(CIVB) Civista Bancshares, Inc.,
Q1 2023 Earnings Call
Friday, April 28, 2023, 1:00 PM ET.

Officers and Speakers
Dennis Shaffer, President and Chief Executive Officer
Richard Dutton, Senior Vice President and Chief Operating Officer
Charles Parcher, Senior Vice President and Chief Lending Officer
Paul Stark, Senior Vice President and Chief Credit Officer

Analysts
Terry McEvoy, Stephens
Tim Switzer, Keefe, Bruyette & Woods
Manuel Navas, D.A. Davidson
Ben Gerlinger, Hovde Group
Daniel Cardenas, Janney Montgomery Scott

Presentation

Operator: Good day, and welcome to the Civista Bancshares First Quarter 2023 Earnings Conference Call. (Operator Instructions). After today's presentation, there will be an opportunity to ask questions. (Operator Instructions).

Before we begin, I would like to remind you that this conference call may contain forward-looking statements with respect to the future performance and financial condition of Civista Bancshares, Inc., that involve risks and uncertainties. Various factors could cause actual results to be materially different from any future results expressed or implied by such forward-looking statements. These factors are discussed in the company's SEC filings, which are available on the company's website. The company disclaims any obligation to update any forward-looking statements made during the call.

Additionally, management may refer to non-GAAP measures, which are intended to supplement, but not substitute, for the most directly-comparable GAAP measures. The press release, also available on the company's website, contains the financial and other quantitative information to be discussed today, as well as the reconciliation of the GAAP to non-GAAP measures.

This call will be recorded and made available on Civista Bancshares' website at www.civb.com. At the conclusion of Mr. Shaffer's remarks, he and the Civista management team will take any questions you may have.

Now I will turn the call over to Mr. Shaffer. Please go ahead.

Dennis Shaffer: Good afternoon. This is Dennis Shaffer, President and CEO of Civista Bancshares. And I would like to thank you for joining us for our first quarter 2023 earnings call.

I am joined today by Rich Dutton, SVP of the Company and Chief Operating Officer of the bank; Chuck Parcher, SVP of the Company and Chief Lending Officer of the bank; and other members of our executive team.

Given the recent events in the banking industry, I would like to start off my comments by discussing our deposits, liquidity, credit and capital positions. First, we have seen very little unusual movement in our deposits. Our staff has been proactively engaging our customers and educating them on the strength of Civista, and how we differ from the banks that recently failed. In addition, our employees have done a tremendous job in providing our customers options to maximize FDIC insurance coverage.

If we exclude Civista's own deposit accounts and those related to our tax program, 14% or $397.4 million of our deposits were uninsured by the FDIC at March 31. Our cash and unpledged securities were $434.8 million at quarter-end, which more than covered our uninsured deposits at March 31.

Other than $156.7 million of public funds with various municipalities across our footprint, we had no concentration in deposits at March 31.

Excluding our tax deposits and our brokered CDs, total deposits declined by $55.8 million or 2.1% compared to December 31, 2022. So this is no different than the overall industry in that many of our retail and commercial customers received stimulus money during the pandemic, and as expected, customers are beginning to utilize these funds.

I would point out that approximately $20 million of this movement out of retail and commercial checking and savings accounts was into higher-yielding treasury funds in our own wealth management department. Mid-quarter, we became a little bit more aggressive with promotional rates on higher-balance money market and CDs to retain more of these deposits on the bank's balance sheet.

Attracting and retaining the operating accounts of our business customers continues to be a focus. At March 31, 33% of our deposits were noninterest-bearing demand accounts, of which 76.6% were commercial business accounts.

We continue to believe our deposit franchise is one of Civista's most valuable characteristics, and contribute significantly to our peer-leading net interest margin and profitability.

Second, we continue to monitor our liquidity position and have strong on-balance sheet liquidity and ready access to off-balance sheet funding. As I mentioned, at March 31, we had cash and unpledged securities of $434.8 million and immediate access to nearly $1.3 billion in funding from the Federal Reserve, the Federal Home Loan Bank and feeders. While we have signed up for the Federal Reserve Bank's Term Funding Program, we have not, nor do we anticipate, utilizing this funding source. And it is not included in this $1.3 billion of off-balance sheet funding.

Third, despite the uncertainties associated with the economy, our credit quality is strong. Our credit metrics remained stable compared to year-end, and we have not seen any systemic deterioration in our customers' financial conditions. We did make a $620,000 provision during

the quarter that was solely attributable to growth in our loan and lease portfolio, rather than economic stress.

We did adopt CECL on July 1, 2023. This resulted in a $4.3 million increase in our allowance for credit losses and a $3.4 million increase in the reserve for unfunded commitments. Consistent with generally-accepted accounting principles, the entries related to our initial adoption were recorded as adjustments to our equity and did not impact earnings.

As a result of the CECL adoption, our ratio of our allowance for loan losses to loans improved from 1.12% at December 31, 2022, to 1.33% at March 31, as did our allowance for loan losses to nonperforming loans, which increased from 261.45% at December 31, 2022 to 346.82% at March 31.

And lastly, we continue to create capital through earnings, and our capital ratios continue to be strong. All of our regulatory capital ratios remain above what is considered well capitalized.

Now, I would like to share some detail about our first quarter. This morning, we reported net income of $12.9 million or $0.82 per diluted share for the first quarter of 2023. During the quarter, net loans and leases grew by $35.4 million, or at an annualized growth rate of 5.2%. This includes $16.2 million of equipment loans and leases originated and retained by our new leasing company, Vision Financial. You will recall, Vision provides small equipment leasing and financing across the country.

Our funding costs rose by 44 basis points during the quarter. However, we were able to maintain a 4.11% margin as asset yields very nearly kept pace.

Our Comunibanc transaction is well on its way to be fully integrated, which allowed us to focus on the integration of our newest partner, Vision Financial Group, during the quarter. We were pleased with the overall gross production during the quarter, and we do anticipate their volume to increase, as the first quarter is historically slower in the leasing industry.

Our return on average assets was 1.47% for the quarter compared to 1.41% for the linked quarter, and our return on average equity was 15.32% for the quarter compared to 16.09% for the linked quarter.

Now, I will share some detail on our performance for the quarter. Net interest income was consistent with our linked quarter at $9.7 million or 42.2% greater than our first quarter of the prior year. The increase over the prior year was a result of strong organic loan growth throughout 2022, which continued during the quarter.

Our organic growth, coupled with the acquisitions of Comunibanc Corp and Vision Financial in the second half of 2022, was magnified by the rising interest rate environment. This increase over the first quarter of 2022 was particularly impressive, given that there were $1.2 million of PPP fees amortized into interest income in the prior year.

Our net interest margin remained strong at 4.11% for the quarter compared to 4.14% for the linked quarter, and reflects significant expansion over the first quarter of 2022.

Our yield on earning assets increased by 41 basis points compared to the linked quarter, and increased by 159 basis points compared to the first quarter of 2022, as new loans are being originated at higher rates and loans already on our books continue to reprice.

Our loan beta has been consistent through the cycle at 30 basis points over the last 12 months and for the quarter. Our funding costs for the quarter were 1.44%, which represents an increase of 44 basis points over our linked quarter. In comparison to the first quarter of 2022, our funding cost increased by 89 basis points.

Our deposit beta accelerated during the quarter as we became more aggressive with larger balance deposits, as I mentioned earlier. Our deposit beta, excluding brokered CDs, was 8 basis points over the last 12 months and increased to 38 basis points for the quarter. We will continue to monitor deposit flows and react accordingly, but we do not anticipate a similar jump in our deposit beta going forward.

Service charge revenue declined by $297,000 or 14.3% compared to our linked quarter, and showed an increase of $194,000 or 12.3% over our first quarter of last year. The decline in service charges for the linked quarter is due to the timing of when post-tax season services are earned on our tax program deposit accounts. These fees are assessed annually and were $250,000 in the fourth quarter of 2022.

Mortgage banking continues to be under pressure, as interest rates increased and the inventory of homes available for purchase continues to be [tight]. First quarter gains on the sale of mortgage loans were $631,000, a decline of 49.6% from our linked quarter, which was $1.3 million and a 32.6% decline from the prior-year gain, which was $936,000.

Interchange fees at $1.2 million were consistent with our linked quarter, and were up $113,000 over the first quarter of the prior year as a result of additional debit card customers that came to us through our Comunibanc transaction.

Lease revenue and residual fee income of $2 million was $264,000 or 11.4% less than the linked quarter, which was our first quarter offering small equipment leasing through Vision Financial. Leasing traditionally picks up throughout the year and peaks in the fourth quarter, as leasing customers look to take advantage of accelerated depreciation tax rules.

Other noninterest income increased by $852,000 over our linked quarter and $1.5 million over the first quarter of 2022. The increase over both periods was a result of our newly-negotiated debit brand agreement with MasterCard that became effective during the quarter.

In addition to higher per-transaction revenue, we received a $1.5 million signing bonus that was included in our other noninterest income during the quarter.

Noninterest expense increased $7.4 million year-over-year, which was primarily attributable to annual compensation increases that go into effect each year in April, and the addition of Comunibanc and Vision Financial, which closed in the third and fourth quarters of 2022.

Noninterest expense increased $332,000 or 1.2% compared to the linked quarter, as we saw increases in compensation expense, in taxes and assessments that were nearly offset by declines in net occupancy, contracted data processing and professional fees.

Compensation expense increased $698,000 and accounted for the largest portion of the linked quarter increase in noninterest expense. Payroll taxes and 401k contributions are typically higher in the first quarter and increased $511,000 from the linked quarter.

Health insurance also increased over the linked quarter by $708,000 as we trued up accruals during the fourth quarter of 2022, and resumed our normal accrual levels in the first quarter of this year. Taxes and assessments increased by $418,000 compared to our linked quarter resulting from our higher assessment basis. These increases were largely offset by a decline in net occupancy and equipment expense, as we charged off $255,000 of obsolete equipment in the previous quarter and a one-time $474,000 charge in the fourth quarter of 2022 for contracted data processing related to the October system conversion of Comunibanc.

Although professional fees declined compared to our linked quarter, our current quarter includes a $400,000 consulting fee paid for assistance with our new MasterCard debit brand agreement.

Our efficiency ratio was 62.4% compared to 63.2% for the linked quarter and 65.2% for the first quarter of 2022.

Turning our focus to the balance sheet. As I mentioned, total loans grew by $33.4 million during the quarter or at an annualized rate of 5.2%. While non-owner-occupied CRE loans led the way, we had solid demand in nearly every loan type across our footprint.

Included in our loan growth were $16.2 million in loan and lease originations at an average rate of 8.75% during the quarter. We did sell $11.3 million of our lease originations to manage our balance sheet.

Along with strong first quarter loan production, our undrawn construction line ended the quarter at $181.6 million, giving us further confidence that we will grow our loan portfolio at a mid-single-digit rate for 2023.

As I stated earlier, mortgage loan production is down. However, we remain optimistic. Our pipeline is solid, and we are seeing quite a bit of -- quite a few pre-approvals. Unfortunately, housing inventory remains tight across our footprint and many houses are still being sold to cash buyers.

On the funding side, total deposits increased $223.5 million or 8.5% since the beginning of the year.

Increases in balances related to our income tax processing program were $82 million, and our brokered deposits increased $202.5 million. These increases were partially offset by declines in personal and business checking and saving deposits that I discussed earlier.

The volume of activity in our tax program is consistent with prior years. However, with higher interest rates, the funds are not remaining on our balance sheet for as long as they have in recent

years. The average balances in our tax program accounts were $156.5 million this quarter compared to $180.8 million during the first quarter of 2022.

As I mentioned, in late March, we filled an order for $141.5 million of 5.2% 9-month and $151 million of 5% 12 months brokered CDs to replace $92 million of maturing brokered CDs, and preserve our overnight borrowing capacity at the Federal Home Loan Bank, a move that we thought prudent given the uncertainty created by recent events.

While the higher interest rate environment continues to put pressure on bond portfolios, at March 31, all of our securities were classified as available for sale and had $56.1 million of unrealized losses associated with them. This represented a reduction in unrealized losses of $10.2 million since December 31, 2022. As a result, we ended the quarter with our tier-1 leverage ratio at 8.63%, which is deemed well capitalized for regulatory purposes.

Our tangible common equity ratio was 6.14% at March 31, 2023 compared to 5.83% at December 31, 2022.

Our solid earnings were partially offset by our adoption of CECL and its $6.1 million impact on our capital during the quarter.

Civista continues to create capital from earnings, and our overall goal remains to have adequate capital to support organic growth and potential acquisitions. Two important parts of our capital management strategy continue to be the payment of dividends and share repurchases.

We continued our $0.14 per share dividend during the quarter. And given our recent acquisitions and current market turmoil, we did not repurchase any shares during the quarter. We do continue to believe our stock is a tremendous value.

In summary, we are pleased with another quarter of strong earnings, solid loan growth and steady credit quality. The first quarter presented economic challenges for all of us. Increasing short-term rates and the inverted yield curve put pressure on both deposit and loan rate, and the failure of two banks fueled concern with the industry's balance sheet liquidity. As some banks pull back, Civista will take advantage of this opportunity to pick up new lending and deposit customers, and strengthen relationships with our existing customers.

Thank you for your attention this afternoon. And now, we'll be happy to address any questions you may have.

Questions and Answers

Operator: Thank you. (Operator Instructions). Terry McEvoy with Stephens.

Terry McEvoy: Maybe to start with, with all the focus on deposits, could you just discuss when the tax refund deposits will leave the balance sheet? I think you mentioned it was kind of moving

off at an accelerated pace this year, but I just want to make sure I accurately capture your expectations there.

Rich Dutton: Yes, Terry, this is Rich. And I think similar to prior years, while maybe the balances are a little lower, it's a quarter one and quarter two phenomenon for the most part. In December of last year, we still had $70 million in tax deposits on the bank, so they don't all go out. But they're just not hanging around; the hot money, if you will, has not been hanging around as long as it has in prior years. I hope that helps; that's as good a crystal ball as I have.

Terry McEvoy: Okay. Thanks, Rich. And then the Vision, the VFG, is that a good run rate for revenue? And then the equipment depreciation, was it $2 million increase? Maybe is that a good run rate as well, or will that be volatile and kind of up and down as the year progresses?

Rich Dutton: I would think that the depreciation of it would be a pretty good run rate. And again, it has to do with how many operating leases we originate and keep, but it will grow slowly over the course of the year.

And what was the first part?

Dennis Shaffer: The revenue run rate will be a little bit higher; their volume should pick up as the year increases. So I think that run rate will be higher, particularly the fourth quarter is usually a strong quarter in the leasing industry.

Terry McEvoy: Maybe one last one real quickly. Over half the loan portfolio is CRE. It's a concern among bank investors. Could you just discuss your portfolio and how you would push back on any concerns that are out there with CRE in your markets?

Paul Stark: This is Paul Stark. We have quite a bit of real estate, but it's pretty diversified by type and across our market. Overall, I think the biggest areas that people point to are the office space and construction, and we've done a deep dive on our portfolio. We feel pretty good about where we're at. We haven't seen any systemic deterioration; really haven't seen any concerns come up at any event. Clearly, there's a little more stress because of increased input costs and interest reserves, but they're all strong, and they all should get finished without any troubles.

Charles Parcher: Yes, Terry, this is Chuck. Our metrics around our commercial real estate, I don't think we've ever been stronger. You read a lot of stuff in the national news about the problems of commercial real estate. But I'll tell you, in the Midwest, especially in the three Cs, we're not seeing really any deterioration in any of our portfolio.

Dennis Shaffer: The three Cs are?

Charles Parcher: Cleveland, Columbus and Cincinnati. (Laughter).

Dennis Shaffer: And Terry, I would just add that there's really no concentration; that book is very well diversified. For instance, our office portfolio is a little over 4%.

Unidentified Company Representative: 5.9%.

Dennis Shaffer: 5.9%. And the type of office that we're doing isn't downtown high-rise office stuff. So we feel good about that. On the retail, we have no big box retailers. So we feel good about that as well. So we think that book is really well diversified with no concentrations. And we do extensive monitoring of that and actually, get accolades from our regulatory agencies about how we monitor and to the portfolio monitoring that goes on.

Terry McEvoy: Perfect. I appreciate all the color. Thanks, guys.

Operator: Tim Switzer at KBW.

Tim Switzer: I'm on for Mike Perito. First off, can you give us what the purchase accounting impact was to NII, and if that's a good run rate going forward for the rest of the year?

Rich Dutton: I think it was 6 basis points. First of all, I'm talking.

Tim Switzer: Okay.

Unidentified Company Representative: Yes, that would be a good run rate, whatever it was.

Tim Switzer: Okay. And on the talk about deposit rates, you think the beta is going to not increase by as much as it did this quarter. Can you help us think about the NIM trajectory over the rest of the year, maybe the magnitude of compression or if it can stabilize? What are your expectations there?

Rich Dutton: Well, this is Rich, Tim. This is the first quarter that has contracted in this cycle for us. And again, we got, like Dennis said, kind of aggressive kind of mid-quarter on the deposit rates. We anticipate another 25 basis-point move in the next week or week after next, and we're 90% loan to deposit. A lot of it's got to do with how best the loan portfolio grows. But if you're asking us what we think, it's probably a little bit of contraction, basis points, but not a ton.

Dennis Shaffer: And we got aggressive basically because of the bank failures. We just felt, hey, the banks have failed deposits, we need to do everything we can to keep deposits. So we did get a little bit more aggressive during that timeframe. We think if we don't get a ton of these rating, we think the next rate increase actually benefits us a little bit. But we don't think we have to do much on the deposit side. Plus we think we can push spreads on the lending side a little bit, that will help our net interest margin.

Generally, in the past, big banks tend to pull back in times of crisis. So we view that as an opportunity for us. And some banks are going to pull back because the inverted yield curve and short-term borrowings that people are borrowing, those rates are high. And they may feel they can't make enough spread. I think that gives us opportunity to push some of our loan spreads a little bit, which may help us as well.

Tim Switzer: Okay. Yes, that's helpful. And you made the comment that you still believe your stock has tremendous value. You didn't repurchase any shares this quarter. Was a lot of that because of the activity we saw in March, being a little bit cautious? And are you able to give us any kind of like parameters of expectations going forward?

Dennis Shaffer: Yes, absolutely. I think, one, the events in March, we're coming off two acquisitions in 2 quarters in a row, so we used some capital there. So we just felt right now is time to kind of let things settle down a little bit, and we're just going to continue to evaluate. We didn't know how well too that would be received in the marketplace, given the recent events in March and the concerns around liquidity and capital.

Tim Switzer: Yes, I think that was probably pretty reasonable, I think. And my last question then, last quarter, you guys seemed a little open to it, but any more plans there, willingness to purchase possibly your other leasing businesses or other fee businesses or bank M&A overall?

Dennis Shaffer: Yes, I think we remain interested in that, and that's obviously, we think we'd like to get a little bit more size because we get more efficient as a company. Given where bank values and things are today, I think that makes it a lot more difficult. So we'll continue; it doesn't mean we stop talking to potential partners and things like that. But we certainly -- that's still part of our strategy is bank acquisitions.

And I think with a lot of the fees under pressure right now, overdrafts and other fees under pressure, we are certainly open to exploring additional leasing or other fee-based businesses.

Tim Switzer: Okay, great. Thank you. That's all for me.

Operator: Manuel Navas with D.A. Davidson.

Manuel Navas: I just wanted to catch up on a couple of things that you touched on. So you have a good amount of construction that's still going to be drawn-down. Do you have an idea of the timing of those drawdowns? And also kind of what are those yields going to be?

Charles Parcher: I would tell you, I don't have that chart right in front of me, Manual. But I would say that the bulk of it will draw-down in this calendar year. A couple of projects will spill over, obviously, into next year, especially some of the new stuff that we've just approved in the last quarter. And I would tell you the rates are probably in line with where we've been, I'd say, in that mid-6 range on the stuff that's already been approved and to draw-down; maybe a touch higher on some of the floating rate construction stuff. But I think all the (inaudible), I'd say, in the mid-6s on that.

Dennis Shaffer: Well, Manuel, we [didn't] originate that over the course of the year. So some of that will eventually go to the perm market because we do a lot of construction mini-perm type stuff. So a lot of that goes to -- rolls off to a non-recourse lender as well. So it's not like all of that will hit our balance sheet. But it's all been put on over the course of last year and will be through this year and stuff. But it does help our balances until that eventually goes to the perm market.

Manuel Navas: Right, right. It's a little bit of a downside to the -- like a downside protection to the loan growth guide.

Dennis Shaffer: Right.

Manuel Navas: That's kind of how to think about it, is that wrong or --

Charles Parcher: No, I think that's correct. I think as a company, I think like everybody else, we're not seeing the same acceleration of large payoffs from people selling products, just because the rates are up a little bit, we're not seeing as much changeover. I looked at that just before we came in, and our large payoffs were $10 million or less this first quarter than they were first quarter of last year. So we're seeing a little stickiness with that.

But I have tell you, the large projects that do go to the perm market, and for the people to get off the guarantees, they're still going to go and they're still planning on going.

Manuel Navas: Okay. You were able to send some funds to like sweep accounts. Is it in the deposit side? I think those are like wealth management sweep accounts? Was it roughly around $20 million.

Dennis Shaffer: That's correct.

Manuel Navas: What's do you have in those? How much do you have of those?

Rich Dutton: So Manuel, about sweep accounts, right? That's money that actually left the bank and went into our wealth management department.

Dennis Shaffer: Right, right. So those were just potential depositors seeking higher yields, and they basically were buying 1 year treasuries is basically what they were buying. So that was an option for them. And when we didn't want to pay a higher rate, rather than that money just leave the bank, we refer them to our wealth department. And they basically have -- they'd buy like 1-year treasuries for them at a little bit higher yield. We thought that was -- we feel that now, when those come due, we're going to have a better opportunity to get those back into the bank.

Manuel Navas: Thank you for clarifying. That makes perfect sense. In terms of so you talked a little bit about a little bit of NIM pressure this coming quarter. If we just get one more hike and then we kind of pause, where does the NIM kind of go across the rest of the year post -- during the pause?

Rich Dutton: Again, I think pretty stable. It really just depends on how fast our loan portfolio grows and how we have to fund it. If we can -- and our lenders are great and bringing deposits along with those loans. We've kind of had a history of not doing transactions, but we do relationships. And so we expect when we make a loan, to get the deposits that go with it. But in the 90s for loan-to-deposit ratio, certainly funding and how much we have to fund, and how inverted the yield curve stays, that helped put pressure on the margin for sure.

Manuel Navas: Thank you. I'll step back into the queue. Thank you.

Operator: (Operator Instructions). Ben Gerlinger with Hovde Group.

Ben Gerlinger: I just want to follow up on a question Terry asked, and kind of ask just a different way. So with the leasing and broadly fee income, I get that the fourth quarter is kind of the high watermark, and the first quarter is the low, and probably ramp throughout the year. So like we've seen a fourth quarter of, let's call it, $10 million for total fees and the first quarter is like, let's call it, $9.5 million to exclude the one-time.

Is it fair to assume somewhere around $40 million, or do you think that the ramp is bigger now that it's integrated and you have potentially more clients to work with?

Dennis Shaffer: Do you mean $40 million a quarter of [product]?

Ben Gerlinger: No, sorry.

Dennis Shaffer: $10 million a quarter

Ben Gerlinger: No, for the full year.

Rich Dutton: The non - okay, I got you now, noninterest. Yes, that's probably close. I think you'll see a slight pickup in mortgages. I think you'll see a slight pickup in the leasing gain on sale. I think a little bit of the leasing gain on sale, a little bit probably less than normal, Ben, just because a lot of the stuff that was originated in the fourth quarter that got sold in the first quarter, rates moved a little bit against us. So you're not quite getting as much gain on sale as you would normally get. So I anticipate we're doing a lot of management around that. I anticipate that getting a little bit stronger.

Like I said, the mortgage income, during -- even though inventories are pretty slim across most of our marketplaces, spring is a selling season. And we expect to have a few more first mortgages on that piece, but the rest of it, I think, is pretty much in line.

Dennis Shaffer: Now, remember, we have the tax program money in there too. So we'll have to put a pencil to that, and probably get back to you with everybody, and (inaudible) a better number, I think, because we'll get a little bit of the tax money in there in the second quarter, but we do have that also in the equation so --

Rich Dutton: Again, historically, what you've seen is not different than what you'll see going forward, again with the exception of maybe the mortgage piece. But we'd be kidding you if we told you we were all leasing experts, yet we're still new at it. And we're still kind of trying to get our arms around that part of it. So yes, it's going to grow; it's just a matter of how fast it grows and how much of it we sell.

Ben Gerlinger: No, that's good. That's helpful color. I get that, seeing a full year, the cadence within that was definitely -- we're all kind of learning as we go here. But when you think about the expenses associated with that, do you think it's a parallel like on salaries, or is it kind of already accrued throughout the year?

Rich Dutton: They're almost -- the big-salary people are almost all commissions. So that's kind of nice in that when they do well, we do well.

Ben Gerlinger: Got you. Okay. So it's kind of comped the same as mortgage. Okay.

Chuck Parcher: And we'll be able (inaudible) too, Ben, just on the swap piece, too. We've had a little bit more interest in swaps over the last probably 6 weeks or so. It will be interesting to see if that continues going forward or not. Obviously, we're trying to push that longer-term rate lock

piece to the swap side. And a few people have taken advantage of that right now and compared to wanting to be shorter on the interest rate cycle.

Ben Gerlinger: Got you. And then lastly, what would be a good tax rate for the full year? It's moved around a little bit year-over-year.

Dennis Shaffer: It was a little over -- for the quarter, it was 16.4%.

Rich Dutton: And I would say, yes, 16.5% is probably a good number. We've got a fair amount of tax preference revenue, and we try to manage that down. And that would be fair.

Ben Gerlinger: Got you. Appreciate the color and everything, guys.

Operator: from Dan Cardenas with Janney Montgomery Scott.

Dan Cardenas: I guess just as I look at operating expenses for you guys here, is the first quarter number kind of a good run rate to build off of, or is there some room maybe to reel those numbers in a little bit?

Rich Dutton: Well, like Dennis said during the call, we have a $400,000 fee for a consultant that helps us with the MasterCard program. And the payroll tax and the 401k contributions are always big in the first quarter too. And some of that gets balanced out with the raises that go into effect on April 1 or the first part of April. So going forward, if you guys penciled in about $27 million a quarter for the next 3 quarters, that would be pretty close to what our budgets are going to be.

Dan Cardenas: Okay. All right. That's helpful. Thank you. And then how should I think about deposit balances as you approach the end of the year? Do you think you can kind of sustain them? And if you do, is that going to be through broker deposit growth, or how are you looking more at organic deposit growth? I guess a couple of questions there.

Dennis Shaffer: Yes, I think we can sustain deposits. We've gotten a little bit more aggressive. Again, I do think this is going to be an opportunity for us. So we're going to demand a little bit more. We always have been pretty good at gathering deposits. When we doing a loan, we're going to go back to a lot of those borrowers, existing borrowers, whether they're having new loan requests or not, and we're going to say, look, we're hearing that certain banks are pulling back in their lending efforts and things like that. We're still in the game, but to be in the game, we need deposits, and we're asking them to move more deposits to us.

So we're really going to play off the relationships that we have to try to drive a little bit more business there. So we think definitely, we can sustain. We know deposits are kind of at a premium now, and we're going to really work those relationships.

Dan Cardenas: All right. And competitive factors, I imagine it's pretty intense on the deposit side right now. Is it more the smaller banks in your market, the bigger banks, everybody? Could there be --

Dennis Shaffer: Yes, it's really everybody. We see the Huntingtons of the world offering certain specials. Everybody kind of has a little bit different strategy. We've tried to stay short with our strategy and I think we will continue to do that. So it is very competitive, but we're going to need that because we don't -- we want to continue to grow on the lending side. So we're really going to push some of those relationships, trying to attract at least some of that cheaper money, not so much the hot money.

Dan Cardenas: Okay, good. I'll step back for right now. Thanks, guys.

Operator: Manuel Navas.

Manuel Navas: I just wanted to check in on the loan loss reserve moved up because of the CECL addition. You're at 1.33%. What should we expect kind of going forward on the provision side? It's definitely -- it stepped up a little bit in fourth quarter last year. Is that kind of the right level or kind of the lower level that you had before that?

Paul Stark: This is Paul Stark. I think we're kind of new to the CECL methodology. So if you look at the risk profile, risk profile continues to be strong, and we don't see that changing. The machinations of the model might -- we'll have to even it out after the first quarter's experience. But I really don't expect it to be any higher than probably where we were at the end of the year.

Rich Dutton: I don't know if we provided for any losses for a number of quarters; it's all been growth.

Dennis Shaffer: Right, it's all been growth. We, at one point, had like 8 straight quarters of recoveries.

Charles Parcher: Even though the small loss we took this quarter was really related to an acquisition, as opposed to any type of normalized deterioration. So we expect that profile to continue to be strong.

Dennis Shaffer: Yes, so that provision is probably going to stay pretty close to where around the number it is today.

Manual Navas: Got you. Perfect, that's very helpful. Thank you, guys.

Operator: And ladies and gentlemen, this concludes our question-and-answer session. I'd like to turn the conference back over to Mr. Shaffer for closing remarks.

Dennis Shaffer: Thank you. In closing, I do want to thank everyone for joining and those that participated on today's call. Again, we are pleased with our first quarter results. Our strong core deposit franchise, our proven disciplined approach to pricing deposits, our solid credit history, I think all positions us very well for future success. I look forward to talking to all of you again here in a few months to share our second quarter results. So thank you for your time today.

Operator: Thank you, sir. This concludes today's conference call. We thank you all for attending today's presentation. You may now disconnect your lines, and have a wonderful day.