

Civista Bancshares, Inc., First Quarter 2024 Earnings Call
Tuesday, April 30, 2024, 1:00 PM Eastern Time

Officers and Speakers

Dennis Shaffer; Chief Executive Officer and President
Richard Dutton; Chief Operating Officer and Senior Vice President
Charles Parcher; Chief Lending Officer and Senior Vice President

Analysts

Brendan Nosal; Hovde Group
Justin Crowley; Piper Sandler
Terry McEvoy; Stephens
Tim Switzer; KBW
Manuel Navas; D.A. Davidson
Daniel Cardenas; Janney Montgomery Scott

Presentation

Operator: Ladies and gentlemen, 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.

[Operator Instructions]

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 2024 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 first quarter of \$6.4 million, or \$0.41 per diluted share, which represents a \$6.5-million decline from our first quarter in 2023 and a \$3.3-million decline from our linked quarter. While we are disappointed in our results, we knew there would

be headwinds as we stepped away from the third-party processor of income tax refunds and we did not have the benefit of the \$1.5-million one-time bonus that we received from the renegotiation of our debit brand agreement. In addition, in late 2023, we implemented changes in the way we process overdrafts, which reduced service charge income. As a result of these three items, noninterest income was approximately \$3.8 million less in this quarter than in the previous year.

While we continue to reduce rates on our CD specials and select money market accounts, the migration from our noninterest-bearing and lower-rate checking accounts into higher-rate money market accounts and CDs continue to put pressure on our net interest margin. We also experienced an increase in our allowance for credit losses as our CECL model required higher reserves based on our individually analyzed loan and lease portfolio and loan growth.

Through the third quarter of 2023, we announced that Civista would be stepping away from the third-party processor of tax refunds due to increased scrutiny from our regulators. Civista earned \$1.9 million and \$475,000 respectively during the first and second quarters of 2023 related to this program. Like many in the industry, we have been analyzing the way we process overdraft accounts and the fees associated with those services. Late in December, we discontinued assessing a charge on represented overdrafts and reduced our NSF charge from \$37 to \$32. We are also enhancing how we communicate with our customers on the use of their deposit accounts. Our overdraft fees, which are included in service charges, declined \$375,000 compared to our first quarter of 2023. We anticipate these changes will reduce service charge revenue by \$1.2 million over the course of 2024.

In anticipation of this lost revenue, we implemented a number of initiatives to reduce our reliance on wholesale and borrowed funding to increase revenue and to reduce expenses. Although we have seen some immediate impact, most of the benefit from these initiatives will occur over the balance of the year. I am encouraged by the early results and I am optimistic that we are headed in the right direction.

We anticipated pressure on our margin as we exited the tax program and the need to replace the significant interest-free funding balances it provided during the first and second quarters. However, it is difficult to model the impact of the depositors migrating from noninterest-bearing into interest-bearing accounts, which was evident during the quarter.

During the quarter, our cost of funding increased by 35 basis points to 2.54%, while our yield on earning assets increased by 12 basis points to 5.64%. This resulted in our margin contracting by 22 basis points, coming in at 3.22% in the quarter.

During the quarter, we continued our measured approach to decreasing rates paid on some of our higher-tiered demand deposit accounts and CD specials. In spite of lowering these rates, our cost of deposits, excluding brokered deposits, increased by 21 basis points to 1.22% during the quarter.

We have a number of initiatives in progress to reduce costs and our reliance on brokered and wholesale funding. The state of Ohio announced its Ohio Homebuyers Plus program to

encourage Ohioans to save for the purchase of homes in Ohio by offering tax incentives to the depositors in subsidizing participating banks. As part of the program, the state will deposit up to \$100 million in low-cost funds at the current rate of 86 basis points into participating banks.

We also have historically maintained the cash balances of our wealth management clients in other financial institutions; however, we are currently taking steps that will allow us to hold the cash deposits of our wealth management clients at the bank. We anticipate the rates to approximate Fed funds less 20 to 25 basis points. Based on the current cash positions, we anticipate being able to move \$75 million of these funds into the bank by the end of the third quarter.

Our loan and lease portfolios grew at an annualized rate of 5% for the quarter. This was organic growth, and we believe it is indicative of the continued strength of our markets and our organization. While this is slower, we have focused on holding rates at higher levels. We anticipate continuing to grow at a mid-single-digit pace for the balance of 2024.

While our overall credit remains solid, as I previously mentioned, we experienced an increase in our allowance for credit losses as our CECL model required higher reserves based on our individually analyzed loan and lease portfolio. This was primarily attributable to a hospitality credit and a cellular tower credit that have both been classified for several quarters. Both borrowers continue to be cooperative; however, new information became available during the quarter, and it was necessary to adjust the collateral values and to increase our reserve.

Earlier, we announced a quarterly dividend of \$0.16 per share. Based on our March 29 share price, this represents a 4.16% yield and a dividend payout ratio of 42.11%. Our efficiency ratio for the quarter was 73.8%, compared to 64.3% for the linked quarter; however, if we were to back out the depreciation expense related to our operating leases from our leasing group, our efficiency ratio would have been 70% in the quarter and 60% in the linked quarter.

During the quarter, noninterest income declined \$319,000, or 3.6%, in comparison to the linked quarter and \$2.6 million, or 23.2%, in comparison to the prior year first quarter. The primary drivers of the decrease from our linked quarter were declines in service charges given the previously mentioned changes to how we are processing overdrafts and a \$418,000 decline in swap fee income. These declines were offset by increases in other noninterest income, which included increases in the \$182,000 in fees related to leases and \$289,000 in income from our captive insurance subsidiary.

The primary drivers for the decline from the prior year's first quarter were \$1.9 million in tax refund processing fees earned in the prior year that I mentioned earlier, and a nonrecurring \$1.5-million signing bonus that we recognized in the first quarter of 2023 related to a new debit brand agreement. These declines were partially offset by increases in the same other-noninterest-income items, a \$584,000 increase in fees related to leases and a \$453,000 increase in income from our captive insurance subsidiary.

Noninterest expense for the quarter of \$27.7 million represents a \$2.3-million, or 9%, increase from our linked quarter. This increase is primarily attributable to increases in compensation-

related expenses, including salaries, which were up \$139,000; payroll taxes, which increased \$434,000 as the beginning of the year full payroll tax load resumed; and an increase in health insurance expense of \$346,000.

You will recall that Civista is self-insured for our employee health insurance. As has been our practice, we begin each year by accruing our health insurance expense at the rate computed by our actuaries. Thankfully, as has often been the case, we were able to reduce that accrual in the third and fourth quarters of the prior year.

In addition, the combination of truing up our marketing rule in the previous quarter and the resumption of our monthly marketing accrual in the current quarter accounted for \$669,000 of the increase.

Compared to the prior year's first quarter, noninterest expense increased \$257,000, or 1%. The increase is attributable to our normal annual merit increases, which take place each April, and software expenses related to our digital banking platform that were mostly offset by declines in depreciation related to operating leases and professional fees that were paid to the consultant who assisted us with our debit card brand renewal in the prior year.

Turning our focus to the balance sheet. For the quarter, total loans and leases grew by \$36.4 million. This represents an annualized growth rate of 5%. While we experienced increases in nearly every loan category, our most significant increases were non-owner-occupied CRE loans, residential real estate loans and real estate construction loans.

The loans we are originating for our portfolio are virtually all adjustable-rate loans and our leases all have maturities of five years or less. New and renewed commercial loans were originated at an average rate of 7.92% during the quarter. Loans secured by office buildings make up about 5.1% of our total loan portfolio. As we have stated previously, these loans are not secured by high-rise metro office buildings; rather, they are predominantly secured by single or two-story offices located outside of central business districts.

Along with year-to-date loan production, our pipelines are fairly strong, and our undrawn construction lines were \$244 million at March 31. Again, we anticipate loan growth to continue to be in the mid-single-digit range for the balance of 2024.

On the funding side, total deposits were mostly flat, declining just \$4.3 million, or negative 0.1%, since the beginning of the year. However, if we back out non-core tax program and brokered deposits, our deposit balances declined to \$29 million, or 1%, year to date.

As I mentioned, we have a number of initiatives in progress aimed at gathering core funding. Our deposit base is fairly granular, with our average deposit account excluding CDs approximately \$25,000. Noninterest-bearing demand accounts continue to be a focus; excluding tax-related and brokered deposits, noninterest-bearing deposits made up 29.5% of our total deposits at March 31.

With respect to FDIC-insured deposits, excluding Civista's own deposit accounts and those related to the cash program, 13.1%, or \$392.3 million of our deposits were in excess of the FDIC

limit at quarter end. Our cash and unpledged securities at March 31 were \$452 million, which more than covered these uninsured deposits. Other than the \$369.5 million of public funds with various municipalities across our footprint, we had no deposit concentration at March 31.

At quarter end, our loan-to-deposit ratio was 98.3%. Our commercial lenders, treasury management officers and private bankers continue to have some success requesting additional deposits and compensating balances from our commercial customers, and we will continue to be disciplined in how we price our deposits. We believe our low-cost deposit franchise is one of Civista's most valuable characteristics, contributing significantly to our solid net interest margin and overall profitability.

The 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 \$62.5 million of unrealized losses associated with that. This represented an increase of unrealized losses of \$7.9 million since December 31, 2023.

Over the past few quarters, we have reduced our security portfolio by using its cash flow to fund our balance sheet. At March 31, our security portfolio was \$608.3 million, which represented 15.7% of our balance sheet. We ended the quarter with our Tier 1 leverage ratio at 8.62%, which is deemed well-capitalized for regulatory purposes.

Our tangible common equity ratio was 6.26% at March 31, down slightly from 6.36% at December 31, 2023. Civista's earnings continue to create capital, and our overall goal remains to maintain adequate capital to support organic loan growth and potential acquisitions. Although we did not repurchase any shares during the quarter, we continue to believe our stock is a value.

While our capital levels remain strong, we recognize our tangible common equity ratios screen low. Our previous guidance remains that we would like to rebuild our TCE ratio back to between 7% and 7.5%; to that end, we will continue to focus on earnings and will balance any repurchases and the payment of dividends with building capital to support growth. As we stated in an earlier 8K, the board reauthorized a new stock repurchase program of \$13.5 million during its April meeting.

Despite the uncertainties associated with the economy and the expense pressures on the borrower space, our credit quality remains strong and our credit metrics remain stable. As I previously mentioned, we did make a \$2-million provision during the quarter, which was primarily attributable to higher reserves required by our model based on individually analyzed loans and leases, which was driven by two credits: a \$3.3-million hospitality credit, which we expect to resolve via the sale of the properties, and have a substantial guarantor backing, and a \$4-million cellular tower credit, which we expect to resolve in the next six months. I would note that neither of these credit issues were related to underwriting weakness. The hotel had an issue with its fire suppression system during the pandemic that prevented it from operating for 17 months and continues to limit operations. The cellular tower business suffered an internal fraud where an employee caused significant damage to the company's personal gain.

Our ratio of allowance for credit losses increased from 1.3% at December 31, 2023, to 1.34% at March 31. In addition, our allowance for credit losses to nonperforming credits increased from 245.67% at December 31, 2023, to 247.06% at March 31.

In summary, although our margin compression was more than we anticipated, our margin remains strong and we are taking steps to generate more lower-cost funding. Our loan growth during the quarter should remain at a mid-single-digit pace for the balance of 2024. While we experienced some isolated credit issues, we have seen no systemic deterioration in our credit quality. Overall, Civista continues to generate solid earnings and our focus continues to be on creating shareholder value.

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

Questions & Answers

Operator: [Operator Instructions]

Your first question is from Brendan Nosal from Hovde Group.

Brendan Nosal: Maybe just to start off here, I think you folks have historically had the CFO position vacant for quite a long time, so just maybe talk through the decision to formally fill that CFO position with your announcement earlier today and why now is the right time.

Dennis Shaffer: Well, I think that Todd Michel has filled that role for us for the last 30 years, and he's done a great job at that, but Todd is approaching retirement age; he'll be retiring in the next couple of years, and we wanted to have sufficient time -- Todd has a lot of institutional knowledge, and we think he'll bring value working with our new CFO, so we just thought the timing of that is right, right now, given his plans for the future.

Brendan Nosal: Great, thanks. Maybe one more from me. Moving to the expense base, costs -- even though costs were up sequentially, they still came in quite a bit better than I was expecting. I think on the last earnings call you folks pinpointed, like, \$28.7 million of expenses per quarter in the final three quarters of the year. Just kind of curious to hear your updated thoughts on the expense base and how you expect that to trend going forward.

Richard Dutton: Yes, Brendan, this is Rich. We guided last quarter, I think, during the call to \$28.4 million, and I would say that's a good number for the rest of the year. And the big difference that we'll have between the first quarter and the rest of the year is, as you'll recall, our merit increases go into effect April 1 every year. And that's really the only significant, I think, additional cash expenditure that we've got slated for in our budget between now and the end of the year.

Dennis Shaffer: Yes, we've really focused on kind of expense control here near the end of last year and going into this year, just knowing the lost revenues that we would have, so I think that's really good if we're guiding to the -- because I think we're starting to see some of the expense

control initiatives that we put into place -- so take that number that Rich gave, and if we guided last quarter, our merit increases went into effect in the second quarter, but I think that's showing that I think we are controlling other expenses.

Operator: Thank you. Your next question is from Justin Crowley from Piper Sandler.

Justin Crowley: Wanted to hit on the net interest margin for the quarter. Given some of the dynamics you discussed in the prepared remarks, can you unpack a little more just what you're seeing as far as lingering upward pressure on the funding side? Where we may be on that, when you get to a spot where asset repricing allows for margin stabilization, and let's call it a flat rate environment.

Richard Dutton: Yes, Justin. This is Rich again. I can't remember if you were on the call last time or not, but I don't have a great track record of predicting what our margin is going to do. But I think even with the contraction, I mean, our margin is respectable, and I think the initiatives that Dennis discussed, the Ohio Homebuyer Plus, we feel pretty confident that we're going to be able to bring in \$100 million of pretty low-cost funding related to that, and the opportunity to move some of the cash balances that our wealth management group has that are off balance sheet onto our balance sheet are two opportunities to kind of reduce funding.

And again, I think absent growth, and probably the bigger wild card is absent a migration from the noninterest-bearing deposits into higher -- whether they're money market or even CDs, I mean, that's a thing that I think we continue to -- it's just -- I don't think it's impossible to model, but we haven't figured out how to model that. I think our models tell us that if nothing changes and we don't have any significant crazy movements in interest rates, that again, it will contract by basis points. But I've said that two quarters in a row, and I've been wrong two quarters in a row.

Dennis Shaffer: The big difference, I think, Justin, is we are starting to see some positives. We are -- you know, we were able to reprice some brokered near the end of March, some of the brokered deposits. We did see some improvement there. We were able to get that funding at 22 basis points less than we got -- we had it on the books for. We have a lot of our CD specials -- you know, are starting -- rates haven't moved, so those rates were high back midyear last year, or mid -- and into the third quarter. Those rates will adjust downward at their next repricing here over the next -- the ones that are coming due over the next quarter or so.

So there are some positive signs, but I do think, as Rich alluded to, it all comes down to the loan -- how fast we grow loans, because we're going to need funding for that, and we may not get the benefit of, you know, like the wealth program and the tax money. That may be a third quarter thing. We're starting to implement and we'll be able to start taking those Homebuyer Plus deposits here over in the first week of May here, but how quickly we put those on the balance sheet will really depend on what that -- where our margin goes in that second quarter. But the third quarter, I think we should see good improvement because we also have more loans and assets repricing than we had the first half of the year. So there's a couple of factors. I think at least some positive signs that we see that the margin might start stabilizing.

Justin Crowley: Okay, got you. That's helpful. And then I guess just dovetailing off some of that, what do you have -- I'm not sure if you're able to quantify -- just in terms of brokered funding that's maturing through the balance of the year, and what does that repricing look like looking forward here?

Dennis Shaffer: That is all in the fourth quarter. The remainder of it -- we have nothing repricing. We had a slug of \$151 million that repriced March 20, so we really didn't get much benefit of that in the first quarter, and the next two slugs of our brokered stuff is really in the fourth quarter, late in the fourth quarter, that we'll reprice.

Richard Dutton: That's right, so we've got \$500 million, and that's been kind of constant, of brokered CDs, and as Dennis said, we've got \$200 million of that, that will come due or mature in November of this year. The rest of it goes into '25. And that's really the only thing -- yes.

Justin Crowley: Okay, that's helpful. And then just shifting gears a little, I know the focus here has been rebuilding capital levels, getting TCE back to 7%, 7.5%, but just looking for any high-level commentary on the environment for M&A, which of course has remained fairly quiet, but just more sort of trying to get a sense of just where your capital priorities stand over, maybe, the medium- or longer-term.

Dennis Shaffer: Yes. I mean, I think there's a lot of dialogue happening around M&A; I just think it's a really tough environment to do any M&A right now, whether you're a buyer or a seller. The low marks, trying to figure that out in this environment, and a lot of times you really have to dive into how buyer or sellers' loan books are repricing, what's the effect a higher rate's going to have on those books and things like that. So -- and I think the marks that you're doing are pretty heavy. So I just -- for us, we're focused on building our capital base right now because we just think it's too tough an environment right now to do any type of M&A.

Operator: Thank you. Your next question is from Terry McEvoy from Stephens.

Terry McEvoy: Maybe if you could just talk about loan pipelines, confidence in that mid-single-digit growth rate over the remainder of the year, and do you think that growth will continue to come from kind of multifamily and metro Ohio markets, and some of the other categories that Dennis talked about earlier?

Charles Parcher: Yes, Terry, this is Chuck. Pipelines are actually pretty good right now. When I compare it to last year, our pipeline right now is actually higher than it was last year sitting at the same time. Now, I would tell you that our pull-through rate's not been quite as strong as they were in the past, just because we're really trying to be very mindful of margin and holding rates at well above 8% in the last -- as far as new originations on most -- especially real big deals, so our pull-through rate isn't [indiscernible] what it has been.

We're still seeing really good strong demand especially in the multifamily area. Obviously Columbus can't build units fast enough, but we're seeing really good growth in Cincinnati and Cleveland too, as far as the metro markets, with some -- and we've got some stuff coming on

both in Toledo and Dayton, too, so I would say that the five major metro markets are doing well on the multifamily side.

We really haven't seen really any what I would call rate concessions or rate pressures across any of our categories so far, and we're seeing, especially in that multifamily area, most stuff, as it's coming on, after it's being built, the rents are actually higher than what's being projected in the appraisal.

So we feel pretty good about where we fit here in Ohio and southeast Indiana and northern Kentucky. We feel like the demand's still pretty strong. The one thing, I think we talked about last call, it's taking a little bit more equity in these projects to get them work from a cash flow perspective, but the bigger developers are willing to put that extra cash in to make them work.

Terry McEvoy: That's great. Thanks for the color there. As a follow-up, I know this is a tough question: How are you thinking about the noninterest-bearing funds coming out of the tax refund processing program that was \$19.5 million last quarter? Should we kind of model out \$20 million per quarter going forward, or was the first quarter a bit outsized in your view?

Richard Dutton: Well, that's probably fair. I think at the end of March, we had about \$31 million left in there, Terry.

Terry McEvoy: Okay.

Richard Dutton: We're kind of at the mercy, if you will, of the tax processing partner that we have. I mean, they're going, at some point, going to move that money out, but we thought it was going to happen in December. And I guess we're fine that they want to leave it because it's free money to us. But right now, the conversation is that that will be gone sometime in the second quarter.

Terry McEvoy: Okay. And just one last quick one: The \$1.2 million of overdraft service charge revenue that's lost this year, is that fully captured in the 1Q run rate or is there incrementally more to come down a bit in the remainder of the year?

Richard Dutton: Oh, I would say that our first quarter is typically our highest NSF quarter, post-holidays. So if we had \$375,000 less of NSF income in the first quarter, it's going to be something less than that, and over the course of 12 months, we're kind of projecting the \$1.2 million.

Operator: Thank you. Your next question is from Tim Switzer from KBW.

Tim Switzer: I had a follow-up on your loan commentary. I think you guys raised your guidance expectation from low-single-digit last quarter to mid-single digits, and I think I remember you guys mentioning something about -- it sounded like the competitive environment was getting a little bit more intense last quarter. Have you seen that moderate a little bit? And is that maybe what drove the upsize to guidance here?

Charles Parcher: Well, I think all along, Tim, we were projecting mid-single-digits in that 5%, 6% range; 5%, I think, is what we really -- we focused on. And we have seen a little bit of relief, not a lot. I mean, there's a lot of competitors out there. As we talked about, I think the last call, we've seen a lot of competitors come back, getting treasury plus as compared to kind of really looking at cost of funds more so, with the inverted yield curve that put us at a little bit of a competitive disadvantage. But all in all, as you know, the 5% and 10% have actually come back up a little bit in this first quarter and into the second quarter, so that treasury plus has gotten a little closer to what we're offering. But I feel -- I just feel like we really haven't changed our guidance; at least I don't feel that way, after the first quarter results.

Richard Dutton: Well, the only thing I'd add to that, Tim, is that we're -- I mean, the governor, really, on our loan growth is our ability to fund that loan growth. And we're disciplined in how the loan guys price those, but as a big an impediment to growing our balance sheet is competition, is our ability to fund that.

[Cross-talk]

Tim Switzer: Can you guys remind us what percent of your loans are floating-rate and how you'd expect loan yields to trend in a downward rate environment, and then maybe what the overall impact on the NIM would be if we just got maybe one or two basis cuts toward the end of the year?

Dennis Shaffer: Well, we think that will benefit us. The rate cuts probably benefit us a little bit because again, we've been funding some of that with our with overnight borrowings. So those have been trending kind of upward. I think they were up \$30 million from 12/31 to 3/31, so we would benefit from that. And we also have more loans repricing. A lot of our loans are tied to -- 75% of our book are more is tied to treasuries. And those, even if short-term rates come up, it looks like the yield curve is trying to correct itself a little bit and those treasury rates are higher, so as that book reprices, we should benefit, so.

Charles Parcher: I mean, just to kind of give you some raw numbers, about -- a little over 25% of our book is floating daily, from that perspective, Tim. So then -- and when we started out the year, we did a deep dive and we had about \$140 million that were going to reprice in 2024, of which only \$15 million of that was repricing in the first quarter. So when Dennis mentioned earlier that we feel good about some of the repricing and some of the margin help in the second half of the year, out of that \$140 million, \$93 million of it was going to be -- it's going to be moving in the second half of the year.

Operator: Thank you. Your next question is from Manuel Navas from D.A. Davidson.

Manuel Navas: I think a lot of my questions have been answered, but could you help quantify the potential size of the wealth management opportunity? You said it was \$75 million at third quarter; is there more after that, or is it just that amount?

Richard Dutton: Well -- this is Rich. It's a transaction. Those deposits are sitting in our wealth department now, and once we get the mechanics of that squared away, it will just be a -- we can

just move that money over to the bank. And it's not going to be super cheap money, but it will be certainly less than what we borrow overnight at.

Dennis Shaffer: And I would add that we mentioned those two initiatives, but there are a number of other initiatives that we think that we'll be able to add deposits. I mean, we have a -- we're looking at all our public fundings in the markets that we -- where we have branches. We're looking at schools and libraries and municipalities and county money and stuff, and we're proactively going to be reaching out and getting a little bit more aggressive to get maybe a little bit more of that funding. We have a number of -- we pulled a number of reports, for instance, with customers with lending with no or little loan or deposit relationships, and we'll be targeting those customers and stuff. So I think there's a number of initiatives under way, in addition to the state of Ohio's Homebuyer Plus program, and that wealth program, that we think can have an immediate impact on our funding costs.

Richard Dutton: I wouldn't say immediate.

Dennis Shaffer: Well, over time. Over the next year. I would say over the -- as I mentioned in my remarks, over the next year.

Operator: Thank you. [Operator Instructions].

Your next question is from Daniel Cardenas from Janney Montgomery Scott.

Daniel Cardenas: A couple questions. On the fee income side, I mean, I appreciate all the color that you guys have given, and it sounds like you're working to try to patch up some of the holes that have been created, but how should we think of a good run rate for you guys on a go-forward basis?

Richard Dutton: So we had \$8.5 million for the quarter. Again, I think the wild card in there right now for us is mortgage bank. And again, we're coming into -- I don't believe it's the best time for that, and I'll let Chuck talk about it, but I don't -- I guess the other wild card is lease -- the fees related to our leasing. And again, we're -- I guess we're a year into it, but we're still -- those are some pretty lumpy revenues, depending on when pieces of equipment get sold and whatnot. But I'll let Chuck talk about mortgage banking a little bit.

Charles Parcher: Well, Dan, our first quarter production in mortgages, even though it doesn't show as well on that gain on sale, we did about \$10 million more in production in the first quarter of this year as compared to the first quarter last year. We feel like we've got a really solid pipeline there. We're still limited a little bit in Ohio in just the amount of inventory that's out there. It's just -- we've got a lot of pre-approvals that people can still buy houses, but we have put a concerted effort going into this year about getting more of our production being salable as compared to portfolio.

Obviously, the construction piece and our CRE piece have to go on the books, but the rest of the stuff we're really pushing toward more salable product. And it seems like the consumer is getting a little bit more adjusted to having higher rates. I mean, a lot of people still aren't going to want

to come off a 3% rate to get to a 7% rate, but people that actually have been holding off making a move are starting to come into the marketplace because they just need to and it doesn't look like the rates are going to come down in the real near or distant future.

Dennis Shaffer: Well, in the spring and summer months, the volume should be up. So, optimistic there. Also, we did create a syndication desk, through our leasing company, which I think will help us with some of that gain on sale because we'll be at -- that's going to be their sole function, to work our relationships and get us the best pricing so that our gains improve, the cadence will happen, to get us into some sort of cadence where that's happening a little bit quicker and things. So that was another one of our initiatives that we looked at, was how we maybe do a little bit better? We're going to incentivize running that area based on the bigger gains. If he can get -- they'll have a chance to really earn a little bit of income and stuff, but that was another initiative that we undertook in the first quarter.

Richard Dutton: The only thing I'd add, we talked about the NSF fees being down \$375,000, but our service charges were only down about \$300,000, so we made that up with higher service charges, and that's something we put in place during the quarter.

Dennis Shaffer: Right. We only had one month of benefit over our service charge. We did increase some service charges across the board and we really only had one month of -- March was the only real month of benefit there. So we are trying to offset some of that lost revenue in various ways.

Daniel Cardenas: So it sounds like maybe you can stay flattish in Q2 and then start building up from there, modestly?

Dennis Shaffer: Yes, yes.

Daniel Cardenas: Okay. And then how should we think about the --

Charles Parcher: The wild card, Dan, of that -- I'm sorry. Dan, I was going to say the wild card of that a little bit, too, is just our swap income. It kind of bounces up and down depending on our borrowers' appetite for -- we did quite a few what I would call mid-/short-term swaps in the fourth quarter. I think we generated \$475,000 in the fourth quarter, and I think we were jumping on a three-year swap at that time. The way the yield curve's been bouncing around, it hasn't been as appealing to some of our borrowers, but depending on how the inversion of the yield curve goes over the next few months, we may be able to pick up a little more swap income too.

Daniel Cardenas: Okay. And that can be lumpy, right? So --

Charles Parcher: Yes.

Daniel Cardenas: Got it. All right. And then a tax rate for you guys? How should we be thinking about that?

Richard Dutton: We came in a lot lower than we thought we would this time. Our effective rate was just under 12% this quarter, but we've [indiscernible] 15% or 16%, and I think that's what I would model. I don't know what the tax preference items were, and I should, that drove that down this quarter, but that's about as low as I've -- we've ever seen. I should know the answer to that. You waited till the very last question to ask me one I didn't know the answer to.

Operator: Thank you. There are no further questions at this time. I will now hand the call back to Dennis Shaffer for the closing remarks.

Dennis Shaffer: Well, in closing, I just want to thank everyone for joining and participating in the call today. Again, while we're not pleased with our first quarter, we are confident that our strong core deposit franchise and just our disciplined approach to pricing deposits and managing the company positions us well for future success. So I look forward to talking to you all again in a few months to share our second quarter results. Thank you for your time today.

Operator: Thank you, ladies and gentlemen. The conference has now ended. Thank you all for joining. You may all disconnect.