Triumph Bancorp, Inc.

Q4 2020 Earnings Conference Call

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CORPORATE PARTICIPANTS

Aaron Graft - *Founder, Vice Chairman and Chief Executive Officer*

Todd Ritterbusch - *Chief Lending Officer*

Luke Wyse - *Senior Vice President Finance, and Investor Relations*

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

Bryce Fowler - *Executive Vice President, Chief Financial Officer and Treasurer*

PRESENTATION

Operator
Good morning and welcome to the Triumph Bancorp conference call to discuss our fourth quarter and full-year 2020 financial results. All participants will be in listen-only mode. Should you need assistance please signal a conference specialist by pressing "*", then "0" on your telephone keypad.

After today's presentation there will be an opportunity to ask questions. To ask a question you may press "*", then "1" on your telephone keypad. To withdraw your question please press "*", then "2". Please note this event is being recorded.

I would now like to turn the conference over to Luke Wyse, Senior Vice President, Finance, and Investor Relations. Please go ahead.

Luke Wyse
Good morning. Welcome to the Triumph Bancorp conference call to discuss our fourth quarter and full-year 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 fourth quarter, we earned net income to common stockholders of $31.3 million, or $1.25 per diluted share. This was a very solid quarter. We made significant progress executing on strategic priorities. Our transportation payments business is continuing their strong growth, becoming a bigger part of our total revenue and with market tailwinds currently at their back.

The quality of our funding mix and our liquidity position continues to improve, and overall profitability for the enterprise was strong. Our asset quality is very good, and in my view, better than the reported metric may appear, due to the impact of the acquired TFS factoring portfolio.

Our third quarter acquisition the factoring portfolio from Transport Financial Solutions and Covenant Logistics or TFS continues to present challenges. The impact of this acquired portfolio on our asset quality metrics, as well as the financial statement impact of the subsequent modification to the acquisition agreement with CVLG, has resulted in several items in our financials that I want to point out. We have provided quite a bit of detail about this transaction in our earnings release in an effort to be as transparent as we can.

In the third quarter, we reached a settlement with Covenant that provided us protection from loss, up to $45 million on $62 million of over advanced receivables that were within the total $108 million portfolio acquired. The accounting for this produced a specific loss reserve for a portion of the over advances, and it produced an indemnification asset for the estimated amount we would have to collect from Covenant for any incurred losses. The modification also provided for a reduction in the purchase price we paid for the portfolio.

We received a total of $10.9 million in cash in the fourth quarter from Covenant as a reduction from the original purchase price. This payment was $8.9 million more than we had recorded as a receivable at the end of the prior quarter and is reflected in non-interest income in the fourth quarter. This positive difference is due to the appreciation in our stock that was part of the consideration in the original transaction.

Our plan has been to work with each of the acquired TFS clients to recoup the over advanced amounts with an appropriate workout plan while continuing to factor their current business in the ordinary course with the Postal Service. However, we have encountered a new twist. In the fourth quarter, we purchased approximately $19.6 million of accounts receivable from the largest acquired trucking client, which would normally be collected by us from the Postal Service. After we advanced funds to the trucking client, that client instructed the U.S. Postal Service to remit payment directly to them.

Inexplicably the U.S. Postal Service, in direct contravention to the written notice of assignment we delivered to them, complied with this request, and ended up paying $19.6 million of what was due to us directly to our client. The client has refused to remit these funds as required. As you might imagine, we have commenced litigation against both our client and the USPS in separate actions. The USPS has cited purported deficiencies in our notices as justifying their actions, despite initially honoring such notices--honoring identical notices for other clients without interruption and choosing to subsequently dishonor these notices without any prior communication to us.

In my view, these facts can only suggest that the U.S. Postal Service and our client worked in concert to violate our agreement and applicable law in order to ensure timely mail delivery during the holidays and the election season. There were other and better ways to have handled this, but they did not give us the opportunity to be part of the solution. The litigation surrounding this matter has the potential to be drawn out and complicated and involves novel issues given the unique nature of the U.S. Postal Service.

However, based on our legal analysis and discussions with our counsel advising us on this matter, we believe it is probable that we will prevail in our action against the USPS and that they have the financial capacity to pay us what we are owed. Therefore, we have determined that a specific reserve on this amount is not warranted at the end of the year. Please, know it may take some time to work through the legal process.

In the fourth quarter, we established an additional $11.5 million of reserves to fully reserve all of the over advances to the largest carrier, who is at the center of the converted payments' dispute. This expense was partially offset by a $5.3 million increase in our indemnification asset, which was recorded to other non-interest income, resulting in a net $6.2 million pre-tax loss. Our earnings release provides a summary of the impact the TFS acquisition had on our financial statement and adverse impact on our reported asset quality metrics.

Now this is a lot of detail around one relationship, but I thought it was important for investors to understand the context on a potential credit issue of this size in what was otherwise a near-perfect quarter. In my opinion, this wasn't a credit failure; it was a theft.

With that tedious topic out of the way, let's turn to all the good things that are happening at TBJ. First deposits, which you can see on Slide 14, you will note that we continue to improve our funding mix. Non-interest bearing deposits as a percentage of total deposits are now 29% of total deposits, which is a significant increase from a year ago. Our loan-to-deposit ratio moved down slightly to 106% at the end of the year from 114% at the end of the third quarter. Adjusted for mortgage warehouse loan balances, the ratio is approximately 22 basis points lower this quarter. Given market conditions and the growth of non-interest-bearing accounts, we expect our funding cost to continue to trend lower in the near-term.

Now to margin. Our loan yields this quarter were up to 7.2% versus 7.05% in Q3. NIM is now 6.2%, which is the top of our peer group. The primary driver for the expansion of NIM is the growth of our transportation lines of business versus other parts of our business. We hope and expect this trend to continue. Our total credit loss expense was $4.7 million in the quarter. Net charge-offs were 3 basis points of loans, and the net change in specific loss reserves were $11.6 million, $11.5 million of which was from the TFS acquisition. The good underlying loan credit performance combined with a more optimistic outlook drove an $8 million reduction in credit loss expense.

Aside from the aforementioned items related to the TFS transaction for this quarter, there were a few one-time items we should point out. Our occupancy, furniture, and equipment expenses are inflated by approximately $1.4 million related to our decision to consolidate part of our El Paso factoring operations to our TBC headquarters in Coppell.

Finally, based on year-end performance, incentive comp adjustments added about $2 million to fourth-quarter expenses. Looking out into the first quarter, we expect core expenses to be approximately $58 million.

Now I'd like to turn the call over to Todd Ritterbusch, our Chief Lending Officer.

Todd Ritterbusch
Thanks, Aaron. I'd like to start by providing an update on our pandemic relief lending efforts. On Slide 18, you can see that we had $104.6 million in deferred loan balances at year-end. This represents an 82% decline from the $572 million in deferred loan balances on June 30, 2020.

While deferred loan balances were flat from prior quarter, there were quite a few deferrals that expired without requiring extensions. These were offset by new deferrals for clients that didn't need them initially but requested them as the pandemic persisted late in the year. The majority of the current deferred balances are expected to remain on deferral until the economy recovers. But they are well collateralized, and we feel that the underlying businesses are viable over the long-term.

Moving to PPP forgiveness, we have completed the forgiveness process for $36 million, or 15% of PPP loan balances. Almost 100% of these loans received full forgiveness without requiring a portion to be termed out. We have another $67 million in completed forgiveness applications that are pending validation and payment from the SBA. The remaining $125 million pertained to around 1,500 loans with an average size of $82,000 to clients that haven't submitted their forgiveness applications yet. Most of these borrowers have been awaiting the simplified forgiveness process that Congress just approved. So, we expect the forgiveness process will accelerate rapidly this quarter.

We are also participating in the new round of PPP funding, but we don't expect volumes or balances to be very large, given the unused funding in the last round and the restrictions on borrowers seeking second PPP loans. While providing pandemic relief to our clients, we've also been working hard to manage our credit risk. As discussed in our earnings release, the Over Formula Advance Portfolio and the misdirected USPS payments contributed 1.63% and 27 basis points to our past due and non-performing asset ratios of 3.22% and 1.15%, respectively. Absent these additions, we have made significant progress on this front, due largely to the strong partnership and alignment between our credit and lending teams, which have handled the stress and uncertainty of the pandemic very effectively.

As we look forward to 2021, our focus on relationship banking across all of our lending units is unchanged, but we intend to accelerate its execution. We've made a lot of progress in providing treasury and depository services to our lending clients in the mortgage warehouse and community bank. But there is still plenty of opportunity to do more in these businesses. We are also investing in team members, products, and services that will allow us to accelerate our efforts to build fuller relationship and provide complete banking solutions for transportation factoring and equipment finance clients.

As we do so, we expect deposits and fee income to grow faster than loan balances, and our loan mix will continue to shift away from transactional credit toward loans that align with our transportation focus and clients that seek full long-term banking relationships with us.

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

Aaron Graft
Thank you, Todd. For the fourth quarter, our transportation payments businesses paid approximately 2.9 million invoices totaling approximately $4.03 billion, which equals an annualized run rate of just over $16 billion; that is a 38% growth over the prior quarter. You can see a breakdown of this on Slide 8.

Turning to Slide 9, total Q4 2020 Triumph Business Capital factoring revenue was $36.8 million. The dollar volume of invoices purchased was $2.5 billion during Q4 2020, a 24% increase compared to the third quarter and a 65% increase over Q4 of 2019. We purchased 1.2 million invoices during Q4, a 16% increase compared to the prior quarter and a 33% increase over Q4 of 2019. Average transportation invoice sizes were $1,943 for the quarter, up 9%, compared to the third quarter.

Now to TriumphPay. Turning to Slide 10, during the fourth quarter, TriumphPay processed 1.8 million invoices paying 68,153 distinct carriers. As of December 31, we have paid 119,098 carriers since inception. Payments processed totaled approximately $1.8 billion, a 56% increase over the prior quarter and 282% increase from Q4 of 2019. Using December numbers only TriumphPay's annual run rate payment volume was approximately $8.5 billion. So, we continued to grow. In fact, we added another Tier 1 broker Arrive Logistics in the fourth quarter.

Last quarter, we told you about TriumphPay Select Carrier Program, which allows carriers to choose to have their invoices automatically quick paid by any broker they haul for on the TriumphPay network. We opened the program in June on an invite-only basis to test it and subsequently opened it to all carriers in August. As of the end of Q3, we had 1,945 select carriers. As of 12/31, that number has grown by 325% to 8,272. Select carrier clients now exceed the total client base for Triumph Business Capital, and this happened over a period of six months versus 16 years at Triumph Business Capital. Investors should pay attention to this number and its rate of growth.

Much 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.

QUESTION AND ANSWER

Operator
We will now begin the question-and-answer session. To ask a question, you may press "*", then "1" on your touchtone phone. If you are using a speakerphone, please pick up your handset before pressing the keys. If at any time your question has been addressed and you would like to withdraw your question, please press "*", then "2". At this time, we will pause momentarily to assemble our roster.

The first question comes from Brad Milsaps of Piper Sandler. Please go ahead.

Brad Milsaps
Hi, good morning.

Aaron Graft
Good morning, Brad.

Brad Milsaps
Aaron, thanks for all the color. Maybe just wanted to start with TriumphPay, obviously, you've got a lot of momentum there. Just kind of curious what--and I know it can ebb and flow based on who you're bringing on implementing and who's more up and running, but just curious what the QuickPay usage is right now, based on the volume that you have? And is there a way to think about like what that, based on the volume we have today what that is actually translating into in terms of average balances on the balance sheet that you're generating income off of at this point?

Aaron Graft
Yes, it's difficult, Brad, and let me explain why. Every time we onboard a new broker, especially a Tier 1 broker, the QuickPay numbers start to look terrible, right, for that broker because you start at zero. The thing I can continue to point you to is that for people who've been on the system for approaching a year, you're getting toward that mid-teens and higher QuickPay penetration; that's number one.

Number two, the Select Carrier Program is going to carry QuickPay further with it, and you have to pay attention to how fast that's growing. I think in the call, I just told you the December 31 numbers of Select Carriers was around 8,300. As we sit here this morning, it's 9,469. I mean, it is growing close to exponentially, and so, that won't happen forever. But as that happens, each of those carriers, therefore, elects to take a QuickPay for a TPay broker.

And so as you start to get--you could argue that 10,000 Select Carriers is looking like something like 5% of the entire active carrier universe. So, that's going to start pulling that number higher. So it's not that I'm trying to avoid the question; it's just if you look at the data when you add these new brokers, you immediately knock the number back down. And in Q1, we expect to add two more Tier 1 brokers, and of course, they'll start at zero, but for the Select Carriers and then we'll continue to market to their carrier force.

And you didn't ask this specifically, but I'll use this as a chance to answer it. I think some time in the year 2021, when we think the data is meaningful, disclosing revenue and QuickPay penetration is something we need to think about as the business starts to mature and it is still a growth investment business. It was a $2 million drag on us in Q4, and we don't think about short-term profitability. We're building for long-term value creation. And so we continue to invest in the business, continue to see it grow, and for the clients who've been on the program for a while, you're seeing mid-teens penetration, and I think that will trend higher as the Select Carrier Program continues to grow.

Brad Milsaps
No, that's helpful. But just and I think you answered this, but of the $1.8 billion in average commercial finance loans you have outstanding, it's pretty easy to say that, and I don't it is a bad thing, but TriumphPay is not having a huge impact on that number yet, just because the QuickPay usage is not where you think it can be. So a lot of that is still, sort of, on the come, if that makes sense?

Aaron Graft
It is absolutely on the come. I mean, what the Board has charged us to do, the way I think about things is, we're trying to build something that's going to be amazing five years from now. We want to be the best in the world at billing and payments in trucking. And I think we are well on our way to doing that. But it's not meaningful right now. What's meaningful is the amount of market adoption that's coming. And we will eventually monetize that. But right now, we're just carrying it, and I don't even view it as an expense drag; I view it as the most valuable investment we are making as a company.

Brad Milsaps
Got it. And, Aaron, I know you don't have a crystal ball on average invoice size, and I know sometimes 1Q can be seasonally weak, but just kind of curious how you're thinking about average invoice size as you move into 2021?

Aaron Graft
Yes. So if we--the average invoice size for transportation for the first 20 days of January is $1,934. So, it continues to stay strong, and this is not like 2019. You remember we came through 2018 and 2019 quickly fell off a cliff. I don't know what will happen, but there the supply chains are still so backed up, freight is still so tight, it suggests that this tailwind that we have currently is continuing in the first quarter and will continue going forward. Now I think utilization will be a little lower in Q1; it always is. So, I'm not saying net income will look the same in TBC, but average invoice sizes in the spot market that's telling you that freight is still tight, which is great news for us.

Brad Milsaps
Okay. And then final question for me. Did you happen to have the impact of average warehouse loans in the national lending line this quarter? And do you guys think you've taken sufficient market share there to keep the warehouse relatively high as you move into--move through this year?

Todd Ritterbusch
Well, so, I'm not sure exactly what you're asking for with respect to the impact. But obviously, the mortgage warehouse continued to grow and be very active in the fourth quarter and continues right into January. So, I would expect that for the very near future you're going to continue to see the similar levels of activity to what you saw in the fourth quarter.

We're seeing refinance activity continue to be very robust, and I think there's a real rush to try to get all the refinancing's done before interest rates start to rise dramatically for borrowers. So, nothing really changing there. We haven't changed the strategy; we're not looking to add new clients to that list. And we're looking to continue to expand the existing relationships to be the primary bank for them.

Brad Milsaps
Okay, great. Thank you.

Operator
The next question comes from Michael Rose of Raymond James. Please go ahead.

Michael Rose
Hi, good morning, and thanks for taking my questions. I know you guys onboarded another Tier 1 client this past quarter. I think you had another couple in the pipeline, just wanted to see if we could get an update there. And then just on the TPay side, I think you said December was an $8.5 million run rate or $8.5 billion run rate, I think you guys had guided to $10 billion by mid-year. Any sort of updates there, and how would those potential new clients factor into that previous outlook? Thanks.

Aaron Graft
Yes. So, Michael, I expect we will onboard two more Tier 1 brokers at least in Q1. Now that can always slide, but they are in the pipeline for Q1. We will go well beyond $10 billion this coming year. I think in the past, we've given different projections. Let me go ahead and throw the one out that you can use for us for the end of year 2021, the target would be $14 billion. So, if our December run rate is $8.6 billion and you think about the rate of growth, $14 billion would be our goal exit rate for the end of 2021, and perhaps we can surpass that. But as of now, we have five Tier 1 brokers or roughly 25% or exactly, I guess, 25% of that universe, and we have 21 Tier 2 brokers, of which we think there is about 260.

So, we just continue to add them every quarter, and as we do that and then grow Select Carriers and I'll throw this out there. Our target for Select Carriers for the end of the year is 20,000. We would like to have 20,000 registered Select Carriers by the end of 2021. So I think we will be well beyond $10 billion during the year 2021, and we think we will continue to grow.

Michael Rose
Okay, that's great color. And then just looking at the spot market here over the past couple of weeks. Looks like spot rates are down a little bit, but it still seems like the trajectory is upward, given the factors that you mentioned earlier. Do you have just a broad outlook for how you think the sector plays out, maybe more broadly over the next couple of years? It seems like the market will persist in a pretty tight manner for at least the next couple of quarters, but perhaps for the next couple of years. So, any broader thoughts you might have on the sector as a whole? Thanks.

Aaron Graft
Geoff, why don't you take that one?

Geoff Brenner
Yes, Michael, I don't know anybody who is willing to speculate looking out that far in terms of years. I think Aaron's comments around Q1 and Q2 are probably as accurate as we can be. But going any further than that feels like almost beyond speculation.

Aaron Graft
What we do know is that there is still difficulty finding qualified drivers, that is a massive problem. We also know that Class 8 truck orders and trailers are backed up, right? People who

have ordered that product or are trying to get in line to order that product are several months out.

What we know from the past is this is a low barrier to entry business. So, it won't persist like this forever. If people see that others are making profitability, they'll find a way to enter the space. But it certainly looks like Q1 and Q2 are good; there's still a lot of shipments that we're still catching up from shutting down the economy. And if stimulus turns into consumer spending, I mean, as we've said before, if you bought it a truck brought it. I mean trucks--that's how goods get to people. And so if that's what happens, then we're going to continue to see strength in transportation, which obviously we celebrate. And because this has happened, even with diesel prices remaining relatively flat. So, it’s just been a very strong season.

Michael Rose
Fair enough. Maybe just one final one another, kind of, longer-term strategic question. I know you guys are collecting a lot of data points. You've talked about fuel card initiatives, things like that. Can you just give us an update on maybe where it stands? I assume it's still early days in some of those efforts. But just any updated thoughts on the other stuff that you guys are working on inside TPay and TBC would be great? Thanks.

Aaron Graft
Geoff, why don't you just talk about the data we're collecting, and then I can follow-up.

Geoff Brenner
Sure. So, as we've mentioned before, we're collecting at least 1.5 million data elements every single day from the invoices and through TriumphPay. We've looked at a number of different ways to build out different indexes with that data. There is certainly a lot of options that are on the table. The one that's presented itself as the most unique, the one that we're currently pursuing is creating a capacity index, that's a current void in the market, and that's something that our data could potentially address. We'll have an internal white paper on the progress of that within the next week. So, we're making headways on that.

Probably the larger use, the more immediate use of all this data is just creating opportunities to be more efficient internally. As an enterprise that lends to truckers, that factors truckers, that quick pays truckers, provides insurance to truckers -- collecting and utilizing that data just to become smarter about our clients and how we offer our products more efficiently is a big strategic advantage. So, we're in the process of harnessing that as well.

Aaron Graft
Yes, I would add, Michael. So, as we spend on artificial intelligence and machine learning, which we are doing, we are making significant investments in that, that both benefit TPay and Triumph Business Capital it touches on the internal operating efficiencies that Geoff talked about. I mean, if you look at the efficiency ratio for Triumph Business Capital in this quarter, it's the first time I ever remember it being below 50%. Now part of that is just the revenue that we're generating. But we think we can continue using this technology to automate a lot of these processes.

But let me tell you what we won't do, because I think it's important for everyone to know this. When you become the trusted partner for a third-party logistics company, and you handle payments on their behalf, you have access to all their data. I mean, we require that data in order to be able to effectively pay truckers. Well, we are a bank. We owe a fiduciary responsibility to our TriumphPay customers to protect their data, to not use their data in a way that could hurt their businesses.

And I think that's a reason many fintechs won't ever penetrate this space is because I don't think freight brokers can trust them the same way they can trust a bank to be a good steward of this data, so there is ways to anonymize and structure the data and provide value to the marketplace and monetize that value for our investors. But we have a sacred duty to our freight broker clients to protect their proprietary data, and we will do that. We take that very seriously, and I think that's why we've built a lot of trust with that segment of the transportation world.

Michael Rose
Hi guys, appreciate all the color. Thank you.

Operator
The next question comes from Matt Olney of Stephens. Please go ahead.

Matt Olney
Good morning, and thanks for taking my question. I wanted to circle back on something and thinking about the seasonal nature of your end markets. In the past, you have cautioned us that the net interest income typically experiences a sequential decline from the fourth quarter into the first quarter, but these are obviously unusual times. So, as we sit today, do you think these headwinds are going to produce lower NII in the first quarter, as compared to the fourth quarter?

Aaron Graft
I think so, Matt. I don't think you'll see the same fall-off you've seen historically. But even in a strong freight market, seasonality is still a real phenomenon. So, I would expect we won't exceed Q4 net interest income in Q1. I would be shocked if that happens.

Matt Olney
And Aaron, what about the net interest margin? I guess there's similar dynamics there, but obviously a few more different things. Do you expect the margin to also sequentially flatten out in the first quarter? Are there enough tailwinds to move that higher?

Aaron Graft
Yes. As you know, for us, margin highly tracks asset mix. So, if you presume that factored receivables purchased in Q1 will not be, and both factored receivables purchased, and the QuickPay generated from TPay on invoices paid, if you think on a total volume basis that will be slightly below where we were in Q4, then that's going to have an effect of pushing down margin some. I don't think it will be dramatic, because we continue to add new clients, we add--adding these new customers to TriumphPay. So, I think that's something to bear in mind.

The other thing, Matt, that I think investors should understand, this TFS transaction has touched our balance sheet in a lot of ways. And look, we're fully reserved now for what happened in the past, and we're going to go fight the good fight to make the government do what it's supposed to do and follow the law like everyone else does. But the factoring yield of 13.81% you see in there that's a GAAP yield number, obviously, it includes reserves, that's about 1.37% lower than it would be once you backed out some revenue, we reversed related to this largest carrier. And when you take into account the non-accrual balances that are historical.

So, as you think about NIM and you think about compression, I think on a GAAP number, when you look at this ex this largest carrier work out that we're going to get done factored growth--GAAP factoring yields are between 15% and 16%. There is still going to be pressure at the top end of the market there, but we continue to hold the line as well as we can. So, that's a long-winded way of saying it would surprise me--I don't think NIM will expand, and it very well could decrease slightly in Q1, but if it does, it will be slight.

Matt Olney
Got it. Okay, that's helpful. And then, switching over to credit and provision expense. If I understand it correctly, I think the provision expense in the fourth quarter would have been negative if it weren't for some of this TFS noise, even though loan growth was very strong in the fourth quarter. I think the ACL ratio is now around 2%. What's the outlook for provision expense, and what are the changes that we could see provision expense would be zero or even negative over the next few quarters?

Aaron Graft
I think it's very likely. I mean, unless there is something changes, factoring as a discipline, TriumphPay as a discipline our highest growth businesses, the historical loss ratios are de minimis. I mean, this one thing we've been talking about is not – with TFS is not replicable in other parts of our business. It's a different animal.

And so when you look at everything else we're doing. We're not calling for a bunch of loan growth in the year 2021. What we're focused on as Todd and team lead the retail bank is deposit growth there and safe, consistent loan growth. And so, I still think transportation is going to be our largest area of growth, and of course, as you know that turns so quickly, it doesn't really build up giant balances on your balance sheet. And historically, it's been so predictable from a credit loss perspective that I just don't see the need for it.

Bryce, anything you want to add to that?

Bryce Fowler
No, I agree, I mean, obviously we have the variable of just those changes in the economic outlook from seasonal, but underlying credit trends and our forecast on growth should be consistent with what Aaron outlined there. So, we seriously could have releases of reserves or small amounts.

Matt Olney
Got it. Okay. And then, just lastly from me, I think both Todd and Aaron you mentioned that deposit growth could outstrip loan growth this year. Any thoughts on that loan deposit ratio, where that could end up? I think we're at 106% right now in the fourth quarter.

Aaron Graft
Well, as you know, the biggest variable in that 22 basis points, is I think, how much it was affected this quarter is mortgage warehouse. And so all of us have given up the business of predicting what mortgage warehouse is going to do. It's just, when you think all of America has refined their houses, you are wrong. If rates go lower once again, and they do it all again. So, look, I think anyone who looks at us, you need to set that aside, right? We choose to fund that with Federal Home Loan Bank advances. It's a secondary line of business for us. The team does a fantastic job. It's profitable. But if you pull that out, we're below 100% loan-to- deposit ratio.

So when I talk about deposit growth, Matt, I don't think about loan-to-deposit ratio so much as I do the growth of non-interest bearing deposits relative to the remainder of the portfolio. When we called our shot 1.5 years ago that we wanted to shift directions, we knew that at that time, 19% of all our deposits were non-interest bearing. Today it's 29%. I want to see that number continue to grow. We all talk about transportation and the fintech and what we're building, and it is super exciting. Like we are going to build the network that's going to transform the way people get paid in the trucking business.

But along the way, as long as we're in community banking, when I talk about deposit growth, I am talking about transactional, relational customer deposit growth. So, I think that number is going to keep going up because that's what we're paying our people to do, that's what we built the technology to help them do, and that's what we talk about around here. So, loan-to-deposit ratio will probably still run above 100% as long as mortgage warehouse is active, but I am a lot more focused on growing non-interest bearing deposits as a percentage of total deposits.

Matt Olney
Got it. Okay. That's helpful. Thank you, guys.

Operator
The next question comes from Gary Tenner of DA Davidson. Please go ahead.

Gary Tenner
Thanks. Good morning, guys.

Aaron Graft
Good morning.

Gary Tenner
My trucking questions have generally been answered. I was going to ask about the decline in yield that you mentioned Aaron to 13.81%. I just want to clarify the numbers I heard. Was that 1.37% below what it would have been ex the revenue reversal?

Aaron Graft
That is correct. And that relation —to …

Gary Tenner
Go ahead.

Aaron Graft
1.37% of the decline was tied to this largest carrier that was part of the converted funds problem. We are fully reserved on the historical relationship now with that carrier. Of course, the indemnification asset is highly correlated to that reserve, if there is a charge-off obviously, because the covenant indemnity. And then, we've moved some of the incoming receivables into a non-accrual balance while we worked through this. And so, the point is if you exclude that one customer, who we no longer factor and will not beyond this workout, be doing business with, it would have been 1.37% higher.

Gary Tenner
Okay. And that will be isolated obviously in the fourth quarter. So, that would get you back over 15% more in line with the couple of prior quarters of the year?

Aaron Graft
Correct.

Gary Tenner
Okay. And then, you mentioned a few times, obviously the focus on obviously the commercial finance part of the business and mortgage warehouse and not the community bank side, which you've talked about for a while. Average community bank loans were down about $200 million quarter-over-quarter or, excuse me, year-over-year in the fourth quarter. I imagine at some point, there is a bottom floor, somewhere those balances could go, just given your presence in those markets? Could you talk about how much further that number may get pushed down, or do you think it's getting close to stabilizing?

Aaron Graft
So, we don't have a specific number, Gary. We have a specific mindset. Historically, we were willing to do new credit-only deals in those markets. Today, we are not willing to do credit-only deals in those markets. If we're not your relationship bank, then we're not going to lend to you. We just we don't need the loan growth. So, it's not like, Todd and I sit around and say, this number has to go down. We say, look, we're not going to give you the left-hand side of our balance sheet unless you contribute to the right-hand side of ours. It's just that we're not in the business of selling money anymore, because we generate enough revenue that we don't worry about paying overhead like we did when we were a $250 million bank.

So, I don't know if it will continue to fall that will depend upon the relationship bankers and their ability to get full relationships. We are in the business still of making community bank loans, so long as we have a full relationship; so long as it's credit-worthy, we'll look at it. So, I think, what you're seeing the stuff that's been rolling-off is stuff where the people were just using us as a transactional lender, and we're just not going to do that anymore.

Gary Tenner
All right appreciate the color.

Operator
The next question comes from Brady Gailey of KBW. Please go ahead.

Brady Gailey
Yes, thanks. Good morning guys.

Aaron Graft
Good morning.

Brady Gailey
So, I know the TFS deal hasn't panned-out as you guys initially thought. Do you feel like you have a good handle on where things are right now with that deal? Or could there continue to be some potentially negative surprises?

Aaron Graft
Yes, that's a very fair question, Brady, because I never dreamed that the Post Office would divert funds over written notice in order to keep a carrier running. And I get it. There was an election, a highly contested election. The mail needed to run, but you would expect someone to pick up the phone and call you.

So, look, here's where we sit. The Post Office uses five large carriers, and we essentially finance two of them. One of them, we will no longer be financing, and we're in the workout mode as we described. Growing our exposure to the Post Office is so low on my priority list, I can't even see it. So, I don't look for that to happen in the future. They don't act like a commercial entity, the thousands of them that we deal with in factoring, we're not going to do that. Other people can step in and finance that. So, we fully reserve for the largest carrier; we think we fully understand where the second carrier is, and I would not expect any more surprises.

Now you can never predict theft. I mean, frankly, we deal with misdirection of funds on a regular basis in our factoring business. The difference there is, we're talking about it's $50,000, not $19 million. That's the beauty, frankly, of the way our business is built, is you have a very fragmented customer base so no one customer can hurt you, that's something we underestimated in this acquisition, is the concentration exposure to a single trucker and to a single debtor that has really shaped our thinking for how we move forward.

So, I would be very surprised, Brady, if you see this show up again as any new losses. I'd be stunned, frankly. I believe we will get the $19.6 million worked out. And I think you'll see those balances shrink over time, and we will not be pursuing this business anymore. We'll be more in brokered freight and commercial shipper freight and less about government, our quasi-government contracting.

Brady Gailey
All right. And then, Aaron, I know in the past and recently you downplayed M&A especially, bank M&A. Is that still the right way to think about it, given all the stuff you all have going on organically on the growth side?

Aaron Graft
Totally. If we do M&A, it will almost certainly be related to the transportation space. It'll either be technology acquisitions that enhance the TriumphPay ecosystem or things in that area around factoring and the area that we fully understand where we are committed to moving. Beyond that, it is highly unlikely that there is other M&A in the pipeline for us.

Brady Gailey
All right. And then finally for me, Aaron. I know right now, it's not as much about profitability, it's more about growth and getting market share just as you all build out this interesting business. But in the past, you've talked about getting to a 2%-plus ROA, and sometimes you've attempted to throw out a timeline. Any update or idea, as far as when we could see profitability enhancement, given the excitement of what you're growing here?

Aaron Graft
Well, first off, Brady, I would say, I think all of you are going to land on different core numbers for this year or for this quarter, that is because there was a lot of noise. I mean, I think any way you look at the business, it's probably running not too far off of a 2% ROA, definitely above a 1.5% core ROA. So, the first thing I would say is relative to our peer group, I think we're really profitable on a core basis, and we're really profitable even while we're making investments. I told you that TPay is a $2 million drag on Q4. And that's a great investment that's going to pay off in the future.

What I would point you to is look at Triumph Business Capital. On a pre-tax ROA basis, it was just under 7% in this quarter, now it won't always be there, but it's going to run around 6%. We've told you that TriumphPay at scale is roughly as near as we can tell, and of course, we can't tell exactly because nobody has ever built a fintech payments network in trucking before. So, we'll tell you, as we figure it out as we go along but using the math we understand and the things we see, we think that's probably a 3%, 3.5% pre-tax ROA business, and then really, once you get way further out on scale, we think it becomes more profitable.

So, you know, there aren't a whole lot of fintech companies out there that make any money. And maybe we shouldn't, maybe that's how they get these ridiculous valuations. But we're trying to manage all of this at once, invest in all of the things, hire all the people. We have a lot of developers on staff and people investing in building something that's incredibly user-friendly for the market.

So, will we get to a 2% ROA? Yes, I mean just the math tells you we will, if Triumph Business Capital is a 6% ROA business and growing, if TriumphPay is currently a drag, but will become profitable in 2021, we believe, and ultimately, will get to we think a 3% or better ROA and if the community bank continues to do what it's doing, then we'll get there. It's just right now we're early in the building cycle, and I'm pretty proud of the profitability we're generating on a core basis right now and I think that will continue in 2021.

But eventually, if you allow those two transportation businesses to grow faster than everything else, it will naturally pull you above that 2% ROA number. I'm not going to give you the specific time on when that will happen, but I think you will see progress towards that in the year 2021.

Brady Gailey
Got it. That's a good color. You guys keep doing what you're doing. Thanks, Aaron.

Aaron Graft
Got it.

Operator
Once again, if you have a question, please press "*", then "1" on a touchtone phone.

The next question comes from Steve Moss of B. Riley, FBR. Please go ahead.

Steve Moss
Good morning, guys.

Aaron Graft
Good morning, Steve.

Steve Moss
I want to ask on expenses, I know Aaron you gave expense guidance for the first quarter. But just curious how you have obviously investments ongoing, how to just think about expense growth for the full-year relative to 2020?

Aaron Graft
Yes. So a thing that may move that, Steve, is if we do any M&A in the year around adding technology or other assets. So, setting that aside, because that's unpredictable, but I think we don't expect expense growth over Q1 to be material throughout the year. I mean, we gave you $58 million for Q1. I don't think it will move materially between Q1 and Q4.

Steve Moss
Okay. Well, thank you very much. That was my one last remaining question. Good quarter.

Aaron Graft
Thank you.

Operator
This concludes our question-and-answer session. I would like to turn the conference back over to Aaron Graft for any closing remarks.

CONCLUSION

Aaron Graft
Thank you all for joining us today. 2020 was a year unlike any that I remember. We're all hopeful for 2021 for the health of our nation, the physical health and the mental health, and just the overall unity as a nation. And so we pray for that for all of us. Thank you for being on this call, and we look forward to seeing you soon.

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