Triumph Bancorp, Inc.

Q3, 2020 Earnings Conference Call

Tuesday, October 20, 2020, 8:00 A.M. Eastern

CORPORATE PARTICIPANTS

Luke Wyse – *Senior Vice President of Finance and Investor Relations*

Aaron Graft – *Vice Chairman and Chief Executive Officer*

Todd Ritterbusch – *Chief Lending Officer*

Bryce Fowler – *Chief Financial Officer*

Geoff Brenner – *Chief Executive Officer, Triumph Business Capital*

PRESENTATION

Operator
Good morning, everyone, and welcome to the Triumph Bancorp, Inc. Third Quarter 2020 Earnings Call. All participants will be in a listen-only mode. Should you need assistance, please signal a conference specialist by pressing the star (*) key followed by zero (0). After today's presentation, there will be an opportunity to ask questions. To ask a question, you may press star (*), then one (1). To withdraw your question, you may press star (*) and two (2). Please also note, today's event is being recorded.

At this time, I'd like to turn the conference call over to Luke Wyse, Senior Vice President of Finance and Investor Relations. Sir, please go ahead.

Luke Wyse
Good morning. Welcome to the Triumph Bancorp Conference Call to discuss our third quarter 2020 financial results. Before we get started, I'd like to remind you that this presentation may include forward-looking statements. Those statements are subject to risks and uncertainties that could cause actual and anticipated results to differ. The company undertakes no obligation to publicly revise any forward-looking statement.

If you're logged into our webcast, please refer to the slide presentation available online, including our Safe Harbor statement on Slide 2. For those joining by phone, please note that the Safe Harbor statement and presentation are available on our website at www.triumphbancorp.com. All comments made during today's call are subject to that Safe Harbor statement.

I'm joined this morning by Triumph's Vice Chairman and CEO, Aaron Graft; our Chief Financial Officer, Bryce Fowler; Todd Ritterbusch, our Chief Lending Officer; and Geoff Brenner, our CEO of Triumph Business Capital. After the presentation, we'll be happy to address any questions you may have.

At this time, I'd like to turn the call over to Aaron. Aaron?

Aaron Graft
Thank you, Luke. Good morning. For the third quarter, we earned net income to common stockholders of $22 million, or $0.89 per diluted share. Excluding expenses related to merger and acquisition-related activities, diluted earnings per share was $0.91. Total loans grew $459.6 million, or 10.5% mostly related to factoring and mortgage warehouse balances. Total loan growth includes $107.5 million in factored receivables acquired through our TFS acquisition in July. We have prepared Slides 24 and 25 in our deck to walk through the accounting treatment of this acquisition.

Total credit loss expense was actually a $258,000 benefit versus $13.6 million of expense in the prior quarter. The allowance for credit loss, or ACL increased $36.4 million to $91 million, or 1.88% of total loans. The over advances acquired in the TFS acquisition are accounted for as purchased credit deteriorated assets resulting in a $37.4 million increase in the ACL in purchase accounting without a charge against expense. As a result, excluding the impact of the TFS acquisition, the ACL balance decreased by $1 million. This net decrease of $1 million in ACL is due to CECL loss factors remaining relatively in line with Q2 and the continuing shift in portfolio mix to shorter duration loan products with lower reserve rates, primarily from strong growth in factoring and mortgage warehouse. Our economic forecasts for CECL were relatively flat quarter-over-quarter and we maintain an unemployment forecast of 9% to 10% with marginal retail sales growth over the next four quarters.

We experienced net charge-offs of $700,000, or 2 basis points of average loans and an increase in specific reserves of less than $100,000. Past due loans to total loans increased 90 basis points from Q2 to 2.4% of total loans. Approximately 79 basis points of this ratio consists of $38.5 million of past due factored receivables related to the acquired TFS over-advanced portfolio. Non-performing assets to total assets increased 32 basis points to 1.52%. Approximately 17 basis points of this ratio consists of $10 million of the over-advanced receivables acquired through the TFS acquisition.

Turning to deposits, which you can see on Slide 15, you will note that we continue to improve our funding mix. Non-interest-bearing deposits grew $195 million in the quarter and are up to $632 million since we increased our focus on deposit gathering at the end of the second quarter in 2019. Non-interest-bearing deposits as a percentage of total deposits are now 31% of total deposits, which is a significant increase from a year ago.

Our loan to deposit ratio moved up slightly to 114% from 108% in the second quarter. Adjusted for mortgage warehouse loan balances, the ratio is approximately 23 basis points lower this quarter. Giving market conditions and the growth of non-interest-bearing accounts, we expect our funding costs to continue to trend lower in the near-term.

Now to margin, our loan yields this quarter were up to 7.05% versus 6.52% in Q2. That number includes an unexpected $1.7 million in discount accretion on loans paid-off during the quarter. However, the majority of this change was related to a shift in the mix of our loan portfolio as factoring volume and revenue increased materially over Q2. Net interest margin was up 72 basis points to 5.83% on both the strength of our transportation businesses and our continued improvement in our cost of funds.

As to whether this will continue into Q4 and beyond, I would say that we are not in the practice of making forecasts regarding net interest margin or other key metrics. What I can tell you is that when our factoring segment leads our loan growth, it is almost a certainty that our net interest margin will expand. As for Q4, the spot rate market for transportation remains very much in favor of truckers and our new client pipeline is more full than ever before.

I'd like to point out a few specific items this quarter that we noted in the earnings release yesterday. First, we realized $3.1 million in gains on the sale of securities. These were available for sale CLOs we purchased when the market froze up during the first quarter. Given the run-up in these asset values, we elected to sell a portion of our portfolio and recognize the embedded gain. We also realized in other income $2 million to account for the estimated increase in cash we expect to receive from the date of our settlement of the TFS dispute due to the run-up in our stock price through quarter end.

We also had approximately $700,000 write-down on a former branch donated to the city of East Moline to be used as a library.

Lastly, this quarter we finalized our agreement with covenant on the TFS transaction. The revised deal is dilutive to tangible book value by $0.21, or about 1%. We expect EPS contribution of around $0.10 to $0.12 annually from the conventionally structured portion of the acquired portfolio. However, our resolution efforts on the over-advanced portion of the portfolio, supported by the indemnification from covenant, could create some additional upside or downside in the near- to medium-term.

As previously noted, we've prepared slides 24 and 25 in our deck to summarize the final accounting and the range of outcomes around the transaction. The structure of the settlement and accounting caps our pretax loss exposure on the over-advanced portfolio to $10 million while preserving some potential upside. Looking out into the fourth quarter, we look for expenses to remain contained with quarterly core expenses relatively flat with the $55.3 million printed in Q3.

Now I'd like to turn the call over to Todd Ritterbusch, our Chief Lending Officer, to talk about our community bank lending and our continued efforts to support our communities and customers during this pandemic.

Todd Ritterbusch
Thanks, Aaron. I'd like to start by providing an update on our progress regarding pandemic relief deferrals and PPP loan forgiveness. You can find this information on Slide 14 of our investor presentation.

Loan balances on short-term partial or full payment deferral declined from $572 million on June 30 to $103 million, or 2.1% of loan balances on September 30, 2020. We also have a pipeline of $17 million in first time deferral requests for clients that did not request referrals--deferrals previously but need them now. Consequently, the total current and requested deferral balance totals $120 million.

Over the next several weeks, most of the remaining deferral extensions will expire. As this occurs, we expect roughly $45 million to require no further assistance in resumed normal payments. The remaining $75 million will require either longer-term modifications or exits. Approximately $40 million of this remaining balance is related to hospitality facilities in our community bank. These facilities have a weighted average LTV or loan to value of 58% along with personal guarantees in most cases, but they remain our greatest source of concern, nonetheless. For those that we offer longer-term support, we are generally providing payment flexibility for up to 18 months and modified covenants in return for additional equity injections, fees, and excess cash flow recapture provisions.

Moving to PPP forgiveness, we have received loan forgiveness applications for 13% of our $223 million in PPP loan balances. The SBA began approving applications the week of October 5 and we received our first forgiveness approval on October 9. The complexity and documentation associated with the forgiveness application requires extensive effort and back- and forth interaction between the borrower, the bank and the SBA, which is likely to extend the forgiveness timeline into the fourth quarter of this year and the first quarter of next year for many borrowers. However, we remain optimistic that a very large majority of our PPP loan balances will be forgiven based on our efforts to verify both forgiveness eligibility and amount with our clients.

There are two final credit quality points that are worth highlighting. First, past-due loan balances were flat, excluding the effect of the TFS acquisition and TBC. Second, the increase in NPA balances, excluding the TFS acquisition, can be attributed to a single held-for-sale asset. We expect this situation to resolve itself in the short-term and believe it is well collateralized. As we look to the future of our lending businesses, our pipelines are growing across the board, which allows us to be selective in extending new credit. We remain focused on building full depository relationships with our lending clients and extending new credit only when it fits with our transportation strategy and/or contributes to attractive relationship returns.

Consequently, we expect to see lending balance growth concentrated in equipment finance, asset based lending, and targeted growth markets in which we've recently made investments. However, this loan growth will be partially offset by reductions in PPP loan balances, CRE-only relationships, and eventually our mortgage warehouse line of business. On the topic of the mortgage warehouse, I want to specifically commend our mortgage warehouse team on how well they have taken advantage of the opportunity the mortgage market has given them and also for the great deposit relationships they have helped us build with these clients.

I'll now turn the discussion back over to Aaron for transportation update.

Aaron Graft
Thank you, Todd. As investors know, we consider transportation to be the brightest part of TBK's future. Specifically, we believe the digital experience we provide to our customers and the market as a whole, via Triumph Business Capital and TriumphPay, will eventually transform this area of finance. We expect our share of transportation invoices purchased and paid to continue its near-parabolic growth for the foreseeable future. Combining our transportation payments businesses, we paid approximately 2.3 million invoices totaling approximately $2.92 billion in the third quarter, which results in an annualized run rate of just under $12 billion. You can see a breakdown of this on Slide 9.

Turning to Slide 10, total Q3 2020 Triumph Business Capital factoring revenue was $33.2 million. The dollar volume of invoices purchased was $1.98 billion during Q3, 2020. A 60% increase compared to 2Q, 2020 and a 37% increase over the third quarter of 2019. We purchased 1 million invoices during Q3, 2020, a 26% increase compared to the prior quarter, and a 15% increase over the third quarter of 2019. Average transportation invoice sizes were $1,787 for the quarter, up 30% compared to the second quarter. To give you some sense of how invoice prices in general were trending throughout the quarter, the previous high point for total average invoice size was $1,820 in July of 2018. We surpassed that in August of this year at $1,968 and again in September at $2,127 per average invoice.

You may have noticed that revenues at TBC increased even faster than invoice prices. The reason for this is that while invoice prices have increased 30% as mentioned above, our purchases per client, a measure of client capacity utilization, increased 44% from the prior quarter. During our second quarter call, we also alluded to shifting trends and a steady pickup in volumes related to activity in transportation. As those watching transportation might have noticed, the lack of capacity in the market caused by driver shortages, elevated unemployment benefits, and COVID-related limitations caused continued upward pressure on spot rates throughout the quarter.

Volumes picked up substantially as consumers, flush with liquidity and unable to spend it on experiential outings like concerts and sporting events, spent their money on goods that must be moved by trucks. Going forward into Q4, we look for those trends to largely continue, with October historically being Triumph Business Capital's best month and higher than average freight volumes expected throughout the Christmas holiday season.

Last quarter, we also alluded to the fact that if the recovery was sustained in July and beyond, it could suggest a freight recovery curve that looks more like a V rather than an extended U, and that is exactly what we saw. In addition to benefiting from the aforementioned industry tailwinds, Triumph Business Capital's new client growth pipeline is more robust than ever, with each month in the third quarter successively setting records for new client applications. In the third quarter, Triumph Business Capital received more than 1,800 new client applications, which represents clients new to factoring as well as factoring veterans choosing us over competitors, that is a 63.7% increase over the third quarter of 2019.

We recognize this quarter with the intersection of a perfect storm of a liquidity surge, low capacity, unique consumer behavior, inventory restocking and seasonal holiday builds. And so, while these spot rates may not be sustainable in the long run, the fundamentals of our factoring operations are strong and continue to grow in both scale and efficiency, and our technology advantage over our competition.

Now turning to TriumphPay on Slide 11, during the third quarter TriumphPay processed 1.4 million invoices paying 57,953 distinct carriers. As of September 30th, we have paid 105,629 carriers since inception. Payments processed totaled approximately $1.2 billion, a 74% increase over the prior quarter and a 510% increase from the second quarter of 2019. TriumphPay's annual run rate payments as of September was $4.8 billion. Last quarter, I alluded to the fact that we have a very strong momentum in TriumphPay. I told you that we had three of the top 20 freight brokers active on the platform and five in integration and contracting. Since then, I'm proud to say that we've added Redwood Logistics just following the quarter end as our fourth Tier 1 broker, which we define as the 20 largest freight brokers by volume. We now have four more of the top 20 in various stages of integration and another two in contract negotiation. We expect the four in integration to be live by the end of the first quarter of 2021, and those that are in contracting to be live approximately six months following signature, should everything proceed as planned. That will fulfill our initial goal of serving 50% of the top 20 brokers and will move us much closer to becoming the nexus of billing and payment for the trucking industry.

Our targets this year are unchanged. We hope to exit 2020 with a run rate payment volume of $7 billion or more, and we expect TriumphPay to reach profitability in the back half of 2021. Also interesting in this quarter in regard to TriumphPay, is that we've rolled out our Select Carrier Program. This allows carriers to choose to have their invoices automatically quick paid by any broker they drive for who is on the TriumphPay network. We opened this program in June on an invite-only basis to test it and then subsequently opened it to all carriers in August. The response has been very positive, and we are nearing our 3,000th customer. Our goal is to have 8,000 carriers in the Select Carrier Program by year end and we believe we have line of sight to that goal, given the pace of adoption, and due to the brokers expected to go live on TriumphPay in the near term.

For context, Triumph Business Capital, which was founded in 2004, had a total of 7,092 clients at quarter end. TriumphPay is on pace to achieve that level of carrier adoption in six months versus 16 years. While client contribution differs in TriumphPay versus Triumph Business Capital, this rate of growth should give investors an appreciation for the long reach that we have in the transportation market and the scalability of our platform, which will only become more pronounced as more participants join the network.

Finally, over 90% of our team continues to work from home. While we wish we could all be back together safely in our offices, we will not do so until it is clear our employees' health and safety is protected per the guidelines established in our pandemic business continuity plan.

Despite these difficulties, we turned in one of the finest quarters in our history. I'm exceptionally proud of our team and their work. With that we will turn the call over for questions.

QUESTIONS AND ANSWERS

Operator
Ladies and gentlemen, at this time, we will begin the question-and-answer session. To ask a question, you may press star (*) and then one (1) on your touchtone telephone. If you are using a speakerphone, we ask that you please pick up the handset before pressing the key. To withdraw your question, you may press star (*) and two (2). Once again that is star (*) and then one (1) to join the question queue.

Our first question today comes from Michael Rose from Raymond James. Please go ahead with your question.

Michael Rose
Hi, good morning guys. How are you?

Aaron Graft
Good morning, Michael. Good.

Michael Rose
Aaron, I appreciate the updates on TPay, especially the getting to profitability as we get to the second half of the year. Can you just remind us some of your intermediate term goals? I know you're targeting $7 billion annualized plans by the end of the year. Any updates just based on the client on board and what you have in the pipeline in terms of your intermediate goals? Thanks.

Aaron Graft
Yes. Well, as we mentioned, the goal is $7 billion by the end of the year. If you were to annualize just the month of September, we were running at about $5.7 billion. If you annualize the quarter, it was $4.8 billion. So, as far as adoptions on the broker side, we will surpass that $7 billion number with--once the freight brokers that are in the pipeline come on to the system, whether they come on in Q4 or if any slide to Q1. So, that that'll be one side of the equation, which is just goals around driving market penetration.

The second part, which we just discussed on this call, would be increasing carrier adoption, because that's ultimately how you monetize volume inside of TriumphPay. And so, as we just mentioned, between June and the end of the year, we think we'll get to 8,000 carriers who are choosing to automatically take a QuickPay from any broker they haul for that's on the TriumphPay network. And it's sort of the virtuous cycle. The more carriers that do that and the more brokers that come on the system, the more automatic QuickPay become part of your daily process, which drives profitability. So, those are the two metrics we're focused on and--but by focusing on those, continuing to invest in the product and the speed of execution to the market, even while doing that, we would expect that the back half of next year this becomes profitable, and we think it's pretty scalable after that.

Michael Rose
Okay, that's helpful and then looking at Slide 8, it looks like gross revenues in transportation is about 40% of the overall revenue. Nice, nice growth. We obviously know on the core bank side, some of the headwinds there. Any reason to think that, that growth as a percentage of

revenue would stop any time in the foreseeable future? Or should we expect that to exceed 50% and grow from there?

Aaron Graft
I think given the trends, and given where we're seeing growth, I could see us achieving 50% or beyond at some point perhaps next year, perhaps the year out. So, we're--as we have made clear, we are a transportation-first organization. We think it's our most defensible, most profitable line of business. We will--the community bank will grow if the opportunities come, but just looking at our pipeline, looking at the state of the transportation market, I would expect that, that transportation as a percentage of revenue will continue to grow.

Michael Rose
Okay and maybe just last one for me. Do you have any larger deposit maturities over the next couple of quarters? It still seems like that would be a potential lever besides the mix shift in revenue to support the margin expansion. Thanks.

Bryce Fowler
Sure. This is Bryce. I will take that one. So, yes, really not any abnormal amounts of maturities. We do have some higher cost CDs that are repricing. A great deal of those have repriced. It's reflected in our numbers, but there's a little bit more of that is coming, but there's nothing like substantial. But just given the current rate environment and the success we've had on raising quality deposits, cost of deposits should continue down another 10 basis points or so I can see this next quarter.

Michael Rose
Okay. Thanks for taking my questions.

Operator
Our next question comes from Brady Gailey from KBW. Please go ahead with your question.

Brady Gailey
Thanks. Good morning, guys.

Aaron Graft
Good morning.

Brady Gailey
So, if you look at TPay, you already have 10 of the top 20. What's the timeline for the other 10? And do you think you can get all top 20 on the platform over time?

Aaron Graft
Yes. Well, it's--so the-- some of the top 20, we've certainly touched base with all of the top 20, as you might expect. Some of them are not interested in the product right now, and so I think the way you win them over is you demonstrate the adoption by carriers and other brokers and you demonstrate how this is a cost savings for them and, frankly, a revenue enhancement for them. So, it's impossible for me to predict when the top 20 -- you get through all of them. As we've said, we -- if you think about it, the top 20 freight brokers control roughly $40 billion of spend. Tier 2, which is the next 250 freight brokers, control $31 billion of spend.

So, it's very--when--and you get lower than that, and it gets much smaller, much more fragmented. So, our belief is that if we control the majority of the top end of the market, you create a virtuous cycle in the network that carriers like what they're getting, other freight brokers see that and, therefore, adopt it. I would hesitate to make any predictions when we can get all of them–-or if we could ever get all of them, but I can tell you that, certainly, we're having dialogues with all of them.

Brady Gailey
Okay and then basically a zero provision this quarter. How do you think about the need of provisioning going forward, if there is any?

Aaron Graft
Well, I mean, as you know--or as we called out, when factoring and mortgage warehouse lead our growth that there's just not a lot of provision tied to those, because of how quickly they turn. If the economy doesn't get worse or if we get stimulus, it doesn't--I can't see a catalyst for needing additional material provision. I mean, we've scrubbed our portfolio as I think every bank did coming out of March, April, when we were in the depth of the COVID pandemic or at least the unknown certainty around that. So, I don't foresee a need for material increases in provision, absent some catalysts that we don't know about.

Brady Gailey
All right and then, Aaron, I mean, if you looked over the last month, I mean, basically from when we did our virtual NDR with KBW, I mean, stocks up over 50%. It's had a huge move here. It's now trading at 2.35 times tangible, which is great to see. Having a currency that trades like that, does that make you rethink the possibilities within M&A? I know you've kind of been downplaying M&A, but you have a fairly attractive currency, especially relative to peers. So, does the stock move change the way that you're thinking about M&A here?

Aaron Graft
It really doesn't, Brady. Of course, you don't want to foreclose anything. My own view, and I--none of us know what--all the drivers, but my own view is the reason our stock has performed the way it has is because people are beginning to understand the transportation Fintech opportunity, which for me is all of Triumph Business Capital and all of TriumphPay and the growth there. We're running $12 billion in annualized payments processed. I think that that's probably brought in a different investor base who sees and understands the long-term value and the network effect of what we're doing.

I mean, everything we're doing, Brady, is because we think it's the right thing to do, but is, I think, enhancing or should be towards the enhancement of tangible book value--which would be: growing non-interest bearing deposits; keeping credit quality clean; focusing on fee income, which I think our transportation Fintech opportunity will continue to drive as well as spread income; and then lastly, have a defensible line of business, which is what I think we do in transportation.

So, as we think about any acquisitions, it would have to fall within one of those four disciplines going forward, and so we look in the transportation space and try to figure out if there's any things we need. But on the community bank side, it would take a unique deal, and we're not just going to--because the currency that we've created through this hard work and the organic model we've built. We're not going to run out and use it to buy something that's not congruent with those four things I told you about.

Brady Gailey
Okay. You're all doing great job. Keep it up. Thanks for the color guys.

Aaron Graft
Thank you.

Operator
Our next question comes from Matt Olney from Stephens. Please go ahead with your question.

Matt Olney
Hi, thanks. Good morning. I want to go back to the carrier adoption that you highlighted a few minutes ago. It sounds really interesting, and in the past, I think the baseline assumptions that you discussed is that QuickPay adoption is around that 20% level within TriumphPay. So, I'm trying to understand if its recent success that you're seeing implies that the QuickPay adoption could be higher than that 20%.

Aaron Graft
Well, in the long run in mind, Matt. So, let's just take QuickPay adoption as a whole. We're below 10% on that, and that's just because every time we add one of these new large freight brokers we start at zero, except zero is not what zero used to be, because now when you onboard a Tier 1 or even Tier 2 brokers, some of those carriers that are in their system are already Select Carriers or carriers we paid otherwise. We can generate QuickPay revenue from carriers that aren't Select Carriers. A carrier can certainly select to do that, but when they become a Select Carrier, they are almost treating TriumphPay as their source of financing as long as they're hauling for a TriumphPay broker.

So, one of the interesting things is, when you look at that carrier base, and a lot of them have no factoring relationship. Some of them do, but it's interesting, we're penetrating a part of the market that's previously been untouched by ourselves or other competitors in the factoring space. So, that's exciting to us, because that's new territory. That's a new segment of the space. Over the long run, we still think 20% QuickPay adoption at stabilization because, again, every time you add a new one, you go down a little bit as you start--you market your product again to their carriers.

At stabilization, 20% is a very conservative assumption. And so, I hope what we're showing with our Select Carrier penetration will allow us over a longer period of time to go well beyond that, but we're going to stick to that 20% as our conservative view of where we achieve–where we're going to be, and we'll continue to report back to you about adoption of the Select Carrier Program, which should give you and all of us an indication of if that number might go beyond 20%.

Matt Olney
Okay. That's helpful, Aaron. I appreciate that it's 10% today, because it starts over each time you add a larger customer. But what's the adoption rate for some of your longer-term clients that came on the platform maybe last year, are those at 20% yet?

Aaron Graft
Yes, and so let me be clear, it's below--we're not giving specific numbers for competitive reasons, but on a global scale, below 10%. The customers who've been on the platform the longest, we're getting to the mid to high teens on adoption.

Matt Olney
Got it. Okay and then just taking a step back, Aaron, a lot of us are going to be rolling out our 2022 forecast this week, if not already. Can you just remind us about some of your 2022 goals that you have as it stands today? Can you indicate that these are stretch goals or goals that you have pretty good line of sight on?

Aaron Graft
Yes. I mean, our--what we've talked about a lot with you and investors is where we want to exit 2022. And we've said, look, on a profitability basis, ROA perspective we want to be at 2% ROA. I would say that is a stretch. We think it's achievable, but things are going to have to go well, and we're going to have to maintain discipline while growing revenue--expense discipline while growing revenue to achieve that. The second thing we've talked about at the end of 2022 would be for TriumphPay to be achieving a $25 billion run rate. Again, that is an achievable goal if you look at our rate of growth, but there's a lot of work between here and there.

The other thing--those are the two things we've talked about. Obviously, Triumph Business Capital, that growth has been exceptional. We've not really laid out any goals for it. It, of course, is our most profitable line of business, and we need that to continue growth. And so, we see that happening, but we haven't given you a specific goal on that. And obviously, deposits need to continue to grow non-interest bearing deposits to anchor our cost of funds.

So, the two things that come to mind for me, Matt, that we've talked about that are the levers that we think drives profit, the bottom line profitability and also maintains a high multiple on the tangible book would be that 2% ROA and $25 billion run rate. If you were to say, it's probably better in my view to not just talk about what TriumphPay's exit run rate is in 2022, but I would look at it holistically of what is the total amount of invoice is processed between TriumphPay and Triumph Business Capital. And that number should be at that time between $35 billion and $40 billion. That would be where we would expect things to be, that would give you an idea of what Triumph Business Capital growth would need to be to help pull us towards those goals.

So, that's probably how you're going to hear us start talking about it in the future instead of just TriumphPay, but holistically, what do we want to see that whole transportation platform volume to be and we're going to work very hard to get to both of those.

Matt Olney
Okay. That’s helpful. Congrats on the quarter.

Operator
Our next question comes from Gary Tenner from D.A. Davidson. Please go ahead with your question.

Gary Tenner
Thanks. Good morning guys. Wanted to ask about the four brokers or--yes. Sorry, the four brokers that you have in current stages or various stages of integration. Assuming all four of those are live by the end of the first quarter, what does that push the end of first quarter annual run rate of invoices there?

Aaron Graft
Gary, I don't have–we don't have that number in a position to disclose it, but it would be well north of $1.5 billion of incremental volume from those four. But we don't–we're not–we can't disclose a specific number.

Gary Tenner
Okay. I was just trying to clarify if the goal of exiting 2020 with the run rate payment volume of $7 billion, does that include all of those or is that not inclusive of all those?

Aaron Graft
It includes some of them, and it includes some other. We talk a lot about Tier 1 brokers because we think that's the bellwether that you should focus on, but there's other-I mean there are a lot of other brokers coming on to the platform that we don't talk so much about, but some of those four in the queue would be included in that $7 billion targeted run rate.

Gary Tenner
Okay. That's helpful, and I just want to clarify, you talked about Triumph Business Capital of 7900 carriers on the program after 13 years. Is that related to a similar--any sort of similar Select Carrier Program there? Or is that just your total carriers that are currently active?

Geoff Brenner
Hi, Gary. This is Geoff. The segmentation of the clients that make up Triumph Business Capital is a little different than what you see at TriumphPay. So, we obviously have the owner-operators and the smaller carriers, but there's also a significant number of very large fleets, medium-sized fleets, and those will probably be the least likely to move towards a TriumphPay technology solution. So, I think the numbers are correct. I think the make-up and the number of carriers of how you got there just–it took more time because many of those were significantly larger carrier clients. Does that make sense?

Gary Tenner
Yes. Yes, I think so. Okay. That's good. I think the rest of my questions were answered. So, thank you.

Operator
Our next question comes from Steve Moss from B. Riley Securities. Please go ahead with your question.

Steve Moss
Good morning.

Aaron Graft
Good morning.

Steve Moss
Just on the--I hear you on the fourth quarter being strong for factoring, and obviously, the situation we're in, just kind of curious as you look a little further out, do we think about the invoice size maybe normalizing down towards the $1,600, $1,700 level in 2021? Just how you're thinking about the environment a little further out. It would seem that current pricing would drive more truckers back into the market over time here.

Aaron Graft
Yes. It would seem so, Steve, and there's been a lot written about this, and a lot of people--I feel like Triumph knows transportation perhaps better than any bank in the United States. But there are people who live transportation every day, who are in it, who are probably more informed than us. But I will tell you that there are some reasons that it will be difficult to reseat

drivers. I mean, part of this--the other--there's clearing house that drivers have to--they have to pass--it is like--I think there were 30,000 drivers--applicants, for example, who failed the clearing house, whether it's related to drugs, convictions, otherwise.

Those people are going to be out of the market. They can't come back and reapply for three years. So as that has gotten tighter, it's just that you have less qualified people to put in these trucks, and there's just the freight market, if anything we've seen in coming out of the crisis--if that's the right word for it, but the slowdown in Q2, the frozen market we were in where nobody knew which direction we were going, is that the freight market struggles to respond to the volatility of where things are going and how quickly the market turned around. The freight market is just not that responsive, and how long does it take? I mean, sure, eventually, economics tells you that if invoice prices stay where they are right now, you're going to pull new entrants into the market, and I think in the third quarter, for example, there were 31,000-ish new power units ordered. Well--it takes--or that was the rate. There's 20,000 of those would just be replacements. So, if that number continues to go up, and that tells you people are finding drivers, and ultimately, we don't expect invoice sizes to stay where they are right now. I mean they might well do it for Q4, but eventually, yes, they will come down, but you got to remember, all these contracts are being renegotiated right now between shippers and brokers, and so there is an upward pressure as everything is being renegotiated, and it sets up nicely for next year.

I mean, obviously, we can't predict the future. But the last thing I'd leave you with is, even in a sideways or downward trending freight market, what we do in transportation is far more profitable than anything else we do in the bank. So, we're always going to look to grow smart and safe in our transportation lines of business. And when times are great like they are now, that's fantastic. But even when times are tougher, it's still very, very profitable for us. And that's why we're focused there.

Steve Moss
Okay. That's helpful and then maybe just turning to credit for a second. You guys mentioned that there were $17 million in new deferral request. Just kind of wondering where that–what type of loans we're requesting deferrals here?

Todd Ritterbusch
Yes. That specific situation was a brand-new hotel that was under construction. So, it wasn't in deferral previously. When it came online, they requested a deferral, and we provided it. We've approved it.

Steve Moss
And what–got it, and what's the–is it like a six-month deferral and kind of what is–or what's the expected loan to value?

Todd Ritterbusch
So, I don't want to address the specific credit terms there on this call, but I will say that in general, we are trying to provide our clients with enough flexibility in the hospitality space to get through sort of a prolonged recovery. So, we're providing options to them that go out as long as 18 months, and we're providing them with different repayment options during that period of time with different fees structures.

So, they may choose to resume a portion of their payment, like the interest-only and pay a lower fee to us for the modification than if they choose a full payment deferral, and so we're providing flexibility in that way. At the same time, if they recover faster, then we're also able to capture some of the excess cash flow. So, we're trying to make sure that--given that we can't predict exactly how long it's going to take them to recover, we're giving them plenty of time, we're giving them some options and then if things go better than expected, we have a way to begin collecting sooner.

Steve Moss
Okay. All right, thank you very much. I appreciate that.

Operator
Our next question comes from Ian Joyce from Hovde Capital. Please go ahead with your question.

Ian Joyce
Good morning guys. Thanks for taking my question. We're investors in the stock and just looking to model next quarter's earnings. I was hoping you could provide a little color in--so this quarter, you booked $10 million more than last quarter in interest on factored receivables. Can you give us a breakdown of what was acquisition-driven? What was core growth? And how the increase in past due receivables impact this number?

Aaron Graft
I think we can give you some high-level information on that. The–and I think in the earlier part of the call, we differentiated between growth and--organic growth versus the TFS acquisition. And as we said in the call, there is a portion of the TFS acquisition that will continue to be profitable. I don't–we can't be super specific here. I will just say the run rate right now for Q4, if you look at a real-time analysis of where we sit today on October 20th, is above where we finished Q3.

Now it could change, and October is historically our best month, but right now, set aside the acquisition, just looking at total invoices purchased and fees generated, we are trending above where we were in Q3. So, I don't know if that's helpful for you, but that–that's as much as we can probably say.

Geoff Brenner
It's less than 10%. I mean the impact of TFS, it's not–it's not as great as you might think.

Ian Joyce
Okay. That’s helpful. I appreciate it guys.

Aaron Graft
Sure.

Operator
And our next question is a follow-up from Gary Tenner from D.A. Davidson. Please go ahead with your follow-up.

Gary Tenner
Thanks guys. So, I wanted to just ask about how you're thinking about the balance sheet overall. As I recall, several quarters ago, when you kind of made a bit of a strategic shift to deemphasize the bank and really focus even more on the factoring business, I think you talked about kind of optimizing the balance sheet size at around $6 billion. Obviously, the last couple of quarters there's been a lot of deposit growth. I wouldn't think the $6 billion is a hard line in the

sand necessarily, but as you're thinking about the growth opportunity on the factoring side, how are you thinking about that asset size that you talked about in the past?

Aaron Graft
Sure. So, the brackets that I think about is the $6 billion to $8 billion range is that 2022 exit, and so you asked a great question, Gary, and it ties to what I alluded to earlier, which is one of the four principles we think of in the long run of how do we continue to enhance our multiple, and that would be a growth of fee income. A day will come, and it may get here sooner than many of us expect, where the volume of transportation that we handle in Triumph Business Capital and in TriumphPay is more than we are willing to hold on our balance sheet. And we think there are ways at that time when other capital markets participants would love to have exposure to these receivables, these short-term high-yielding receivables that our network is generating. And so, a day will come when I think that we will be able to sell off a portion of that growth to the extent it outgrows our balance sheet and recognize fee income from doing that.

At the present time, I have no interest in going over $10 billion or growing for growth's sake. We are much more focused on ROA and, ultimately, return on equity for our investors. And we think we can do that exceptionally well in that $6 billion to $8 sort of fairway.

Gary Tenner
Thank you very much.

Operator
And we have an additional follow-up from Matt Olney from Stephens. Please go ahead with your question.

Matt Olney
Yes. Thanks for taking my follow-up. The TFS receivable that was the over-advanced, now that you've had the asset for a few more weeks, how is it performing? How do you think about potential for losses? And I think you mentioned in the prepared remarks, the EPS accretion from this deal is still unknown. Can you kind of set some goalpost up for us so we can appreciate just a range of what it could look like?

Geoff Brenner
Yes, Matt, this is Geoff. It's still, in terms of a performance basis, unknown. I mean, obviously, as you've read in the disclosures, there were parts of the portfolio that were unknown to us, and this certainly makes it difficult to predict how it's going to perform. Generally speaking, the portfolio as a whole has had a positive impact on the overall factoring numbers, but as I mentioned earlier, it's not been a noteworthy lift one way or the other on the over-advanced segment. We're working through that to make that part of the portfolio work, but I really can't speculate or predict how that's going to look.

Aaron Graft
And the other piece, Matt, to understand of why we can't give what we think long-term EPS guidance will be is, it may happen as a result of working through these over-advances that some of the clients who comprise the bulk of the portfolio will no longer be customers of Triumph. That may just be an outcome. And if that is an outcome, then that obviously has a material difference on what the EPS accretion would be from the portfolio.

So, we're not trying to be cagey about it or not share, the answer is, we just don't know. We're trying to get these things collected out and back into a performing basis, and hopefully, with no loss whatsoever and perhaps a small gain, we'll focus on the additional growth in that portfolio down the road, but frankly, given the rest of the organic growth we're experiencing, it's not going to be a consequential number compared to the rest of our pipeline.

Matt Olney
Got it. Okay. Thank you.

Aaron Graft
Sure.

Operator
Once again as a final reminder. If you would like to ask a question, please press star (*) and one (1). To withdraw yourself on the question queue, you may press star (*) and two (2). Again, that is star (*) and then one (1) to join the question queue.

Ladies and gentlemen, at this time, I'm showing no additional questions. I'd like to turn the conference call back over to management for any closing remarks.

CONCLUSION

Aaron Graft
Thank you all for joining us. We hope you have a great day.

Operator
And with that, ladies and gentlemen, we'll conclude today's conference call. We do thank you for joining. You may now disconnect your lines.