Origin Bancorp, Inc. Fourth Quarter 2022 Earnings Call Transcript

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Evercall Moderator

Good day and welcome to the Origin Bancorp, Fourth Quarter and Full Year 2022 Earnings Call. My name is Britt and I'll 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. At this time, it's my pleasure to turn the call over to Chris Reigelman of Origin Bancorp. You may now begin.

Chris Reigelman

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

Please refer to page 2 of our slide presentation which includes our Safe Harbor statements regarding forward looking statements and the use of non GAAP financial measures. For those joining by phone please note the slide presentation is available on our website at https://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 Bancorps' 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 Brolley and our Chief

Credit and Banking Officer Preston Moore. After the presentation, we'll be happy to address any questions you may have. The call's yours Drake.

Drake Mills

Thanks, Chris. Good morning. As I review 2022, our successful year was a year of major accomplishments that significantly strengthened our company. We finished a strong 4th quarter with an enhanced management team that is laser focused on strategic decisions that will impact long term performance and value. The overall condition of our company, as we begin 2023, positions us very well to take advantage of our markets in a meaningful way. Our strength starts with our executive team, and filters throughout our organization across all of our markets in Texas, Louisiana, and Mississippi. This was reinforced this year, with Origin being recognized as the 2nd best bank to work for in the country by American Banker. We take great pride in our culture and the competitive differences it creates. 1 of the major highlights for us in 2022, as I've discussed, was a partnership with BTH bank. I've often said how BTH is a unicorn, and this has remained the case 2 months post-conversion. Culture will always be the foundation with any partnership we develop. Our shared culture of putting people 1st and delivering for our employees, customers, communities, and shareholders is what has made this partnership so successful.

I'm pleased that we have successfully kept intact the BTH organization. I'm very excited about the growth opportunities that East Texas presents. In 2022, we saw strategic growth throughout our footprint, excluding mortgage warehouse loans grew over 24% organically and nearly 50% including BTH. As liquidity moved out of the system during 2022, we experienced a highly competitive positive environment. Our teams took advantage of the market to reduce our exposure to high cost non-core deposits thus strengthening our core deposit base. We reduced non relationship deposit by $300M+ while mortgage warehouse experienced a reduction of $100M+. On an average basis, we grew deposits 5.5% without including BTH. Our bankers remain laser focused on deposit growth in 2023; and we are proud of our Balance Sheet position with a loan deposit ratio of 88% - excluding mortgage warehouse. We finished the year with 9.7B in total assets. And as we plan we strategically manage the Balance Sheet below 10B. The asset sensitivity our Balance Sheet was highlighted by net interest margin expansion in each of the past 3 quarters. Wally will provide more color around them. As I mentioned in the past, the Texas growth story for Origin has been impressed in the addition of BTH has created an incredible opportunity to drive value in a meaningful way. As you can see in our presentation, our Texas franchise represents approximately 70% of loans held for investment excluding mortgage warehouse in 54% of deposits.

Lance will talk more in detail about the success we're having. But I think it's important to point out that our investments in infrastructure and people in the dynamic Texas growth markets have and will continue to pay off for our company. As proud as I am about our production I'm even more proud of our current credit metrics. Jim Crotwell, our chief risk officer Preston Moore, our chief credit officer, along with their teams have done an amazing job of managing credit risk. Jim will talk about the details later. But it's more than just the credit metrics. It's about the camaraderie, the trust that our producers and credit teams have with each other that helped us perform so well in 2022, and even more importantly, puts us in a position of strength as we head into uncertain economic environment and 2023. Now I'll turn it over to Lance.

Lance Hall

Thanks, Drake. I'm extremely proud of how we performed as a company over the past year. We remain committed to the Origin vision of combining the power of trusted advisors with innovative technology to build unwavering loyalty by connecting people to their dreams. Drake mentioned this as been recognized as the 2nd best bank in America to work for. This doesn't need to get overlooked. I'll get into the numbers from a production standpoint; but it's important to understand what we're building and what has taken place over the last 12 months. Our culture and geographic management model creates an environment that attracts high quality people who are committed to building valuable long term relationships.

This past quarter, we made several strategic hires in the East Texas market, and in total for 2022; added 21 new producers primarily in the Texas market, who are driving meaningful growth on the deposit and loan side. Certainly, there's an expense to this investment; but the long term impact of these strategic hires coupled with the incredible talent that we already have, gives me tremendous optimism for Origin in the future. Drake mentioned our impressive loan growth for the year, and this took place across all of our markets, excluding mortgage warehouse and BTH. Our bankers delivered over $2.9B in new loan production, up 37% from 2021. We saw 10% growth in North Louisiana, 8% In Mississippi, 24% in North Texas, and 55% in our Houston market. The Dallas Fort Worth and Houston markets each delivered over $1B in new loan production. This growth reinforces our strategy of attracting the best in class bankers across our footprint and their ability to drive long term growth for our company. We're all aware that the deposit climate is extremely competitive. Deposit growth has been and will continue to be a strategic focus for us. 1 of the strengths of this organization is our core deposit franchise. And we've talked often about how we're uniquely positioned with sticky rural deposit relationships, fueling growth into our metro markets. The addition of our East Texas market further exemplifies our deposit strategy, and is a key differentiator for Origin. We're clearly in the midst of a change in a REIT cycle; and because of this, we took steps in the 4th quarter to bolster our deposit product offerings and have positive momentum in the traction we are seeing. In our presentation, you can see detail as it relates to our deposit meters. While the steps we took in Q4 resulted in an acceleration in deposit Betas is to 23% on a cumulative basis, we remind you that we're still better than the range of prior tightening cycles, where our total deposit betas range from 27% to 37%. We are hopeful that we can maintain relatively strong deposit betas in 2023. We're watching trends closely and will react accordingly to drive strong deposit performance. As we continue to execute on our strategic plan, I see opportunities for Origin to enhance our investments in talented people, core deposits and technologies to drive efficiency and a superior customer experience.

To assure that our investments and plans are being executed in a meaningful way. It is critical that we continue to deeply measure our activities. As highlighted on page 4 of our investor deck: We presently measure employee engagement and culture through our Glint surveys, our community support through employee volunteerism, customer satisfaction through net promoter scores, and efficiency through our robotics automation processes. The tremendous success that we achieve in all these categories, along with the continued improvement in our financial performance makes us believe that Origin can be the best bank in America. Now I'll turn it over to Jim.

Jim Crotwell

Thanks, Lance. As reflected on slide 14 our loan portfolio continued a strong performance in the 4th quarter. Pass-through loans held for investment as percentage of total loans held for investment. We're at .15%, at quarter end. We're extremely pleased with the continued reduction in the level of non-performing loans held for investment as percentage of total loans held for investment, which ended the year at .14% down from .20% as of the prior quarter, and down from .49% a year ago. Classified loans remain stable at 1.05% of total loans held for investment. Lastly, and perhaps the best evidence of the resiliency and strength of our portfolio is reflected by our annualized net charge offs for the quarter, which was only .01%. During the quarter we increase our allowance for credit losses $3.8M to $87.2M increasing from 1.21% to 1.23% as percentage of loans held for investment. We determined that our reserve increased for the quarter was appropriate given the balance between the strong position of our portfolio and the continued economic headwinds.

A particular note is the increase in our reserve as a percentage of non performing loans increasing to 877% as of quarter end, compared to 594% for the prior quarter, and 259% a year ago. As we shared last quarter, we are closely monitoring the impact of inflation, rising rates and the likelihood of an economic recession on our portfolio, as well as continued geopolitical concerns and its impact. 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. In summary, our focus on relationship banking, along with sound underwriting and credit structure, continue to result in our well diversified and resilient portfolio. I'll now turn it over to Wally.

Wally Wallace

Thanks, Jim. Turning to the financial highlights in Q4, we reported diluted earnings per share of $0.95. On an adjusted basis. Q4 earnings per share were $0.99 after excluding $1.2M in pre tax merger related expense. Net interest margin expanded 13 basis points during the quarter and 75 basis points from last Q4 to 3.81%. Excluding 1.9M in net purchase accounting accretion, our adjusted net interest margin expanded 12 basis points to 3.73% from 3Q and expanded 81 basis points from last Q4 when excluding 3.8M in PPP fees from that period. Margin expanded for the 3rd consecutive quarter in Q4, demonstrating the assets sensitive positioning of our Balance Sheet and despite a marked increase in deposit pricing competition during the quarter. On fee income, we reported $13.4M in Q4, down slightly from $13.7M in Q3, which included $1.7M in gain on sale securities and a $2M impairment on our Ginnie Mae MSR, which we have subsequently entered into a contract to sell at current carrying value. Excluding the gain on sale of securities and MSR write down, our fee income decline was driven primarily by a seasonal decline in insurance fee income, combined with a slight loss and limited partnership investments following a slight gain in Q3. Our non-interest expense increased to $57.3M from $56.2M in Q3. However, excluding merger related expense, our non-interest expense increased to $56.1M from $52.6M. This increase was due primarily to the additional month of BTH expense when compared to the prior quarter, and was slightly better than our $57M-$58M guidance as we were able to pull some BTH related vendor cost savings forward into Q4. Turning to capital; it is worth noting the roughly $15M improvement in our AOCI balance given the shift and rates during the quarter, which helps increase our TCE ratio back above 8%. Our regulatory capital ratios all improved during the quarter, and we remain well capitalized, allowing us flexibility from a capital perspective to take advantage of any potential future capital deployment opportunities to drive value for our shareholders. With that, I will now turn it back to Drake.

Drake Mills

Thanks Wally. We have a lot to be excited about based on what we accomplished in 2022. And where we are positioned moving into this year, we have the right team in place with incredible employees who know and understand our clients. I am pleased about where we are from a credit perspective and the credit culture that is in place. I'm confident in our ability to manage liquidity in our capital levels allow us to take advantage of opportunities in our market. There is strength in our local and regional economies; our Texas market continues to benefit from domestic migration and strong economic growth, and our teams are laser focused on driving strategic, profitable loan and deposit growth. We have proven throughout our history that we can capitalize on opportunities and uncertain times. I know we will do the same with 2023. Thank you to our employees and our shareholders for a great year. And thank you for being on the call today. Now we'll open it up 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 star 1 on your telephone keypad to enter the queue. Once again, ladies and gentlemen, if you'd like to ask a question, please press star 1 on your telephone keypad. We'll pause here briefly to allow questions to generate.

Our 1st question comes from Matt at Stephens. Matt your line is open.

Question 1

Hey, thanks. Good morning, everybody.

Drake Mills

Morning, Matt.

Matt Olney

I want to start with the Margin and the NII. We saw some improvement last quarter, but still a little below consensus forecast. We'd love to hear your updated thoughts on deposit pricing and deposit Beta from here. And then kind of given the incremental deposit pricing pressure that we're seeing across the industry. I'm curious if you've now think we've seen a peak in the NIM at Origin and if so any color on where you think that margin can land in the near term. Thanks.

Drake Mills

Yeah, thanks, Matt. Before I turn it over to Wally, you know, obviously, for the industry and especially us we- we recognized early on that this liquidity would be pulled out of these markets and that we would get back into a situation where we were highly competitive. I think as we've discussed in the past, as we've been able to grow this institution through an organic strategy. It's been very important that we ran a higher loan deposit ratio to cover up some of the cost of organic growth, especially after De novo growth. As we went into 2022, strategically, we made the decision that we were mature enough in our lifecycle that we needed to adjust from a liquidity perspective how we ran this institution and certainly want to be sub-90% on loan deposit ratio. So we got very aggressive with our teams. And we talk about lift-outs and we talk about the teams that we bring on. I do want to remind each and everyone that in these teams, we always had a deposit focus, a business development focus, deposit experts that we brought on. So we feel very good about where we are, we're still in a competitive environment, we're seeing some easing of that pressure from a rate standpoint as we came out of the 4th quarter. And we certainly did what I think was an excellent job. But on top of everything NIB- our commercial part- our commercial clients are using their funds, they're using them to pay down debt to do projects to do a number of different things as we see this liquidity come on the market. So that was expected on our part, we knew there'd be a remix of the deposit categories, and we are managing that in what I think in the exceptional way, we think and I will tell you that I'm highly confident in our ability to continue to grow core deposits. But I always talk about the Texas plus aspect of our business. That plus is a core deposit markets that we have in Louisiana and how beneficial they are, that's going to prove itself and show some real value as we go through the 1st quarter and a couple quarters in '23. So, you know, as we look at margin, and we'll let Wally get into that, because they've done a lot of work around where we think we are. Yeah, we could have seen a topping out of our margin for now. Because there is certainly some opportunities for us to continue progressing through the quarter. So I'll turn it over to Wally for some specifics.

Wally Wallce

Thanks, Drake. So Matt, you probably heard Lance reference in his prepared remarks that we did make some moves during the quarter as we saw our commercial customers paying down some of their cash balances, we saw and we strategically made the decision to protect our deposit balances as best we can. And we we increased our rate sheet across the board. That was in early to mid November. So that's where we started to see the pressure on the deposit betas moving into the 1st quarter, we expect that- that decision will continue to pressure the deposit betas in January. In our modeling, we are assuming that the Fed gives us a 25 basis point hike next week. And we think that the corresponding increase to loan yields will help to offset some of the pressure from the deposit. So overall, for the 1st quarter, we think the pressure on the deposit side does trump the loan yields, we think net interest margin will probably be down kind of mid single digits. But as the core- as the quarter progresses, we think the loan yields start to trump the deposit pressures and we're actually anticipate margin will start to expand again in the 2nd quarter. Another hike from the Fed might help that, but you can imagine we are watching our deposit balances on a daily basis, and will continue to be strategic to try to make sure that we are protecting our deposit base.

Drake Mills

And Matt, from a strategic perspective: everything that we are focused on the day we focus on from a longer term perspective and drive long term growth. We have an excellent deposit base, we've looked at those customers, are we losing customers? No. Are we losing credits? Are we losing commercial customers? No, they are utilizing the resources at this point. So I hope hope that answers your question.

Matt Olney

Yeah, Drake. And while that's helpful, on the details there, just to follow up on some of those comments: If some of those commercial customers are kind of paying down their debt and moving liquidity out of the bank, help me appreciate why the loan growth at Origin still remains very strong.

Drake Mills

Yeah, I'm gonna let Lance talk about that. But again, we're seeing some real results out of the teams that we brought on in 2022. Lance?

Lance Hall

Yeah, thanks. Hey, good morning, Matt. No, our bankers who continue to produce at a high level and honestly, because of the strong economies in North Texas and Houston. We've continued to see great growth opportunities to lift out strategies and work exactly as we thought we would. I actually looked at it this morning. On the the commercial lending side, the new hires produced over $200M in loan growth as they're continuing to bring their relationships over from their from their old banks, and we've talked about it we liked that from a pricing perspective, we love it from a credit perspective because of the history and the knowledge these bankers have of these relationships, and going back years and years, so we want to keep following that strategy. And we feel our pipeline remains very strong. The 21 new hires that we hired last year, are continuing to introduce us to their clients, which is both on the loan and the deposit side- has been incredibly helpful.

You know, we continue to believe that we built a company that's going to be a 10% annual grower. Now, I will say in 2023, as we look at what the effect of higher interest rates are going to be to loan growth and what, you know, a looming recession could be the loan growth that we're in our Budget, we sort of modeled mid- mid single digits on the loan side, and we expect our deposits to outpace our loans in 2023. And that's really going to be driven by sort of the mix of the bankers that we have and our incentive plans. We've talked a lot in the past about we have been a company that has incented $1 of deposits equal to $1 of loan growth. 2023 we will shift those weights a little bit and deposits will be incented in a higher level than then loans will. And then inside of our city plan on the loan side, it's going to be really CNI focused and owner occupied. And so that just continues to pay off. But our bankers understand our purpose. They understand what we're trying to accomplish this strategic discipline around our client selection and our pricing. And I just I'm incredibly optimistic of our continued growth this year.

Drake Mills

And, Matt, I want to give you a couple of examples. So we are bringing over new clients, and we're seeing that loan growth with 2 relationships. And I'm very close to $32M balance today, they have a $22M balance because they utilized funds on a project. Another 1 very strong customer of ours, it's a manufacturer, had- was running $25M, $26M, they went ahead and paid off $18M worth of debt. But we're still seeing these new- this new client growth as these teams bring them over.

Matt Olney

Maybe a better way to ask the kind of similar question. It sounds like the new producers are kind of, you know, building to the team and adding the loan growth, any change in the utilization rates, you're seeing more and more recently, if there are some customers paying down some of their debt?

Lance Hall

Well, it's a little interesting, but because because we've continued to have such good growth. Even though we are seeing some of that down, we've actually seen a slight uptick and the utilization on the line. We've historically average like 48%, 48.5% utilization on our revolvers. At the end of the quarter, we were at 51%. Yeah Matt, I would just say it this way, like Houston and Dallas, do what we thought Houston and Dallas were going to do. I mean, we had 3 of our existing Houston bankers that are dynamic create over $100M in loan growth last year each. You know, 4 individuals that produced over $1M in fees, and then these markets are just strong growing dynamic, and it's exactly what we thought it was gonna be.

Matt Olney

Okay. And then, going back to the margin, I think the market has growing concern is that the Fed could cut rates later in 2023. If this did happen, I'm curious what your thoughts are, what this would mean for Origin? And what are some leverage- what are some options that you consider pulling in 2023? If that was the scenario.

Wally Wallace

Hey, Matt. It's Wally. We are paying very close attention to the forward curve and are well aware of what the curve is telling us about what they think the Fed will do. We have spent a considerable amount of time educating ourselves on what opportunities there are to hedge interest rate risk for, for when and if the Fed starts to take rates down. That are, there are several options that we have in front of us from floors, to collars to swaps, we are considering all of the options. Right now, the pricing on hedging instruments is relatively expensive. We watch the curve every day and feel like we've educated ourselves enough that we can take advantage of any changes in the curves any change in the cost to these instruments. And we'll take advantage of them if they present themselves. So we are obviously asset sensitive. And we're aware of that and we will do what we can to begin to position ourselves for when and if the Fed starts to take rates down.

Matt Olney

Okay, thanks. Thanks, Wally. And just lastly, from the maybe on, credit for Jim, classified loans, pretty flat for the quarter. But obviously investors are becoming more focused on credit. I would love to hear any thoughts that you have Jim, on the portfolio, you're most focused on, maybe from an industry perspective or geography. What you're focusing on maybe overall in the industry, and then maybe specifically within Origin Bank, what you're most focused on? Thanks.

Jim Crotwell

Good morning. Yes, we think what we're seeing now is the real benefit of the relationships that Lance spoke to the list of. I mean, these are customers that are well known to our bankers. And so that's where our growth is. And I think we're also seeing the, benefit of being true to who we are: Relationship focused; focus on primary, secondary and tertiary source repayments. You know, when we looked at we talked about it before, as we went through the pandemic, and we did deep dives into sectors, and we continue that process. You know, and I'll just look at office right now, because I know that the sector that everybody's really paying close attention to. For our portfolio it's very granular, we don't have any offices that are, you know, say, they're just downtown, you know, business district. It's very diversified. You know, 1 of the things we looked at when we talk about secondary source repayment, you know, the average LTV in that sector for us is about 53%. So that kind of tells you where we are in our underwriting. 1 other factor, if we go to the tertiary component of that, you know, we have about $385M in non owner-occupied office, the combined liquidity of our guarantors supporting those credits, it's almost exactly the same as $350M. If you look at where we are, we have no non-performing loans, and no past dues at all, in that sector. And so that kind of gives you an idea. And when you look at the other areas, sectors, if you will, very similar results. And I think that is, again, a manifestation of us being very diligent. And, you know, we do not do enterprise value lending. If we do, it's going to be very limited. And so that's consistent throughout.

1 of the things that we've also done as we've looked through our portfolio is to go through an exercise from a stress testing standpoint of evaluating cash flow coverages, if you will, particularly from a interest rate-rise perspective. And, we're very pleased with results, particularly if you take the next step with the identified credits that maybe would have some strain from an overall debt service, then you go to what I just spoke to, secondary source repayment, and, and we're in really good shape there, because of being very diligent from a loan to value standpoint. You know, we've navigated very successfully through various economic cycles, and we feel that we're very, very well positioned. As you can see our level of past-dues was early indicator, our level of non performing loans is extremely low. And so I feel really really good about where we are from an overall portfolio position you know, given this time of uncertainty. Last thing I would say is that, you know, when we look at our markets, as I said, in the call, we feel really good about our markets that we serve as well, and that they will be less impacted if there is an economic downturn. And from what we're seeing, and hopefully, if there is 1, it will be fairly brief, maybe 3 quarters, and we'll come back out of this fairly quickly.

Drake Mills

You know, Matt I will add a little bit of something, 1 of my concerns, and I've voiced this, throughout the last several years have been credits that are consumer spending dependent. And we've done a tremendous amount of work around understanding those types of stresses, and how they would impact if we continue to see a breakdown in consumer spending. And I will tell you, very pleased with what Jim's brought to the table. Preston talks about this, and I'm confident of where we are through '23. And we're preparing ourselves for, you know, any any type of deterioration we see, but at this point, and I know it's gonna come to some level, but we're just not seeing deterioration at this point.

Matt Olney

Okay. Great commentary. Thanks, guys.

Evercall Moderator

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

Michael Rose

Hey, good morning, guys. Hope you're doing well. Matt touched on a bunch of my questions, but I did want to touch on expenses. You know, obviously, the revenue is a little bit lower than I think we were looking for. But so were the expenses. You know, last quarter, you guys had kind of talked about using the 4th quarter run rate and, you know, grown that, I think, about mid single digits. Just given the inflationary pressures that we're seeing, you know, maybe some offsets, maybe you're not going to be as aggressive on hiring, just wondering get a sense of what you think about expenses as we move through 2023. And then just how much of the cost saves from from the acquisition have you realized to date? Thanks.

Drake Mills

Michael. Thank you. I appreciate that. We are so expense focused right now. But on the same hand, we're doing as Lance talked about his prepared remarks, strategic investments in technology, technology that is going to drive efficiency, and I don't want to get into it today, but our bot process and what we're seeing from there and reductions in costs that we think we'll see, but the technology investments also to drive a superior customer experience. We're also making investments that are included in these numbers in strategic locations that are going to allow us to not only address making sure that we serve the communities, but put us in a position where I think we will see strong deposit growth in those markets. Again, strong bankers, and we don't build facilities, just to build the facility location, we build facilities around teams and people, and that's what you're seeing.

So we've got 3 coming on another 1 that came on earlier last year. So we are doing the things necessary to make sure that we reduce expense and have a run rate, that I think it's going to see mid single digit run rate, you know, through '23, but yet, at the same time, do some things that we think and we'll start talking about those, that reduces costs, and allow us to do more things that we're talking about from, technology, people and, location. So, you know, this, and I'll say it, I know, it's kind of corny, but we look at everything strategically through models that show long term value build, and that's the focus that we have, but yet we're going to manage expenses, you saw a slight reduction, you know, efficiency ratio. Lance's is, I mean he's challenged with continuing to push down efficiency. We think we have to get to a certain efficiency number to be a high performer. From the- from a performance standpoint, those are things that we're going to continue to focus on in '23.

Michael Rose

Okay-

Wally Wallace

Michael, do you? Yes, go ahead. Sorry.

Wally Wallace

I'll just add a couple of kind of puts and takes to that to that mid single digit growth in 2023. We have a couple of relief valves from incentive accruals. In 2022, our organic loan growth was over 20%, where we're not, we're not budgeting for that level of growth in 2023. But we have invested strategically in new people. And we've also made some strategic investments in real estate. That will, that will offset some of those rebounds as far as your cost savings questions. We pulled forward a little bit from some technology contracts, we have a couple left that will impact us in the 1st quarter positively. But that'll be about the extent of the cost savings.

Michael Rose

Okay, so just given some of the headwinds, do you think there's room to bring down the efficiency ratio from here? Should we expect it to kind of flatline to maybe increase just given the challenges that are out there? Thanks.

Drake Mills

In '23, I think we will see a little bit of flatlining, I still think we have possible reduction. But we're budgeting and we're looking for a successful year, would be 1 that we were flat from an efficiency standpoint and see a kickoff in '24.

Michael Rose

Okay, helpful. And then maybe just finally, for me, it does sound like you're going to slow the loan growth a little bit. I think you said mid single digits. I think last quarter, you said kind of high single digits - Completely understand. But you know, as we think about capital build here, I mean, that should should just further the acceleration. Can you just give us an update on, you know, what your strategic priorities are? And, you know, if you would look to actually use the authorization you have in place, just given where the stock is trading near and back looks pretty attractive. Thanks.

Drake Mills

Yeah, and thank you, it's, it's, you know, we- ...going into a cloudy economics cycle in '23. Certainly capital is king. And we're gonna continue to build capital in a positive way to ensure that we can weather whatever storms are coming our way, feel comfortable with where we are. We do have a share buyback, we see a continued slip and slower growth than I think that we would be active in buying that stock back. Because it is, like a joke about, it is on sale right now. So this is something that is a tool in our tool chest. I think you could potentially see this get active, but we do have authorization and we could use it.

Michael Rose

Great, very interesting to hear the comment on the chat bot, maybe you can use that to replace your newly hired CFO. Just kidding. Thanks.

Unknown Speaker

[Laughter]

Wally Wallace

Ouch.

Evercall Moderator

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

Brad Milsaps

Hey, good morning, guys.

Wally Wallace

Good morning, Brad.

Drake Mills

Good morning, Brad.

Brad Milsaps

Yeah, thanks for, taking my question. I appreciate all the color. If I heard you correctly, you know, you expect to deposit growth to outpace loan growth, just want to do you know, kind of think about the size your Balance Sheet? Do you think 1 you could stay under $10B again in '23? And then 2nd, how should we think about, you know, the bond portfolio? I guess, would that potentially remain more stable now as you maybe put some of those excess cash flows back to work or where might you put the liquidity that you're going to gain from the better deposit growth margin. You know, pay down borrowings? Just want to kind of get a sense of what your plans are there.

Lance Hall

Yeah, hey, this is Lance, I'll take the 1st part of that. As we said, we're kind of projecting mid to high single digits on loans and deposits. So the net dollars of that would be of an increase in deposits over loans, obviously. That being said, staying under $10B is not our goal. We are sort of built to grow. And we have a lot of competitive individuals in our markets and a lot of strong economies. At the same time when we model it up. I think it's very possible that you see us they understand the just the way some of the levers we have to pull the way that you can use the runoff from our investment portfolio. So we think that's a real possibility. Although that's we're not- we're not going to do anything to slow the growth of building core relationships.

Drake Mills

Yeah, and I'll add a little color to that if you don't mind, if today we're sitting at $9.5B, and we have $450M of growth, which from a loan deposit standpoint, and very active in making sure that we continue to keep teams engaged, we continue to take care of our clients, we add quality relationships, you add all that up, we have $300M worth of deposits that we can push off overnight, if we need to, there is a very clear path of opportunity for us to stay under $10B. You know, for for '23 plus add on that $170M of security that will mature and come back. It's going to flow back in and we can pay that off. So a lot of levers as Lance said. It's a strategy, but we're not going to jeopardize the momentum and growth of this company just for that reason. But I do have some confidence that we have an opportunity.

Brad Milsaps

Okay, maybe just a follow up to ask more specifically, if I was, you know, planning, you're assuming that you reduce the security book and '23 that might not necessarily be the case anymore, given you know, some of your deposit growth aspirations?

Drake Mills

Yeah, I'm sorry. Yeah. Okay, I'm trying to understand that question. I'm sorry, I didn't. So we with our deposit growth aspirations. And I'm not saying this, but in reality, I believe in our markets, we have more opportunity to grow loans at 6.5%. But as strategically to manage this to where liquidity stays intact, our loan deposit ratio was below 90%. We think that we should grow deposits to cover up any type of loan growth, so that maturities and the investment portfolio would come back in either to reduce cost, put back into loans, or pay down debt towards the end of the year.

Brad Milsaps

Okay, great, thank you. I appreciate it.

Drake Mills

And we won't be active in buildings securities at this point.

Brad Milsaps

Got it. Thank you.

Evercall Moderator

Thank you, Brad. Ladies and gentlemen, if you would like to ask a question, please press star 1 on your telephone keypad to enter the queue. Again, that's star 1, on your telephone keypad. Our next question comes from Woody at KBW. Woody, your line is open.

Woody Lay

Hey, good morning, guys.

Drake Mills

Hey Woody, how you doing?

Woody Lay

I'm doing good. I just had a follow up on the NIM. Discussion from earlier. In regards to the, you know, the expected decline in the 1st quarter. I'm assuming that was that talking about the core margin. So excluding any accretable yield?

Wally Wallace

Yes, that's correct.

Woody Lay

Okay, and then you know, for the potential for the margin to rebound a little in the 2nd quarter. Is that just a function of, you had the fixed loan portfolio repricing higher? Is that sort of the tailwind? The potential tailwind of the margin there?

Lance Hall

No, we put- we are modeling- In our models, we are assuming that we get a Fed hike next week. And that's really the primary driver. So we'll lap the pressures from the move across our entire deposit base after January and then if the Fed hikes next week that will that will benefit the 57% of our loans that float.

Drake Mills

And Woody that's the only hike that we're budgeting in at this time for '23.

Woody Lay

Yep. All right. That's all for me. Thanks, guys.

Drake Mills

Thank you.

Evercall Moderator

Thank you Woody. It appears there are currently no questions handing it back to Drake Mills of Origin Bank for final remarks.

Drake Mills

1st off, thank you everyone for attending. I real quickly want to talk about our company from the 2022 highlights: The BTH partnership, the process we went through, the relationships that we built, how we went through that process was amazing; pristine credit we continue to build what we think is a better Balance Sheet a fortress Balance Sheet, focusing on loan deposit growth and liquidity; Strong growth in '22 the Texas story plus Louisiana deposits 70% of our loans today are in Texas 54% is in deposits with East Texas coming on. We really are excited about that partnership; management strength we've added Derek McGee and Wally Wallace or William J. Wallace to the team and really have started to look at where we are today. Moving forward to 2nd best bank in America to work for we're gonna put the performance on top of that we continue and will always continue to invest in people and technology to make us better, but also core deposit growth.

So as I look at this, I am extremely confident. In my career, if I could replace us with someone else or put us in a different market, I wouldn't do it. So confident in where we are what we're doing the quality of this organization, our footprint, even though we're in trying times, this is where we have shined in the past. I'm extremely confident in our ability. I appreciate the interest in this organization. Thank you for being on the call. And we will talk to you next quarter. Thank you.

Evercall Moderator

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