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CFB.OQ - Q4 2020 Crossfirst Bankshares Inc Earnings Call

EVENT DATE/TIME: JANUARY 28, 2021 / 10:00PM GMT

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## PRESENTATION

**Operator**

Thank you for standing by, and welcome to the CrossFirst Bankshares Fourth Quarter Earnings call.

(Operator Instructions) Thank you. I would then like to hand the conference over to your speaker today, Mr. Matt Needham. Please go ahead.

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**Matthew K. Needham** - *CrossFirst Bankshares, Inc. - Director of IR*

Welcome, and thank you for joining us today on the call. On the call, we have Mike Maddox, President and CEO; Dave O'Toole, Chief Financial Officer; and Randy Rapp, our Chief Credit Officer. As a reminder, a telephonic replay of this call, along with our earnings release and presentation, will be available on our Investor Relations website for an extended period of time.

Before we get underway, let me remind you that our release, quarterly investor update and presentation slides that accompany this call are all available on the CrossFirst Investor Relations website. Slide 2 of the presentation is our cautionary statement. I want to point out that in our remarks this afternoon, we will be discussing forward-looking information, which involve a number of risks and uncertainties that may actually cause results to differ materially from our forward-looking statements. We provide a comprehensive list of risk factors in our SEC filings, which I encourage you to review.

Reconciliations of non-GAAP financial measures to the nearest comparable GAAP measures are included in our release or presentation, copies of which are also available on our Investor Relations website. All earnings per share metrics discussed today are provided on a diluted per share basis.

I'd now like to turn the call over to Mike Maddox.

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**Michael J. Maddox** - *CrossFirst Bankshares, Inc. - President, CEO & Director*

Thank you, Matt. I'd love to start the call off this afternoon -- being here from Kansas City, we want to wish the Hunt family; Steve Caple, our Director; and the Kansas City Chiefs, the best of luck in the Super Bowl. We're really excited, and we're getting used to this Super Bowl thing. So we're looking forward to next Sunday.

I'd like to begin today by wishing our clients, shareholders, employees and their families, health and wellness, as we close the book on 2020 and look forward to 2021. Although it was an extremely difficult year for many, we've been fortunate. We have so much to be proud of and thankful for when looking back at 2020. Our CrossFirst team persevered and adapted to the unprecedented environment and drove the organization to new heights, while taking care of each other, our clients and our communities. As Hall of Fame Coach Larry Brown used to tell us, in order to succeed, you have to be attached at the hip, with no separation between you and your teammate, so you're all working together as a team with a common goal of winning.

Coach's words have never rung truer than in 2020. Our long-term success is dependent on staying true to our foundation and core values. Our founding pillars of character, competence, commitment and connection, combined with a strong team-focused culture, lead to an extraordinary company. We are one team working together, moving one bank towards our shared vision for success. I believe that our employees and Board of Directors at CrossFirst exemplify this statement, and I cannot be more excited for our future than to execute on our 2021 plan. We remain committed to our core strategic advantages that have allowed us to be successful since our inception, and we look to further enhance our overall performance and profitability.

We are committed to our branch-light business model, and we expect our technology-forward approach to lead us to greater efficiencies in the future as we operate and grow the company. During 2020, I was focused on our corporate structure and getting the right team in place. In the third quarter, we promoted Steve Peterson to Chief Banking Officer, to oversee our sales, marketing, and local market activity. We are also excited to announce the hiring of Jana Merfen, our new Chief Technology Officer, who started yesterday and will lead our strategic technology initiatives. We are thrilled to have Jana bring her knowledge and experience to CrossFirst as we continue our focus on being a technology-forward company.

I've only been CEO of CrossFirst Bankshares for 7 months, and I'm very pleased with the resilience our customers and employees have exhibited throughout 2020. The past year challenged all of us personally and professionally. But our individual success stories were a testament to the power of resilience, trust and collaboration. Despite the significant challenges of remote work, virtual school and a deadly pandemic, we never lost sight of our purpose of serving people in extraordinary ways. It is an honor to lead a team of dedicated and passionate employees who worked long hours to help our customers navigate a pandemic-induced economic recession while also taking care of their own families.

With that in mind, I want to celebrate their efforts and highlight some of the other positives that CrossFirst experienced in 2020. We surpassed $5 billion in assets and $4 billion in total loans. Our Wichita location surpassed $1 billion in assets, making it our third market to pass this milestone. We believe in our experienced banking team and the relationships they have developed. We developed and executed on our pandemic plan and are successfully navigating through a difficult credit cycle. The company continues to build reserves for the future. And after adding another $10.9 million, our loan loss reserves are at the highest level in the bank's history. We expect provisioning to moderate in the first half of -- we expect provisioning to moderate in the first half of 2021, but provisioning will still remain elevated from historical levels.

For the year, we added $56.7 million to the reserves, which impacted our bottom line and relative full year performance metrics, but also positioned us well for the future. For the quarter, we reported net income of $8.1 million and earnings per share of $0.15, which caps off the full year with net income of $12.6 million and earnings per share of $0.24. While our bottom line performance metrics were impacted by our significant provisioning, our team produced record performance with the strongest pretax, pre-provision profits in the company's history, despite the challenging backdrop.

During the fourth quarter, we successfully commenced our share repurchase plan and are pleased to announce the company bought over 600,000 shares or $6.1 million of common stock, all of which were purchased below our tangible book value. In addition to building reserves, we lowered our overall energy concentration, which is a part of our long-term strategy. We have tightened our credit process and focused on reducing risk. We look to deliver better-than-peer earnings and returns for shareholders by continuing to build strong relationships with our clients and the communities we serve. Our commitment to our clients and businesses is exemplified through our efforts in providing our customers with modifications and PPP funding during the pandemic.

In the second quarter, we provided approximately $700 million of loan modifications. I'm pleased to report that 87% of the modifications are back to making full payments. Additionally, we successfully implemented the Paycheck Protection Program and produced $369 million of PPP loans for almost 1,200 clients. We are now focused on helping our existing and new clients secure additional funding through the second round of PPP.

Our deposits have grown significantly, enhanced by our DDA account growth, which improved to approximately 15% of total deposits, while also growing total deposits by 20% compared to the prior year. Excluding PPP loans, our bankers delivered year-over-year loan growth of 8%. As we enter 2021, we feel good about our current loan pipeline and expect solid contributions from our new locations in the rapidly growing Frisco, Texas market, and our more prominent location on the Country Club Plaza in Kansas City.

Our team continues to operate under our pandemic plan, with roughly 90% of our employees working on rotations. While most of our team has been working from home, I'm proud that our employee engagement scores for the company remained high, and our investments in technology continue to pay off. We also remain very focused on growing our earnings per share by enhancing our efficiency and optimizing our capital. Our efficiency ratio improved again this quarter, falling to 53.4%, a 2.2% improvement as compared to the fourth quarter of 2019 and a 32% improvement as compared to the fourth quarter of 2017. Though we have been focused on efficiency, we remain highly committed to our organic growth model. Having the best talent in our markets is one of our core strengths as a company. And as we look forward to 2021, we remain focused on recruiting and retaining the very best talent. Our strong capital position provides us incredible flexibility as we evaluate organic growth targets, potential acquisitions, technology investments and talent development.

Our optimism for the future is further enhanced by the fact that the markets we serve have performed better during this recession than the national average.

I would now like to turn the call over to our CFO, Dave O'Toole, for a more detailed discussion of the financial results.

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**David L. O'Toole** - *CrossFirst Bankshares, Inc. - CFO, CIO & Director*

Thank you, Mike, and good afternoon, everybody. As Mike mentioned, we had another strong quarter of pretax, pre-provision income and once again increased quarterly operating revenue. Despite the current interest rate environment, net interest income for the fourth quarter improved 6% on a linked-quarter basis to $41.5 million and 12% higher than the fourth quarter of last year. Net interest margin increased 14 basis points on a linked-quarter basis, from 2.98% in Q3 and to 3.12% in Q4. For the full year, NIM declined from 3.31% to 3.13% as we adjusted to a much lower rate environment. Downward pressure on rates was the primary driver of margin compression during the year. However, PPP loan income and earned fees were helpful, and ultimately contributed to the NIM improvement on a linked-quarter basis.

The company recognized $2.6 million of PPP fees for the fourth quarter and $5.8 million of fee income for the full year, which both led to a positive contribution on our margin. Additionally, NIM was positively impacted from a 10 basis point decline in our cost of funds and fewer loans on nonaccrual. PPP income should have a slight positive impact on NIM in the first half of 2021, as loans are forgiven and we are able to record the remaining $4.2 million of unearned PPP fees as income. As you will notice on the slide, 2020 loan yields have declined 126 basis points from the same period in 2019, while interest-bearing deposit costs have declined 119 basis points when compared to full year 2019.

We expect margin compression will persist while low interest rates linger in 2021. However, like most bankers, we are encouraged to see long-term rates up recently, creating an improved yield curve.

The securities portfolio, totaling more than $600 million, performed well and had accumulated approximately $39 million in unrealized gains at year-end 2020. The taxable portfolio continues to experience accelerated prepayment speeds and consequently generated $36 million of cash flows during the quarter.

In an effort to reinvest those cash flows, $38 million of tax-exempt securities were purchased during Q4, with an average tax equivalent yield of 2.94%, and no securities were sold in the quarter, bringing the portfolio's fully taxable equivalent yield for the year to 3.05%. Borrowings decreased $54 million from the previous quarter and the cost of those remaining increased 28 basis points to 1.78% as most of the matured borrowings involved lower rates and shorter maturities.

Turning to operating revenue, we saw a year-over-year increase of 15% to $172 million and a 3% increase compared to the previous quarter. We reported $20.8 million of pretax, pre-provision income for the fourth quarter and $72 million for the full year compared to $62.5 million for full year 2019. Pretax, pre-provision income, excluding the Q2 goodwill impairment charge, would have been nearly $80 million for the full year. The outlook for pre-provision profitability remains favorable, and we believe we have sufficient capital and capacity to absorb the loan loss provisioning that may yet be required to manage through this unprecedented time.

We continue to focus on growing noninterest income to take pressure off NIM. And I'm happy to report $11.7 million in noninterest income for the year compared to $8.7 million in the prior year, a 35% increase. Noninterest income was down on a linked-quarter basis due to the security gains recognized in the previous quarter. Throughout the year, the securities portfolio increased in value, and we periodically sold, at a profit, securities that could be adversely impacted by the pandemic or at risk of possible downgrades. Swap revenue was down substantially for the year due to the low interest rate environment. However, credit card fees, service charges and other noninterest income contributed to the overall positive improvement.

Noninterest expenses on a linked-quarter basis were up 3% and increased just 6% on a year-over-year basis when excluding the impairment charge taken in Q2. In Q4, we did not fully realize the impact from optimizing our workforce in Q3, but we expect it will begin to materialize in 2021. We had elevated salary and benefit costs for the quarter from additional restructuring, building out the management team and other compensation-related items. For the year, noninterest expense increased 14% compared to 2019. But as we have mentioned, expenses this year were elevated by several nonrecurring items, including the goodwill adjustment, restructuring costs in the third and fourth quarters, and increased expense from working through problem credits. Our assets per employee ratio reached $17.3 million for the year, which is the highest level in the company's history.

We have benefited from lower discretionary spending during the pandemic and expect to continue operating efficiency once it subsides. The focus on efficiency complements our proven history of growing operating revenues and continues to yield positive results. We reported efficiency ratios of 58% for the year and 53% for the fourth quarter despite the nonrecurring or noncore charges discussed previously.

Looking forward, we expect NIM compression to impact our ability to improve efficiency ratios at the same pace as the past 3 years. Likewise, we plan to invest in our markets and people during 2021 to prepare the company for opportunities that will arise once we see an end to the pandemic. Managing expenses, growing noninterest income and margin management will continue to be top priorities. We had elevated provisioning during the quarter and year that negatively impacted return on average assets and EPS calculations. We reported 58 basis points return on average assets for the quarter and 24% for the year and improved our pretax, pre-provision return on average assets to 1.49%.

With that overview, I look forward to answering your questions at the end. And now would like to turn the call over to Chief Credit Officer, Randy Rapp, for a more in-depth discussion of credit.

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**W. Randall Rapp** - *CrossFirst Bankshares, Inc. - Chief Credit Officer of CrossFirst Bank*

Thank you, Dave, and good afternoon, everyone. I'm happy to report that our loan modification program continues to wind down as most of our customers have a better understanding of the impact of the pandemic on their businesses and are back making full principal and interest payments. At the beginning of the pandemic in Q2 of 2020, roughly 16% of our loan portfolio received some kind of payment deferral. And as of year-end 2020, only 2% of our loan portfolio continues to need this assistance.

As anticipated, many of those customers still needing assistance are in the heavily impacted hotel and senior housing industries. Our bankers are working closely with our clients that modified loans, and we expect continued improvements in their industries in the first -- in the last half of 2021 as the vaccines are made available to the general public. We still expect most of these loans to return to traditional payment schedules.

I'm pleased with how our clients have worked with us during this unique period. The combination of continued commitment to their businesses and the recent vaccine rollouts lead us to be cautiously optimistic about their future. However, we did review and downgrade a portion of the hotel portfolio to criticized during Q4. Much of the downgrade activity in the loan portfolio was offset by upgrades, paydowns or refinances that also occurred during the quarter. Our nonperforming assets to total assets ratio for the quarter declined 10 basis points from the prior quarter to 1.39%. It remains higher than we would like, and we are proactively working to reduce it back to historical levels. A high percentage of nonperforming loans stem from the energy portfolio and also include: a hotel property, a senior housing facility and a few commercial and industrial credits.

The company continues to have a low level of ORE. For the quarter, we recorded $11.6 million in net charge-offs, consisting of approximately 10 credits across the portfolio, primarily in our C&I and energy portfolios, bring our annual 2020 charge-off total to $38 million or 0.89% of average total loans. Many of the charge-offs were driven in part by the pandemic and energy volatility, and one C&I credit charged off in Q1 and previously discussed accounted for almost 50% of the charge-off activity for the year.

In our energy portfolio, we had $39 million of paydowns that reduced our concentration in energy to 8% of total loans, down from a high point of 12% in 2018. We continue to decrease our energy exposure towards a long-term target of closer to 5% of the total loan portfolio. Commodity prices have recent -- have increased recently, especially oil, which will have a positive impact on the portfolio. We are actively working with borrowers to enhance hedging positions during this more favorable price environment.

The market for hedges remains challenging due to the generally more conservative position of the counterparties, but we continue to expand the universe of counterparties that our borrowers have access to. Despite the charge-off activity during the year, we are pleased to note that our energy portfolio carries more than a 5% reserve at the end of the year, which we believe to be sufficient. Of our total classified and special mention loans, energy makes up 39%. We remain cautiously optimistic about this portfolio in the higher price environment, and could see some positive grade migration after the spring borrowing base redetermination period.

Our proactive approach in evaluating the credit quality across the loan portfolio and related loan grade changes, has impacted our provisioning and the elevation of our allowance for loan losses for the fourth quarter and full year 2020. We remain on the incurred loss model for reserving, and grade migration directly impacts required reserve levels. Our grading and reserve accuracy have been validated through our numerous external loan reviews throughout 2020.

Our allowance for loan and lease losses to total loans ended 2020 at a very strong 1.81%, excluding PPP loan balances, and we anticipate seeing improvement in our loan grades as the business landscape improves. During the fourth quarter, we maintained our reserves to offset much of the charge-off activity that occurred during the quarter. The number of classified loans decreased slightly compared to Q3 2020, again as a result of payoff activity, mainly from customers who were able to take advantage of the Main Street Lending Program. We continue to be well capitalized and have a third-party stress the portfolio for multiple loss scenarios back in the second quarter of 2020.

Our stock buyback program announced at the last earnings release has not changed this analysis, and we will continue to sensibly grow our loan portfolio. We are confident in our relationship-based credit culture and proactive management approach. We believe our portfolio is well diversified and supported by strong cash flow-focused lending. We are pleased to see positive loan growth, replacing our portfolio churn and PPP forgiveness, but we do believe we are not growing at the cost of reduced credit quality. We do not have plans to adopt CECL in 2021, but we continue to run parallel analysis on the potential impact of adoption on our reserve and capital. I look forward to answering any questions you might have shortly. This wraps up our prepared remarks, and now I'll turn it back over to the operator to begin the Q&A portion of the call.

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## QUESTIONS AND ANSWERS

**Operator**

(Operator Instructions) And your first question comes from Jennifer Demba.

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**Jennifer Haskew Demba** - *Truist Securities, Inc., Research Division - MD*

Can you give us an idea of what level you think your net charge-offs might be in 2021? Do you think they'll be lower than '20, or do you think you'll continue to kind of derisk the portfolio a little bit?

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**Michael J. Maddox** - *CrossFirst Bankshares, Inc. - President, CEO & Director*

Randy, won't you talk to that?

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**W. Randall Rapp** - *CrossFirst Bankshares, Inc. - Chief Credit Officer of CrossFirst Bank*

All right. Thanks, Mike. Hey Jennifer, this is Randy. We feel like we were very proactive in not only grade migration, but in looking at charge-down and charge-off activity in '20. So we would expect in '21 to see that level come down significantly, probably remaining above historical levels, but well below the '21 level -- that's the '20 level, excuse me.

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**Operator**

Your next question comes from the line of Brady Gailey of KBW.

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**Brady Matthew Gailey** - *Keefe, Bruyette, & Woods, Inc., Research Division - MD*

So I wanted to ask about the NPAs. I think if I remember right, when we spoke 90 days ago, the $24 million C&I credit was going to be restructured and moved out of the NPA bucket, but your NPAs are pretty stable here, linked-quarters. So maybe just talk about what came out and what came in to that NPA bucket this quarter?

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**W. Randall Rapp** - *CrossFirst Bankshares, Inc. - Chief Credit Officer of CrossFirst Bank*

Sure, Brady. This is Randy. You're correct. We -- at the last call, we did talk about that credit. That credit did resolve, as we said, in Q4 and is out of that number. There was some movement into the bucket to make it relatively flat for the quarter, really across the portfolios. We had a slight movement in CRE, a little bit in energy and a little bit in C&I.

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**Brady Matthew Gailey** - *Keefe, Bruyette, & Woods, Inc., Research Division - MD*

All right. And then when we look at growth of the franchise, I know a lot has changed versus the IPO roadshow, but there was just a ton of growth planned for you guys and you hired all this talent, and we were going to see like well into double-digit growth, and there was going to be all this operating leverage. And I know the world has changed since then, but how do you think about growth for here? I mean, I heard your comments about you're investing this year in markets and people. But when do you kind of think you return to this kind of higher growth story in banking?

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**Michael J. Maddox** - *CrossFirst Bankshares, Inc. - President, CEO & Director*

Well, great question. The outlook is so hard to see forward, right, for at least for the first half of this year. The way I'm looking at it is the government stimulus has never been higher in our country since World War II. Participation in the labor force is probably the lowest level it's been since the early 70s. So there's still some economic stuff out there that we're trying to figure out, and we want to be prudent. And from a credit quality standpoint, we want to be smart.

But we are very committed to our organic growth model. We still think we have a company that will outstrip peers substantially from a growth standpoint. We want to continue to invest in talent. We are going to continue to be entrepreneurial. I'm excited about the technology innovation that we're going to -- we're working on, to just allow us to better serve our clients. I think our branch-light business strategy is well positioned to allow us to continue to grow. So we're going to continue to be aggressive as we look at growth. I can't tell you when we'll get back to double-digit growth, that's going to be dependent on the economy.

But we have the talent in place. We're in great markets. We continue to look at other attractive markets. And depending on our ability to attract the right people, the right opportunities, that will drive that. But we're very focused on it.

And the other thing we're focused on, Brady, is I would say a difference from the road show is we've really improved our efficiency, so which will enhance our profitability and we're also very focused on fee income. We want to continue to try to find ways where we can diversify our revenue streams.

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**Brady Matthew Gailey** - *Keefe, Bruyette, & Woods, Inc., Research Division - MD*

Okay. Great. And then finally for me, just on the growth in the expense base. I mean if I back out the goodwill impairment that happened earlier in 2020, I mean your expense base grew, call it, 5% to 6%. Is that roughly what we should expect in 2021 on the expense growth side? Or could it be less than that?

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**David L. O'Toole** - *CrossFirst Bankshares, Inc. - CFO, CIO & Director*

Brady, this is Dave. I think I would look at it at about 6% to 8% growth in 2021. It's pretty difficult to bring it down much further than that. We've got noninterest expenses right now at $170 million and net noninterest expense down to $150 million range, which is pretty efficient for us at this point in time. So probably closer to the 6% to 8% is a better number.

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**W. Randall Rapp** - *CrossFirst Bankshares, Inc. - Chief Credit Officer of CrossFirst Bank*

You know, Brady, you also got to remember, we opened 2 new locations last year that we haven't scaled yet. So we expect Frisco to start to grow and continue to grow in Kansas City, to expand and to grow into a couple of our expansion last year.

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**Operator**

And your next question comes from the line of Mr. Matt Olney from Stephens.

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**Matthew Covington Olney** - *Stephens Inc., Research Division - MD*

Great. Just want to follow-up on the last point on operating expenses. I think, David, you mentioned the 6% to 8% growth. I want to make sure I can understand the base of that growth, I guess, would be full year '20 expenses of, call it, $100 million. Is that right?

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**David L. O'Toole** - *CrossFirst Bankshares, Inc. - CFO, CIO & Director*

A little less than that, $92 million, probably. If you take out that, the PPP item. Not the PPP, but the goodwill adjustment. Operating expenses run at about $92 million.

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**Matthew Covington Olney** - *Stephens Inc., Research Division - MD*

Got it. Okay. And then back on the loan growth discussion, I was looking at slide -- to Slide 22, looking at the loan growth over the last year. And it looks like C&I balances ex- energy, those are relatively flat over last year. Any commentary you can give us as far as utilization rates over last year? I mean I'm sure you've been adding new clients, adding commitments, but just lower utilizations, anything you can comment there?

And then the other side of that is, the growth over the last 12 months, looks like it's been focused mostly in the residential real estate. Any color you can provide on the strategy of growing that book? I think it's around 16% of loans at this point. How much higher does that go?

**Michael J. Maddox** - *CrossFirst Bankshares, Inc. - President, CEO & Director*

I'll address the utilization rates upfront and some of the loan growth, and then I'll turn it over to Randy. But we're seeing fairly stable utilization rates. We're not seeing big increases. And 1 of the challenges in the net loan growth numbers is the PPP program, right? I mean, we funded $400 million of PPP loans early on and then those start to run off. And so we were able to replace a lot of that with traditional lending. So we're pretty pleased that that kind of stayed relatively consistent. But -- and I think the PPP loans obviously, probably impacted the utilization of our traditional C&I credit. So some of that, that balances out. But I'll turn it over to Randy for the rest of the question.

**W. Randall Rapp** - *CrossFirst Bankshares, Inc. - Chief Credit Officer of CrossFirst Bank*

Yes. Hey Matt, it's Randy. You're correct. We did see good growth in our CRE book in '20. We still feel really good about the opportunities we're seeing in that space. We do manage those concentrations, not only at the CRE level, but at the property-type level. We're well within regulatory guidance in terms of overall CRE concentration and construction and development. One category you talked about, single family, we actually put our multifamily portfolio into that slide. And so one of the areas that we've seen significant growth in our CRE portfolio last year was in multifamily and then in our industrial portfolios. And those continue today to be where we see good opportunities.

**Matthew Covington Olney** - *Stephens Inc., Research Division - MD*

Okay. Great. And then as far as the buyback activity, great to see you act in the fourth quarter. Would love to hear how active you want to be on this program. On one hand, the stock is still cheap, the tangible book value, but on the other hand, we're still well above today where you exercised it in the fourth quarter. So I'd just love to hear kind of how you see that playing out near term.

**Michael J. Maddox** - *CrossFirst Bankshares, Inc. - President, CEO & Director*

Matt, we've got a plan in place, and we're going to continue to execute that plan through 2021, and we'll obviously continue to evaluate it throughout the year, depending on what our price does. But right now, we're not making modifications to the plan, and we're going to continue to execute it.

**Operator**

And your next question comes from the line of Michael Rose of Raymond James.

**Michael Edward Rose** - *Raymond James & Associates, Inc., Research Division - MD of Equity Research*

Just wanted to dig into the margin a little bit. Dave, it looks like you had some expansion ex-PPP this quarter. It looks like you're talking it down a little bit, looking at the -- or at the deposit portfolio. Can you remind us what some of the maturing deposits look like? You still got 20-plus percent in time deposits. That seems like a lever. Your costs are 58 bps. Kind of walk us through the puts and takes and maybe if you can offer up, at least for the first quarter, what you might expect at PPP?

**Michael J. Maddox** - *CrossFirst Bankshares, Inc. - President, CEO & Director*

Good afternoon, Michael. You're the guy we call for tickets to the Raymond James Stadium, right?

**Michael Edward Rose** - *Raymond James & Associates, Inc., Research Division - MD of Equity Research*

Yes, I was going to mention that.

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**Michael J. Maddox** - *CrossFirst Bankshares, Inc. - President, CEO & Director*

Listen, margin pressure is hitting us all. It creates a hole in our run rate of earnings. There's no doubt about it. What we have done to try to control that is rapidly lower our deposit costs and our cost of funding. As you can see in the charts, year-over-year, we've lowered our cost of funds from $190 million to $92 million. Quarter-over-quarter, looking back a year, it's $171 million to $65 million. Our marginal cost of funds today is about 45 basis points. And we think we've got 2 to 5 basis points additional reduction in that, that we can probably identify in the first quarter. So our first challenge here is to go ahead and continue to lower deposit costs.

On the asset side, our investment portfolio doesn't move too much. We have stayed active in the municipal market. It's about the best that you can do out there at the moment. So we have limited reduction in our yield, on our investment portfolio. It comes down to the competitive pressure in the lending area, as to what we can do overall with margin, if we can hold it where it's at today. In all likelihood, we'll see margin compress a little bit further.

Now the PPP impact on that, the bulk of that, we think will happen in the first half of -- in 2021. We are actively processing requests for forgiveness on PPP loans. And as you know, that accelerates the recognition of that unearned income. So we think that will come in. A lot of that will come in in the first half of the year. And that will help us a little bit, hold our margins where we're at today. We're not sure what the new program's going to do from that standpoint, but -- from a fee standpoint. But I would look to quarterly margin compression in the first 2 quarters, but very modest. It's probably my best estimate.

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**Michael Edward Rose** - *Raymond James & Associates, Inc., Research Division - MD of Equity Research*

Okay. That's helpful. And then maybe just one for Dave. You talked about some of -- some potential for some expansionary efforts. I know you've talked about other markets before. But I guess, can you flesh that out a little bit? And as it relates to your expense outlook, does that incorporate any additional hires? I would expect some of your efforts, just given the Texas expansion would be focused down there. But any thoughts on that would be great.

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**David L. O'Toole** - *CrossFirst Bankshares, Inc. - CFO, CIO & Director*

Well, as we do budget new hires, there's a good portion of those hires in our budget that are related to Texas and our growth in Texas. But we don't have anything in our budget right now for expansion to new markets.

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**Operator**

And your last question comes from the line of Mr. Andrew Liesch of Piper Sandler.

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**Michael John Hultquist** - *Piper Sandler & Co., Research Division - Research Analyst*

It's Michael Hultquist on for Andrew. So starting off here with loan growth, it looks like core loan growth ex-PPP was a little bit better than expected. Kind of taking a look at what customers are -- what your customers here and kind of the overall loan growth demand in that market. Do you think it can possibly offset PPP paydowns in the first half this year?

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**Michael J. Maddox** - *CrossFirst Bankshares, Inc. - President, CEO & Director*

We do believe we can grow our core loan portfolio enough to offset the paydowns.

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**Michael John Hultquist** - *Piper Sandler & Co., Research Division - Research Analyst*

Got it. And then it looks like SNCs increased a bit in the quarter. Can you remind us, kind of geographically, where these are? And some color around maybe bringing them on as core customers?

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**W. Randall Rapp** - *CrossFirst Bankshares, Inc. - Chief Credit Officer of CrossFirst Bank*

Yes, Michael, this is Randy. When I look at our entire participation, bought and sold buckets, as we've said, those are very balanced. So we're not really out actively trying to get into new just participations bought. So again, the dollars that we have that are on the bought side and versus the sold side are almost -- counterbalance each other. Our SNCs increased slightly during the quarter, but still at a relatively low at less than $140 million. And we're just using that opportunistically to enter some new credits. But really with an eye on being able to do something else with that company. They're in our footprint. We know the management team, so that there's other deposit, treasury management or private banking opportunities.

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**Michael John Hultquist** - *Piper Sandler & Co., Research Division - Research Analyst*

Understood. And then switching gears over to credit, can you guys provide any color on some of the hotel borrowers, maybe on operating activity or their occupancy levels?

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**W. Randall Rapp** - *CrossFirst Bankshares, Inc. - Chief Credit Officer of CrossFirst Bank*

Sure, Michael. It's Randy again. Obviously tracking our hotel portfolio, closely working with our borrowers. That's obviously an industry that's been negatively impacted. And so it's not bad locations, bad operators, it's really the entire industry. And so most of the clients and what you hear in the industry is, it's probably going to be into 2022 before you get any type of semblance of return to pre-COVID levels. And so we're just trying to really work with the borrowers to bridge that gap and -- for the next 12 to 18 months. And when you look at the portfolio, I break it sort of into thirds. There's the third that has -- is struggling more than others or the third that's about at breakeven. There's actually a third that's doing fairly well. And so we do track occupancy, but I caution that really RevPAR is a better number because, if the occupancy is high but the ADR is low, you're really not and sometimes able to meet operating expenses. So we really track RevPAR across our portfolio. And again, about 1/3, 1/3 and 1/3.

But last comment on the portfolio is that all of our sponsors and guarantors in that space have really stepped up to help support their properties. And so as anticipated, we've got a fair percentage of that on deferral. But we have also seen those sponsors and guarantors inject additional equity to help, as I said, bridge that 12 to 18-month gap.

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**Michael John Hultquist** - *Piper Sandler & Co., Research Division - Research Analyst*

Okay. And then I'll stick with you, Randy here. Regarding managing that energy exposure down to 5%, any idea on the cadence of that?

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**W. Randall Rapp** - *CrossFirst Bankshares, Inc. - Chief Credit Officer of CrossFirst Bank*

Well, at $52 oil, probably faster than at $40 oil. But the current price environment is positive, obviously, for the portfolio, not just sort of at the spot. But when you look at the curve, I mean, it starts with a 5 out into '22. And then a percentage of our portfolio is gas, so we obviously watch that as well. But at this price environment and if our customers can layer in some additional hedges, we think that will increase activity in that space, not only in the refinance area, but also it'll start attracting capital into the space. And so we expect acquisition activity to increase at this higher price level. So I think that we'll just continually watch that, and we've got 2 things there is, one is the, that portfolio is shrinking a bit, and then we're growing the rest of the portfolio around it.

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**Michael J. Maddox** - *CrossFirst Bankshares, Inc. - President, CEO & Director*

I would just add, this is a medium to long-term strategy. We're not trying to do anything radical. We just -- over time, as we grow, we want to try to drive that percentage of our portfolio down in that 5% range.

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**Michael John Hultquist** - *Piper Sandler & Co., Research Division - Research Analyst*

Understood. And then 1 last housekeeping item here. What's the right tax rate to be looking at going forward? And then the basis point impact on the margin from PPP last quarter?

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**David L. O'Toole** - *CrossFirst Bankshares, Inc. - CFO, CIO & Director*

I'd use an effective tax rate of about 21.5% going forward for your modeling. The PPP impact last quarter was slipping, I'm going to say 12 basis points, but I may have to double check that. I think it was in my presentation. It was pretty significant. We had a lot of forgiveness in the fourth quarter. So we were able to accelerate $1.6 million of fee income on top of the regular amortization of the fees during the quarter. So we had $2.6 million. I believe it was about a 12 basis point impact.

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**Operator**

There are no other questions at this time. Mr. Matt Needham, you may continue.

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**Matthew K. Needham** - *CrossFirst Bankshares, Inc. - Director of IR*

In closing, we hope you support the Kansas City Chiefs in the coming weeks. Please know that as a team, we are proud of our company and excited for the opportunities we have over the next several years. Thank you again for joining us on the call today. And as a quick reminder, this call can be accessed via replay at our website. And as always, you can contact me with any follow-up questions you might have. Again, we appreciate your interest and/or investment in our company, and thank you for taking time with us this afternoon. Take care.

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**Operator**

Ladies and gentlemen, this concludes today's conference. Thank you, everyone, for participating. You may now disconnect.

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