(CIVB) Civista Bancshares, Inc.,
Q2 2023 Earnings Call
Friday, July 28, 2023, 1:00 PM Eastern Time

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
Nick Cucharale; Hovde Group
Tim Switzer; Keefe, Bruyette & Woods
Manuel Navas; D.A. Davidson
Daniel Cardenas; Janney Montgomery Scott

Presentation

Operator: Good afternoon. 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, 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 be -- will take any questions you may have.

Now I'll turn the call over to Mr. Shaffer.

Dennis Shaffer: Good afternoon. This is Dennis Shaffer, President and CEO of Civista Bancshares, Inc., and I'd like to thank you for joining us for our second 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.

This morning we reported net income for the second quarter of $10 million, or $0.64 per diluted share, which represents a 20.8% increase over our second quarter in 2022, and net income of $22.9 million, or $1.45 per diluted share, for the six months ended June 30, 2023, which represents a 41.8% increase over the first half of 2022's performance. Our margin, which was 3.99% year-to-date and 3.86% for the quarter, continues to drive our earnings. However, like the rest of the industry, our margin is under some pressure. Our yield on earning assets decreased by 9 basis points during the quarter to 5.31% and was 5.27% year-to-date. The cost of funding our balance sheet increased by 36 basis points during the quarter to 1.51% and was 1.33% year-to-date.

Let me provide some additional color around our deposit strategy. Late in the first quarter, with uncertainty surrounding the bank failures, we went out and locked up funding to fortify our balance sheet. We filled an order for $141.5 million of nine-month brokered CDs paying 5.2% and $151 million of 12-month brokered CDs paying 5%. This replaced $92 million of maturing brokered CDs and provided additional liquidity to preserve our overnight borrowing capacity at the Federal Home Loan Bank. We felt this was extremely important given the bank failures in March.

Beginning in the first quarter, we also began raising interest rates, primarily to our larger-balance money market and time deposit customers, to maintain balances. Excluding the increase in brokered deposits and increases in deposits related to our tax refund processing program, our deposit balances have declined just 3.2% from December. As a result, while our cost of deposits during the quarter increased from 49 basis points to 107 basis points, our cost of deposits, excluding brokered deposits, only increased 10 basis points during the quarter from 39 basis points to 49 basis points. Our cost of deposits excluding brokered deposits year-to-date was 46 basis points.

Our deposit beta, excluding brokered CDs, was 7 basis points over the last 12 months and our cost of overall funding beta was 22 basis points over the last 12 months. Our loan beta has been consistent over the 12-month cycle at 30 basis points. We will continue to monitor deposit flows and react accordingly, but we do not anticipate a similar increase in our funding costs going forward.

Our earnings were also impacted by lower gains on sales of leases. This was primarily the result of internal changes made to our lease sales process in May, which were not fully implemented until the quarter end. We anticipate resuming the sale of our originations in the third quarter. For the quarter, we originated $36.6 million of loans and leases through VFG and sold $10.8 million for a gain of $256,800. We typically target the sale of 50% of our lease production.

Yesterday, we also announced a penny-per-share increase in our quarterly dividend to $0.16 per share. This is a 6.7% increase in our dividend and represents a 25% dividend payout ratio based on our second quarter earnings. This is our second consecutive quarterly increase and reflects our confidence in our earnings. Our year-to-date earnings per share have increased 32.3% when compared to the same period a year ago.

Our return on average assets was 1.12% for the quarter, compared to 1.47% for the linked quarter, and our return on average equity was 11.58% for the quarter, compared to 15.32% for the linked quarter. Year-to-date, our return on assets was 1.29% and our return on equity was 13.42%.

During the quarter, non-interest income declined $1.9 million, or 17.3%, in comparison to the linked quarter and increased $3.5 million year-over-year. The primary driver of the decrease from our linked quarter was the timing of fees from our income tax refund processing program. Consistent with prior years, income from our tax program during the first quarter was $1.9 million, compared to $475,000 in the second quarter. We also received a $1.5-million bonus as part of the newly negotiated debit brand agreement we entered into during the first quarter, which was also included in other non-interest income.

Year-to-date, non-interest income increased $6.9 million, or 52.3%, in comparison to the prior year. The primary driver was $4.2 million in lease revenue and residual fees from the addition of VFG late in 2022. These fees are primarily made up of operating lease payments and gains on the sale of equipment at the end of the lease term. Also included was the previously mentioned $1.5-million bonus we received as part of the debit brand agreement.

Second quarter gains on the sale of mortgage loans were $615,000, which was consistent with our linked quarter. The year-to-date gain on the sale of mortgage loans was $1.2 million and represented a 17.4% decline from the previous year.

Wealth management revenues for the quarter were consistent with the linked quarter and declined slightly year-to-date compared to the prior year. While we anticipate that market uncertainty will continue for some time, we view the expansion of these services across our footprint as an opportunity to diversify and grow non-interest income.

Non-interest expense for the quarter of $27.9 million was comparable to our linked quarter as increases in FDIC assessments and software maintenance were mitigated by declines in compensation and professional fees. Year-to-date, non-interest expense increased $14.9 million, or 36.7%, over the prior year. Much of the increase is attributable to our acquisitions of Comunibanc and VFG in the third and fourth quarters of 2022.

Our compensation expense increased $5.9 million, or 24.5%, over the prior year. The bulk of the increase is due to $4.4 million in additional salaries, commissions and benefits attributable to our new Comunibanc and VFG employees.

The increase in depreciation is primarily due to our new leasing company. Equipment that is under an operating lease is owned and depreciated by Civista until the end of the lease term. Included in this year's professional fees is a $400,000 payment to a consultant that assisted in the negotiation of our new debit card agreement. The increase in amortization of our deposit base intangible and marketing were also due to our 2022 acquisitions. The increase in other non-interest expense was primarily due to growth in unfunded loan commitments and the related $264,000 provision required by our adoption of CECL during the first quarter. Our efficiency ratio was 67.9%, compared to 62.4% for the linked quarter and 65.1% year-to-date.

Turning to the balance sheet. Year-to-date, our total loans have grown by $89.6 million, which includes $24.8 million of loans and leases originated by VFG. This represents an annualized rate of 7%. While non-owner-occupied CRE loans led the way, lease financing receivables were up to due to lighter-than-anticipated sales. Residential real estate loans increased as we originated more of our on-balance-sheet mortgage product, including our CRA, ARM and construction products. Commercial revolving lines of credit, currently at a 35% utilization rate, have not re-advanced and are well below prepandemic balances. Along with our year-to-date loan production, our undrawn construction lines were $211.3 million at June 30, adding to our confidence that we will grow our loan portfolio at a mid-single-digit rate over the balance of 2023. At June 30, our loan-to-deposit ratio, excluding deposits related to our tax refund processing program, was 98%.

On the funding side, total deposits increased $322.8 million or 12.3% since the beginning of the year. If we adjust for increases in brokered deposits and tax program funding, our deposits declined just 2.3% year-to-date. We believe this illustrates the strong relationships we have with our commercial and retail customers. Non-interest-bearing demand accounts continue to be a focus, making up 34.1% of our total deposits at June 30. If we exclude Civista's owned deposit accounts and those related to our tax program, 13.2%, or $390.7 million, of our deposits were uninsured by the FDIC at June 30. Our cash and unpledged securities were $415.5 million at quarter end, which more than covered our uninsured deposits at June 30. Other than the $378.2 million of public funds with various municipalities across our footprint, we had no concentration in deposits at June 30.

We continue to believe our low-cost-deposit franchise is one of Civista's most valuable characteristics and contributes significantly to our peer-leading net interest margin and profitability. We ended the quarter with our Tier 1 leverage ratio at 8.86%, which is deemed well capitalized for regulatory purposes. At June 30, all of our $619.2 million in securities were classified as available for sale and had $63.1 million of unrealized losses associated with that. Our tangible common equity ratio improved to 6.16% at June 30, 2023, compared to 5.83% at December 31, 2022.

Given the turmoil in the banking industry, as we entered the quarter, in our good fortune of being the Federal Reserve Bank of Cleveland's first safety and soundness exam after the failure of Silicon Valley and Signature banks, we thought it prudent to hold off on the resumption of our stock repurchase program during the quarter. I am happy to report that we received our exam report earlier this month and we were very pleased with the results. We continue to believe our stock is of value and anticipate resuming our repurchase program now that we have released earnings.

Despite the uncertainties associated with the economy and the expense pressures our borrowers face, our credit quality is strong and our credit metrics remain stable. We did make an $861,000 provision during the quarter, which was primarily attributable to loan and lease growth. Our ratio of our allowance for loan losses to loans improved from 1.12% at December 31, 2022, to 1.33% at June 30, reflecting growth and our adoption of CECL during the first quarter. In addition, our

allowance for loan losses to non-performing loans increased from 261.45% at December 31, 2022, to 327.05% at June 30.

In summary, although our margin compressed more than anticipated, we continue to generate strong earnings and our margin remains healthy. We continue to see quality loan growth, solid opportunities across our footprint and no material deterioration in our credit quality. Our focus continues to be on creating shareholder value, which is evidenced by the year-over-year increase in our earnings per share and the two increases in our quarterly dividend.

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

Questions & Answers

Operator: [Operator Instructions]

Our first question will come from Terry McEvoy with Stephens.

Terry McEvoy: Dennis, you talked about or reminded us of the deposit strategy late in the first quarter, and we definitely saw deposit costs come up in the second quarter. Can you just maybe run through your outlook for funding costs, deposit costs in the second half of this year, and ultimately -- and kind of think about -- how should we think about the net interest margin trends over the coming quarters as well?

Dennis Shaffer: Yes, I think we're not going to be adding a big slug of deposits like we added there with the brokered deposits in late first quarter. So that was a -- that's going to be with us now throughout the end of the year. So I don't think the NIM -- we don't expect the NIM -- and I think the quarterly NIM contracted about 25 basis points -- we don't expect that big of a decline as we move forward throughout the remainder of the year. We're going to see some contraction, I think, but not that significant of a decline, and that's really where our miss was this quarter. It was just with that, that slug of deposits. So we think maybe half of that amount, maybe a 10-, 12-basis-point margin compression, as we move forward, is probably a little bit more reasonable as we go throughout the year here.

Terry McEvoy: Thanks for that. And then last week, the larger Ohio-based banks, on their calls, talked about just optimizing their balance sheet and being more selective on lending given new capital rules. I guess I'm wondering, are you seeing a change in behavior in some of your larger competitors? And how are you positioned to take advantage of market share gains should that continue?

Dennis Shaffer: Yes. Chuck, do you want to give some color around the competition and stuff?

Charles Parcher: Yes, we've definitely seen some of the larger regionals kind of fall out of some of the deals from that perspective, Terry. We're still -- there's still a really competitive landscape out there from that perspective, especially with some of the other community banks. I would say Columbus, Cincinnati, Cleveland, they're all really competitive markets right now. But we do

feel like we have the advantage of being still in the lending business, and being in the lending business gives us the opportunity to ask for those deposits and try to peel those deposits out of those larger regional banks.

Dennis Shaffer: And then Terry, we are adding new relationships, so as we look to fund new loans, that will be one way. We fund them with these new deposits that we're getting in. We do have some of our securities portfolio turning over and can fund loans there. But I do think from the lending side, we have also tried to push loan yields, and we're seeing that as loans renew and new loans come on our books. We are pushing our loan spreads. We just think we can do that in this environment and our teams have been pretty effective at pushing those spreads. And quite frankly, with the yield curve so inverted, we have to push those spreads. I'm surprised at all -- we still some outliers from some of the banks out there, and I'm surprised that not everyone is doing that at this point, but definitely some of the bigger players, I think, have pulled back a little bit.

Operator: Our next question will come from Nick Cucharale with Hovde.

Nick Cucharale: Just a question on expenses: Can you help us think about your expectations in the near term, and if you have any sizeable initiatives on the horizon?

Richard Dutton: Hey, Nick, this is Rich. I don't know that we've got any sizeable initiatives on the horizon; I think the run rate that we're kind of projecting for the balance of the year is probably $28 million each of the next two quarters. So I don't think there's any new in there. I'm trying to think what the big things in expense were of this quarter. I don't know that there's any significant, Nick.

Dennis Shaffer: Yes, the FDIC assessment had gone up. I think that was a pretty good jump. I think that was up maybe 400, or 200, 300. And software expense was up slightly. It was just things that I think we're adding into the software expense. I think we absorbed, you know, just different -- we've gone to more data analytics when we evaluate CRA and fair lending and stuff that's cost us a little bit more money, and so -- but like Rich said, we don't have, really, any huge initiatives that should impact the expenses as we move forward throughout the rest of the year.

Richard Dutton: Yes, I don't know if we talked about it on the last call, Nick, but we did -- and it wasn't a significant move, but we made some reductions in loan operating staff, kind of in reaction to the kind of fallout in mortgage lending. Again, not big numbers, but certainly, I guess the point is that we're continuing to look at everything that makes sense to look at going forward.

Dennis Shaffer: Yes. It absorbed some of those increases that we see.

Nick Cucharale: That's very helpful. And then at the halfway point of the year, pretty solid loan growth so far; can you help us think about the size of your pipelines and how that may translate into a full year growth rate?

Charles Parcher: Nick, it's Chuck. I find still a pretty consistent -- I would say that it may be down slightly from last year, but really feel good about where we're sitting at midyear. Dennis mentioned in his comments that we've got $211 million of construction availability looking into

the second year; a little over $50 million of that is the increase in our single family construction programs that we've seen, like we're doing a lot more real estate construction, but the other $150 million is out there in the commercial side, so we feel like we've got some good tailwinds coming into the second half, and I still would say we're in that mid-single-digit growth range looking forward.

Nick Cucharale: And just a follow-up on the construction; is most of that in Columbus?

Charles Parcher: I don't have a breakdown of all the different metropolitan areas, but I can tell you that a nice-size chunk of it is in construction. We've had tremendous -- especially on the multifamily side, tremendous appetite there for multifamily. They can't build enough units fast enough to house everybody that's either moving into town or getting ready to work in or on with Intel and other large projects in that city.

Operator: Our next question will come from Tim Switzer with KBW.

Tim Switzer: The first one I had, just real quick: Do you guys have the purchase accounting accretion impact to NII or the NIM?

Richard Dutton: I do. We do. Was it 8 basis points? I'm going from memory. My memory was correct; 8 basis points. How about that?

Tim Switzer: Great, thank you.

Dennis Shaffer: [Indiscernible].

Tim Switzer: I had a follow-up on the talk about some of the larger banks pulling back from lending. Has that opened you to, maybe, any opportunities to finding some new talent at all, or do you think that's something that could happen down the road if the banks continue in this position?

Richard Dutton: Yes, I think -- you know, back when we had the Great Recession, we added talent in this organization, and I think anytime there's disruption or there's -- the big banks pull back, I think that does give us opportunity to add talent throughout the organization, both on the production and support side. So we continue to look for opportunities. If we think that it would add revenue, we definitely would look at that. Right now it's a little bit more challenging just because you're pretty well loaned up, so you've got to figure out how you're going to fund them, and with the yield curve so inverted, I think it does make it a little bit more challenging for that. But that -- we view that as opportunity, and particularly when it comes to adding staff.

Charles Parcher: And we're also seeing, Tim -- this is Chuck -- some talent start to float our direction, or at least make some inquiries on the residential mortgage side. As you know, as the market gets tighter a little bit, a lot of times the mortgage brokers, they don't have the same array of products to be able to sell, and so we're starting to see that surface. We've got a few openings that we're trying to fill, and it looks like we'll be able to do that with some larger producers than what we had in our staff previously.

Richard Dutton: And that really doesn't cost us anything, because those are commission-based positions, so generally as they add originations, they're generally paying for themselves.

Tim Switzer: Right. Yes, that makes a lot of sense. And then, can you guys give us a quick update on the credit outlook? I think last quarter you guys were talking about how everything seems fine in your major metro areas, but any updates you can provide on, like, the CRE and office exposure? I think you said it was, like, 4% to 5% of loans.

Paul Stark: Yes. This is Paul Stark. We -- I would say that the outlook hasn't changed significantly. I think obviously we're watching the office market. We're diving into kind of the makeup of it, but the vast majority of our office space is more in the outlying communities as opposed to the urban centers. I think we only have about three or four properties that are actually kind of in the center of, let's say, Cleveland. But overall, we've -- they've been performing very well. Occupancy remains high.

The only thing you don't really know yet is what's going to happen in a few years when the leases are up. We don't have -- I think only about 15% of our leases, our properties, are going to have maturities in the next two years. So really haven't seen anything in the landscape. Residential stays pretty solid. I know that there's stress out there, but our numbers are good. Pretty consistent quarter to quarter. And right now, I don't see any real dark areas that make us change that perspective. It's hard work staying on top of it, but right now I'm not seeing anything.

Dennis Shaffer: And Tim, our portfolio is pretty diversified, so when you look at the CRE buckets between multifamily, industrial, retail, office, it's pretty diversified, so no real concentration in those areas.

Tim Switzer: Okay, nothing too surprising there. Do you have what percentage of the total is the office book?

Richard Dutton: We do. This is Rich right now. So pure office, I guess, is just under 6%, 5.8%, and then we've got another less than 1% of healthcare -- medical offices, yes.

Tim Switzer: Less than 1% in health care?

Richard Dutton: Yes. Maybe I'm looking at the wrong number. It's 1.2%, 1.2%. I highlighted the wrong number.

Operator: Our next question will come from Manuel Navas with D.A. Davidson.

Manuel Navas: With your NIM outlook, just clarify, any kind of troughs in the fourth quarter? Can you kind of just add a little color there?

Richard Dutton: This is Rich, Manuel. Yes, I guess it depends on what the Fed does, but I think kind of like what Dennis said, I think in terms of big chunks of funding, the moves that we made at the end of the first quarter are in place and will stay in place. And if you look at our deposit

funding, even though we feel like we were aggressive in the first and second quarters, the non-brokered cost of our deposits only went up 10 basis points this quarter. And if we assume similar moves from the Fed in the second or the third and fourth quarters, those would be the kind of moves that you might see on the deposit side. And again, our loan betas have been pretty consistent over the cycle, so it has been 9 basis points of expansion -- or not 9, 30, 30 basis points of expansion in each of those quarters. So barring anything crazy happening, and crazy things happen, but barring anything crazy happening, I would say that that's a fair statement, that probably a trough toward the end of the year.

Manuel Navas: It's interesting to talk about loan yields; I was kind of wondering, they didn't move that much this past quarter. I would have thought they -- it seems like maybe more of the production was end of quarter. I would think if keeping on leases, those are usually higher yielding. I just kind of was wondering why loan yields didn't rise even more.

Charles Parcher: I think it's a couple factors on that, Manuel. The first one was, we had a couple of large pay-offs in the month of May -- end of April, early May. So those balances actually went down a little bit. So a lot of the production did come in the back half of the quarter, especially in mid- to late June. I think the other thing that caused it not to expand quite as much -- we talked about it a little bit earlier, but our mortgage -- on the mortgage lending side, we did a little bit more on-balance-sheet versus saleable product, and obviously mortgage lending rates are -- to the consumer are a little bit lower than the commercial rates, so we had some growth in that area that made it come down a little bit. But all in all, we're happy with where we're going. Our trend line and our production piece of it continues to upflow, and we feel like that those rates will continue to rise, looking into the -- I don't have a great crystal ball as far as what those will go to, but we seem to be pinching them up on a production piece, probably 10 to 15 basis points a month lately, as far as new originations.

Dennis Shaffer: And I think Chuck hit it right on the head. The payoffs early in the quarter and then the portfolio residential loans, those yields are not as high, and that mix is -- you know, our portfolio is a little bit more, right now, because people are buying the ARM products as opposed to the fixed-rate products, and those ARM residential rates are a little bit lower.

Charles Parcher: And I know we had said the payoffs were not -- were negative; the payoffs were both positive. We have one of our really good customers, sold his business for a nice piece of change, and then we also had a large industrial building that went to the [CMDC] market.

Manuel Navas: What are your, like, your new commercial yields?

Charles Parcher: Well, I would tell you -- everything starts pretty much with a -- the lowest is 7% and then working up from there. I would tell you new production is probably in that -- if you're doing a three-year, or maybe even a five, somewhere where it's between 7.25% and 7.75%, we're seeing some people choose, with their thought process that rates are declining, probably in that SOFR plus 2.75% range as far as on some floating -- on the new floating originations from that side of it.

Manuel Navas: All right. And if I jump over to the positive side, I understand that the brokered came on early in the quarter; you gave some nice stats of deposits costs ex brokered. From here, what are your thoughts on just deposit cost increases from here?

Dennis Shaffer: Well, I think they're going to stabilize a little, but again, I don't think we'll see the big NIM contraction that we had in this second quarter. They are under pressure, but we are holding onto more of our deposits today. I think we're just a little closer on that -- we have no deposit rates starting with a 5. And there's a lot of banks that do have that. And we've found that -- you know, our highest rate right now is 4.5%, and we've found if we've gotten a little bit closer, that -- when before we were trying to hold it in the 3s, and we were seeing some deposit runoff in the first couple of months of the year, so we got a little bit more aggressive. Right now we're at the 4.5%. We're not seeing -- we're meeting every other week with our deposits. We're not seeing that runoff.

So we feel that we do have this strong core deposit franchise. We do feel that our customers are pretty loyal. We've never chased the rate shopper before where we've gone out and advertised the highest rate in social media or in the newspapers. That's not our customer. Our customer is coming to us and they're asking what alternatives they have, and we're telling them, hey, we've got a 4.5% month CD -- you know, seven-month CD special, and they are taking some of that money from some of the lower-interest-bearing accounts and non-interest-bearing accounts and putting that money to use, but they're not leaving to some of our competitors that are paying 5.25%, 5.5%. So we feel we just have to stay close in that -- in the game, so some of it depends on what the competitors are doing, but we do feel there is value to this core deposit franchise that we have in -- and which helps us maintain some of those customers.

Manuel Navas: I appreciate that. In fees, you said you were keeping -- you kept leases this quarter. Do you feel like there's going to be an extra backlog of lease sales next quarter?

Dennis Shaffer: No, no, probably not. We'll probably -- because what happens, as rates move, it makes it harder to sell those loans because the gain on sale, that decreases. So it makes it harder. So we're probably not going to go back and try to capture some of those. Just going forward, we'll just keep those additional loans kind of on the balance sheet that our interest rate yields are good on those. So I think we just pick that back up here this quarter.

Manuel Navas: Okay. I appreciate it. Is there, like, just a ball-park fee run rate, then?

Richard Dutton: Gosh, I don't now. Let me think about that. I mean, I guess I would add to what Dennis said. I mean, we had some personnel changes at the leasing company, so as we integrate those guys in, that was part of, maybe, the slowdown in sales for the second quarter. I think we've budgeted what for sales? I'm trying to back into a gain number for you. You know, I don't -- it's probably dangerous for me to do that. Let me think about it and I'll get back to all you guys. How about that?

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

Operator: [Operator Instructions].

Our next question will come from Daniel Cardenas with Janney.

Daniel Cardenas: Just a couple questions here. The runoff that we saw in the securities portfolio; was that anticipated and planned? I mean, we've seen some runoff here the last couple quarters in a row, and should we expect to see a continued reduction in your overall securities book throughout the second half of the year?

Richard Dutton: I would say yes. Again, if you'll recall, I guess early last year when we kind of took some of our excess liquidity and bought some short-term securities, those were all kept at the bank, and as those mature, we are letting them run off and use that to fund loan growth. Those pretty much run through the middle of next year, and then we're kind of done with that. We typically -- most of our securities are in our investment subsidiary, and there are tax reasons not to bring those back if we don't have to, so those are the last ones we'll bring back. We'll continue to reinvest those. But you're right; I mean, the runoff that you've seen was just a kind of redeployment of the liquidity that we had early last year and put into the market.

Daniel Cardenas: Okay, excellent. And then with some of the noise that we've kind of seen in the leasing side, are you still kind of sticking to your guidance in terms of where this book of business could be by the end of the year, or does that get truncated somewhat?

Dennis Shaffer: I think we're sticking pretty much to the guidance. I mean, we're still -- the leasing business picks up -- you know, it's new to us, but we're told that it picks up. It's pretty heavy in the fourth quarter and it picks up at second half of the year. So I think we're still probably picking up the -- sticking to the guidance that we provided earlier.

Richard Dutton: Yes, I mean, they had about $27 million of originations in Q1, and they had $36 million or $37 million of production in Q2, and that's line with kind of what we thought. But like Dennis said, we're new to this, but I think also like Dennis said, I think what we guided to earlier on is kind of what we think's going to happen. That's our best guess, how about that?

Daniel Cardenas: Sounds good. And then last question from me: How should I be thinking about your tax rate here in the second half of the year?

Richard Dutton: And it's always been pretty good, right? I think our effective tax rate for the quarter was what, 14%? And again, I think we kind of -- that's probably -- I'd put 15% or 16% in there. You can't see it, but they're nodding their head at me, so that must be the right number.

Operator: There are no further questions. This concludes our question-and-answer session. I would like to turn the conference back over to Dennis Shaffer for any closing remarks.

Dennis Shaffer: Well, in closing, I just want to thank everyone for joining, and those that participated in today's call. The interest rate environment continues to be a challenge; however, our earnings remain strong and our margins remain healthy. I remain optimistic that our low-cost core deposit franchise will continue to produce superior results, and I look forward to talking to you all in a few months to share our third quarter results. Thank you very much.

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