask that while posing your question you pick up your handset to provide the best sound quality.

Again, if you have a question or comment please press “star” “1” on your telephone keypad at this time. Please hold a moment while we poll for questions. We'll take our first question today from Matt Olney with Stephens. Please go ahead, sir

MATT OLNEY: Hey thanks, good morning everybody. I want to dig in on deposit growth. Really strong numbers in 1Q. Anything particularly driving this strong growth of deposits? Anything chunky? It seems like lots of your peers are seeing more moderate deposit growth at this point. And then kind of part two to the question that's related is around deployment of excess liquidity. We saw some of that in the first quarter. We'd love to hear updated plans about further deployment of liquidity throughout the year.

MILLS: Yes. Matt, first, I'll start off on - we have to recognize that adding 9 team members in the fourth quarter, 7 in the first quarter - these people have been extremely productive moving over their relationships, relationships they've dealt with for years. In the deposit side, that was a significant impact for us. So this is core growth. You saw the core deposit growth. You saw the increase in non-interest-bearing deposit growth, which is meaningful.

And you've heard me for years say I'm never going to take my foot off the gas on growing core deposits. Liquidity, obviously, is strong, and for us it was impactful, not only negatively in NIM, but giving us opportunities for deployment. So we feel very good about - obviously, we see a slowdown in this growth, but this is production from these relationship managers, and I feel like it's sticky production.

So from there, obviously, we are getting busy trying to deploy some of that cash. And it's difficult to get super aggressive with that, and you saw the impact of that cash to NIM because of the potential interest rate increases and what we're having to deal with there, but we were able to put some of that to work in our investment portfolio. We feel pretty good using some SBAs and things like that that are - have been impactful in giving us a little bit more yield.

But the other side of the deployment of cash is we saw significant tax payments and a reduction of cash in the last few months or last few months - last month. And so, with that reduction, I think we're seeing that across - for instance, we're sitting here today. I know there's a big concern about 10B and managing that position. I feel very good about our strategies and how we're managing it.

And I will tell you, because of tax payments, because of chasing off some higher-cost deposits that - because of these relationships that we're bringing over and their deposits, now we're chasing off higher-cost deposits. We're sitting here at $7.7 billion today and continuing to reduce those high-cost deposits, putting us in a very good position to be able to manage that 10B project going into the end of the year.

We also have relationships that we will be able to overnight at the end of the year. So we have a tremendous amount of work internally going on to manage that process, so we're going to try to reduce cash. Today, cash is somewhere around $290 million, so we're in a better position, but we have a number of levers to pull to continue to manage this 10B project, and I feel very good about where we are.

OLNEY: OK. That's great, Drake. And then, I guess switching gears a little bit, with the Fed about to raise rates again, and probably a lot more aggressively, at the next few meetings, would love to hear about expectations you have for the bank with respect to both loan betas, deposit betas that you're anticipating.

And I think we can go back and look at the bank's sensitivity to the last rate cycle in 2015 to 2018, so I would love to hear how you view the bank's positioning to higher rates today compared to maybe back in that 2015, 2016 time frame before the Fed raised rates last cycle.

MILLS: Yes. I think, on the deposit base - and Steve has done a tremendous amount of work in understanding because we wanted to get a grasp on really what the percentage of total deposits indexed deposits were and the impact that was going to have. So 7 percent of our deposits are indexed, and these are relationships we have that we've had for a number of years that are meaningful. So that number came in more favorable than I thought it would, so we, at this point, are projecting betas in that 50 percent to 60 percent range on the deposit side.

We feel that that's probably a little higher, but we're - that's what we're basing on from the standpoint of being able to offset that on the betas on the loan side, because obviously, being as sensitive as we are, these increases are going to be favorable. We're seeing yields and loans pick up in each one of our markets, and I suspect, going into midpoint of the second quarter, that we'll start to see low fore-handles on our new deals, which will start to help us in that range.

So loan betas - Steve, I don't know if you've had a good feel for loan betas overall, but we certainly think that we're at the bottom, or we've basically gone through, with the next 25 basis point, all our floors, and so we'll have a full impact of the next rise or raise, depending on whether it's 25 or 50. Go ahead, Steve.

BROLLY: And Matt, just when Drake said 50 percent to 60 percent beta, that is after a total of 150 basis points increase, so we do have a lag. So, for this quarter, we're not expecting anything close to 60 percent. As we said last quarter, the first 100 basis points, we are going to keep as much as we can to a 0 percent beta, and we can't do that to 7 percent of our deposits, but, for the other 93 percent, we really think we're going to be able to lag that.

However, after May, if there's another 50 basis points, that's cumulative to 75 percent, and that's when you may be able to see - June, July, that's when you may be able to see the 60 percent total beta, but not until then.

OLNEY: OK. That's good commentary. And, just following up on that point, you mentioned indexed deposits just 7 percent currently. Any guesses or estimates of what this would have compared to a few years ago, back in that 2015 time frame?

MILLS: I think in 2015 we probably were somewhat short of 7 percent because of recent relationships that we've used to manage those rates as they went down. So I would probably say that, Matt, and this is a guess, I'll go back and do a little work on this, but I'm going to say we were in the 4 percent to 5 percent range, potentially, versus where we are at 7 percent today.

OLNEY: OK. Thanks guys. I'll hop back in the queue.

MILLS: Thank you, Matt.

OPERATOR: As a reminder, ladies and gentlemen, if you do have a question or comment you may press “star” “1” on your telephone keypad at this time. Again, that’s “star” “1” if you’d like to queue up for a question. We'll take our next question from Kevin Fitzsimmons with D.A. Davidson. Sir, the floor is yours.

KEVIN FITZSIMMONS: Hey, good morning guys.

MILLS: Good morning, Kevin.

FITZSIMMONS: Hey, just a question on the hire - the pace of hiring, Drake. So you mentioned how adding nine members in fourth quarter and 7 in first quarter, and now you've got BTH coming on board. I'm just wondering - and at the same time, there's large mergers that are going on or have gone on in or around your footprint.

I'm just curious how you weigh that maybe ongoing opportunity of being able to hire producers like that versus the, well, maybe with all this movement we've had, taken the foot - not taken the foot off the gas, but taken the foot off the gas a bit on hiring to allow some of their progress and their results on the top line to come through and to show on core profitability.

I'm just wondering how you weigh that, or do you not? Do you just kind of - when the opportunities come, you just take them, and sometimes you get more during certain times than others? Just curious.

MILLS: Kevin, this is what we've built this institution on: this strategy and how we've managed this. Now, the opportunity comes in different forms. Obviously, the dislocation in the market and the activity that we're seeing is providing some significant opportunities for us, but on the other side, we are - our strategy is to maintain our portfolio mix. So what that means is we can't bring on, let's say, 10 real estate producers. We are C&I focused, and we will continue to do that. We happen to have what I think is a very good opportunity to add C&I producers.

For instance, even though you think that C&I looked flat this past quarter, 50 percent almost of our real estate production was owner-occupied, which is categorized, and should be, as C&I. So, in reality, we had strong C&I growth because of the type of relationship people we're putting on. So we have passed on, in the last 3 quarters, a couple of big-time real estate producers because they just did - they were, what I would say, giant killers on those type of deals.

So, in our world, we're going to continue to build the C&I presence through these lenders as we have the opportunity to do that. I don't know that this opportunity will continue, because of the potential markets. But right now, we have opportunity. We're going to take advantage of it, because that's how we continue to build this organization.

FITZSIMMONS: Got it. And just wanted to ask about warehouse. So warehouse - I think I heard earlier in the call about the outlook for keeping that to 8 percent to 10 percent of the loans in 2022. So is that - I think it's at 10 percent today. So does that imply we might have a little more room to go down in terms of the volume, but then we're getting close to a bottom?

MILLS: Well, I'll remind everyone that right size and mortgage warehouse has been a project for the last several months because of the activity and all the bulge lines and the number of things that we did. Our outlook for Q2 and Q3 is somewhere around that $500 million mark, maybe slightly lower than that, but we feel that we can keep that in that 9 percent to 10 percent range, and that's where traditionally we would like to run mortgage warehouse.

So I feel good about where we are, and, based on the projections that's coming out of that team, they're saying Q2, Q3, $500 million plus or minus, and Q4 is a little difficult to plan at this point. But historically - and the reason I say that is, historically, we get a lift in the fourth quarter. But I'm extremely concerned about inventory, what we're seeing in mortgage production.

Even though we have a significant number of applications to be able to fill those through because of lack of inventory, I think we'll have maybe a negative impact in the fourth quarter mortgage warehouse. But that's where we stand today.

FITZSIMMONS: OK. One last one for me on credit. I mean, credit - the trends appear solid and they're all moving in the right direction, and you guys appear to have a very healthy reserve, especially when you're backing out the warehouse and PPP, which I think is the right way to look at it. And, Drake, you've been very forward-looking in terms of telling us sectors that you wanted to kind of avoid, or you've had this very proactive client selection process over the past few years too.

So I'm wondering how you're feeling right now. On one hand, credit's great. On the other hand, there's this increased concern about the economy, just given the things you guys mentioned earlier. So I'm wondering how you're feeling just generally and if there's any specific types of loans or areas you'd be avoiding.

MILLS: Kevin, I think you might have this room miked, because the last couple of weeks, we've been doing a tremendous amount of work around understanding. It's easy to run an institution like this when times are good. When you understand that, because of potential recession, the aggressiveness of the Fed, a number of different things, and certainly what we saw today with a decline in productivity, you start to look at really where are the holes, where do you plan, where do you manage that process.

And as I've told our team, we're not going through a negative credit cycle. And I'll go back to 2008, 2009 and 2010, when we had strong production with an average loss of 12 basis points per year during those years. So we are identifying areas, as we have through the pandemic and other areas.

For instance, we've had significant conversations around areas that, when consumer spending slows and when those type of things around hotels and a number of different retail environments that we saw in 2008 and 2009 and 2010 decline, what is that impact - how does that impact our portfolio?

I will say the team that we have today with Jim Crotwell and Preston Moore and what they're doing is so significant from a risk management standpoint and how they look at this that, for instance, we will continue to reduce assisted living. We'll continue to reduce and look very closely at retail. We have worked diligently on office, and I know that people aren't as concerned with office. I still remain concerned with office, and this is an area that we are doing deep dives in.

Had some - we've had some great gifts recently of some of those leaving that we wanted to chase off. So, even though things are good, we see good growth, our credit metrics and our profile is better than it's ever been, we're looking at exactly where those concerns are. So our C&I, for instance - I have worked the last two weeks to understand exactly how that - the diversification of that portfolio works and where the real concentrations are.

And it is meaningful to sit here and look at a detailed list of aspects of that - of those industries and know that our concentrations are in that 3 percent and 4 percent of the portfolio. So to be able to do that type of work and understand it, and I am pretty - even though we know that there's issues coming, I feel still very good about the strength of this portfolio and how it's - so I'm still bullish on what we're being able to accomplish.

Go ahead, Lance.

HALL: Yes. Kevin, this is Lance. I want to go back and actually talk about when you asked the lift-out question. For us, the lift-out strategy is just as much about credit quality it is about production. So for us, with the luxury of the dynamic markets we're in, plus the ability to continue to bring over experienced production individuals, we feel like we don't have to reach as much into new loan opportunities that we may not be knowledgeable about, have to cold-call, have to bid against others.

We are dragging over relationships that have had long-term history with these production managers and RMs, which gives us tremendous insight. So, for us, the strategy is around high-quality vetting on the front end of these production individuals to make sure that they fit our culture, to make sure our credit quality, the portfolios that they're going to be bringing over fit what we want from a strategy perspective. So you go back to the strategic plan. If you talk about lift-outs, yes, it's production, but it's also heavily about credit.

FITZSIMMONS: Yes, Lance, that's a great point. A loan moving over to you can be a lower-risk loan than a new one to make. Yes, that's a great point. Thank you guys very much.

MILLS: Kevin, thank you.

OPERATOR: Once more if you do have a question or comment you may press “star” “1” on your telephone keypad at this time. For our next question, we'll return to Matt Olney with Stephens. Sir, the floor is yours.

OLNEY: Thanks for taking a follow-up. On the insurance side, some really nice growth in the first quarter. I think you disclosed a chunk of that was from the acquisitions that you closed in 1Q, but just curious if there's anything else driving that higher insurance number, whether it's contingent commissions, higher renewals - just trying to appreciate where that insurance revenue could be over the next few quarters.

MILLS: Yes, Matt, it's a three-legged stool at this point with growth - client growth. Contingent income is strong because of profit sharing and market outlook on losses, so we're in a very good position there. We've seen a slight tick on commission levels. But overall - and then, obviously, the hard market is - certainly, we're seeing some increase in premium, so that's what's driving it.

Where we were sitting at the beginning of the year thinking that insurance was going to produce around $20 million of revenue, we're probably sitting here today at $21 million of revenue and outlook. So, feeling very good about that, looking for opportunities to enhance those - that - those revenues through footprint acquisitions and still remaining active there.

OLNEY: OK. Great. And I guess, switching gears, on the expense side, Steve, where would you point us to as far as a starting point for the 2Q earnings run rate?

BROLLY: Matt, as we said last quarter, we expect about $43 million for the next 3 quarters. And so we're slightly under that this quarter, and we feel that the next 3 quarters we will have approximately a $43 million run rate.

OLNEY: OK. Good. And then BTH, I guess, since we last spoke on the deal announcement, we would love to hear any other updates on their first quarter or any updates on how you see that coming together.

MILLS: As I said in my comments I am tickled with the integration process we're going through. One of the real surprise - and I shouldn't say surprise, but one of the aspects that continues to make me feel just really good about this partnership and this opportunity is the quality of people they have and how they manage risk and how they think about client selection and a number of the things they do, has just been so impressive, and getting to know them and getting to know more of their people and how they think - this has been rewarding.

And when I tell you that - we joked a little bit about this being a unicorn, but when I tell you, they truly are amazing what these people have been able to do from a growth perspective with efficiency. I think we need to take some lessons from them and see if we can pick up some of those things, but I am tickled where we are.

I'm tickled with the regulatory outlook on this and how we're dealing with our regulators and how they feel. So a number of positive things that are going in. And obviously, as you know, we hired Derek McGee, and what a find that's been for us. So he's made that process more efficient, and certainly more enjoyable.

So outside of putting up with him a little bit, but this has been a great opportunity for us. So I am tickled where we are with BTH and feel like the integration process - we have our conversion date set. We just need to get that regulatory approval and get going down the road. But I think they are excited. I know we are, and we're going to continue to do things that's going to make this a very successful integration process.

OLNEY: Great. And then, on the lift-out strategy, you've already disclosed some of the new team members from last quarter and from this quarter and how you're thinking about the operating leverage. I guess I'm kind of curious of where some of these team members - these newer team members - are coming from.

And I guess we - from our side, we see 3 or 4 larger M&A deals in Texas that have been announced, and some of them have been closed over the last year or so. I'm curious if you're benefiting directly from some of that disruption, or are the recruiting efforts that are successful in Texas just more broad and not really specific to those institutions?

HALL: Yes. Hey, Matt, this is Lance. I would say last year it was a little more concentrated around BBVA and a few others. Q1 this year, we have 3 in Dallas, one in Frisco, a couple in Houston, and then we have two strong mortgage loan officers we're excited about, one in Oxford, Mississippi, one in Houston. Those are really more spread out - sort of ones and twos versus larger teams.

That strategy has been working for us, and I think it's - opportunities kind of keep coming to us as we grow larger and people get to understand our culture better. So obviously we're mindful of the disruption, and we're watching it closely. We have a strategic board of talent in our markets of understanding who we want to attract and who we want to actively go after. This quarter, I would say it was spread out.

OLNEY: OK. Thanks for that, Lance. And then just last question for me is around the core loan yields. If I back out PPP, it looks like the core loan yields improved this quarter. They're kind of sitting there in that low 4 percent range. I think, Drake, maybe in your opening comments, you mentioned expectations for some of the newer loans to have a low fore-handle on them as well. I just want to clarify that, and just any general commentary as far as expectations, and curious how much pressure you're seeing on overall loan yields at this point, if any. Thanks.

MILLS: Yes. I'm going to let Steve answer the question, but, Matt, I don't want to mislead anyone to say there's not pressure on loan yields. We passed up, I think, Lance, six deals in this past couple of month...

HALL: Yes.

MILLS: That were significant rate issues. So duration and rates have been a problem and, as I said in my opening comments, we weren't going to do deals at the expense of rate, duration and quality, so...

HALL: Yes, Matt, I'll just tell you anecdotally, from what we're putting on the books, what we're seeing come through loan committee, I'm honestly surprised at the rates that we're seeing from - the rates and the duration that we're seeing in competition right now. We have - we have let multiple things walk. We've passed on opportunities where we're just still seeing a lot of competition doing 7- and 10-year fix in the low threes.

And I just think that's a long-term mistake that some of our competitors are making. We feel like we have the luxury of the production teams, the lift-out teams we're adding, the market of Dallas and Houston, that we don't have to get trapped in those mistakes. And so we're being mindful. So, even though we grew 14.5 percent annualized, it could have been a lot more than that. but we're going to stick to our guns on what we think are long-term right decisions around pricing and duration.

MILLS: Steve, you might want to go ahead and talk about the loan yields.

BROLLY: Two things, Matt. If you remember, the Fed increased on March 17, but most of our contracts are end of the month, and so we won't have anything in the first quarter of that 25 basis points, so we expect that full 25 basis points in the second quarter. If you look at just the coupons - this is not the fees or anything else - our coupons for the last 4 quarters, overall, $363 in Q2, $373 Q3, $376 Q4, and then this past quarter, $384.

So you see that our coupons are definitely increasing. And once - we only had $20 million left of PPP loans. Once that goes, we'll be better - and the warehouse has come down to a more normalized level, so I think you're going to see those rates continue to increase.

HALL: Yes. Matt, maybe last comment, and this is sort of overarching when it comes to lift-outs and production. Really excited when I looked at Q1 of '22 versus Q1 of '21. Our new loan and line production was up 22 percent over that period. Loan fee income, that'd be loans, letter of credits and swaps, was up 38 percent this quarter compared to the quarter a year ago, and treasury management fees are up 24 percent. And that is simply continuing to put on quality relationships based from these quality bankers. And so, on the production side, I'm extremely pleased.

OLNEY: All right, guys. Congrats on the quarter.

MILLS: Thank you, Matt.

OPERATOR: There appear to be no further questions at this time. I would now like to turn the call back over for closing remarks. Mr. Mills?

MILLS: Yes. Thank you - thank each one of you for being online. I want to make this point. I am so proud of this team, because we are staying - we are focused on what we really do well. As our Chief Risk Officer says, we're sticking to our knitting. We are staying very focused on quality, pricing, duration, true relationships, passing on deals.

I mean, we just have this unwavering focus on sound underwriting and structure, and it is paying off. So when you look at 14.5 percent annualized growth, that is growth that we think is sustainable and growth that we feel is going to be profitable in the long haul.

So thank you for listening today, thank you for your partnership and your investment, and we look forward to seeing you in the future.

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