Origin Bancorp, Inc. First Quarter 2023 Earnings Call - Transcript

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Evercall Moderator

Good morning, and welcome to the Origin Bancorp, Inc. First Quarter Earnings Conference Call. My name is David and I will be your Evercall coordinator. The format of the call includes prepared remarks from the company, followed by a question and answer session. Please note that all participants will be on a listen-only mode until the Q&A portion of the call. Also 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 a slide presentation that we will refer to during this call.

Please refer to page 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 7 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; 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 and Banking Officer, Preston Moore. After the presentation, we will be happy to address any questions you may have. Now, I'll turn the call over to Drake.

Drake Mills

Thanks Chris.

Origin has consistently focused on long-term strategies that has guided us through multiple cycles throughout our 111-year history. We manage this company for long-term success and we are confident in both the strength of this company and the experience of our management team to continue to deliver meaningful value to our employees, customers, communities and shareholders. Just as we have in the past, we are in a position to take advantage of the opportunities presented during these times.

As we entered 2023, it was clear that we were facing an environment where deposit competition from sources outside the industry were intense. Our primary strategic focus was to protect our deposit franchise while adding deposit growth, as with most strategies they come with a cost but generally pay long dividends. The events that occurred in early March only amplified the situation. I feel that the deposits lost in this cycle will not return to our industry in the near future. Considering these issues and working through our conservative management model, we made the decision to take on excess liquidity to support possible deposit outflows. I am proud of the actions we took as a team to serve as trusted advisors to our customers, and as result, our deposit trends in March were stable, as we increased total deposits for the quarter. For Origin, it always comes back to relationships, and I believe that the strength of our relationships will continue to drive long-term success for our company.

There were many positives that took place this quarter, our Tangible Common Equity Ratio ended the quarter at 8% despite the excess liquidity on our balance sheet. Tangible Book Value grew nearly 6% during the quarter to $26.53. Our loan portfolio,

excluding mortgage warehouse, grew 3.4%. Our credit quality remains pristine – with net charge offs in the single digits and non-performing assets of just 22 basis points. Non-interest income and Noninterest expense both beat our expectations.

Look…I continue to be bullish on Origin. This experienced management team and this company have been through multiple cycles, and while each cycle is different, we have come out stronger at the end. We are a proven organic grower with a franchise that expands across some of the most dynamic growth markets in the country in Dallas and Fort Worth and Houston. Additionally, we have a rural deposit base throughout North Louisiana and Mississippi, and now East Texas; all of these markets have customers whose loyalty stretches generations. I'm so proud of both our disciplined credit culture and the experienced management team around me. All of this gives me great confidence in the value that Origin will provide to all of our stakeholders.

Now, I'll turn it over to Lance.

Lance Hall

Thanks Drake.

Being a trusted advisor is one of the central components of our vision statement, and our teams have done a good job of being trusted advisors to our clients during the 1st quarter. Our bankers were proactive and responsive to our clients in providing guidance and being a resource. One of our primary areas of focus for our teams as we started 2023 was centered around our calling efforts and emphasis on deposit growth, and this showed in the 1st quarter, as we grew deposits in almost all of our markets. In fact, in Q1 our account openings were up 46% compared to Q1 '22.

As we have talked about since our IPO, a key differentiator for Origin is the strength and diversity of our deposit franchise---it's the granularity of our customer base and their industries, as well as the geographic mix. Since the events of early March, deposit portfolio granularity has come into focus. I'm proud of the relationships our bankers have built as they continue to enhance our strong, community bank deposit franchise. Wally will provide more detail about our deposit mix later in the presentation.

In the 1st quarter, we continued our disciplined approach to building relationships, growing loans 3.4%, excluding mortgage warehouse. Our pipeline remains strong, and our bankers remain disciplined on pricing and structure. Our bankers also understand

that our ability to grow deposits is critical to continued loan growth.

As we have done in previous cycles of disruption, we have the team in place to capitalize on the right opportunities within our markets. While we are laser focused on loan and deposit growth, pricing, credit quality, liquidity and capital, we will never lose sight of what makes Origin unique; our culture. Our employees' commitment to our culture and to relationships is what has always made Origin stand out. We will continue to execute on our long-term strategy and provide value to our employees, customers, communities and shareholders.

Now, I'll turn it over to Jim.

Jim Crotwell

Thanks Lance.

As Drake and Lance both mentioned, we continue to focus on relationship banking to drive credit quality as we adhere to sound and consistent underwriting throughout all phases of the economic cycle. This approach has positioned our portfolio well as evidenced by the continued diversification of our portfolio as reflected on slide 13 and by the strong credit metrics as reflected on slide 14.

Past Due Loans Held for investment remained stable at only .16% as of 3/31. Classified Loans ended the quarter at 1.17% of Total Loans Held for Investment while Nonperforming Loans ended the quarter at .23% of Total Loans Held for Investment. While we did experience an increase in these metrics during the quarter, both reflect levels below those reported in Q1 of 2022. For the quarter, the $7.1M increase in nonperforming loans held for investment primarily consisted of 6 relationships, 5 of which were acquired. The review of the underlying collateral of these relationships resulted in a current allowance of $1.3M. Lastly, Net charge-offs for the quarter came in at .07% on an annualized basis.

During the quarter we increased our allowance for Credit losses $4.8M to $92M; increasing from 1.28% to 1.30% as a percentage of Loans Held for Investment net of Mortgage Warehouse. While our portfolio continues to reflect strength and resiliency, we felt an incremental increase in our reserve was appropriate given the current economic headwinds. The strength of our portfolio continues to be evidenced by the level of our allowance to nonperforming loans at 539% for Q1 2023 compared to 294% for Q1 2022. As we have indicated on previous calls, we continue to believe that the markets we serve will be impacted to a lesser degree by a recession than other areas of

the country. With that said, we will continue to closely monitor the impact of rising rates and the likelihood of an economic recession on our portfolio.

Lastly, we felt it would be beneficial to share insight into our CRE Office portfolio which represents only 5% of our portfolio. As reflected on slide 15, our CRE Office portfolio is well positioned as evidenced by an average loan size of $2.2M and a weighted average loan to value of 53%. As to credit performance, this sector reflects no past dues, only .22% in classifieds, no nonperforming, and no charge-offs. The performance of this sector is again evidence of our relationship focused approach. In summary, we continue to be pleased with the performance and position of our portfolio.

I'll now turn it over to Wally.

Wally Wallace

Thanks Jim and good morning everyone. Turning to the financial highlights, in Q1 we reported diluted earnings per share of $0.79. On an adjusted basis, Q1 EPS were $0.78 after excluding $144K in gain on sale of securities.

Jumping straight to deposits, our deposits grew 5.1%, or over 20% annualized, during Q1. These numbers include $284M in brokered deposits. We added brokered deposits in 2/2023 to pay down borrowings due to favorable pricing; excluding these deposits, growth was still a strong 1.5% or about 6% annualized. As you can see in our presentation on slide 17, we have provided some new disclosures around our deposits; note the granularity of our commercial deposit base where no industry comprises more than 7% of our total deposit portfolio. Furthermore, note the geographic dispersion of our deposits across our commercial, consumer and public funds deposit portfolios. Notably, at the end of 2022, our uninsured and uncollateralized deposits comprised 44% of our total deposits; however, following the events of early March we have seen an unsurprising shift of uninsured customer deposits into the Intrafi Cash Service program, and uninsured and uncollateralized deposits comprised 38% of total deposits at the end of Q1. So far in April, this shift has continued, though at a slower pace.

A trend we have noted across the industry has been a clear shift of non interest bearing deposits into interest bearing accounts, whether at banks or outside of the system. Origin has not been immune to these industry pressures and our noninterest bearing deposits declined to 27% of total deposits in Q1 from 32% in Q4 and 34% last Q1. This shift in deposit mix, combined with the need to increase deposit pricing has led to an acceleration in deposit betas over the past 2 quarters. As of Q1, our cumulative total deposit beta now stands at 36%, and we anticipate beta will continue to increase, at

least for the next quarter or 2.

As a result of these pressures, our Net Interest Margin contracted 37-bp during the quarter to 3.44%. Excluding $1.7M in net accounting accretion, our adjusted Net Interest Margin also contracted 37-bp to 3.36% from 3.73% in Q4. As Drake mentioned, following the events of early March, we prudently decided to add $700M in excess liquidity to our balance sheet. The negative carry of this liquidity cost us roughly $160K in net interest expense during Q1 and pressured Net Interest Margin by 6-bp. We are currently carrying roughly $525M in excess liquidity on balance sheet, and will likely keep it over the near term at least. If held for a full quarter, and assuming the current roughly 20-bp negative carry, we estimate net interest expense of roughly $200K to $300K which would pressure Net Interest Margin by approximately 20-bp. Lastly on liquidity, through our various sources of liquidity including the FHLB, the Fed's Bank Term Funding Program and Discount Window, and various lines of credit, we have approximately $4.4B in available liquidity on top of the nearly $900M in FHLB Advances already on our balance sheet at the end of Q1.

Moving on to fee income, we reported $16.4M in Q1. Excluding $144K in gains on sales of securities, our adjusted fee income was $16.2M, up from $13.4M in Q4. Seasonal strength in our insurance business, increased production in our mortgage segment, and a slight loss in our limited partnership investments in 4Q were all drivers of Q1's increase relative to Q4.

Our noninterest expense decreased to $56.8M from $57.3M in Q4; however, excluding our merger related expense in Q4 noninterest expense increased slightly to $56.8M from $56.1M. Of note, occupancy and equipment expense increased roughly 11% to $6.5M from $5.9M in Q4 due to the planned addition of 1 new banking center and a mortgage production office.

Turning to capital it is worth noting that our TCE ratio remained above 8% despite the pressures of the excess liquidity we added in early March; excluding $525M in excess liquidity, we calculate our TCE ratio would have been 8.5%. Additionally, our regulatory capital ratios all improved during the quarter despite this excess liquidity, and we continue to remain well capitalized. Lastly, given the events of early March, we feel it is prudent to note that our $11.2M in held-to-maturity securities are immaterial and unrealized losses in these securities would have no impact to our capital ratios were they classified as available for sale.

With that I will now turn it back to Drake.

Drake Mills

Thanks Wally.

As I said last quarter, we have proven throughout our history that we can capitalize on opportunities in uncertain times. Our foundation is strong and we will continue to grow relationships that pay-off in the long term. The economy in our footprint continues to provide opportunity for profitable growth and to enhance our franchise value. We are uniquely positioned with the right teams in place to take advantage of the growth in Dallas, Fort Worth and Houston. The addition of East Texas to our footprint through the BTH acquisition, combined with our strong teams in Louisiana and Mississippi, provide continuing opportunity to drive value for our organization.

During the month of March, considering what took place with 2 of the largest bank failures in U.S. history, I was proud to watch our employees not only respond to our customers' needs, but remain engaged in our communities with meaningful conversations about banking and the industry. We didn't shy away from the tough conversations --- we initiated the conversations. And this episode didn't change and will not change our long-term strategy. Our team will not be distracted by short-term strategies that would amplify our short-term results, but compromise our long-term value. Instead, the strategic moves we made in March were designed to position us to continue to execute our strategy.

I am equally proud of how our team celebrated our culture this month. Each year we dedicate a time for us to reflect on our accomplishments, celebrate our well-defined culture and recommit ourselves to our vision and values. I'm thankful for our employees and their unwavering loyalty to our customers and our brand. We will never lose sight of our commitment to our culture and building long-term relationships. We will never lose sight of making the right decisions to ensure our success and drive shareholder value.

Thank you for being on the call today. We will now open the call for questions.

Evercall Moderator

Thank you. At this time, we will 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 side of your Deal Roadshow screen. Again, press *1 on your telephone keypad to enter the queue or the

raise hand icon on the right side of your Deal Roadshow screen. We will pause here briefly to allow any questions to generate.

Evercall Moderator

Our first question comes from Matt from Stephens Inc. Your line is open, Matt, you may proceed.

Matt Olney (Stephens)

Hey, thanks. Good morning, everybody.

Drake Mills

Morning, Matt.

Matt Olney (Stephens)

I want to start with the NEM discussion. And Wally, you provided some good details on the excess liquidity and the impact on that side. On the other side, the broker deposits; what was the rate on that $275M of brokered- and do you still hold these today? And I guess just lastly on this topic, just trying to get a better idea of what the incremental funding cost is today for just incremental new deposits. Thanks.

Wally Wallace

Morning, Matt. The broker- the initial broker deposit trade that we put on came in, all came on at 4.90; incremental deposits or wholesale funding now is coming in around 5. And I think a point that we want to make around broker deposits is- We made that decision that to move those over: One, it was a it was a positive carry to pay off the FHLB, and we are now going to find wholesale using brokered at least for the time being, assuming that the tradeoff is positive on costs.

Matt Olney (Stephens)

Got it? Okay. That's helpful, Wally. And then what about just broadly just rate sensitivity? And obviously, these higher rates are putting pressure on the deposit cost. But I guess I'm kind of curious if and when we see a cut from the Fed. Curious about the expectations on the margin. I know that's something that we've been talking about for a while, didn't know if there's more clarity there as far as plans for the balance sheet, or if there's still more work to be done there. Thanks.

Wally Wallace

Okay, so, Matt, we- we remain assets sensitive. I'm going to answer your question, but I'm going to answer a different question first. If we assume that we get another 25 basis point hike from the Fed, I will tell you that we are less asset sensitive today than we were a year ago. We've used up a significant portion of our assets sensitivity, but we do remain asset sensitive. So should we see a cut from the Fed? We don't think the impact would be that meaningful on- for the first, say, 3 or 4 cuts; our models assume that they own 100. That'd be a 1 to 1.5% hit to NII, which equates to about 4 basis points to NEM.

Matt Olney (Stephens)

Okay, okay. That's, that's, that's up a while. And then just lastly- yeah-

Drake Mills

Hey Matt, I would like to add to the broker deposit conversation, because I think this is meaningful, we took those broker deposit last group down in 2/2023, because we paid that off to replace some higher cost debt impacting loan deposit ratio, but that was not taking unbrokered deposits because of what happened in March.

Matt Olney (Stephens)

Yep. Okay. fair point. Drake, thanks for that. I'm going to shift over to the credit discussion. And I think you mentioned that 6 non performers that were added, 5 that were acquired. Any more color on these that were added to not a non-performer, any theme by loan type, and of the 5 that were acquired, I guess these were downgraded... Is it because it was a newer relationship that you guys maybe don't know, the borrower as much, or was there something incremental, that deteriorated in recent months from the borrower? Any kind of color on those specific 5 that were downgraded from the that were acquired.

Drake Mills

Thanks. Yeah, man. Man, I'm gonna let Jim go through some numbers on this because they do an excellent job. And first off, be mindful of how aggressive we are on credit. Secondly, through the BTH relationship, we feel like we did a very good job from a due diligence standpoint, and they are good in underwriting but we went through, not only internal loan review, but external loan review on the entire port- well, the majority, the portfolio I can't remember the penetration. I think something was 60% or so. But through that, with how aggressive we are, we saw some weaknesses in these credits. And as we always do, took them into a substantive classification as we work through it, I think out of that $10M, and what's frustrating to me is to read some of the headlines that republished when you look at our overall credit quality It gives us room to be able to be aggressive with these. And I think we might see about 1M to $1.4M in potential loss in this $10M worth of credit. So I think we did the right thing. And in addressing this relationship and with BTH, and bringing them into the fold; this is opportunities for us to make sure that we don't have any deterioration portfolio, but there's no, there wasn't anything that was consistent with these credits. There were longer term relationships for those folks, and I feel good about where we are. So Jim, anything you want to add to this?

Jim Crotwell

Yeah, Matt, I would just add that, and some of these, you know, in the narrative that we've discussed, we tried to quantify how much we reserve we have on these to kind of give folks some comfort of, of these particular relationships. There's no, there's no common from an industry perspective, from that front. You know, one of the things I would say there's a lot of positives happening in these very credits and, some of which

were looking to reduce our overall exposure. Some might be perhaps even exit. There's some positive things going on with family, you know, coming in and working toward taking over some of the debt, also looking towards some reduction. So as we've kind of worked these relationships

Chris Reigelman

And to Drake's point, you know, we went ahead and we're very conservative put them on nonaccrual, but I would say I'm positive as to the outlook and what we're going to accomplish on these particular credits. And, and they really don't give me any pause, if you will, from an overall deterioration in credit quality in our portfolio.

Drake Mills

And I would add to that, Matt, that when you look at our numbers through the quarter, and where we are with 22 basis points and non performing with total loans, compared to our peers, we're still in very good shape.

Matt Olney (Stephens)

Yep. What, uh, I would agree. Okay, I'll step back in the queue. Thank you.

Evercall Moderator

Thank you, Matt. Our next question comes from Michael, from Raymond James. Your line is open. You may proceed.

Michael Rose (Raymond James)

Hey, good morning, everyone. Thanks for taking my questions. Just wanted to go back to, Wally, your comment on the liquidity impact. I know you said that, you expect that

to stick around kind of in the near term. And I think I heard a 20 basis point impact. Was that incremental? Or is that just a full quarter impact? And then if you can just kind of walk through outside of that. Some of the drivers on both the loan repricing side and then kind of expectations for betas here in the near term on the deposit side. Thanks.

Wally Wallace

Alright. So starting on the liquidity, Michael, that 20 basis points is not incremental. So were we to hold this liquidity for the entire quarter, it would be another 14 basis points impact to net interest margin. We took the liquidity, we thought it was the conservative prudent act to do. We took it starting the Friday after Silicon Valley's announcement. We added on that following Monday. We've let some of it roll off. But we thought it would, it remained prudent to keep the liquidity on at least through earnings season. We weren't sure what other banks were going to show in their deposits. We were watching the H8 data. And it felt like the industry was stable. But we weren't sure if there could be another negative announcement out of somebody that might spook people. So we thought it was prudent to keep liquidity. Our expectation is that if trends continue to look to be stable, we will go ahead and let that liquidity roll off. But we don't know yet when exactly that point in time will be so it's hard to tell you what we think the actual pressure is going to be due to liquidity. So the best way we thought we could do is just tell you what it is. And if we have it for the whole quarter, that's what it will cost us. And you had a second part to your question. I might throw it to Drake for some bigger picture comments, and then we can dig in if you want.

Drake Mills

And, Michael, I think on the other side of the equation, when you look at the 10 year curve and inversed aspect of that, you know, when you look at our single family residential portfolio, and also mortgage warehouse, certainly not doing us any favors there. So we are focusing on pricing and looking at that portfolio as a whole and probably slowing down. And we're pretty much where we want to be on residential, single family residential anyhow at this point, but those 2 asset classes are certainly having their impact on them at this point.

Michael Rose (Raymond James)

Yeah, and the follow up question was just on the, you know, expectations for further, you know, beta increases from here in cost increases, loan to deposit ratio was down a little bit, obviously, given the brokered add, and then just kind of expectations on the kind of loan repricing side. You know, to the extent that you can provide it just what's kind of maturing over the next couple quarters would be helpful. Thanks.

Wally Wallace

So Michael, let's talk about this just kind of holistically what we think the impact from deposit pricing moves and from new loan yields and loan repricing could be to net interest margin, we're all kind of looking in to the same crystal ball and I will tell you that it is, it's hard right now for us to forecast what exactly we think the net interest margin is going to be. So here's what we think. I said in my prepared remarks that we do think that the cumulative deposit of beta will continue to increase. We do continue to see a shift in the deposit mix. Though it feels like that rate of change is slowing. If you look at, if you take the liquidity out of the picture, right. So you add back that 6 basis points to them in the 1st quarter and you look at the quarter over quarter changes about 30 basis points, we do not expect that the pressure to net interest margin excluding excess liquidity will be that high. If you then layer in the liquidity however you want, you'll get to some number that's, that's near us. We would, we would expect and hope to see continued stabilization and see a trough in that interest margin in the 2nd or 3rd quarter. And then stabilization from there that's how we're thinking about it. But again, we're all looking at the same crystal ball and it's a challenge. The forecast.

Michael Rose (Raymond James)

No, I appreciate it a minute, equally cloudy. Maybe just 1 final follow up for me just, you know, this quarter is long. Growth was really good; I just wanted to get a sense of how much of that was, you know, fund up of, you know, existing construction projects or just funding of existing commitments. And I think previously it talked about, you know, kind of more of a mid single digit, you know, ex warehouse growth. And then if you can just, you know, finally, comment on warehouse, given that the period unbalanced was just a lot higher than the average just want to get kind of boss near term. Thanks all.

Lance Hall

Yeah. Hey, Michael. Good morning. This is Lance. You're exactly right. I mean, obviously, with the dynamic markets, we were in the investment we made in people the last couple of years, we continue to see benefits from that. So we had about $100M this quarter, that were draws on projects that we've booked in 2022. So we think that growth that we saw in Q1 will look very similar in Q2, then our expectation is for, you know, some level of organic slowdown in the second half of the year, so that the second half of the year looks more like mid single digits.

Michael Rose (Raymond James)

Great, and then just on the warehouse, any thoughts?

Lance Hall

Yeah, I mean, I think our warehouse group has done a really good job. I'll talk about the credit side, then we'll talk about the growth side. Been very, very proactive in working with these clients, we have reduced somewhere between 4 to 6 clients over that period of time, as we looked through, and tried to project credit and trends. I know in the 1st quarter, we added back one client that wanted to sort of expand and miss the service levels that we provided. So I know that we've been looking at flattish to a little bit up for mortgage warehouse.

Michael Rose (Raymond James)

Right. Thanks for taking my questions.

Drake Mills

Thank you, Michael.

Evercall Moderator

Thank you, Michael. Our next question comes from Brad from Piper Sandler. Brad, your line is open, you may proceed.

Brad Milsaps (Piper Sandler)

Hey, good morning.

Drake Mills

Morning, Brad.

Brad Milsaps (Piper Sandler)

Thanks for taking my questions. While I just to follow up on the margin question one more time, where do you ultimately expect, you know, deposit betas to finish for Origin once the Fed stops or shortly thereafter?

Wally Wallace

That's a it's a hard question to answer. Brad, I would tell you that the deposit Beta is coming in higher than we had anticipated, and we do expect that it will increase for the next quarter or 2. But like to hope that we don't go over 50%. I mean, we don't know what it is. We're not modeling that we go over 50%. But we model that we're going up from 36%.

Brad Milsaps (Piper Sandler)

Right now, that's helpful. And just I know, there's a lot of talk on liquidity and the margin, but if I think I heard you correctly, that it would only cost you, I think $200K in

interest expense, which is, I think, less than half a penny a share. So it's I just want to make sure a) I heard that correctly. And b) just, you know, not, you know, obviously, you can move the margin around, but it seems inconsequential, as it relates to sort of, you know, kind of what you're going to earn is that, is that the right way to think about it?

Wally Wallace

Correct. And one, let me clarify my prior answer. Just to be clear, we're talking total deposit Beta, not just interest bearing deposit Beta. I like to talk about it from a total perspective, because this the shift in deposit mix. You are 100% Correct. Our view was that the NIM impact of taking the liquidity was worth it, especially given that the earnings impact is relatively negligible. So that interests that 200 to 300 that I cite in the script that is net interest expense, meaning net of the cash that we earn, on on carrying that at the Fed overnight.

Brad Milsaps (Piper Sandler)

Yep, perfect. Perfect. And then just final one for me. I think last quarter, you talked about, you know, sort of annualizing 4Q expenses and then sort of mid single digit growth over that number. Does that does that still feel right? In terms of kind of how you guys are thinking about expenses this year?

Wally Wallace

Yes, we still like that guidance. I will tell you that we are kind of renewing our focus on our expense base and we're going to do our best to beat that. But right now we still like that guidance.

Brad Milsaps (Piper Sandler)

Very good. Thanks for taking my questions. Appreciate it.

Lance Hall

And before we move on, hey, this is Lance, I may want to make kind of one comment to follow up on the positive Betas, just be mindful. As we talked about last year, that we were really focused on expanding our NIM in 2022, when we had the asset sensitivity and the rate for rising, and so we didn't increase deposit rates until 11/06. So when you looked at Q2, Q3 Last year, we didn't see deposit cost increases. So when you see a big jump in the quarter from a beta perspective, you know, we have to think about that from a cumulative sort of annual perspective, which I think still compares well and will continue to be an advantage for us.

Evercall Moderator

Thank you. Our next question comes from Brady from KBW. Your line is open, you may proceed.

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

Hey, thanks. Good morning, guys.

Drake Mills

Morning, Brady.

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

But insurance had a pretty nice quarter, you know, a little over $7M of fees. I know Q1 is seasonally a strong insurance quarter. Any idea on the outlook for insurance for the year? I think if you look at last year, you did about $23M of fees. It feels like you'll do better than that this year?

Drake Mills

Yeah, we- several things are going on with insurance at this point. A consolidation from back office, we're finally getting to the point where we have consolidated the systems. We have 1 more with our most recent acquisition to accomplish but we've actually restructured management, putting some people in place, we're seeing very nice growth on top of the growth because of the hardening of the market. We also because of contracts with markets have been moved in a couple of cases from on contingency, income from loss ratio to volume driven continuously. And that's been very nice for us, especially during the 1st quarter, we see a continuance of that, also working with the other markets that we've now consolidated to, to move from a loss, share, I mean, the loss ratio to volume driven. So those all, those are things on the income side that are all working. I agree with you. I'll give you some thoughts in a minute on that. But also, on the back end, we've been able to cut cost and reduce some of the back end cost of the agency as we continue to drive for some efficiency and some consistency and how we do things. So a lot of good things working now we did see an increase in in the commission rate. Because of, also increased volumes, but all said very pleased with where we are. And I'm kind of thinking anywhere from a single digit to mid upper digit increase in revenues and the insurance agency this year.

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

Alright, that's helpful. And then I know last quarter, we talked about Origin trying to stay under the 10B in asset threshold this year? You know, with the excess liquidity are now you know, almost 10.4B, but I know that can go away. Do you still think that the company can stay under 10B at the end of this year? They basically push in Durban 1 year further out?

Drake Mills

Yes, we have specific strategies in place and still feel that we have the triggers to pull because you can take the liquidity off right now we're sitting about 10.8, I mean, 9.8, excuse me. And with that, with the added increase in the what we think is will be a natural slowdown in growth in the 2nd half. We have and like set a couple of triggers to pull. We think that we can end up the year between, let's say 10.6 and 10.8. I mean, excuse me, 9.6 and 9.8, now I'm trying to get us over 10 and we're gonna get it. But anyway, we still feel confident in it.

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

Okay. All right. Great. Thanks, guys.

Drake Mills

Thank you.

Evercall Moderator

Thank you, Brady. Once again, ladies and gentlemen, if you'd like to ask a question, please *1 on your telephone keypad, or if you joined via web, press the raise hand icon on the right side of your Deal Roadshow screen. Our next question comes from Kevin from D.A. Davidson. Your line is open, you may proceed.

Kevin Fitzsimmons (D.A. Davidson)

Hey, guys, thanks for squeezing me in at the end of the list here. Just 1 question on credit, because I know in prior quarters, there's been, you know, more a proactive or aggressive approach on credit to get ahead of it. And just was curious with these particular loans, was it more that they just deteriorated to a point that it was time to migrate them over? Or was it "Hey, let's be aggressive. We're going into an economic downturn. Let's, let's address anything that needs addressing earlier than later"? Thanks.

Drake Mills

Kevin. Thank you not, we weren't fitting in at the end, we wanted to give you ample time. Now we this is a very aggressive approach to, you know, bringing our BTH partners in and it's how we've managed our portfolio last few years as we've taken a fresh look and a fresh approach to how we see credit in the future. We think it's incredibly important that we are transparent that we do things that do not surprise and this was,

again, the next part of after the external internal loan reviews to be aggressive with credit. But we're not- And I will stand on this. In my 39 year history with this institution, we've never had the asset quality we have today. And it's not sitting here looking at deteriorating credit. It's us doing what we do every quarter. And it's been nice to bring our partners in nice that we feel good about their portfolio and this is just a normal process that we go through.

Kevin Fitzsimmons (D.A. Davidson)

Okay, great. Just one quick follow on while he earlier you mentioned that the mix shift out of non interest bearing is something that's a headwind for everyone. And you said you think it's slowing. Any sense for where that kind of bottoms that DDA contribution just based on past cycles?

Wally Wallace

Yeah. Thank you for that last part of that question. We're watching the tax receipts. And that's kind of the biggest variable right now to what level of stabilization we see. But right now, in our model, where we're thinking kind of mid 20's as a percent of total deposits. Keep in mind, we are also growing, right. So we were working double time to fund that growth with deposits. Incremental deposits coming on, tend to be more interest bearing.

Lance Hall

Yeah, hey, this is Lance, I'm I am I would throw in a point around that. I think sort of hidden inside of the NIB run off industry wide. It hides a little bit of the opportunity that our rural markets provide for us. So if you look at North Louisiana, Mississippi, and East Texas, even to Q1, we saw deposit growth. And I think that's very positive because of the granularity. We've talked also a lot in the past about the way that we formulate incentive plans. You know, historically, where the dollar deposits was equal to $1 of loans. Well, I'll tell you in 2023, deposits is the focus. It's more valuable, and the bankers clearly understand this. So you know, overtaking the NIB runoff, plus $113M in tax dollars that ran off in Q1 2023, which is seasonal that happens every year. We were still able to grow deposits, we were able to grow deposits in our rural markets. And then

one data point that we looked at was because of the call in efforts based on the incentive plans and the way that we've structured our company, our new account openings were actually up 46%, Q1 2023 versus 2022. So that tells you that we're putting on new clients at a rapid pace, you know, both from an NIB perspective, but also for money, markets and time deposits. So super proud of the effort, and we continue to be very positive and bullish on our rural deposit franchise.

Kevin Fitzsimmons (D.A. Davidson)

Great, thanks. Thanks, Lance. And one quick one on the loan growth slowing in the back half of the year. I mean, that's consistent with what we've heard from others. I'm just curious, if you can ballpark like, you know, into or stack rank the drivers in terms of, you know, the economy slowing and demand lessening, as opposed to you guys maybe directly pulling back either from credit, you know, just scrutinizing more on credit and or, it becoming less profitable, or unclear how profitable to put a loan on the balance sheet, given what we've discussed on funding. Thanks.

Lance Hall

Yeah, I think that's the right question. And that's where a lot of our conversation is, at the moment. If I were stack ranking them, I would actually base it on our ability to grow deposits and the incremental cost of those deposits. We have healthy pipelines, we still have bankers that are dragging over clients from their old organizations, which we feel really good about the credit. So for us, and we talked about this last quarter, you know, our deposit growth is going to be the governor on our loan growth. And that's why I think that way now, at the same time, are we mindful of potential impending recession in the economy and what that can do? 100% we are, from a credit perspective, we're being very conservative. But I tell you what, our bankers are doing a good job. So I would say when I'm talking about slowing growth, it's more about making sure that we're being appropriate with our pricing, and mindful of our deposit franchise.

Kevin Fitzsimmons (D.A. Davidson)

Great, thank you, Lance.

Evercall Moderator

Thank you, Kevin. Thank you, Kevin. Our next question is a follow up from Matt from Stephens. Your line is open, you may proceed.

Matt Olney (Stephens)

Hey, guys, just following up on the discussion around capital levels, and the appetite for a buyback? I think there's still an authorization out there from last year, stock trading at a pretty big discount now. And with growth slowing the back half the year, I would anticipate capitol building would love to get your thoughts on becoming more active on a buyback this year. Thanks.

Drake Mills

Yeah, Matt, thank you know, as I've always said, it's a tool in our tool chest, we have 50M available at this point. Certainly, I do think that as we continue to see a pullback in our stock and the confidence we have in it, from our executive team to our board room. That is an option for us a very strong option. At this point. I do want to get through this earning season, I do want to see what's going to happen to a potential bank failure. And I do want to see what is going to happen around the probably in the first- in the first part of the 2nd quarter to give us a little bit more confidence because ultimately, and this is the way I think and I'm sorry, my net worth is in this institution. I think about 1K families that I support, I think about number of different things. And when you do that you make sure that you are the most conservative in the in the use of capital in tough times. So we have worked hard to put ourselves in a very good position with capital- a strength of ours at this point. So we're certainly going to use that in a very conscientious way to make sure that we do the right thing. But ultimately, I have tremendous confidence in this stock in this company. And it is underpriced and I do think that's an option for us.

Matt Olney (Stephens)

Okay, appreciate the commentary Drake. And then also just one more, it's more of a housekeeping question for Wally, that tax rates been a little bit volatile recently, any color on the effective tax rate we should be looking at this year?

Wally Wallace

Yeah, you know, the tax rate is going to be a function of the earnings level that we're making. We're going to stick with that kind of 19 to 20% range for now. And I think that gets you pretty close.

Matt Olney (Stephens)

Okay, got it. Thanks, guys.

Drake Mills

Thank you.

Evercall Moderator

Thank you, Matt. Once again, ladies and gentlemen, to ask a question, please press * 1 on your telephone keypad to enter the queue or the raise hand icon on the right side of your deal roadshow screen. It appears there are currently no further questions, handing it back to Drake with Origin for any finalizing remarks.

Drake Mills

Thank you. I appreciate everyone attending today. And I would wrap up today with 2 primary thoughts and it's around really the current condition of the industry but more so Origin Bank; when you think about quality of an organization, when you think about the deposit franchise and the fact that in a period of time when there's outflows of deposits in the industry, we grew deposits, we enhanced our number of customers.

From a loan standpoint and credit quality, best credit quality this institution has ever seen with what I think is very good, overall quality as we look at existing or new credits that are coming on the book. So as I put all those things together, high quality organization, unbelievably good footprint, excellent partners now in East Texas that are continuing to help this organization with what we think are lift-out teams that are going to continue to show growth not only on the loan side, but deposits on our incentive plans continue to incent in a big way to grow deposits. That's our primary focus. And the end of it our capital position continues to be strong even with AOCI in the picture, so very bullish on this organization. Thank you for being a partner. Thank you for being on the call. And we look forward to seeing each of you soon.

Evercall Moderator

This concludes today's Evercall. Thank you, and have a great day.