Origin Bancorp, Inc.

Fourth Quarter and Full Year 2019 Earnings Conference Call

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CORPORATE PARTICIPANTS

Drake Mills, *Chairman, President and CEO, Origin Bancorp, Inc.*

Chris Reigelman, *Vice President, Investor Relations*

Stephen Brolly, *Chief Financial Officer, Origin Bancorp, Inc.*

Lance Hall, *President, Origin Bank*

PRESENTATION

Operator
Good morning and welcome to the Origin Bancorp Fourth Quarter and Full Year 2019 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 1 on your telephone keypad. To withdraw your question, please press star, then 2. 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 being with us. We issued our earnings press release yesterday afternoon, a copy of which is available on our website, along with a slide presentation that we will refer to during this presentation.

Please refer to Slide #2 of our slide presentation, which includes our safe harbor statements regarding forward-looking statements and 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 5 of our earnings release filed with the SEC yesterday.

All comments made during today's call are subject to the safe harbor statements in our slide presentation and earnings release.

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

At this time, I'd like to turn the call over to Drake.

Drake Mills
Thank you, Chris, and good morning. As I think about what we have accomplished in 2019, I am proud of how our team was able to adapt to a changing rate environment, grow deposits and loans in a meaningful way, and manage our company to be a long-term value.

I have a couple things I want to touch on before we get into the full presentation. At the end of 2018, we told everyone that our loan growth would be governed by deposit growth. Internally, we focused a tremendous amount of effort on relationship-based core deposit growth. We have delivered on our deposit growth goal in 2019 in a powerful way, with an 11.8 percent increase in deposits, while reducing our reliance on brokered deposits. Our deposit growth allowed us the ability to grow loans held for investment by 9.3 percent.

In 2018, we laid the foundation for significant organic growth by hiring teams in multiple markets and strategically investing in our employees. As we wrapped up 2018 and entered 2019, we were well positioned to reap the rewards of a rising rate environment. Unfortunately, the environment changed. We saw our loan yields rise in early 2019, followed by contraction in the second half of the year as interest rates decreased. All of this continued while our bankers produced at high levels, growing loans and, more importantly, growing deposits. As interest rates moved lower during the last two quarters, our bankers have been diligent in managing deposit costs. That focus will continue as we move forward.

Overall, I believe we continue to be well positioned to enhance the value of this company.

Now, I will turn it over to Steve who will provide additional details around the financial results for the quarter and the year. Steve.

Stephen Brolly
Thanks Drake. Let's begin with Slide #3, the financial highlights for the quarter. Our net interest income of $44.1 million decreased 1.2 percent compared to the linked quarter and increased 4.8 percent year over year. Our provision for credit losses was down $1.8 million from the linked quarter and up $650,000 compared to the same quarter of the prior year. The linked quarter change was driven by lower charge-offs and loan balance trends. Non-interest income declined from the prior quarter primarily due to decreases in swap fee income and insurance commission and fee income, and non-interest expense increased for the quarter since the third quarter reflected an FDIC assessment credit.

Net interest margin for the quarter was 3.58 percent on a fully tax-equivalent basis, which was a decrease of 11 basis points from the prior quarter, driven by the decrease in market rates during the second half of the year.

Moving to Slide #4, our full year net income was $53.9 million compared to $51.6 million in 2018. The primary driver of this increase was the $20 million, or 13.2 percent, in net interest income, but was offset by higher provision expense and higher non-interest expense. Our tax- equivalent net interest margin for the year was 3.69 percent compared to 3.75 percent for 2018. Our efficiency ratio showed improvement in 2019 as well.

Moving to Slide #5, I want to touch on our loan yields and deposit cost trends. On the top right, you can see a comparison of our loan yield trends over the last five quarters, where we had declined 22 basis points. In comparison, during the same period, the benchmark interest rates have both lost over 40 basis points, on average. In the bottom right, you can see our funding costs. The value of our non-interest-bearing deposits has created a 40-basis point reduction in deposit costs in the fourth quarter compared to 35 basis points of reduction in the prior year fourth quarter. We are really seeing the efforts to manage deposit costs pay off in the fourth quarter as we have reduced the total cost of deposits by 10 percent, or 12 basis points, from the linked quarter.

On Slide #6, while our non-interest revenue was down in the quarter, that was due to a third quarter swap-production volume that generated high fees. I want to point out the positive trend in mortgage banking revenue, as we have gone from quarterly revenue of $2.3 million in the prior year fourth quarter to $3.4 million in the current quarter, with a steady upward trend driven largely by a successful focus on retail mortgage production.

On Slide #7, we show some non-interest expense trends. In the prior quarters, we had discussed an adjusted non-interest expense rate for Q2 and Q3, and our fourth quarter results came in line with our expectations, at $36.5 million. In the bottom right, you can see the efficiency ratio for the current quarter is in line with our prior year fourth quarter efficiency ratio, but I want to touch on the NIE-to-average-asset ratio. We are trending downward during the year, due to our focus on expenses, to efficiently grow earning assets using our investments in teams and employees Drake mentioned at the beginning of the call.

Lance will now give us an overview of our loan and deposit results and credit quality.

Lance Hall
Thanks Steve. As Drake mentioned in his opening remarks, we continue to be really pleased with how productive our bankers have been at building relationships and driving deposit and loan growth throughout the year. Our bankers have not only focused on asset growth, but I am really pleased with the fee generation we have seen in the last year.

Because the deposit growth during the year was so meaningful, I want to take a minute and touch on that on Slide #8. I am extremely proud of the way our bankers responded to the challenge of growing deposits at such a high level. We increased deposits by $446 million during 2019, which is net of a $179 million reduction in brokered deposit balances. That means our bankers were able to grow core deposits by $625 million, or 18.1 percent, in 2019. Not only that, Steve previously touched on deposit and funding costs, and the fourth quarter cost of deposits is 1.04 percent compared to the prior year fourth quarter cost at 96 basis points.

In the bottom right of the slide, you can see the deposit changes by state. I want to highlight the growth across all of our states and markets during the year. Texas and Mississippi showed impressive growth, while Louisiana continues to show steady deposit growth and remains a key funding source for loan growth throughout the markets, with a 2019 cost of deposits of 87 basis points.

On Slide #9 you can see a snapshot of our loan portfolio at year end. Loans held for investment ended the year up $354 million, or 9.3 percent, while the fourth quarter average loan held for investment increased 14.2 percent over the prior year fourth quarter average. Loan relationships our bankers have added during the year continue to be in line with our historical loan mix of roughly 50 percent commercial-related lending, including C&I, owner-occupied commercial real estate, and mortgage warehouse lines of credit.

Moving on to Slide #10, I just want to touch on a couple points about our asset quality trends. In the fourth quarter we saw our net charge-offs come in at 26 basis points annualized, down slightly from a third quarter level of 29 basis points, and lower than our prior year fourth quarter of 37 basis points. For the full year, we realized 15 basis points of net charge-offs. Our asset quality trends continued to improve over the last five quarters, with the ending nonperforming loan ratio at 75 basis points and our past-due loan ratio at 72 basis points. While the credit trends have improved, we continue to remain diligent during our underwriting process and focus on relationship-based lending.

Now, I'll turn it back over to Drake.

Drake Mills
Thanks Lance. I want to point out a few things about our capital on Slide #11. During the year, we increased our quarterly dividend to 9¼ cents per share, which gives us roughly a one percent dividend yield. We also authorized a $40 million stock buyback program, and repurchased $10.1 million under the program. With the dividend increase and stock repurchase, we returned over $16 million to our shareholders during the year.

We certainly have a lot to be proud of in 2019, and our team has made a lot of progress executing on our long-term strategic goals. We are aware of the work ahead of us as we continue to build a high-performing institution.

The strength of our management team has been a continued focus of this organization. I feel confident about the management team and the succession plan in place to lead us through a period of dynamic growth and strategic focus entering a new decade. We recently announced the addition of Stacey Goff to our board. Stacey currently serves as General Counsel and Chief Administrative Officer at CenturyLink and will add tremendous value and insight to our company. We feel very fortunate to have a dynamic board with a strategic focus to build long-term shareholder value.

In recent years, we have invested in our people and new markets, and in 2019, we saw those investments begin to generate returns for us. Lance mentioned deposit growth in the various markets, and the growth in Texas at 33 percent speaks to the quality of bankers we have and their commitment to driving growth through relationships.

As we saw this past year, business cycles can and will change. Our team is focused on adapting to those changes, while always being mindful of the commitment to our culture, our people and providing shareholder value.

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

QUESTIONS AND ANSWERS

Operator
We will now begin the question-and-answer session. To ask a question, you may press star, then 1 on your telephone keypad. If you are using a speakerphone, please pick up your handset before pressing the keys. To withdraw your question, please press star, then 2. At this time, we will pause momentarily to assemble our roster.

The first question comes from Matt Olney of Stephens. Please go ahead.

Matt Olney
Hey, thanks. Good morning, guys.

Drake Mills
Good morning, Matt.

Male Speaker
Good morning.

Matt Olney
I wanted to start on the deposit side, and we saw some nice growth on the average non-interest bearing, and we saw some good improvement on the interest-bearing deposit costs, around 15 basis points. I'm curious what the outlook is here going forward. How much more room for improvement is there as far as bringing down deposit costs?

Lance Hall
Yeah. Hey, Matt, this is Lance. I think we have a lot of opportunity. We still you know, as Drake said in this earlier, we felt last year that, really, loan growth was governed by deposit growth. We feel like we did an excellent job on executing all that this year. Specifically, when you look at the way that we reduced our growth through deposits, and the core deposit growth was almost 18 percent, was extraordinary, and it really was a reflection on the investments we made in Texas. You saw tremendous deposit growth in both Dallas/Fort Worth as well as Houston.

We've gone through three variations now of exercises since the Fed started dropping interest rates, working with our presidents to reduce our deposit costs, and we still think there's lift for us there and a really good opportunity.

Matt Olney
Okay. That's great. Thanks, Lance. And then on the loan balances, can you talk more about what you saw in the fourth quarter, and I guess some of your peers were talking about higher pay downs. I'm curious kind of what you thought into 4Q and what the expectations are for loan growth in 2020. Thanks.

Drake Mills
Yeah, Matt, this is Drake. Yeah, it's somewhat of a surprise for us because we've not had the pay down activity that we saw in the fourth quarter, but I want to at least break that down. We had about $158 million of pay downs outside of our normal activity. Ninety-five million of that was CRE, so those were our customers. You know, we congratulated them, they did a good job there. Sixty-five million of that was CRE that went to term, again a process that just seemed to be a timing situation for us, but it was heavy.

We will see some of that activity in the first quarter, but for the outlook for 2020, pipelines, looking at the markets, everybody feeding into that process and what we're budgeting, you know, somewhere around a 10 percent growth, we still feel very strongly that that's going to be the outcome for 2020.

Matt Olney
And that 10 percent, Drake, with that commentary, is the implied assumption that pay downs will return to more normalized levels in 2020, or does that commentary assume that these pay downs just remain elevated for a while?

Drake Mills
No, we don't see an elevated pay down situation. We do have some slated for the first quarter that's going to slow down. If you annualize first quarter growth, you're certainly not going to get 10 percent, but as historical, we see between mortgage warehouse, the CRE pipelines —and, look, this gives us some runway from a CRE standpoint. ADC now, 79 basis points, and then CRE's at 270, so a lot of runway, a lot of pipeline growth. Our teams have significant capacity, so first quarter is going to be a little bit slow start because of a couple of pay downs that are continuing through the CRE process, but we feel pretty comfortable at this point that the growth picks up pretty well in the second quarter. And we'll see that 10 percent through the year.

Matt Olney
Okay. And then I'm also curious. Within your markets, there's been some, I guess, upcoming, we think, disruptions via M&A, some larger bank transactions. I'm curious just how you think Origin's positioned and if you expect to be opportunistic with hiring of producers from these types of transactions.

Drake Mills
Yeah, I think there's a lot of opportunity here for us. You know, with Texas, with just our organic growth in Texas at 33 percent, the momentum we have from a deposit perspective, 33 percent, the momentum we have in Texas in the teams, we have had contact and we are talking with some opportunity, but we are looking at that from the perspective of how that fits in our portfolio, because some of that activity doesn't quite or opportunity doesn't quite fit us.

We are going to stay true to our loan mix at this point. We think that with the runway we have on CRE, non-owner I mean, owner-occupied CRE, we've got a program coming out in the first quarter, but if they fit into that mix and can bring the deposits to the table, we will expand.

Lance Hall
Yeah, Matt, I would say from the President's point of view, that there's a lot of strategy and conversation that we're having inside of our markets. You know, we spend a lot of time on the culture that we've built, and our track record, I think, improved. But our ability to lift out talented teams has been a key driver for us, and we see that going forward.

Matt Olney
Okay. Great. And then, I guess the last question for me, I think, Lance, you referenced the elevated charge-offs in the fourth quarter from a handful of credits. Any more details you can give us behind that as far as loan type or geography or anything broadly?

Drake Mills
Yeah, Matt, this is Drake. When you look at our charge-offs from the fourth quarter, we finished the year in the range that we expect from an average over the last several years. Really what hit in the fourth quarter was the balance of the restaurant situation that we had in the third quarter, which is about $620,000. We are one of our last energy credits, we had an appraisal on the equipment; we're exiting that credit. There was a million-dollar write-down in the appraisal of that. We've got about a $3 million balance. We expect that we have we will not see any additional loss and potential recovery there down the road as we exit that credit.

And then the last piece was the memory care credit that we've continued to struggle with but see that resolving itself, and that was about $650,000 there. So, again, these are three or four credits that we're dealing with that have been with us for a number of years. We haven't seen any deterioration outside of that. As a matter of fact, if you look at past dues compared to the fourth quarter of '18, we were at 90 basis points in '18. Today we're at 72 basis points. Non-performing loans, 85 basis points in the fourth quarter '18; 75 basis points in the fourth quarter of '19. Net charge-offs, 12 basis points last year; 14.8 this year, a little higher than our average, but I just explained that, classified loans to total loans, 2.09 in the fourth quarter '18; 1.57 fourth quarter of '19.

So we are seeing improving credit trends. We think that credit is stable to improving going through 2020 and think that our charge-off range is somewhere in that 12 to 14 basis points for our 2020.

Matt Olney
Okay, that's great. That's all for me. Thank you, guys.

Operator
The next question comes from William Wallace of Raymond James. Please go ahead.

William Wallace
Thank you. Good morning, guys.

Drake Mills
Good morning.

William Wallace
I'd like to circle back on one of the questions that Matt asked around deposit costs. You guys had some pretty impressive reduction in your deposit costs in the fourth quarter. Help us understand what we might expect on how that tracks to NIM in the first quarter of '20 and then progressing through the rest of the year.

Stephen Brolly
Okay, Wally, its Steve. When the NIM basis is, as we've said three months ago, we still expect the first quarter to have a 2- to 4-basis points decrease overall in the NIM. The second quarter, we think anywhere from flat to 1 basis point higher or lower. And after that, we're pretty much relatively the same.

On the deposit side specifically, we could go about 10 basis points lower in the second quarter I'm sorry, in the first quarter, and then after that, it really depends. We have modeled in our numbers just a couple basis points coming down, 1 to 2, the rest of the quarters. So the first quarter at December 31st, we had some guarantees that we had we reduced and a couple other depositors that we reduced the Birdwell 3.5 Plan. I don't know if you heard that before. We talked about that. That's where all the presidents went through and looked at all the rates, and we really feel that we have a handle on this. To answer your question, 10 basis points first quarter; total deposits decrease.

Drake Mills
And, Wally, I will say that an incredible focus on this going through the second and third quarter. I just feel like we have to have some additional room there, and, you know, with the deposit growth and the momentum we have, that's going to be the focus from an incentive perspective and from a cost perspective.

Lance Hall
Hey, Wally, this is Lance. I might add one other thing. As you're thinking about modeling, if you think about at the end of the third quarter and second quarter, we had approximately $300 million in brokered deposits. At the end of the third quarter, the rate on that money was like 213. Today we're down to about half of that in brokered deposits, and the rate on that money is 153. So that's a big lift for us.

William Wallace
Okay.

Drake Mills
And, Wally, I'm going to come back I'm sorry we're ganging up on you here but, you know, in that we had 18 percent core deposit growth, when you back out the reduction from 8.6 percent of total deposits and brokered deposits to now, I think it's 3.1 percent, we were able to reduce significant costs in brokered deposits and end up with 11.8 percent total growth in deposits, so strong, strong core deposit growth with a big lift in NIB growth during that period.

William Wallace

Yeah, I mean, I agree it looks strong and it looks very favorable. I'm not surprised. I'm surprised that you're not expecting that your margin could expand in the third and fourth quarters, just on the benefits of the funding costs. Are the new are new loan yields for new production still a relatively sizable pressure relative to the portfolio yield?

Drake Mills
Yeah, I think we're seeing you know, and we're trying to be as conservative as possible as we continue to formulate our strategy. We're seeing some pricing in the markets still with the unknown aspect of LIBOR and the impact of LIBOR with our model so heavily weighted on the C&I side and floating. We do have some concerns there. We've baked those concerns in. We lost a $17 million credit that here recently on a LIBOR-plus, I think, 150, 160 basis without guarantees from a larger player. That pressure we just can't ignore at this point.

I do agree with what you're saying about potential expansion, but I think at this point, with what we're seeing from rate pressure and the LIBOR situation, we are concerned, and that's why we're modeling it this way.

William Wallace
Okay. All right. Fair. Two other questions. On the fee income side, that other income line has been really lumpy. How might we think about that? Is that kind of a $7-million a $7-[million], $8-million-a-year type line item for you guys, or would it be less than that, just because of some of the noise we saw in the first and third quarter?

Drake Mills

Go ahead, Steve.

Stephen Brolly
Fee income for 2020, we expect to grow between 6 and 7 percent. Now, there is some lumpiness from historic. We had those swap fees, and that's when the yield curve went inverted and we put in about an extra million dollars in that third quarter. We don't see that going forward, so that million dollars that's in there, you have to really take out. However, with that being said, we still believe overall we'll have a 6 to 7 percent growth in total fee income.

Drake Mills
And, Wally,

William Wallace
How much of that's

Drake Mills
Go ahead.

William Wallace
I was just going to say how much is coming from mortgage.

Stephen Brolly
Mortgage, we're going to probably have about a 10 to 12 percent increase. Our service charges and fees, about the same percentage. Insurance commissions, we've had a couple incidents this past year, so instead of having a normal 5 to 6 percent increase in that, we're budgeting somewhere about 4 percent or so on insurance. It's these and they are the three largest. It's the

limited partnership income that we're keeping flat; swap fees, again we're budgeting about a million dollars less than we had last year; and everything else is about the same.

Drake Mills
So, Wally, I want to go back to a comment we made around insurance and LP investment. We did see we'll see an impact in the first quarter and early second quarter on the insurance side from profit sharing because of the tornado that went through this area, and we had some pretty significant losses. And then markets of profit sharing will be down, and that's a hit to insurance. And then LP investment, where we saw some pretty significant swings in those, the outlook for 2020 seems to be slightly better, and, you know, we are reducing the balances on those LP investments. I'll be glad when I don't have that volatility.

William Wallace
Okay. Yeah, okay. Thanks. I'll step out and let somebody else ask about expenses. Thanks.

Operator
The next question comes from Woody Lay of KBW. Please go ahead.

Woody Lay
Hey, good morning, guys.

Drake Mills
Hello, Woody.

Stephen Brolly
Hey, Woody.

Woody Lay
Hey. So with the higher prepayments on loans this quarter, did you have any loan prepayment fees flow through the NIM in 4Q?

Stephen Brolly
We did, however, it was about normal, and so a couple quarters ago we mentioned that we had 3 or 4 basis points higher than normal. We had a couple larger prepayments in that quarter, but this past quarter, the fourth quarter, I would say that the prepayments that are in the NIM is a normal amount, nothing extraordinary.

Woody Lay
Got it. So you wouldn't expect that to take a step back, even with the lower prepayments in 2020?

Stephen Brolly
No, we do not. We always have some prepayments, and we always model in a couple basis points for those fees to go through. However, if there is one or two particular loans that are prepaying very early and they had a 3 or 4 percent prepayment fee in there, you know, one or two large loans can really increase that rate.

Woody Lay
Got it. That's helpful. And then, yeah, looking at expenses, does that 3 to 5 percent expense growth in 2020 still feel like the right growth number?

Drake Mills

It does. This is you know, because of the situation, when you look at efficiency and realize that in, let's say 2019, based on where we started the year from a margin perspective and where we ended up, that was a $12 million decline in revenue, almost a $9 million decline in net profit. So we're going to have to win on the expense side a heavy focus on the teams and feel that between 3 to 5 is reasonable for us, with some of the investments that we made in 2019 with new branches that are coming online and the total expense being loaded in 2020. Also, we had a $1 million basically refund from the FDIC that was added back in for in that 3 to 5 percent.

Woody Lay
Okay, got it. And then last for me, just, you know, excess capital continued to pick up in 4Q. How are you thinking about the buybacks from here? I know the stock price has sort of gone up since the last time you repurchased stock, so is that playing a part in it?

Drake Mills
I think the way we have to consider from a capital perspective now, you know, we have to look at total capital because of our loan-to-deposit ratio, our assets weighted heavily to 100 percent risk weighted, so I think there's opportunity here for us to look at how we manage total capital. We are still active from an M&A perspective and think that there's partnerships that we can form through that to really look and put Tier 1 to work. But from a total capital perspective, I think there's some opportunity for us to add potentially some Tier 2 capital in some form and put us in a position to where we can still stay active and not have any pressure from regulators. So it's for us now, it's a focus on M&A.

Woody Lay
Got it. Thanks, guys.

Operator
The next question comes from Kevin Fitzsimmons of D.A. Davidson. Please go ahead.

Kevin Fitzsimmons
Hey, good morning, everyone.

Drake Mills
Good morning, Kevin.

Kevin Fitzsimmons
Just, Drake, what you just mentioned on M&A, just going a little deeper there, how is that process going? I know on one hand you're you've been looking, but you're being very disciplined in what you would take on, and, at the same time, you alluded to earlier in the call that you have this more organic opportunity to maybe take some new team members on from some of the market disruption that's going on. So are the things that are you're getting to see or the opportunities you're getting to meet with, are there more, are there less, or are you getting more optimistic or less based on the potential opportunities that are out there? Thanks.

Drake Mills
From a timing perspective, I would have to say I'm more optimistic. I'll be frank. It's been difficult to find a partnership that truly, from a culture perspective that fit in our portfolio that we think those individuals would do well in our system. It's more difficult because you said the right word. We're going to stay disciplined, and, boy, you feel a little bit of pressure to kind of relieve some of those disciplines, but we're just not going to do that. But I do feel that there's better opportunity for us going into 2020 as we've continued to cultivate these opportunities.

Kevin Fitzsimmons
Okay, great. That's all I had. Thanks, guys.

Drake Mills
Thanks, Kevin.

Operator
Again, if you have a question, please press star, then 1 on a touchtone phone. And we have a follow-up from Matt Olney of Stephens. Please go ahead.

Matt Olney
Yeah, thanks for taking the follow-up. I just wanted an update on the Houston market. I know this market for you provides some really great growth, but the ROA and the profitability has been lacking versus the other markets. So could you just remind us where we are on profitability now versus previously, and with full scale, how much more opportunity is there to improve?

Drake Mills
Yeah, you know, and I think, Matt, it was interesting because of the interest rate environment and where we were with Houston and where we are now. You know, when you look at the market growth in Houston at 24 percent in loans and 39 percent in deposits, we're from an ROA perspective now, we are approaching and I'm sure I'm grabbing the numbers around 60 basis points, which is actually strong performance considering the reduction in yields on those loans in that process. But we are extremely pleased with where we are. We will see some very strong growth in Houston in 2020, and I expect that ROA to be in that 80-, 85-basis point range at that point, without any interest rate cuts or those type of things. So we really have been positioned well and have some opportunities for some adds in Houston. I just still think that Houston is going to be a big win for us.

And I will say that Matt, that we're pretty proud of the fact that as of 12/31, we have we had a larger in we had more deposits in Texas than we do in Louisiana, and from the funding perspective and the cost, they're doing a very good job. DFW made a big, big move this year.

Matt Olney
Uh-huh. Okay, that's a good update. And then I guess the other segment we've talked about for improvement or opportunities for improvement is on the mortgage front. I heard Steve's commentary about mortgage expectations in 2020, but just more broadly, where are we as far as profitability and breakeven on mortgage, and what's the expectation for profitability in that segment in 2020?

Drake Mills
Yeah, we and I'm going to take out of the picture for the time being, servicing, because we are working on servicing with conversion to DMI and expect to see some significant expense reductions on the servicing side in production. We have basically approached and gotten to the point where we are breakeven and expect to see profitability, and we'll have a clearer picture on that after the first quarter, because we, surprisingly, had a better winter with volumes this year than we budgeted, and we've continued to add producers through the winter. So we are still, I think, five to seven producers away from having the volume that we need, but from a profitability standpoint, we expect to see profitability on the production side.

We will put together a plan for the future of mortgage servicing, which I think is certainly as we continue to reduce our portfolio. It was $2.5 billion in servicing rights at the beginning of the year. It's $2 billion now. You can tell that's where the impairment came for the impact which was about $2½ million in 2019. We expect that to be a lesser number in 2020, but that number was 6.7 in '19, so we're still making progress. I'm pleased where we are on the production side. It's just the unknown for the direction we're going with mortgage servicing.

Matt Olney
Okay, great update. Thank you.

Drake Mills
Yeah, thank you, Matt.

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

CONCLUSION

Drake Mills
Thank you. Appreciate everyone's time this morning. I want to close by saying at the beginning of 2019, we had several strategies that we put in place, and I think the theme for 2019 was strong execution. We had to grow deposits. That was going to be the governor for loan growth with an 18 percent core deposit growth, 33 percent growth in Texas where we see the future of this organization's value continuing to grow, and dynamic markets that continue to produce for us, managing expenses was a win for us because of the change in the interest rate environment. We think that in 2020, managing expense is going to be a big win for us. Strong management in place I think this company is positioned to create value in the next two to three years. You know, we are dealing with unfortunate headwinds in the interest rate environment aspect of our business, but outside of that, we are so positive from where we're positioned. With M&A opportunities that we will take advantage of, I think the company is well positioned. I have a better outlook and better and more confidence about 2020 than I've had any year in my career. So appreciate your time. Thank you for your investment. Thank you for the opportunity to partner with you.

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