(HBCP) Home Bancorp, Inc.
Third Quarter 2023 Earnings Call
Thursday, October 19, 2023, 11:30 AM ET

Executives
David Kirkley, Chief Financial Officer
John Bordelon, Chairman, President and Chief Executive Officer

Analysts
Graham Dick, Piper Sandler
Kevin Fitzsimmons, D.A. Davidson
Joe Yanchunis, Raymond James

Presentation

Operator: Welcome to the Home Bancorp Incorporated Third Quarter 2023 Earnings Call. Our host for today's call is David Kirkley. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session.

I would now like to turn the call over to your host. Mr. Kirkley, you may begin.

David Kirkley: Thank you, Ross. Good morning, and welcome to Home Bank's third quarter 2023 earnings call. Our earnings release and investor presentation are available on our website. I ask that everyone please refer to the disclaimer regarding forward-looking statements in the investor presentation and our SEC filings.

Now I'll hand it over to John to make a few comments about the quarter. John?

John Bordelon: Thanks, David. Good morning, and thank you for joining Home Bancorp's earnings call today. We appreciate your interest in Home Bancorp as we discuss our results and describe our approach to creating long-term shareholder value.

Home Bank has delivered exceptional results during this cycle of rapidly increasing interest rates. The third quarter was no exception as we reported above-average profitability, loan and deposit growth and strong credit quality.

It is really a testament to the strength of our relationships, many of which we've built over the decades, that we were able to grow deposits in the third quarter without having to rely on wholesale funding. Like everyone, we're still seeing increases in the cost of our deposits. But most of that has been due to the remixing of our customer's deposit balances and not because we were forced to add brokerage fees.

To put numbers behind this, deposits grew by about $46 million, or 7% annualized in the third quarter, with most of that coming from existing customers moving funds into our CD offerings. The moving into CDs and out of savings, checking and demand deposits brought the NIM down to 3.75% from second quarter numbers of 3.94%.

Assets grew $28 million, or about 3.4% annualized, with loans growing $58 million, or 9.3% annualized. Most of that growth was in construction development, C&I and residential mortgage. Securities continued to decline, and cash flows were utilized to fund loan growth. The duration of the securities portfolio is 4.5 years and is expected to generate about $50 million in principal payments over the next 15 months.

With that, I'll turn it back over to David, our Chief Financial Officer.

David Kirkley: Thanks, John.

Third quarter net income was stable from the second quarter at $9.8 million, or $1.22 per share. Deposit cost increased due to a combination of higher rates and the remixing that John referenced earlier. But the lower net interest income was offset by lower provisions, tight expense controls and an increase in noninterest income.

The increase in noninterest income was primarily due to a $640,000 gain on the sale of SBA loans, which were originated over the prior 12 months. While we expect our SBA business will generate approximately $600,000 in fee revenues per year in the current rate environment, it's difficult to project the timing of those fees.

As John mentioned, NIM declined in the third quarter. But as you can see on Slide 18, the margin declined early in July and then stabilized at around 3.75% for each month of the third quarter. While there could be some additional pressure on NIM due to increasing deposit costs, we're cautiously optimistic that the pace of decline has slowed and we are close to the bottom.

Slide 19 has our historic and current deposit beta statistics and shows that our current deposit beta for our interest-bearing deposits is 31% this cycle, but average 38% in the last two rate cycles. As John mentioned, we're pleased with our Q3 results. Return on average assets was 1.18%, and return on average tangible common equity was 15.2%, which we think highlights the ability of Home Bank to perform well in a variety of economic environments.

The 9% loan growth that John mentioned was, again, above our 4% to 6% growth we were expecting this year as the loan pipeline led to stronger than anticipated originations. Fortunately, deposits have kept pace and allowed us to grow profitably without having to rely on wholesale broker deposits. Based on the most recent pipeline, we expect loan growth in the fourth quarter and into next year to be a more moderate 4% to 6% growth rate.

Pages 13 and Page 14 of our slide deck provide some additional detail on credit, which remains very strong. We recorded a provision expense of $351,000 in the third quarter due to loan growth, which resulted in an allowance-to-loan loss ratio of 1.21%.

Criticized loans have increased about 50% on an absolute basis over the past 12 months, but are still relatively low at 1.56% of total loans. The increase in substandard loans in the third quarter is primarily due to two loans totaling $6.4 million, and we do not expect either loan to result in any losses. It's also worth noting that 60% of our substandard loans are paying as scheduled.

Noninterest expenses increased $379,000 from the last quarter, and we expect noninterest expense to be between $21.5 million and $22 million in the fourth and first quarters.

Slide 21 summarizes our capital management strategies and the impact they've had on Home Bank. Since 2018, we've had an 8.4% growth in adjusted tangible book value per share, which includes the impact of a cash acquisition last year. During that same time, we've increased our dividend from $0.15 per share to $0.25 per share on a quarterly basis and generally try to target a dividend payout ratio of 20%.

We've repurchased about 13% of our shares outstanding since 2017 and just approved the new 5% share repurchase plan, all while maintaining a consolidated CET1 capital ratio of 11.1%. We'd like to think that these actions demonstrate our commitment to creating long-term shareholder value.

We continue to believe our relationship-based approach to banking and conservative credit culture position us to succeed in any market and that our results over the last couple of years demonstrate that.

With that, Ross, please open the line for Q&A.

Questions and Answers

Operator: (Operator Instructions) And our first question comes from Graham Dick from Piper Sandler.

Graham Dick: Just wanted to start on the balance sheet. I know you said loan growth's going to return to that 4% to 6% pace that you all have been guiding to. But growth was impressive this quarter on both fronts. So I'm just wondering how you are thinking about managing the balance between loans and deposits going forward and maybe how that relates to where you would like to see the loan-to-deposit ratio go in the near term.

John Bordelon: Well, on a longer-term basis, we'd obviously -- we like it somewhere between 90 and 95. That's where we feel we're most comfortable. But I think in the short term, we're seeing consistent movement back into the bank loan on the deposit side, most of that coming in the form of CDs, but at least moving back in. We had lost -- earlier in the year, we were down about $130 million in deposits, all deposits. And we're closing in -- I think surely by the end of the fourth quarter, we will have recovered all that $135 million. So deposits are continuing to grow.

I think on the loan front, it is going to be more and more difficult with rising rates. 10-year continues to go up, approaching 5%. So we're just anticipating that loan growth will continue to slow down as more and more people decide to just hold off on new projects.

Graham Dick: Okay. So it sounds like you think, I mean, at least over the immediate future that the recapture of some of those deposits and general growth in customer accounts could offset loan growth and maybe see the loan-to-deposit ratio move a little bit lower from here. Is that fair?

John Bordelon: We are anticipating that. And part of the reason we think that's going to happen, we were a little bit slow in 2022 to raise our rates. We drug our feet there, and so that caused us to lose some deposits. We didn't lose customers, we lost deposits. And now we're seeing some of those deposits coming back in. So very positive movement there as our rates are very competitive in the markets that we serve.

David Kirkley: We also have not purchased any investment securities this year. We anticipate our investment securities portfolio to continue to pay down, which will assist in -- to fund loan growth in the future.

Graham Dick: Great. John, that's a good segue into my next question. Just on deposit cost, maybe David could help with this as well, but you guys closed the gap a fair amount to your deposit data guidance. I think it was 36% to 40% that you guys gave last quarter. You're a lot closer now, but it sounds like you think the NIM is close to a bottom. Is there any update to that deposit beta guidance? Do you think you might be able to come in slightly below that?

David Kirkley: I think we're at 31% for our interest-bearing deposit beta. And we said right around 38%, so you're right on that range. I don't see that stopping, but I do see it slowing, the pace slowing, in getting up to that 38%. But on the flip side, you also have your loans offsetting that repricing going forward. So we think that we're getting close to the bottom of NIM. We're optimistic that it has slowed down, and we feel like we're in a good spot today.

Graham Dick: Okay. Great. And then just the last thing for me is on that loan repricing front. Do you guys have -- I guess the duration's two and a half years. But how many loans are maturing, say, during 2024, I guess, or repricing or renewing during 2024? Do you guys have an estimate of that?

John Bordelon: That's on -- I forgot what page that is, but it's about 10%.

David Kirkley: That's the investment portfolio.

John Bordelon: Are you sure? You're right, that is the investment portfolio.

David Kirkley: I'll have to get you that number later on today.

Operator: And our next question comes from Kevin Fitzsimmons from D.A. Davidson.

Kevin Fitzsimmons: On the margin, so given -- I appreciate the monthly chart here on the NIM, so that coupled with a slowing rise in deposit costs in the fixed rate loans, repricing, all that speaks to you getting closer to a bottom. But looking further beyond that, higher for longer, is it just -- is it going to be more of a, not struggle, but is it going to be more fighting to just keep that stable? Or do you think at a certain point in 2024, the fixed rate loan repricing starts to overtake and you actually see the margin go higher?

John Bordelon: Yes. It's very hard to predict with the Fed potentially tightening more than what they have. That would put a little more pressure on the NIM, we think. Other banks in our region that, and their ability to attract deposits. So there are a lot of variables that could cause us to go a little bit longer before our NIM settles. But we do feel as though in the early part of '24, we'll see a turnaround in the NIM. It is just very hard to predict. David and I have a bet on when that's going to happen, and we're pretty far apart on it. We're about five months apart.

Kevin Fitzsimmons: Okay. Okay. Let me ask, so it sounds like, David, given your comments about the securities portfolio continuing just to cash flow, that's probably going to be the course of action. And I'm wondering if there's any possibility of you guys looking at a more of a restructuring type transaction where you do something a little more meaningful in a quicker way.

David Kirkley: We sold some bonds in the first quarter, not a significant amount. We look at it. If it makes sense, we'll do it. It's not in the pipeline for us that we're definitely -- it's going to happen. So there's no immediate plans for that happening. We would be open to it if it made sense to us.

Kevin Fitzsimmons: Great. And let me just -- so within expenses was there anything unusual in the run rate this quarter that helped? I just remember -- I just thought of last quarter's earnings report and call that the expenses were going to be -- were going to ramp up quicker. And so, I mean, you obviously did better than that. But maybe I just misheard that last quarter.

David Kirkley: I believe we suggested noninterest expenses is going to be in the $21.5 million to $22 million range, so it is a little bit below that. We didn't have any provision for unfunded commitments this past quarter, which was $151,000 the previous month. And compensation expense is running a little bit lower than we anticipated.

Marketing expense is also one of those areas that tends to ramp up towards the end of the year. So it will be increasing a little bit in the fourth quarter. But no, there was no one-time items that really altered our noninterest expense for Q3.

Kevin Fitzsimmons: Okay. And David, I just want to clarify your comment on the gain on the SBA loan. So that was a full year's worth of selling. And how should we think about that amount going forward?

David Kirkley: Yes. That's a little bit of a tough one. So we started up our program about a year ago, and we have originated 12 SBA loans during that time period, over the course of a year. We're almost at attaining our PLP status. And what happened was we originated the loans throughout the past 12 months, we sold them all in Q3 and we recognize that gain of about $640,000. We think that over the course of a year, we'll recognize about $600,000 to $700,000 in income related to gain on those loan sales, but it could be choppy quarter-over-quarter. So I don't feel comfortable saying exactly what each quarter is going to be because it's not very stable right this second.

And also, with regards to the high rates, SBA loan originations are still a little bit lower than they ought to be if rates were a little bit lower. So we're still working through that, but we think $600,000 to $700,000 on an annual basis. On a quarterly, it'll be a little bit up and down.

John Bordelon: We do anticipate, however, in the fourth quarter receiving our certification from the SBA.

Kevin Fitzsimmons: And what happens when you get that? Is that just a -- really, is that a boost to what you can do?

John Bordelon: Yes. Basically, it's a reduction of scrutiny by the SBA in underwriting. We're charged with doing the underwriting ourselves. So it allows for a faster pace to get from the beginning to end of that process.

Operator: And our next question comes from Joe Yanchunis from Raymond James.

Joe Yanchunis: You called out a couple downgrades in your prepared remarks. So I was hoping you could provide more color on those sectors or geographies, and separately if you could touch on where you're seeing any potential cracks in the portfolio at this time.

John Bordelon: Yes. These are a couple of one-offs. They're both multifamily. And one is a situation where construction costs ran a little bit heavy, and so there's a shortfall. Construction is on pace, but there's a shortfall. So what we're trying to do is help the borrower utilize other collateral that he has to borrow. I think the shortfall is about $380,000 to finish the project. So we took a conservative approach to move to substandard. But it is, I think, going to probably come off of that within the next three to four months as it finishes the project and the lease is up.

The other one is about a $1.5 million participation with another bank on kind of a micro apartment, if you will. Multiuse, that's on commercial on the first floor. And that one is, loan to value wise, in very, very good shape. We don't anticipate any losses on that either. But hopefully, it's [indiscernible] we're trying to get it out the court so that we can either sell the collateral as is or finish the collateral to sell it. So we don't anticipate losses on either one of those projects.

Joe Yanchunis: Got it. And then you mentioned what was the participation. What is your exposure? Or what is your SNC exposure?

David Kirkley: We participated that one out. We participated that loan that John was discussing out. It was not a purchased participation. We had very minimal exposure to purchase loans.

Joe Yanchunis: Got it. I appreciated that. Then just one more question for me here. So how should we think about, at this time, nonexpense growth, noninterest expense growth in 2024? Do you guys have any large projects planned that would impact that growth rate?

And in that same vein, you previously discussed bringing on additional talent at the Houston market. I know it's early in the budgeting process, but is there any way to quantify how many new hires you're looking to add over the next, say, 12, 18 months?

John Bordelon: I think we're getting closer as far as a pullout in the Houston market. We don't really know that number because when you do a pullout like that, not everybody jumps on board. But we are interested in -- Houston's such a huge market that the people that we have can't cover it all. So we're very excited about having other talent in that market. And more than likely, what we'll start off with is a small LPO office and eventually looking ahead creating more of a retail setting for that team to be able to perform.

But our plan, I think, in the next three or four years is to continue to grow the talent base in that Houston market so as to continue to grow. We've had great success since acquiring Texan Bank, and we think that's going to continue in 2024.

Operator: (Operator Instructions) And at this time there appear to be no further questions. I'd like to turn it back over to David for closing remarks.

John Bordelon: Okay. Once again, thank you all for joining us today. We look forward to speaking to many of you in the coming days and weeks about Home Bancorp. Have a great day. Thank you for attending.

Operator: This concludes today's conference call. Thank you for attending.