Triumph Bancorp, Inc.

Q1 2020 Earnings Conference Call

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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*

PRESENTATION

Operator
Good day, and welcome to the Triumph Bancorp, Inc.'s First Quarter 2020 Earnings Conference Call. All participants will be in listen-only mode. [Operator instructions]. After today's presentation, there will be an opportunity to ask questions. [Operator instructions]. Please note, this event is being recorded.

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

Luke Wyse
Good morning. Welcome to the Triumph Bancorp Conference Call to discuss our first 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 are 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; and Todd Ritterbusch, our Chief Lending Officer. 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. I will provide a review of our first quarter results, which are largely a rearview mirror look at the way things were before the late March market disruptions. We are also providing information on what we've observed in our business since the downturn and what we have done and are doing in response.

For the first time since going public in 2014, we are reporting a quarterly loss, which totals $4.5 million, or $0.18 per diluted share. Our first quarter results were heavily influenced by the implementation of the new Current Expected Credit Loss, or CECL, accounting standard. CECL requires us to estimate and record an allowance for on and off balance sheet credit loss considering expected economic conditions over the remaining contractual term of our portfolio. Considering the financial turmoil experienced, this was certainly an interesting and challenging quarter to implement CECL.

Total credit expense was $20.3 million; $17.4 million of this reflected as a credit loss expense and relates to our on balance sheet loan portfolio, $2.9 million of the total credit expense relates to our reserve for off balance sheet commitments to lend and is included in other non-interest expense in the income statement. Cumulatively, this had a 420 basis point impact on our efficiency ratio for the quarter.

The allowance for credit loss for all loans on the balance sheet increased to $44.7 million, or 1.04% of total loans. Prior to the change in the economic environment and outlook, the allowance is a percentage of loans under CECL on January 1 was 70 basis points. The 34 basis point increase in the allowance is primarily due to a much less favorable economic outlook over the next four quarters. The increase is also affected by a mix shift of our loan portfolio.

The numbers underlying the $17.4 million credit loss expense reflect a continuation of acceptable trends seen in recent quarters, with net charge-offs of $1.5 million, or 4 basis points, and net changes in specific reserves of $2.3 million. The remainder of the credit expense is due to approximately $225 million of net loan growth for the quarter, as well as the change in loan mix and economic outlook. Past due loans increased 25 basis points from Q4 to 1.99% of total loans, while nonperforming assets to total assets increased by 22 basis points to 1.09%.

We previously have talked about tightening our credit standards over the last year as part of the strategic shift of our business. While we did not foresee this type of disruption coming and while it's definitely still early, it seems those efforts have put us in a better position than we otherwise would have been.

As I mentioned earlier, under CECL we also maintain an allowance for unfunded loan commitments. This allowance is reflected in other liabilities and increased by $2.9 million this quarter to $5.5 million on $572 million of commitments. These commitments include $127 million for liquid credit loans we committed to acquire that were unsettled as of quarter end. The initial credit cost was reflected in other expense. Conversely, when these liquid credit loans settle in future periods, the reserve for unfunded commitments will be reduced through other expense and offset by an increase in provision expense for on balance sheet loans with no impact to net income.

Deposits were a bright spot for us again in the first quarter. Non-interest bearing deposits grew $37 million and are up $162 million since we increased our focus on deposit gathering at the end of the second quarter in 2019. On the interest bearing side, we quickly and sharply reduced rates in response to recent market conditions and have seen no adverse impact to balances. Due to COVID-19, our Dallas branch opening has been delayed, but we are ready to go as soon as circumstances allow.

Finally, this quarter we classified the assets of our Triumph Premium Finance Lending Group as held-for-sale as we are exploring selling this business. We do not see this business as core to TBK. We will, however, continue to offer insurance premium finance to our trucking clients following the sale of this platform.

Now I'd like to turn the call over to Todd Ritterbusch, our Chief Lending Officer, to talk about our community bank lending and the efforts underway to support our communities and customers in light of the unprecedented impact of COVID-19.

Todd Ritterbusch
Thanks, Aaron. I'd like to start by sharing a summary of the actions we've taken to support our clients during the pandemic. Prior to the signing of the CARES Act and the Payroll Protection Program, we had already initiated the Payment Deferral Program for our lending clients and began waiving many fees for those clients. Depending on the demonstrated need of the client, we deferred either their full loan payment or the principal component of the loan payment for 60 or 90 days.

As of April 15, we have completed 404 of these deferrals, representing outstanding loan balances of $233 million. In addition, we have another 397 requests representing $276 million in outstanding balances that are in process but not yet complete.

We have implemented waivers for a broad spectrum of deposit fees to assist our clients during this time and expect those waivers to impact non-interest income by approximately $450,000 a month through May 31, at which time the waivers will be reexamined.

Moving on to the Paycheck Protection Program, we have ramped up very quickly. We've redeployed 60 employees to assist with payroll verification, SBA application filing, and loan documentation to be able to

process several hundred requests per day. As on April 17, we have closed or approved with the SBA 732 PPP loans, representing $158 million in funding. We are taking advantage of the Federal Reserve's very efficient Paycheck Protection Program liquidity facility to fund these loans.

Now, I'd like to provide an update on our current loan portfolio and concentrations in industries most affected by the pandemic or the oil price war. We've included updated exposure information, including any non-owner occupied investment properties, on Slide 7. We have not seen a notable deterioration of overall credit quality, deposit outflows, or panic-driven draws on lines of credit, but of course continue to monitor the situation closely. This is partly due to our geographic concentration of smaller communities in the Midwest and Colorado that have been less impacted by the pandemic. It is also partly attributable to our relatively low concentration in the highest risk industries.

Now, I'll turn the discussion back over to Aaron to discuss a few more topics.

Aaron Graft
Thank you, Todd. In March, we saw a surge in our trucking business in spot market activity, most notably in refrigerated and dry van categories, and a mild increase in rates, which was driven by restocking of retail inventories caused by a sharp increase in stockpiling by consumers. As we look at the remainder of the year, there is a lot of uncertainty on both the supply and demand side. Publicly available market data confirms that widespread business closures, nearly 50% of small businesses, and shelter-in-place orders covering 94% of Americans, have already driven freight volumes to pre-surge levels with spot rates and subsequently carrier capacity expected to continue to soften into 2Q and widely throughout the rest of 2020.

The speed and the degree to which U.S. economy returns to more typical levels, assuming it does at all in 2020, is a significant variable in projecting freight volumes. There are currently too many moving parts to predict how this will play out, but additional clarity will take form in the coming weeks as the Trump administration, and perhaps more importantly dozens of U.S. governors begin to announce state-by-state strategies to balance COVID-19 containment with efforts to reopen the economy.

Amid all of the unpredictability, we are grateful that our new client prospect pipeline is completely full and each of the last three successive months have set all-time highs with respect to new client applications. Transportation companies that need working capital and are facing issues with existing banking relationships are reaching out every day. We've seen this play out before. When the market is benign, banks and non-banks go after factoring clients with “new” product offerings. The second the market seizes up, weaknesses are exposed and these entrants retreat, trucking clients start to value our account data analysis and collection efforts, and they come back, and do so generally for the long-term. This is sowing the seeds for future growth in one of our most profitable lines of business.

Turning to TriumphPay. During the first quarter TriumphPay processed 504,000 invoices paying 45,000 distinct carriers. Payments processed totaled approximately $531 million, or a 12% increase over the prior quarter, and a 277% increase from Q1 of 2019. TriumphPay's annual run rate payment volume now stands at about $2.1 billion.

Additionally, we have a top 20 broker in beta testing with a small subset of their carriers and expect to go to full scale production with them in the next four-to-six weeks. There are also two more top 20 brokers who have signed contracts and are in the integration process with TriumphPay, and we expect at least one of those to fund in Q2 as well. These large brokers have large and complex ERP systems that control environments, which can take several months to work through before going live. COVID-19 has clearly caused a slowdown in the pace of integrations, but we continue to see really good progress.

In addition, the market volatility has given us an opportunity to demonstrate the value of our TriumphPay platform. For example, we have offered a free QuickPay on a temporary basis to provide liquidity to carriers and encourage engagement. Several hundred carriers have already signed up for this program, and we expect a good portion of those to retain our QuickPay services as their default option, driving revenues for us and our broker clients.

We continue to enhance the user experience and are working on programs to build out the ecosystem and create network effects. And importantly, we are investing to ensure the stability and scalability of our platform for the rapid growth ahead.

Turning to Triumph Business Capital, total factoring revenue at Triumph Business Capital was relatively flat quarter-over-quarter at $24.8 million. Given the normal seasonal slowdown and the decline in invoices, that was a reasonably good overall outcome. The dollar volume of invoices purchased was $1.45 billion during Q1 of 2020, a 9.5% increase over Q1 of 2019. We purchased 879,000 invoices during Q1 2020, an increase of 89,000 invoices over Q1 2019, or 11%.

As we move into 2Q and beyond, as noted previously, there is much uncertainty in freight markets. Disruption in global supply chains, a near standstill in the sale of consumer durables, and the potential for widespread business closures hang over the market like a cloud. This will inevitably impact freight volumes in the U.S., which we expect to see beginning early in the second quarter of 2020.

Many current estimates project a significant decrease in GDP and freight during the second quarter of 2020, with the U.S. East and West coast bearing the brunt of the decline. A recovery in freight volumes is not expected to occur until the first half of 2021, unless full production returns to the U.S. early in the third quarter 2020.

We expect debtors overall to extend terms and payments to slow. We have already dialed back our exposure to certain verticals and are closely monitoring debtors for signs of stress. On the carrier side, we anticipate an exodus, as fewer loads, declines in spot rates and continuing high insurance costs take their toll. On the other hand, we expect market stresses to weaken some of our competitors and create opportunities to win new business.

I often reference the enterprise strengths in general, but speaking specifically, the incredible disruptions caused by COVID-19 have surfaced several Triumph enterprise strengths within our factoring business. For example, in mid-March we successfully deployed 96% of our factoring workforce, nearly 280 people based out of 4 business offices, to remote home working environments within a 48-hour period. The technological and operational complexities involved in doing this cannot be overstated. I'm incredibly proud of our team, who is purchasing more than 12,000 invoices and dispensing more than $20 million each day to clients while working remotely.

Turning from transportation to another bright spot, I want to talk about the driver for our loan growth in Q1. Our liquid credit team serves a couple of different functions for us. Number one, to opportunistically seize upon market disruptions tactically in normal times, but aggressively when there are dislocations, such as in March.

Number two, we use this team to provide added capability to evaluate the creditworthiness of large account debtor concentrations in our factoring and TriumphPay portfolio, and we may also expand the mission and framework to hedge outsize risk as appropriate. We think this capability will become more important as TriumphPay scales up and increases our exposure to top tier brokers.

The liquid credit team invests in broadly syndicated leveraged loans, corporate bonds, and structured

credit. When conditions are benign, such as until the beginning of March, they do a lot of underwriting, but we don't do a lot of investing. When the market gets choppy, we have a basket of names we have underwritten that we can move on quickly. We have had tremendous opportunities over the last few weeks, buying quality names from sellers forced to the market due to redemptions.

The opportunity set in liquid credit is the best it has been in years. Spreads are 150 to 350 basis points wider amidst the volatility, leaving high-quality credits yielding 5% to 6% or more. We have to ask ourselves as a management team, would we rather match a competitor community bank's offer of an interest-only 3.75% fixed, 10-year commercial real estate loan in a secondary market or own a floating rate liquid credit at a 6% yield. This is a pretty simple answer for borrower-only relationships.

During the first quarter, our settled liquid credit loan portfolio grew from $81 million to $172 million. In addition to those period imbalances, we have another $127 million in trades that have not settled, which would bring our total book to $299 million. Over half of this growth was during the month of March.

In addition to loans, in March we bought $63 million of AAA CLO securities, which carry extremely remote credit risk, at yields not seen since 2009 and $25 million of fully defeased, tax exempt municipal bonds, which carry no credit risk at all. And all of that was purchased at very attractive pricing. Much of this asset growth came at the end of the quarter, so we won't recognize the income from these investments until next quarter. Now, this is not a primary line of business for us, nor will it ever be, but when given the opportunity to step into a market that is panic selling and diversify our income stream for the future, we will do so.

Let me briefly hit a couple of other topics. During the first quarter, we have expanded a couple of existing mortgage warehouse relationships to move into the position of their lead lender and primary banking. Ironically, the surge in lending brought on by low mortgage rates caused these clients' lead banks to grow beyond their legal lending limits and operational capabilities, creating an opportunity for us to step in and take the lead.

With that said, given the rapid growth those clients have achieved, we are carefully monitoring their liquidity and strengthening their covenants. We want to be sure of the strength of their balance sheet supports their growth.

I would also like to speak briefly about funding and liquidity. The opportunistic and unforeseen loan growth that we pursued late in the quarter, combined with our decision to allow some higher cost deposits to run off inflated our loan to deposit ratio at March 31 to 117%. We chose to fund the bulk of our late quarter loan growth with Federal Home Loan Bank advances. After this, we had over $400 million of undrawn capacity with FHLB at quarter end. Deposit funding was and is available to us, but as deposit rates remained stubbornly high in March, it would have been much more expensive than FHLB borrowing.

Deposit markets have begun to normalize and, excluding the impact of funding PPP loans with the Federal Reserve facility, we would expect our loan to deposit ratio to trend lower from here. I would anticipate the second quarter of 2020 non-interest expense to be flat with Q1, excluding the effect of the reserve for unfunded commitments. We recorded a state tax adjustment this quarter, but expect our effective tax rate going forward to revert back to just over 24%.

Finally, we are committed to the safety, health and well-being of our team members, customers, and communities. Not just saying those words, but taking actions, we have implemented numerous programs to support our team members during these uncertain times. For our frontline team members in our branches, operations and call centers we are adding a premium to their pay to acknowledge the extraordinary efforts in serving our customers. We have also modified staffing to allow options for those

who need time away for illness, family member care, or childcare.

And with that, we will turn the call over for questions.

Operator
Thank you. I would now like to turn the conference over to Aaron Graft, CEO, for some additional comments.

Aaron Graft
Yes, good morning. A few recent developments before turning this over to taking questions. First, we have signed an asset purchase agreement to sell the assets of our Premium Finance Group to Peoples Bank, an Ohio State Chartered Bank, ticker symbol PEBO, and expect this to close in the third quarter subject to buyers' regulatory approvals and other conditions set forth in the purchase agreement. The total assets of approximately $98 million consist primarily of Premium Finance loans. We expect to book a gain on sale for this transaction.

Second, we have some updated data on the paycheck protection program. While the number of loans and balances haven't moved materially since April 17, and won't until further government funding has been added to the program, we continue to work under the assumption that will occur this week. Thus far, the weighted average fee rate of about 2.9% on $160 million lock with the SBA equates to approximately $4.7 million of fees on an average loan size of $215,000.

And finally, an update on our own in-house deferral program. As of yesterday, we have completed or have in process 874 requests, representing $550 million in outstanding balances for full payment deferral and IO deferral.

And with that, we will turn the call over to the operator for questions.

QUESTIONS AND ANSWERS

Operator
Thank you. [Operator instructions]. Today's first question comes from Brad Milsaps at Piper Sandler. Please go ahead.

Brad Milsaps
Hi, good morning, guys.

Aaron Graft
Good morning, Brad.

Brad Milsaps
Aaron, a lot of detail there, I certainly appreciate it. Kind of reading between the lines, would you say that, based on what you know today, maybe aside from the average balances catching up with period end, would you think that your factoring receivables business, would this represent kind of the peak for you guys for the year, based on where you sit today? Or do you think you can maintain here, given ability to take market share versus what's going on with the overall market?

Aaron Graft
Yes, well, I know that Q2 is going to be soft on any comparable period, right? Q2, well, certainly, if you do a year-over-year comparison it is going to be soft. It will likely be soft to Q1. I'm not so convinced that Q3 is going to be soft. We're already starting to see some bottoming in the contract market, and

there's a lot of reasons around that. And you've got to have the contract market bottom out before the spot market comes back, and I think there's argument to be made to that end.

I will say, and it's a little harder to predict and a little lumpier, that we do have some opportunities to add assets in factoring from an M&A perspective that we continue to look at. So, if I were to say for the full year, I don't know that this quarter will be our peak quarter. I wouldn't say that. But I will say Q2 is going to be slow, and then we're optimistic some things, just the way the world has to work, will come back in Q3 and Q4.

Brad Milsaps
Okay. And with that in mind, obviously you've got, you mentioned some potential M&A there, you have the additional CLOs coming on the books that you talked about, your TCE ratio now below 8%, how are you thinking about capital? Does that limit you in any degree? I know a couple of quarters ago we were talking about really slowing the growth overall in 2020, building capital, focusing on things that you guys are best at. But obviously, the market has changed a lot and other opportunities arise. So just kind of curious your thoughts around the overall capital ratios.

Aaron Graft
Sure. Well, let's set what happened over the last two weeks of March in context for everyone. We did not come into this year expecting liquid credit to grow. On the other hand, you had a market where that—set aside the fundamentals, there was just a dislocation where people were being forced to sell things.

We alluded to this. We bought a $25 million municipal portfolio that's fully defeased, has no credit risk at all, just because the seller had to sell it. That growth will not be repeated, or I'd be shocked if it were. To me, that was a once in a decade. It hasn't been that way since '09, buying opportunity. We bought $100 million in a week. If you were to mark the AAA securities and liquid credits that we bought during that period to market today, we have about a $10 million embedded gain. Now, we're not traders, it's not our intent to sell that. If we had to, to raise capital, like you alluded to, we certainly could and book that gain, but I expect we'll hold on to that.

So, that being said, obviously, we free up some balance sheet room with the sale of Triumph Premium Finance, we'll certainly recognize a gain on that, which will go into tangible book value. As we look at acquisitions of portfolios or things around factoring, it's not going to be material. And I don't expect our asset growth to be material.

The reason it was material in Q1, if you look at things, leaving TPF in the mix, there was a 20% annualized loan growth rate. That's not going to happen through the rest of the year. But what it did, by doing that this quarter, we've set up in that AAA liquid credit portfolio, you have got probably $4 million of revenue a quarter now that's coming in there, which is more than twice what it was, which is a nice offset as we see softening in other lines.

So, I don't expect balance sheet growth to repeat like it did. I think the balance sheet growth we did is going to be very valuable for our investors and us down the road. And we are mindful of our TCE ratio and those ratios. So, we don't ever want to get close to being in a position where we aren't able to play offense.

So, hopefully that helps you to understand that the growth was opportunistic and that should not be forecast out into the future. And of course, all the provision for that growth, or the ACL hit in Q1, but none of the revenue hit, which is one of the reasons the headline number is what it is.

Brad Milsaps
Thanks, Aaron. And maybe just one final question on the CLO purchase. Does that all show up in C&I? I did notice that your ABL book was also up quite a bit linked quarter. Just kind of curious of the drivers there.

Aaron Graft
Yes, that would all show up in C&I. The ABL book, we had some revolvers that funded in the first quarter. I would not expect ABL growth in Q2 or beyond to be anything close to what it was in Q1. So, all that's going to show up in that area. Of course, AAA CLO securities show up in the securities book, not in the lending book.

Brad Milsaps
Sure. Great. Thank you, guys.

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

Brady Gailey
Hi, thanks. Good morning, guys. Maybe we can just start with—I heard the comments on your call about freight volumes being impacted in the second quarter. As we look, there's been a lot of dislocation with the price of oil, with the one-month contracts going negative yesterday, and the price of oil now down to $15, and that combined with the economic slowdown, I was surprised that the average invoices holding relatively well in the first quarter. But do you expect to have a notable and significant decline in average invoice prices as we enter 2Q and the middle part of the year?

Aaron Graft
Yes, I think Q2, from what we're seeing to date, I think Q2 is going to be dramatically affected. Like I said, we're just talking about factoring. The rest of the business looks pretty good. But just for example, owner/operators are being hit pretty hard. When we purchase invoices from our factoring clients, if you purchase from a fleet, you're purchasing a schedule of invoices. But a single invoice purchase is just, you know, that's an owner/operator who can only sell you one at a time, that was down in each of the past two weeks. Last week it was down 40% from where we were running in the late March surge that happened due to the panic buying.

So, we would definitely expect Q2, this is me personally, I personally think Q2 is going to be the trough as far as spot market and invoices go. Now, other things could happen that can push that out. So, I would not expect us to just have growth off of Q1 numbers into Q2 like we normally do due to seasonality. This year is different, and you're going to see there's a lot of chaos in that market right now.

Brady Gailey
All right. And then you mentioned booking a gain on the sale of the Premium Finance portfolio. How big will that gain be?

Aaron Graft
Due to the terms of the agreement, we're not able to disclose that. Obviously, we sold it to another publicly traded company. It will show up at quarter-end. We're pleased with the gain. I think they're pleased with the business and everybody got what they were looking for.

Brady Gailey
And who did you sell it to?

Aaron Graft
PEBO, Peoples.

Brady Gailey
Great. Thanks, guys.

Operator
And our next question today comes from Thomas Weiner with Stephens. Please go ahead.

Matt Olney
Hi, good morning, guys. This is Matt Olney with Stephens. How are you?

Aaron Graft
Hi, Matt.

Matt Olney
I wanted to start with TriumphPay. I think you noted the dollar amount of the invoices purchased increased to $2.1 billion in the first quarter, annualized. With the pipeline that you mentioned in prepared remarks adding some larger customers, can you talk more about where you expect this to be towards the end of 2020? Thanks.

Aaron Graft
Yes, I think, but before we disclose the goal of $7 billion run rate, I'm not ready to walk that back yet. We have a lot of work to do. It may come later in the year. If it does come later, it'll just be because it's difficult to get people to update all of their systems, when their staff are working from home. So, I would hope that that $7 billion, I would say anything $5 billion to $7 billion is a tremendous result at the end of the year. $7 billion would still be my goal, and if we do above that, we're going to throw a party.

Matt Olney
Okay, got it. And then circling back, I guess we'll go to the outlook on the net interest margin. On one hand, it seems like the slowdown the factoring will impact the margin in the near term. Can you talk to any kind of offsets that could negate some of that pressure, and just the general expectations for the margin for the full year? Thanks.

Aaron Graft
Well, I will say one thing that's showing up, liquid credit given the basis in that loan buying we did at the end of the quarter, you're looking at over a 6% yield on that credit. Obviously, if factoring grows because of our client pipeline and any M&A we do, that's going to pull it up. Premium Finance leaving, that was certainly one of our lowest margin lines. Mortgage warehouse is a pretty low margin line. It's grown. On the whole, Matt, I would say I still think that everything we see, we have a chance for margin to expand for the rest of the year. I certainly don't see it materially contracting.

Matt Olney
Aaron, is it fair to say it could contract more near term in 2Q, and then rebound in 3Q, or do you see it playing out more flattish near term?

Bryce Fowler
It’s driven by factoring.

Aaron Graft
Yes, definitely. I mean, obviously as factoring goes, so goes our margin. So, if Q2 is slower in factoring,

that will pull it down for that quarter.

Matt Olney
Okay, understood. And then also, I appreciate the details around the disclosures from potential hotspots around the COVID-19 impact that you put in your slide deck. The equipment lending group, it sounds like you continue to grow balances in that group. And when you think about the hotspots for COVID-19, you didn't include equipment. Can you just talk about that group in general? Why is that separate and why is it less vulnerable than those other hotspots that you did call out? Thanks.

Todd Ritterbusch
So, first of all, you're right that the equipment finance business has continued to grow in the first quarter. I think we will see the balances level out in April, and then probably begin to decline, simply because we're not seeing a lot of new deal activity at this point in that business. You're right to point out equipment finance is an area of concern, because of the fact that we're term lending into transportation.

With that said, we do have the collateral there. We're monitoring collateral values and performance of these businesses closely. We have used payment deferrals pretty actively in this space to give our equipment finance clients a little room to breathe. If the downturn in transportation lasts a lot longer than we're forecasting, you will see additional stress in that space, and I would call it a hotspot at that point.

Matt Olney
Okay, guys. Thanks for the commentary.

Aaron Graft
Thanks, Matt.

Operator
Our next question today comes from Jared Shaw of Wells Fargo Securities. Please go ahead.

Jared Shaw
Good morning, everybody.

Aaron Graft
Good morning.

Jared Shaw
Let me start with the Paycheck Protection Act or Paycheck Protection Plan growth that you had. Do you expect most of that fee income to come through in the second quarter? I guess, as you look at the loans you originated, are you assuming that most of those end up terming out pretty short term, and is that going to flow through in NII for most of the second quarter?

Bryce Fowler
This is Bryce. We haven't quantified that in a way to announce it here, but we'll be deferring those fees when we receive them, and it'll be a yield adjustment over the life of those loans. You would expect a good portion of those to get forgiven, and the speed of that will impact how much of it comes in and how fast, really a material part of that. But we haven't really put the numbers together on what period that will come in. But overall, there's a lot of revenue from the fee side available to us, coming fairly soon.

Jared Shaw
Okay, great. And then, I guess with the good growth in the mortgage warehouse business loans in first quarter obviously, with the rate environment earlier in the quarter, how is that trending into second

quarter? Are we going to see a pretty dramatic drop-off there pretty rapidly, or is there a little more flow through still on the re-fi side?

Aaron Graft
For mortgage warehouse specifically?

Jared Shaw
Yes.

Todd Ritterbusch
Yes. So, activity remains really robust in April. We're expecting that the April month end balances will be even higher than they've been in the past, so thinking in the range of $800 million. But then we expect the balances to begin to decline, so they will be lower at the end of the second quarter than they've been recently.

Aaron Graft
Hi, and Jared, you didn't ask this, but something that I thought maybe should get noted in our balance sheet. Obviously, we have over $1 billion of our balance sheet between mortgage warehouse and factoring that moves quickly, that you could shrink if you chose to, which we certainly wouldn't do that.

Obviously, you have the reserve build this year. Our ACL ex those two lines of business is like 1.3%, which you know was about 50% ACL build this quarter over where we were. And so, I would not expect total asset growth in Q2 to be material, if any at all, frankly. We're not going to repeat what we did in liquid credit, because the opportunity is not there.

So, while mortgage warehouse may grow, depending upon the opportunity, and factoring, we'll do as much of as we can, since it's a 5% pre-tax ROA line of business. Everything else I think will settle in about where it's at now or maybe even shrink some.

Jared Shaw
And then just finally from me, when you look at the broader macro-economic outlook, how is that flowing through your model? So, as you look at the first 21 days here in April, have the measures that you're paying attention to deteriorated enough that we should be looking at a Q2 provision build similar to what we saw in Q1, or I guess, any detail around your view on the macro view of it.

Bryce Fowler
Yes, I'm not going to be able to answer that—this is Bryce—but I can tell you that what we were assuming there at the end of the quarter was a material worsening of employment and GDP in the second quarter, followed by some improvement throughout the remainder of this year. GDP was negative through all of this year, with a pretty strong rebound in the next year, and we had employment spiking to over 8.5%. I mean, who knows if that's going to turn out to be right or wrong.

But just from an accounting sense under CECL, when we get to the end of the quarter, we'll be looking again at what the world looks like from a go-forward standpoint from there. If the world looks better than the March outlook that we had, we would expect to see some reserve release from CECL. And conversely, if the world looks worse, we'll have probably more expense. If the world looks like we assumed it, then we should have captured most of the credit cost in this quarter.

Jared Shaw
Great. Thanks for the color.

Operator
[Operator instructions]. Today's next question comes from Nick Duafala at B. Riley FBR. Please go ahead.

Nick Duafala
Hi, good morning, guys. How are you?

Aaron Graft
Good.

Nick Duafala
So, following up on the COVID-19 hotspots, can we get some color around LTVs in the hospitality exposure? And in the restaurant bucket, can we get a split between fast food versus formal?

Todd Ritterbusch
Yes, so with respect to the hospitality sector, we have LTVs that are on a weighted average basis in the mid-50s. There is some variability around that, but we have very little that's at the high end of the spectrum. So, from an LTV perspective, things look pretty good.

From a restaurant perspective, you have to recognize that, first of all, a fair proportion of what's in that restaurant number is in our liquid credits group, and that is a client that operates drive-throughs, So their business continues to operate. So, that's quick serve, their dining rooms are closed, but they have drive-throughs in their fast food restaurant chain. So, we feel okay about that.

When you move out to the community markets, you see more full-service restaurant exposure. I don't have a specific percentage in mind—Grant, do you have that? Okay, so we don't know what the percentage is out in the community markets, but you do have full-service restaurant exposure out there. And of course, that's an area where our lenders are looking to help by providing PPP loans and payment deferrals.

Nick Duafala
Okay, thanks for that. And then circling back on capital, any thoughts on share repurchases would be helpful? And I'll wrap up here.

Aaron Graft
Yes, as you saw in the notes, we completed the authorized share repurchase program. Hindsight being 20:20, we wish we would have delayed some of those purchases a few weeks. As of now, given our current ratios and the uncertainty in the market, I think we're on pause, for all the reasons that—from what we're being asked to do as a bank to stand in the gap, and also just to make sure that we preserve capital for the unknown. So for now we're on pause and we'll evaluate that as we go forward.

Operator
And our next question comes from Steve Block of Focus Financial. Please go ahead.

Steve Block
Good morning, guys. Aaron, I had a question for you on comments that you made earlier about you thought maybe Q3 could be better, you're sort of optimistic about the way the world has to work. Can you expand a little bit upon your thoughts there?

Aaron Graft
Well, if you look at the things that have to get shipped—and look, there's a lot of different perspectives,

I'm just sharing one person's perspective. Most of the industries most severely affected by COVID-19 are not industries that use shipping. Think about sports, think about concerts, things where a lot of people get together that a large portion of what they do is not tied to trucking and freight on the roads, and now also restaurants, which there is a lot of freight tied to, they've slowed down. But we see that freight showing up at grocery stores, so I don't think that may be more of a zero-sum game there.

So, just everybody's pulled back, but freight still has to move, and of course in our factoring business that's generally the spot market. If you think about how freight is shipped, you're always going to fill the contract market first, and then when there is a spike or a surge or capacity is tight, that's when the spot market gets involved.

So, because I think that the industries that are still functioning require freight, and I think you'll start to see that come back in Q3, because I think some weaker capacity has left the system or will leave the system, I think in our own book you'll see spot market activity chase the contract rate, which is bottoming out right now, and unless there is a mass outbreak, any economic activity, any reopening we see later in Q2 is going to lead to more freight in Q3.

Steve Block
Great, thanks.

CONCLUSION

Operator
Ladies and gentlemen, this concludes the question-and-answer session. I would like to turn the call back over to the management team for any final remarks.

Aaron Graft
Thank you all for being with us. We hope everyone stays safe, and we look forward to brighter days ahead.

Operator
Thank you, sir. This concludes today's conference call. We thank you all for attending today's presentation. You may now disconnect your lines, and have a wonderful day.