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PRESENTATION

Operator

Good day, and welcome to the Renasant Corporation 2019 First Quarter Earnings Conference Call and Webcast. (Operator Instructions) Please note, this event is being recorded.

I would like to now turn the conference over to Mr. John Oxford. Please go ahead.

John Sidney Oxford - *Renasant Corporation - Senior VP & Director of Marketing*

Thank you, Alissa. Good morning and thank you for joining us for Renasant Corporation's 2019 First Quarter and Year-End Webcast and Conference Call. Participating in this call today are members of Renasant's executive management team.

Before we begin, let me remind you that some of our comments during this call may be forward-looking statements, which involve risks and uncertainty. A number of factors could cause actual results to differ materially from the anticipated results or other expectations expressed in the forward-looking statements. Those factors include, but are not limited to, interest rate fluctuation, regulatory changes, portfolio performance and other factors discussed in our recent filings with the SEC. We undertake no obligation to update or revise forward-looking statements to reflect changed assumptions, the occurrence of unanticipated events or changes to future operating results over time. In addition, some of the financial measures that we may discuss this morning may be non-GAAP financial measures. A reconciliation of the non-GAAP measures to the most comparable GAAP measures can be found in our earnings release, which has been posted to our corporate site, renasant.com, under the Investor Relations tab in the News & Market Data section.

And now I will turn the call over to Renasant Corporate Executive Chairman, Robin McGraw. Robin?

Edward Robinson McGraw - *Renasant Corporation - Executive Chairman of the Board*

Thank you, John. Good morning, everyone, and thank you for joining us today. We're proud of our results for the first quarter of 2019. Our continued focus on maintaining the stability of our core margin while effectively managing our expenditures resulted in record diluted earnings of $0.77 per share. Our tangible capital ratio, which measures tangible capital to tangible assets, increased 44 basis points from the previous quarter to 9.33%. And our regulatory capital ratios each increased from the previous quarter and are all in excess of regulatory minimums required to be classified as well capitalized. Our superior profitability metrics are further evidence that we are generating strong levels of capital at a consistent pace, and we continue to evaluate available alternatives to returning value to shareholders.

We've announced in the second quarter of 2019 that we will increase our quarterly dividend by $0.01 to $0.22 per share. This is our fifth dividend increase since the first quarter of 2016 and brings our annual dividend to $0.88 per share. We also have approximately $43 million of availability under our stock buyback program. Although we didn't purchase any shares during the first quarter, we continue to monitor our stock's performance in the market and will prudently deploy capital in ways that we feel will best return value to our shareholders.

Now I'll turn our call over to our President and Chief Executive Officer, Mitch Waycaster, to discuss in greater detail this quarter's financial results. Mitch?

C. Mitchell Waycaster - *Renasant Corporation - President, CEO & Director*

Thank you, Robin. Looking at our results for the first quarter of '19, net income was $45.1 million as compared to $33.8 million for the first quarter of '18. Our diluted -- our basic and diluted EPS were $0.77 for the first quarter as compared to $0.69 and $0.68, respectively, for the first quarter of '18. During the first quarter of '19, our earnings represented a return on assets of 1.44% and a return on equity of 8.86%.

Turning our focus to our balance sheet. Total assets at March 31, '19 were approximately $12.86 billion as compared to approximately $12.93 billion at December 31, '18. While total loans at March 31, '19 grew slightly when compared to December 31, '18, loans not purchased increased $175.9 million to $6.6 billion at March 31, '19 as compared to $6.4 billion at December 31, '18. Loan production continues to be strong at $374 million for the first quarter of '19, which resulted in annualized nonpurchased loan growth of 11% on a linked-quarter basis.

Although somewhat elevated levels of payoffs remain, we did experience a slight decrease in loan payoffs as compared to the previous quarter. And we remain optimistic about our execution of strategic initiatives throughout our footprint, which, we believe, will drive increased loan production as well as gain market share as we move into the second quarter of '19.

More specifically, new talent added during recent quarters, specifically market leaders, commercial lenders and producers throughout our footprint are now fully integrated and we are beginning to see the results of our recruiting efforts in our pipeline. We continue to recruit and hire new talent to increase market share and take advantage of disruption opportunities throughout our footprint. Still we remain disciplined in our underwriting standards, including pricing and structure, and will not concede to competition if we believe the structure or terms are too aggressive for our business model.

On the liability side of the balance sheet, we grew total deposits to $10.3 billion at March 31, '19 from $10.1 billion at December 31, '18. Noninterest-bearing deposits averaged $2.3 billion or 23.1% of average deposits for '19 compared to $1.8 billion or 22.4% of average deposits for the same period in '18.

Looking forward, we are both excited and optimistic about future loan production and growth on both sides of our balance sheet, given our current pipeline, markets, talent in our core bank, product offerings and commercial bank and specialty lines.

Shifting to our asset quality. At March 31, '19, our overall credit quality metrics continue to remain strong. As a percentage of total assets, all credit quality metrics, including NPAs, loans 30 to 89 days past due and our internal watch list are at or near historic lows.

Net loan charge-offs were $691,000 or 0.03% of average total loans on an annualized basis for the first quarter of '19 as compared to $584,000 or 0.03% of average total loans on an annualized basis for the fourth quarter of '18. The provision for loan losses was $1.5 million for the first quarter of '19 as compared to $1 million for the fourth quarter of '18 and $1.8 million for the first quarter of '18.

Now I'll turn the call over to Renasant's Chief Operating and Financial Officer, Kevin Chapman, for additional discussion of our financial results. Kevin?

Kevin D. Chapman - *Renasant Corporation - Executive VP, COO & CFO*

Thank you, Mitch. And good morning, everyone. Looking at the results of our operations, net interest income was $113.1 million for the first quarter of '19 as compared to $115.5 million for the fourth quarter of '18. Reported net interest margin was 4.27% in the first quarter of '19 as compared to 4.24% on a linked-quarter basis. The impact on our margin from purchase accounting adjustments was 31 basis points for the first quarter compared to 29 basis points for the fourth quarter of '18, resulting in a 1 basis point increase in our core margin on a linked-quarter basis.

For the first quarter of '19, the yield on our total loans was 5.49% as compared to 5.31% at year-end. Excluding the impact of purchase accounting adjustments, our loan yields increased 15 basis points from the previous quarter. As Mitch previously mentioned, while remaining disciplined in our pricing philosophy, we are continuing our efforts to replace maturing loans with new or renewed rates at similar or higher rates, driving further interest income as a result of higher yielding assets.

For the first quarter of '19, the cost of total deposits was 79 basis points as compared to 67 basis points for the fourth quarter of '18. Looking at noninterest income, noninterest income for the first quarter of '19 was $35.9 million as compared to $36.4 million for the fourth quarter of '18.

Mortgage banking income for the quarter was $10 million compared to $12 million for the fourth quarter of '18. It is worth noting that mortgage banking income for the fourth quarter of '18 including approximately $2 million from the Brand Mortgage operations, which were divested on November 1, 2018.

As we disclosed earlier this month, we announced plans to enhance over existing wholesale mortgage division. We expect the team that will be joining us will produce approximately $650 million to $700 million in annual originations and is expected to contribute approximately $1 million to $2 million in pretax income. Additionally, the team complements our existing wholesale mortgage operations with an overlapping footprint as well as a similar compliance appetite. We expect a new wholesale group to join us later this quarter.

Noninterest expenses were $88.8 million for the first quarter of '18 as compared to $93.3 million for the fourth quarter of '18. We continue to effectively manage our expenses, while at the same time, focus on driving revenue through margin expansion and diversification of our revenue streams. Our efficiency ratio was 57.62% for the quarter. For additional information on our financials, I'll refer you to our press release for specific numbers or ratios.

Now I'll pass the call back to Robin for any closing comments.

Edward Robinson McGraw - *Renasant Corporation - Executive Chairman of the Board*

Thank you, Kevin. In closing, we're proud of our efforts during the first quarter of 2019 as we increased our dividend and capital ratios as well as our core margin, while credit quality metrics remained at or near historic lows.

Now Alissa, I'll turn the call back over to you for questions and answers.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) The first question today comes from Brad Milsaps of Sandler O'Neill.

Bradley Jason Milsaps - *Sandler O'Neill + Partners, L.P., Research Division - MD of Equity Research*

Wondering if you guys could offer maybe a little bit more color on loan growth. Obviously, not where you wanted to be from a net standpoint, although the nonacquired production continues to be good. Just kind of any -- curious on your outlook there and kind of what you may see for the balance of the year as you kind of fight the paydowns in the acquired book.

C. Mitchell Waycaster - *Renasant Corporation - President, CEO & Director*

Yes, Brad. This is Mitch. And I'll begin discussing production and then maybe go to the pipeline and then talk about future expectations from there. To your point, production does remain good at $374 million for the quarter that compares to $400 million prior quarter. As we would typically see in Q1, the quarter started a little slower. I think the key point for the production in 1Q is that as we finished out the quarter in March, 45% of that production came in the month of March. So we did see a good increase in production as we ended the quarter.

And also, we went into the quarter -- we are beginning this quarter with a very strong pipeline at $206 million. That compares to $163 million prior year, $183 million prior quarter. We also see that pipeline, as we've seen in the past, a good distribution by state, region and business line. 32% of that pipeline is currently in Tennessee; 20% in Alabama, Florida; 31% in Georgia; 17% in Mississippi. Just looking forward from that pipeline's production, we would expect in the next 30 days with this pipeline of $206 million to generate about $72 million growth in nonpurchased loans. I think the other thing looking forward is we're just very optimistic about our markets, the existing talent, certainly, that we have in place as well as newly added talent. I know last quarter, we talked a good bit about the talent that had joined the company, particularly in the last 2 quarters of '18. In addition to Brand, the addition of talent there in the Atlanta market, in the last 2 quarters, there were 8 other relationship managers market leaders and then in the first quarter of '19, we added an additional 5 in North Georgia and West Tennessee business and commercial bankers in the middle part of Tennessee as well as additions to our commercial specialty lines.

In addition, we're in various stages of discussion and -- or hiring talent across the footprint. So just looking forward, again, given market current talent, those that we're talking to, given a strong pipeline as we start the quarter, we're very optimistic about continued loan growth. I know last quarter, we talked about as we approached midyear, we would be expecting production more in that $450 million range per quarter, which would result in more the mid-teens growth in the nonpurchased, which would bring us back to kind of that mid-single and as we -- mid-single net, and as we continue throughout the year, trend more toward mid- to high single loan growth. I'll mention again one thing we will do is remain disciplined in underwriting and pricing naturally as we go forward as well, but we're very optimistic about future production and growth.

Bradley Jason Milsaps - *Sandler O'Neill + Partners, L.P., Research Division - MD of Equity Research*

No. That's great. I appreciate all the color. And maybe just to follow up with Kevin. Just on the margin, you -- looks like the core NIM was up a couple of basis points, looks like you're hanging on to it pretty well. Can you just maybe discuss a little bit kind of what you're seeing on the deposit side in terms of repricing and the ability to kind of stabilize that NIM in the face of a flatter curve?

Kevin D. Chapman - *Renasant Corporation - Executive VP, COO & CFO*

Yes. So it's interesting how things change over the course of 90 days just from a rate environment or rate outlook. So just a couple of things I would say on the deposit cost and competition. Competition still remains. I don't think it's been a secret and I think everybody in the industry has been discussing just how competitive it is for deposits. A little bit of interesting commentary, at least what we're seeing is now that there's an expectation that the Fed is on pause with rate increases, we are monitoring how that impacts deposit cost and deposit cost going forward. If we look at our increase in deposits on a monthly basis throughout the quarter, we saw that increase in deposits in January and February. March, our cost of deposits were actually flat compared to the previous 2 months. That's interesting, we just find that interesting, we'll continue to monitor that just to see if that is a sign that some of the competitive pressures around deposits maybe easing a little bit.

We still are encouraged by our deposit base, we think we have a strong deposit base. If you look at our growth in deposits for the quarter annualized, total deposit grew 5% to 7%, noninterest-bearing DDA grew 9% to 10%. And so our focus on mix change will help mitigate or augment some of that pressure. I would also say that we have virtually no wholesale funding right now. So I think we have maybe $50 million, $60 million of FHLB advances at the end of the year, the rest of our borrowings is capital treatment borrowings sub-debt or TruPS. So our funding base has been strong, we expect it to continue to be strong. What we are more focused on is what happens to loan yields as competitive pressures around loan growth as well as a flatter yield curve how that impacts loan yields. And we think we have a couple of things in place and that will help us augment some of those pressures that we're seeing just on loan pricing as due solely to changes in the curve or flattening of the curve.

Operator

The next question comes from Michael Rose with Raymond James.

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

Just wanted to -- so there's been a lot of talk obviously on hiring, you guys brought on the wholesale mortgage team. Maybe, Mitch, can you talk about -- I don't know if you can size the opportunity, the amount of hires, some of your competitors have targets out there. Can you just talk about where the hires are coming from? The number you expect to hire, which markets are of greater focus at this point? Is it Atlanta because of the disruption, is it parts in Florida because of the demographics, is it in your core markets because of the opportunities there, just any sort of color would be helpful?

C. Mitchell Waycaster - *Renasant Corporation - President, CEO & Director*

Sure, Michael. And as I just mentioned, just looking historically for a moment for the last few quarters and I mentioned some of the markets, we're really seeing those opportunities across the footprint. If you look at the 8 that I mentioned that joined us in the last 2 quarters of '18, if you look at the 5 that joined us in the last quarter, if you look at discussions that we're having now, I mean, markets like Atlanta, Birmingham, Memphis, Nashville, parts of Mississippi, the Southern part of Georgia, East Tennessee, we're really seeing these opportunities across our footprint. And just considering the disruption currently in the market just drives for conversations, and we certainly look forward to always having those conversations. And I think having done business in many of these markets for a number of years, just the relationships that exist and the opportunities that opens up when cultures align, business models align, as we continue -- and Bartow's here in the room, I can let him speak to this but as we continue, specifically to grow the commercial part of our company just built on our core bank, I think the opportunities, the culture that exist at Renasant, it just creates a good opportunity for conversations. And we're having a lot of those and we're beginning to have some success. And we see that showing up in our pipeline and what we expect in future production. Bartow, you want to expand?

Bartow Morgan - *Renasant Bank - Chief Commercial Banking Officer & Director*

Sure, absolutely. My job of course has been to expand the commercial in Atlanta, Alabama and Nashville and Memphis, and I put it as a personal goal to bring on about 24 new lenders, about 6 a quarter. We've started to see those come on in the fourth quarter and I think that's what's showing in the pipeline. As we started to see production out of those lenders, it usually takes 6 months for them to start developing a pipeline, reach out -- back out to the customers. And so as we look at the March month and we start to analyze the March month and look at the total dollar amount that would be produced per quarter for March, we start to hit that higher single-digit loan growth number.

So I think we are seeing lenders that are coming out of the regionals that find Renasant an attractive place to go, I believe that, that's a cultural issue, I think they see things that they remember where they have been in banking, we've been able to bring seasoned lenders, 50-plus-year-old lenders that had been at other regionals and community banks, and they desire a bank with the products and services of the large bank but the delivery channels of the community bank, and that's what we're offering. And we're making sure that we don't force the lender into verticals that we force -- that we talk to the lender and we say, okay, we want to understand your customer and want to provide your customer the products and services that they need in the manner that they want it. And so we've really reverse engineered it, instead of designing it for the bank designing it with the customer in mind. And that seems to be a working formula.

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

That's all very helpful color. Maybe back to the numbers. Kevin just reconciling the past question, seems like you guys are still pretty good with the puts and takes in the core margin around the mid-395 level. As we switch into next year with CECL, I wanted to get thoughts on day 1 impact and then how the impact on the accretions will change with the switch from PCI to PCD?

Kevin D. Chapman - *Renasant Corporation - Executive VP, COO & CFO*

Yes. So with CECL, we're still going through the transitional phase, building out models. Right now, it's a little bit hard to gauge exactly what the day 1 impact is or how that will impact accretion with reallocation or reshuffling of purchase accounting discounts back to the allowance. We'll give more commentary on that as we get into Q3 and Q4 and finalize just some of our models. I will just say that we are -- we have been preparing for CECL for a couple of years now. And as we look at our methodology today and how we book loans or how we book losses on loans, I mean, clearly, there is a different methodology in how we generate the absolute number. But there are some similarities in the fact that we are constantly and continuously evaluating our risk for every loan that we put on the books and providing some amount. Under CECL, we'll have to use a different time frame, use different factors. But we think our allowance methodology today captures some of the tenets of CECL but still -- we still have some work to do as far as quantifying what the day 1 impact would be or how that would impact accretion income as we get into 2020.

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

Okay. Maybe just one more, just on capital. Your capital is building and will build here pretty quickly. You guys didn't use any of the buyback this quarter, any thoughts around potential even further increase to the dividend or utilization of the buybacks? Just trying to get a sense for where and how you think you can optimize capital levels, unless you guys are looking potentially at some M&A down the road.

Kevin D. Chapman - *Renasant Corporation - Executive VP, COO & CFO*

Yes. So how we prioritize capital, I mean, clearly, we would like to use it opportunistically for organic growth or for M&A that -- both of those have been a little bit slower over the last couple of quarters so we're looking at some of our other priorities, which is the buyback. Now granted we didn't use any of the buyback in Q1, our stock price had rebounded for most of the quarter, it has fallen off here recently. If we stay at the current levels, we'll be more aggressive in Q2 than we were in Q1. I would also say the buyback we just -- we put it out there for defensive purposes. But dividend increase, that's in higher priority than the buyback at least from our board and management perspective, we've always valued our dividend. And we're pleased that 2 years ago, we were able to get ourselves back into a position with the dividend payout that we could start increasing it. We do target a dividend payout ratio of about 30%. So as we fall below that, that's when we start looking at whether or not we need to increase the payout ratio. A couple of other things that we're looking at is we do have some debt, we have some capital instruments from previous acquisitions that will start getting into their phaseout period, we have some sub-debt that will hit its 5-year anniversary from a previous acquisition so we lose capital treatment. And then that may be cheap capital, but it becomes expensive debt over the course of the phaseout period. So we may look at pulling the trigger on calling or repaying some of that debt as well. So as we look at Q2 and Q3, several options on the table to deploy capital. And we think in a beneficial way, whether that is more aggressive on the buyback or taking some steps to redeem and call some expensive what will become debt rather than capital.

Operator

Our next question comes from Matt Olney of Stephens.

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

I want to go back to the loan growth discussion. I think you guys gave us some good details around the pipeline originations on the payoff side. I think in the prepared remarks, you mentioned that payoff slowed somewhat in the first quarter, is this too soon to call this a trend and what else can you say about the slowdown of the paydowns? Was it just bank competition pulling back or fewer borrower selling? Anything else you can mention about that?

C. Mitchell Waycaster - *Renasant Corporation - President, CEO & Director*

Sure, Matt. This is Mitch and good question. First, just the volume. If you were to look at the average payoffs over the last 4 quarters, Q1 was about $20 million under that average. Q4 was unusually high, we're actually about $60 million under our Q4, but I would say about $20 million under the average of the last 4 quarters. And those 4 quarters is where we saw that increase coming off of early '18. But to your point and we always do go back and analyze payoffs, the prior quarter, Q4, about 32% of our payoffs, where we saw the sale of the underlying assets, that actually increased by percentage to 47%. This quarter where we saw a decrease in the percentage is unwilling to match terms, where that was 48% in Q4, it was about 25% this quarter. So if you look at those 2 categories in total, those 2 totaled about 80% in Q4. In 1Q, that would be about 72%. To say that's a normalized rate, maybe a little early to tell but I would say more normalized in about 20% less. And the guidance that I mentioned earlier, where I was mentioning the expectation by the middle part of the year seeing production more in the $450 million range, which would drive a net in the mid-single. And then when you get onto 3 and 4Q, that getting from mid- to high single. I was utilizing that average that we've seen over the last 4 quarters. So hopefully, we'll continue to see that pull back some, but at the same time, we're equally focused on driving production as we discussed earlier.

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

Okay. That's great color. And then, on the fee income, just remind me, I think you got the Durbin impact is going to hit you here in a quarter or 2. Just remind me of what the impact that you expect in the third quarter?

Kevin D. Chapman - *Renasant Corporation - Executive VP, COO & CFO*

So third quarter, we expect it to be in the $2.5 million range. Annualized Durbin would impact us $10 million to $10.5 million is what we are calculating and projecting. And so you're absolutely right, we -- that will go into effect in Q3. And just kind of adding to that commentary and time there to just -- to a long-term strategy that we've had is trying to diversify our revenue streams out of consumer base, fees and services and incomes into other lines, mortgage, insurance, wealth management, that ties into some of our rationale into why we looked at enhancing our wholesale mortgage group is there continues to be pressures whether regulatory or risk or in this case, legislative pressures on our historical fee incomes. And we're -- we like the fact that we can maintain our noninterest income at about 30% of total revenues and have a couple of levers to pull -- to maintain it there, whether that's mortgage -- investments in mortgage insurance, wealth management. We continue to look in those spaces to help augment pressures that we've seen for the last 10 years on historical fee income in the banking sector. Again, those would have been [interest] fees, service charges and now debit card income.

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

Okay. Great. And then, Kevin, you mentioned you got some sub-debt that will lose some capital treatment here pretty quickly. I'll dig through the Ks and Qs to kind of figure out the details. But just kind of big picture, kind of, what's the dollar amount of some of the debt that will lose the capital treatment this year?

Kevin D. Chapman - *Renasant Corporation - Executive VP, COO & CFO*

Yes. That's approximately about, call it, $8 million to $15 million and those costs will vary in some cases, I think the stated rate is upwards of 8%. And so that's why we're looking at some of those that given that cost, it somewhat from an EPS perspective can make it as -- make it a little bit equivalent to a buyback when we're looking at some of the costs associated with it. It's not a big-dollar ticket as far as the amount that's available to be redeemed, but it is something that as we look at how much we're accreting in capital, that could be a way to redeem some capital and lever just some of the returns that we're receiving right now.

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

And then last question for me. Kevin, I think you mentioned the new and renewed loan yields are coming on flat to slightly above the overall core loan yields. Did I hear that correctly? And is that at or above the 5.06% core loan yield level? Is that what you were implying?

Kevin D. Chapman - *Renasant Corporation - Executive VP, COO & CFO*

It's coming in higher. So our new and renewed is coming more into the 5.25%, 5.30% range. And so it's above what our current books loan yield is.

Operator

(Operator Instructions) Our next question comes from Catherine Mealor of KBW.

Catherine Fitzhugh Summerson Mealor - *Keefe, Bruyette, & Woods, Inc., Research Division - MD and SVP*

I just want to circle back one more time on the paydowns this quarter and specifically on the acquired paydowns. I know that typically a couple of quarters after an acquisition, those are typically elevated and then that starts to moderate as we get to 2, 3 quarters past. So how are you thinking about the pace of acquired loans runoff should be in the back half of the year?

C. Mitchell Waycaster - *Renasant Corporation - President, CEO & Director*

Sure. I'll start there, Catherine, and Kevin may want to add some to this. And you're correct. Just looking at 4Q, that payoff, paydown was roughly $219 million, we saw that pullback this quarter to about $171 million, which probably would be more in line with what we would continue to see. Although, Kevin, that will (inaudible) quite lumpy I guess over time. But to your point, we would expect that to, as we saw this quarter, pullback some as we go forward.

Kevin D. Chapman - *Renasant Corporation - Executive VP, COO & CFO*

Yes. And Catherine, I would think that, obviously, I was with Brand, I would think that those paydowns are directly related to the lenders either being with the bank or not with the bank. And we have not seen any loss of lenders out of Brand and they're maintaining their portfolio. So I wouldn't see any situation where they're pulling a portfolio away from the bank. It's just normal, I'm selling my business, I'm selling the assets, what we're seeing across the whole Renasant right now. So there is not any abnormalities going on with the Brand Group there.

Catherine Fitzhugh Summerson Mealor - *Keefe, Bruyette, & Woods, Inc., Research Division - MD and SVP*

Great. Okay. And so then with that $170 million, it seems like a more normalized run rate. Do you feel like you can get back to a mid-single-digit net loan growth even with, call it, around $150 million, $170 million of acquired payoffs in the next few quarters?

C. Mitchell Waycaster - *Renasant Corporation - President, CEO & Director*

Yes. Yes. Catherine, we do. Again, if you -- that's the expectation of getting that production more in the $450 million per quarter by midyear and then, on that $450 million, $475 million as we get into 3Q. So as we look at the net -- getting back to mid- to high single, I was using -- counting our current run rate in the payoff, paydown in that purchase category.

Catherine Fitzhugh Summerson Mealor - *Keefe, Bruyette, & Woods, Inc., Research Division - MD and SVP*

Got it. Okay. Great. And then one last thing on expenses, you saw nice a reduction linked to this quarter. Can you kind of give a expense guide for what you're expecting for this year?

Kevin D. Chapman - *Renasant Corporation - Executive VP, COO & CFO*

Yes. I'll just talk generally. I think Q1 reflects the efforts that we've taken to drive lower efficiencies by maintaining and moderating expense growth. As we look out, a couple of things that I think is worth noting is that in Q1, you will see expenses increase from here. We do our merit increases, they take effect in Q1, in March of Q1 so you'll see a rise in expenses just from merit increases. As we get into Q2, Q3, we expect mortgage to kick in. And so some of the variable costs associated with mortgage, you'll start seeing some volatility and fluctuation on expenses. And then I'd also add just the hiring. We do view right now an opportunity to continue to hire, make investments today that pay off in upcoming quarters so you could see some mismatch and bringing on expenses and then the revenue not kicking in for another quarter or 2. So just as we look out, but -- just want everybody to understand, we are anticipating expenses will rise. We fully -- we have fully hit our marks on the Brand cost saves. And going forward, the expenses will be more investments in revenue producing with an eye on keeping our efficiency ratio in the range that we have it, in that 57%, 58% range and continuing to drive that further with revenue lift.

Operator

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

Edward Robinson McGraw - *Renasant Corporation - Executive Chairman of the Board*

Thank you, Alissa. We appreciate everyone's time today and your interest in Renasant Corporation. And we certainly look forward to speaking with you again soon. Thank you, everybody.

Operator

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