Origin Bancorp, Inc. Second Quarter 2023 Earnings Call Transcript

Transcribed By:

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Chris Reigelman

Good morning. Thank you for joining us today. We issued our earnings press release yesterday afternoon, a copy of which is available on our website along with the slide presentation that we will refer to during this call.

Please refer to page two 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 our Safe Harbor statements are available on page seven of 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, President and CEO of Origin Bank Lance Hall, our Chief Financial Officer Wally Wallace, Chief Risk Officer Jim Crotwell, our Chief Accounting Officer Steve Brolly, and our Chief Credit & Banking Officer Preston Moore. After this presentation, we'll be happy to address any questions you may have. Drake, the call is yours.

Drake Mills

Thanks, Chris. As we enter the second half of the year of uncertainty, I am very pleased with our overall performance today. Economic activity remains robust throughout our footprint with strong credit conditions. As the deposit wars continued to rage, we are committed to our strategy of exiting in the cycle in a position that allows us to take advantage of opportunities that fit our model. I am proud of the way our bankers remain laser focused on relationship pricing, credit quality and client acquisition as we navigate our market opportunity. Our culture continues to be at the forefront of how we make better decisions and building our company moving forward to success our bankers are enjoying with new relationship acquisitions has been impressive. As an example, net account openings are up 15% year over year. This is a testament to our lift out strategy, as well as our focus to create deeper banking relationships with existing clients. This quarter's results were in line with our expectations. We finished the quarter with total assets of $10.2B though we still anticipate we will finish the year, under the $10B mark, tangible common equity ratio at the end of the quarter was 8.3% tangible book value grew again this quarter to $26.71. Credit quality remains strong with annualized net charge off to loans for the quarter of just 10 basis points and non-performing loans at just 44 basis points. I've been with this company for 40 plus years and leading it for more than two and a half decades. My confidence in his management team as strong as it's ever been, yes, this cycle will have a short term impact. But as we have throughout our long history, we will come out stronger than before. We continue to invest in our employees, technology and infrastructure while remaining diligent with expense management. We remain focused on executing our long term strategy and continue to provide value to stakeholders. Now I'll turn it over to Lance.

Lance Hall

Thanks Drake. Our market Presidents and Bankers clearly understand that we have to be smart in these types of cycles. And that to drive sustainable value we must stay focused on building long term relationships that value a community banking model. I consistently reinforce our commitment to our vision and to our trusted advisor philosophy. Strategically executing on this commitment remains at the center of what we do. In this period where deposit costs are rising and margins compressing across our industry, we feel it is critical to continue to focus on technology as an essential tool to drive efficiencies, eliminate manual processes, improve the speed of delivery, as well as enhance the overall client experience. We continue to grow our robotics process automation, have recently partnered with a FinTech to enhance our call center and chat experience. And they've created real time data dashboards for our execs and relationship bankers. This focus on data analytics has given us deeper insight into our deposit client trends and behaviors. From this data, we are clearly observing, hidden by industry deposit loss and the cyclicality of our public funds, that origin is experiencing meaningful growth in new deposit clients, and new deposit accounts in 2023. From the data and surveys, we can see that our teams understand and are executing on our process. And our strategy of lifting out strong banking team has been very successful.

As Drake mentioned in his opening, our net deposit account openings have increased 15% in the second quarter compared to the same period last year. Also, new deposit customer accounts are up 26% in the second quarter of 2023 compared to the same period last year. We will continue to focus on adding new customers and growing deposits through the second half of the year. On top of our existing 2023 banker incentive plan, we recently launched a new deposit specific initiative with our producers and within our banking centers that will strongly assent new deposit growth. We continue to communicate our deposit growth will govern our loan growth, and that remains top of mind as we strategically loan into this cycle. We remain focused on pricing discipline and strong credit quality, while never losing our relationship based approach to grow in our clients. Our bankers remain disciplined with client selection and growing loans, and our pipeline remained strong throughout 2023. Our commitment to our culture, delivering for our clients and executing on our long term strategy guides us and all that we do. I continue to be confident in our bankers and delivering meaningful results and providing value for all of our stakeholders. Now, I'll turn it over to Jim.

Jim Crotwell

Thanks, Lance. Our constant focus on relationship banking continues to deliver a well-diversified loan portfolio and as the driver for our continued sound credit profile, as reflected on slide 12, past due loans held for investment increased to 0.26% as of 6/30, from a level of 0.16% as of the prior quarter end and compares favorably to historical levels of 0.50% and 0.42% as of 12/31/2021, and 3/31/2022. Non-performing loans as a percentage of loans held for investment continues to normalize, increasing to 0.44% as of 6/30, from 0.23% as of 3/31 of this year, and compares to levels of 0.49% and 0.41% as of 12/31/2021, and 3/31/2022. As reflected in our earnings release, a significant contributor in the increase in non-performing loans held for investment was a transfer of $7.1M in non-performing mortgage loans hailed from the hill for sale to the hill for investment, the vast majority of which carried government guarantees. We continue to diligently monitor our loan portfolio and proactively address any identified issues. These ongoing efforts resulted in the $1.9M reduction and our overall level of classified loan sale for investment from 1.17% as of 3/31 to 1.11% as of 6/30. Annualized net charge offs for the quarter came in at 0.10% and compares stable to the 0.12% level for Q2 2022. For the quarter, our allowance for credit losses increased $2.3M to $94.4M, slightly decreasing from 1.25% to 1.24%, as a percentage of total loan sale for investments. This percentage reduction was primarily the result of mortgage warehouse loan growth for the quarter, which requires a nominal reserve, due to the strong historical performance of this segment. Net our mortgage warehouse we did build our reserve from 1.30% as of 3/31, to 1.32% as of the quarter and as to reserve levels, we continue to balance our sound credit quality and the resiliency of our loan portfolio with continued economic headwinds. In the event, we do experience an economic recession, we continue to believe that the markets we serve will also be more resilient to its impact than other areas of the country.

On slide 13, we have updated the additional information on our CRE office portfolio that we shared last quarter as of 6/30, this segment of our portfolio total $389M with an average loan size of only $2.2M. The credit profile this segment will remain sound, reflecting a weighted average loan to value of 53.8%. No past dues, only 0.22% and classifies no non-performing and no charge offs. This segment of our portfolio continues its sound performance driven by our relationship focus. In summary, we continue to be pleased with the performance and position of our loan portfolio. I'll now turn it over to Wally.

Wally Wallace

Thanks, Jim and good morning everyone. Turning to the financial highlights in Q2 we reported diluted earnings per share of $0.70. On an adjusted basis Q2 EPS were $0.69 after excluding a $471K gain on the retirement of $5M of our sub debt that we repurchased during the quarter. Starting with deposits, we continued to see a shift of non-interest bearing deposits into interest bearing accounts. As a result, non-interest bearing deposits declined 5.5% this quarter, and the mix fell to 25% of total deposits in Q2 from 28% in Q1 and from their peak of 35% last Q2.

Importantly, the pace of the decline in Q2 was a deceleration from the pace we saw in Q1, which we view positively. However, we do anticipate some additional pressures over the next couple of quarters to our non-interest bearing deposit mix. Ultimately, combined with the continued need to price up interest bearing deposits, our deposit betas continued to increase from 35% in Q1 to 42% in Q2, which is adding continued pressure to our net interest margin. We continue to expect our deposit beta will increase in the second half of the year. These deposit pressures continue to outstrip rising loan yields and our net interest margin contracted 28 basis points during the quarter to 3.16% as a result. Excluding $530K in net accounting accretion, our adjusted NEM contracted 22 basis points to 3.14% from 3.36% in Q1.

Notably, this rate of contraction was lower than the 37 basis points of contraction from Q4 to Q1. Additionally, while we paid off our excess liquidity during the quarter, we still held portions of it throughout, which added 12 basis points of pressure to Q2 versus six basis points in Q1. Importantly, while down sequentially, our net interest margin and net interest income for Q2 were both generally in line with our expectations, giving us more confidence in our forward estimates. So while we expect rising deposit betas to continue to pressure net interest margin in Q3 and Q4, we see these pressures waning through each quarter.

Shifting to fee income, we reported $15.6M in Q2, excluding the $471K gain on the retirement of sub debt mentioned previously, our adjusted fee income was $15.2M down from $16.2M in Q1. The primary drivers of this decline were lapping the seasonal strength in our insurance business from Q1 and a decline in our mortgage banking segment revenue as mortgage trends remain relatively weak in the current interest rate environment. Our non-interest expense increased to $58.9M from $56.8M in Q1.

Growth in salaries and benefits, regulatory assessments and office and operations lines are the primary drivers of this increase. Notably, Q2 growth was actually slightly better than our expectations due to a renewed focus on expense management in the current environment, and we anticipate relatively stable expense levels in the second half of the year.

Turning to capital, our TCE ratio remained above 8%, ending the quarter at 8.3%. Furthermore, as shown on slide 21 of our investor presentation, all of our regulatory capital levels at both the bank and holding company remained above levels considered well capitalized, even if we were to include our AOCI losses in the calculations. To close with an immaterial level of securities classified as held to maturity, we remain confident that we have the capital flexibility to take advantage of any potential future capital deployment opportunities to drive value for our shareholders. With that, I'll now turn it back to Drake.

Drake Mills

Thanks, Wally. As I've traveled throughout our markets this past quarter, I'm reminded of how special Origin is. We have an incredible team of people who have a shared vision of who we are and what we can accomplish. Our markets are diversified across our three-state footprint, including a wealth of dynamic growth opportunities and our metropolitan larger markets, coupled with a stable economy in our rural markets. While we were not public at the time, I think back to how our bank was well positioned going into the '08-'09 downturn, and how we were able to capitalize on opportunities and build relationships that are still with us today. We are positioned to do the same in 2023, and I'm optimistic about what we will accomplish. Thanks to our employees who continue to do an incredible job of living out our culture and serving our customers and communities in a dynamic way. Thank you for being on the call today. We'll open up the call for questions.

Evercall Moderator

Thank you. At this time we'll conduct the question and answer session. If you would like to ask a question, please press *1 on your telephone keypad to enter the queue. If you have joined via web, please press the raise hand icon on the right hand side of your DealRoadshow screen. Again, that's *1 on your telephone keypad, or the raise hand icon on the right hand side of your DealRoadshow screen. We will pause briefly to allow any questions to generate. Our first question comes from Matt at Stephens Inc. Matt, your line is open.

Matt Olney (Stephens Inc)

Great, thanks. Good morning everybody.

Drake Mills

Good morning, Matt.

Matt Olney (Stephens Inc)

I want to start with loan growth and if I take out the mortgage warehouse trends that were strong this quarter, it looks like kind of the core loan growth trends slowed in 2Q from the pace that we saw in 1Q and I guess if I just kind of dig down look by segment, it looked like it the slowdown was mostly from the C&I category. Any general commentary on loan growth and C&I and C&I utilizations and just more broadly, just I'd love to hear your thoughts on borrower appetite. Thanks.

Lance Hall

Yeah, hey Matt. Good morning, this is Lance. You're exactly right. It's interesting, when you dig into the numbers, our actual new loan production volumes were really in line with what we thought they were going to be. There's an interesting combination of timing around C&I, the same time we saw clients using cash, or commercial clients using cash to pay down debt. So interestingly, our utilization on our C&I lines actually dropped from 51% to 48%. So that was, you know, a little over $100M in that regard. But if we look at pipelines, pipelines remain strong. And so you know, as we think about what the second half looks like, we're going to continue to harp on loan growth is going to be governed by our ability to grow core deposits. And we're going to stay with that. So you know, we would think, for low to mid-single digits on loan growth, I feel like the C&I is definitely going to come, as we've seen some really nice projects through the pipelines, and kind of what we're already seeing in the quarter.

Matt Olney (Stephens Inc.)

Okay, appreciate the commentary, Lance on the loan side, on the credit side in your presentation, you have a nice details there on the office portfolio, I think it’s slide 13 on the debt service coverage ratios, appreciate kind of the stress scenario there with the higher rate that you mentioned in there. We'd love to appreciate any takeaways that team had, once you guys go through the deep dive of office and the stress test. What were your kind of general thoughts on the portfolio? And, you know, how much stress are you anticipating in that portfolio? And then any other details you have on office loans with respect to the maturities? I think we've seen some of your peers detail that in recent weeks. I didn't know if you had anything on office maturities. Thanks.

Jim Crotwell

Matt, good morning, this is Jim. As to the portfolio and how it's performing, we feel really, really good about it. You know, I think it's a direct result of a relationship focus that we have, you know, one of the things we've also talked about is the primary and secondary source of repayment. You know, we have a total portfolio in our CRE office of $380M. The liquidity of the guarantor supporting those credits is $352M. So that speaks to the financial support from a secondary, you know, we share the debt service coverage. We're very pleased when we shocked those that they still performed well, you know, when we looked at the fixed rate only portion of that from a debt service standpoint and shot, you know, it looked quite, we felt really good about that as well, you know, showing 1.75 which shocked it at 1.52. You know one of the other things that we did is we looked at the secondary source repayment from an LTV perspective. You know, the original weighted average LTV for the sector is 54%, which is very, very strong. And when we shocked that at a cap rate of 10%, that stress weighted average LTV is 79%. And lastly, as far as looking forward from any maturities, we only have $5.2M of fixed rate loans in this sector that will reprise this year. And then when you look to '24, we have about $32M is all that will reprise. So all in all feel really, really good about this portfolio and again, is driven by our relationship focus throughout our markets.

Matt Olney (Stephens Inc.)

Perfect. Okay. Thanks for that, Jim. I then guess shifting over towards deposits, deposit growth. I think Wally mentioned expectations for deposit betas to increase in the back half of the year, I would love to get much more general thoughts around this, the back half the year and then as it relates to the margin, thoughts on the margin the back half the year. Thanks.

Wally Wallace

Thanks, Matt. Good morning. So I said in the prepared remarks that we expect, like I said continued increase in deposit betas which will drive some further pressure on margins, maybe to provide some context to how we're thinking about our deposit mix and the impacts to margin in the back half of the year. The key is trying to figure out where our non-interest bearing deposits are going to end up as a percentage of total deposits. So we went back and looked at rather than the cycle, right before COVID, we went and looked back to the cycle 2004 to 2006 that in that cycle the Fed hiked more aggressively. And in this cycle, it's been even more aggressive and that cycle, our non-interest bearing deposits, they bottomed in the mid-teens as a percentage of total deposits. But in that point in time, we were only in Louisiana. So what we did is we said alright, let's assume that our Louisiana non-interest bearing deposits declined to the mid-teens. And then let's look at our Texas markets. Relative to Louisiana, Texas is more CNI heavy and as a result, they have more non-interest bearing deposits as a percentage of total. So when we took Louisiana down, we assumed that our Texas markets shift down, but remain kind of similar to where they are now, on a relative basis, so they come down but they don't come down to the mid-teens. If you put all that together that would suggest that our non-interest bearing deposits would get down into the low 20%. So we are now modeling that decline from 25%, where we ended the 2nd quarter, down to about 20%-21% by the end of the year. And what that has the effect of doing is increasing our deposit betas. We think we'll settle in around 50% on our total cumulative deposit beta and that will drive net interest margin compression in the 3rd quarter and then again in the 4th quarter but at lower rates than what we saw in the 1st and the 2nd quarter. We anticipate that we'll end the year around 3% net interest margin and we are targeting and trying to maintain that level moving forward and ultimately improve on it as we continue to see the impact of more disciplined loan pricing impact the loan side of the equation.

Matt Olney (Stephens Inc.)

Okay that's helpful, Wally, thanks for the commentary. And just following up on one of your points there on the non-interest bearing deposit flows. Any commentary about what you're seeing more in recent months and weeks, any kind of signs of stabilization there more recently? Thanks.

Wally Wallace

Yeah, if you look at what occurred in the 1st quarter, the shift in non-interest bearing deposits was more than double what we saw in the 2nd quarter. So we feel that that is suggesting that there is some stabilization in the trends and we don't want to be too aggressive, we're trying to be conservative in our modeling but we are modeling that that continues to stabilize through the course of the back half of the year.

Matt Olney (Stephens Inc)

Okay, okay guys. Appreciate all the commentary, I'll get back in the queue.

Evercall Moderator

Thank you. Our next question comes from Michael at Raymond James. Michael, your line is open.

Michael Rose (Raymond James)

Hey, good morning guys. Thanks for taking my question. Morning. Maybe just to circle the loop on the margin, so you guys, you know, the wholesale or the excess funding that you guys had kept you guys paid off? It was a 12 basis point drag, I assume you'll get that back but still just given the increase in betas and an IV mix-shift further and IV mix-shift, you're still kind of, with all that you're still expecting the margin down around 3% by the end of the year? Did I understand that right?

Wally Wallace

Yeah, Michael, that's correct. If you adjust for the impacts of the excess liquidity that we had in the 1st quarter and then that we carried in the 2nd quarter, in the 1st quarter you would have shown net interest margin compression of 31 basis points. In the 2nd quarter that was 16 basis points and then in the 3rd quarter, we would expect the rate of decline or compression to decline, say maybe cut in half what we saw on the 2nd quarter and then down to maybe half again in the 4th quarter.

Michael Rose (Raymond James)

Okay, thanks for that. And then I think I heard that you guys were kind of targeting, you know, flattish non-interest expenses for the next quarter. So, can you just talk about, just given the spread compression that you're expected to have just what more you can do to offset you know, some of that? I understand that you're a growth franchise and trying to balance, you know, that with trying to preserve profitability, but what more, you know, can you guys do to kind of offset some of those spreading compressors? Thanks.

Drake Mills

Hello, this is Drake. Yeah, we have a, what I would call a laser focus owned expense management and areas that aren't being productive for us at this point as we move into the 2nd half of the year. So it's going to be the responsibility of this team to ensure that we continue the momentum we saw the last couple of years of making progress, even though we're going to take a step back from an efficiency standpoint. In ROA, we will continue to focus on areas that are not being productive, and as said just a few minutes ago, and I think we can find some success there. We were, I think, with the footprint growth that we have, what we're focused on from an expense management standpoint doesn't in any way impact the momentum we see from a profitable growth perspective, and that's going to be our focus.

Michael Rose (Raymond James)

Got it. You guys have pretty solid capital ratios. You know, we've seen a few banks that I'd say an increasing number of banks do at least some partial bond portfolio restructurings to help, you know offset something in pressure. Is that something that you guys have or would consider? And, you know, if so, I mean, you know, what these kind of potential size that you could potentially look at? Thanks.

Drake Mills

Yeah, we actually had a couple of projects that Wally was working on before SVB, that gave us some opportunities to take some gains and some areas that would have been beneficial and be able to offset the losses in that portfolio, better position as, when I say better position is probably to pay down debt would be the most efficient way for us to utilize those sales. The concern we had and the optics of that certainly put that on the back burner and I think there's an opportunity for us to move forward with a couple of those projects. So we are going to be looking at every possible trigger we can pull to put ourselves in a better position from my portfolio perspective moving forward. And I just feel like that's going to be top of mind for us in the next two quarters.

Michael Rose (Raymond James)

Alright, maybe finally, for me, we've seen interesting two deals here the past few days. It seems like the chatter is picking up. You know, again, I know your currency is probably not where you want it to be but, you know, can you just talk about your expectations for the M&A environment and you know what you guys would, in theory, be looking for as we move into the next couple of years. Thanks.

Drake Mills

And this is one of the, I would say exciting aspects of this market. There's always opportunities. When you look at challenges and the relationships that we've built in these markets, the opportunity we had with BTH to create a partnership and also a reputation of how we're going to manage these opportunities have been highly beneficial to us. So I'm excited about what the outlook is, I know the currency is not where we want it to be. But when you build partnerships, and you take opportunities, there are opportunities even where the market is today for an upside down the road. So we will. I think that's partially job one for me is to continue to look through those opportunities and hopefully something comes to the forefront that's meaningful. But if we do something, this is our best utilization of capital at this point, it will be meaningful, and it'll be what I think our investors would expect in this type of market.

Michael Rose (Raymond James)

Great, I'll step back. Thanks for taking my question.

Evercall Moderator

Thank you. Our next question comes from Brady at Keefe, Bruyette & Woods. Brady, your line is open.

Brady Gailey (Keefe, Bruyette & Woods (KBW))

Hey, thank you. Good morning, guys.

Drake Mills

Good morning, Brady. How are you today?

Brady Gailey (Keefe, Bruyette & Woods (KBW))

Doing all right. I just wanted to clarify the expense guidance of stated on the back half of this year by looking at the expenses in the first half, it was about $57M and about $59M in 2Q is it based on the 2Q level or kind of an average of the first half of the year?

Wally Wallace

Thanks, Brady. That's a good point. Our expectation is that it'll be flattish from the 2nd quarter number.

Brady Gailey (Keefe, Bruyette & Woods (KBW))

Okay. All right. And then so back under $10B by the end of this year, you'll most certainly probably cross next year. I think in the past, you guys have talked about a Durbin impact about $5M. Is that still the right way to think about it? And is there anything you can do to, you know, offset that revenue headwind?

Drake Mills

Yes, that Durbin impact is about $5M that will hit us mid-year 2025. If we're successful this year, which I think will be, we have talked about non-interest income opportunities that we will continue to , I'd say drive and be successful at, from not only insurance, but some other opportunities that we have. You know, unfortunately for us multiples, as we talked about in the past and on these agencies have gotten a little bit out of hand, in a market where I think is the top of the market from how hard the market is, even though we feel like that'll be extended for a little bit longer period of time. Just not a good time to be there. But I do think mid-year next year, we should be able to see some opportunities up and hopefully get back in there. But we do feel that there is an opportunity to replace that revenue with non-interest income, it makes a tremendous amount of sense.

Brady Gailey (Keefe, Bruyette & Woods (KBW))

Okay, and then finally, for me so low to mid single digit long growth, I think in the past, you guys have talked about, you know, hoping that the positive growth would be even above long growth. So is that still the goal and the right way to think about it for the rest of the year?

Drake Mills

It is and as we said in opening remarks, we, it's interesting, as you know, this institution has always focused on core deposit growth, and we've been seeing core deposit growth for years. But the, some of the activities that we have going on and programs we have going on internally to incent significant deposit growth. And when I say deposit growth, I mean core deposit growth. I think we'll see some success there. And we're starting to see stabilization in a lot of areas. And historically, and I always want to make this point. You go back for the last seven years. The 2nd quarter for us has been a tough deposit quarter because of the outflows not only public funds, but the utilization of non-interest bearing deposits. And you know, there are companies that we typically see a strong move in the 3rd and 4th quarter so we're expecting that in the 3rd quarter. We're expecting a lot of stabilization in the 3rd quarter from a couple of areas of, I am hopeful. I do feel that we're in markets with inward migration that will give us the opportunity to see positive deposit growth but that is a challenge for us at this point. We've been dedicated, committed to maintaining lower than traditional loan deposit ratios and that's what's driving our loan growth this point, but it's also give us an opportunity to, do focus on profitable pricing. And to make sure that we're being highly selective in the credit and credit quality, the client selection process we're going through right now couldn't be more pleased with the relationship manager doing an awesome job. Half focused on the deposit growth, I think we'll see some success.

Brady Gailey (Keefe, Bruyette & Woods (KBW))

All right, great. Thanks, guys.

Drake Mills

Thank you.

Evercall Moderator

Thank you. And our next question comes from Kevin at D.A. Davidson. Kevin, your line is open.

Kevin Fitzsimmons (D.A. Davidson)

Hey, good morning, everyone.

Drake Mills

Good morning, Kevin.

Kevin Fitzsimmons (D.A. Davidson)

Hey Drake, just a follow up on M&A. I know this is a longer term thing, but just given, you know, the focus on deposits today, you've obviously built up the company, mainly organically, and become, you know, a Texas growth story. But do you see your deals, if there are deals, and I'm talking two or three years down the line, are they you know, is it going to be more front of mine? You know, long growth opportunities deeper in Texas and maybe more opportunities in East Texas? Or will you be looking in more slower growth states? Or, you know, good basis of core deposits? Or is it both? I'm just trying to get a sense for where those rank in terms of opportunities.

Drake Mills

Our primary focus, and we have, at this point, say two to three relationships that we continue to build on and that I think could be highly productive for this company. It'd be great partnerships. Those are focused in geographies that we are currently in growth areas that the upside of these opportunities is I have strong rule deposit franchises that are meaningful and always have been meaningful to us. We understand how to build those type of markets. And we do feel that there is a strong need for us to continue to focus on rule deposit for franchising. So that's what we're looking at now, and I hope it's not two to three years, I hope that there's opportunities for these partnerships to form and work for the upside. And that's the approach we're taking, but it's currently focused in footprint is focused on continuing to Texas gross story, core deposit, rule, core deposit opportunities that mean, that makes sense for us. So that's the focus, and that's the opportunities we have at this point.

Kevin Fitzsimmons (DA Davidson)

Great, thank you very much.

Drake Mills

And I would say that, for us to cover up some of this cycles, impact earnings. Those are highlighted more and so earnings and their ability to earn is going to be another driver for those decisions.

Kevin Fitzsimmons (DA Davidson)

Got it. It makes sense. One quick question. I know the low to mid single digit growth for loan that outlook is most likely ex-warehouse. I'm just curious where you see warehouse going from here. I know it had a big bump this quarter. But where do you see those balances going?

Drake Mills

Yeah, I think we'll be down. You know, let's say, you know, $30M-$40M in the 3rd quarter and probably finish up at the end of the year around $300M.

Kevin Fitzsimmons (DA Davidson)

Got it. Okay. Thanks very much. That's all.

Drake Mills

Thank you, Kevin.

Evercall Moderator

Thank you. Once again, ladies and gentlemen, if you would like to ask a question, please press *1 on your telephone keypad to enter the queue. If you have joined via web, please press the raise hand icon on the right hand side of your Deal Roadshow screen. We will pause here briefly to allow any questions to generate.

Our next question comes from Stephen, from Piper Sandler. Stephen, your line is open. You may proceed.

Stephen Scouten (Piper Sandler)

Great, thanks so much. Good morning, everyone. Drake, I just wanted to follow up. You said any potential M&A would be meaningful? I guess I'm just curious what you mean by that explicitly? Is that a comment on what the size of a potential deal could be? And if so, do you have a kind of size range that you think about what becomes meaningful or impactful for you guys at this point?

Drake Mills

Yeah, meaningful to me is that it'll be, it'll hit the metrics that I think investors and myself would like to see from the standpoint our back and the creative nature of it, the impact it has on the deposit franchise as a whole, the ability to grow that deposit franchise, the people that are behind those M&A, and the relationships that are I would say, partnerships and those relationships that we'd bring in that that's meaningful to me, but from a science perspective, it's just getting difficult with the experience and the stress, it has an organization and everything for us to look at a deal that's less than $1B. And I think that's where we try to focus that and above.

Stephen Scouten (Piper Sandler)

Okay, super, that's very helpful. I'm kind of curious how you guys are thinking about balance sheet MIC's composition from this point forward, how you can make the balance sheet more efficient. I guess, maybe somebody said a little bit earlier. And within that, how you think about your securities balances if we would expect those to continue to run down and repurpose those funds in the loan growth or otherwise.

Wally Wallace

Yes Stephen so, we definitely anticipate that we will continue to let the securities portfolio pay off and be replaced with either funding loan growth or paying down borrowings. That comment is outside of any potential opportunity we have to accelerate that mix. I think that our ideal balance sheet kind of securities mix from an optimization standpoint would be in the 12%- 15% range. And I think we think that gives us the proper mix of liquidity to fund loan growth and the ability to provide some yield for the liquidity on the liquidity that we're holding.

Stephen Scouten (Piper Sandler)

Okay, perfect. Thanks Wally, and then maybe just last thing for me, I'm really interested in kind of these digital initiatives and the strength, the new customer acquisition that seems to be coming out of that. Is there any kind of specific wins or specific benefits that you could reference that's really driving that or is it more just an increased blocking and tackling? I'm just curious if you can dig down into those digital initiatives that all the kind of, speak of the benefits?

Lance Hall

Yeah, hey so this is Lance, good question. A couple of things there. Maybe I'll start with, really, for us, we went through the data cleanse, last year, that was incredibly helpful. So we talk about better insights into trends and behaviors. And I think what that showed us this year that maybe we didn't have the ability to see clearly before was, the new client acquisition that we've obtained this year. So that's not a you know, because of the digital, but it's what the data has been able to kind of prove and our ability to call in a more meaningful way and understand why clients are moving to us so, had significant new client acquisition through the first half of the year. Dramatically more than we did the first half of last year. And it's really a function of a really good job from our bankers from calling efforts. But also, we've talked a lot historically about our incentive plans, our incentive plans have always been deposit eccentric and driven. Historically, for us $1 in deposit has been equal to $1 in loans. And so you create a mentality of not having lenders but having true relationship bankers.

In 2023, $1 deposits is more incentive than $1 of loans. And so our bankers understand kind of what we're trying to accomplish. At the same time, we are doing a lot on the digital and technology side, as we talked about, we continue to enhance our robot process and automation, we have a goal of 8K manual hours this year to reduce what are being burdened on our people so that we can create and drive more efficiency. We're excited to partner with a firm called Glia, which is going to be coming in the 2nd half of this year, which is going to be a much more robust and dynamic experience for our clients when it comes to chat and call services. And we continue to kind of try to find best in class, when it comes to mobile and a lot of other areas, I mean we feel for us that technology needs to be a dramatic driver. As you know, we as an industry, I think ultimately, we need to get our efficiency ratios down in the 40s. And I think technology's the way to do it.

Stephen Scouten (Piper Sandler)

Yeah, hard to disagree with that. Appreciate all the color and thanks for the time today.

Drake Mills

David, thank you.

Evercall Moderator

Thank you, and once more if you would like to ask a question, please press *1 on your telephone keypad to enter the queue. And if you joined via web, please press the raise hand icon on the right hand side of your Deal Roadshow screen. We will pause briefly, to allow any questions to generate.

It appears there are currently no further questions, handing it back to Drake Mills with Origin Bancorp for any final remarks.

Drake Mills

You know, thanks. Thanks for everyone for being on the call today. And I'll close with saying that, you know, certainly there are opportunities for us to look at the challenges and the markets we're in. But I cannot be more proud of this organisation the standpoint of the pauses that we're dealing with every day, our geography, we have strong economy, attractive demographics, in where migration, our teams are experienced, they're cohesive, our credit profile was stronger than it's ever been. Our client selection process through our relationship managers has never been better and stronger. And we're talking to the right type of clients, our deposit base, the deep relationships, rural backgrounds and a lot of areas. We continue to see growth, new account openings, new clients and the type of accounts we're bringing over in line with our C&I profiles. And last thing, the opportunities in our geography, as we go through the next two years are strong, we are building relationships that are meaningful, that will be impactful, and they will change the outlook of this organization moving forward. So very proud of our banker activity, the client relationships we have the position we're in. Very proud to be a part of this organization. I appreciate each of you being on the call and I appreciate your support. So we'll see you next time. Thank you.

Evercall Moderator

This concludes today's Evercall. A replay will be made available shortly. Thank you and have a great day.