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RNST - Q2 2019 Renasant Corp Earnings Call

EVENT DATE/TIME: JULY 23, 2019 / 2:00PM GMT

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PRESENTATION

Operator

Good morning, everyone, and welcome to the Renasant Corporation 2019 Second Quarter Earnings Conference Call and Webcast. (Operator Instructions) Please also note today's event is being recorded.

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

John Sterling Oxford - *Renasant Corporation - Senior VP and Director of Marketing & Public Relations*

Thank you, Jamie, and good morning, and thank you for joining us for Renasant Corporation's 2019 Second Quarter and Year -- well, Second Quarter 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 risk 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. These factors include, but are not limited to, interest rate fluctuation, regulatory changes, portfolio performance and other factors discussed in our recent filings with the Securities and Exchange Commission. 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 on our corporate site, renasant.com, under the Investor Relations tab in the News & Market Data section.

And now I'll turn the call over to Renasant Corporation Executive Chairman, Robin McGraw. Robin?

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

Thank you, John. Good morning, everyone, and thanks for joining us today. We closed the second quarter with strong results while navigating through the uncertainty around the direction of interest rates and other macroeconomic factors during the first half of the year. Our continued effort to effectively manage our core business in light of the economic pressures we face has consistently driven greater shareholder value. Our return on average assets for the quarter was 1.47% and our return on tangible equity was 17.15%. These profitability metrics continue to be strong, and as we generate higher levels of capital, we'll continue to evaluate opportunities to return value to our shareholders.

We previously announced a $50 million stock purchase program which began in October of 2018. $12.9 million of common stock was repurchased in the second quarter of '19 at a weighted average price of $35.57. In July, we purchased about $740,000, leaving just under $30 million of our stock of availability under the plan. The repurchase program will remain in effect until the earlier of October 2019 or the repurchase of the total amount authorized by our Board of Directors.

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 second quarter of '19, net income was $46.6 million, an increase of 27% when compared to the second quarter of '18. Our basic and diluted EPS were $0.80 for the second quarter as compared to $0.74 for the second quarter of '18. As I'll discuss in greater detail later, our net income for the second quarter of 2019 includes approximately $1.1 million in after-tax expense related to new production team members that have joined the company in the first half of 2019. The expense related to these strategic hires decreased diluted EPS by $0.02 for the quarter and year.

Turning our focus to our balance sheet. Total assets at June 30, '19, were approximately $12.89 billion as compared to approximately $12.93 billion at December 31, '18. Total loans held for investment were $9.05 billion at the end of the quarter as compared to $9.08 billion at December 31, '18.

In addition to the tremendous talent that already makes up our team, we made significant investments in production talent during the quarter, which has enhanced our long-term growth expectations. As I mentioned previously, although this hiring strategy will have an immediate impact on our short-term expense outlook, we anticipate our new teammates to generate robust loan portfolios over the next 9 to 12 months and provide additional loan growth into 2020 and beyond, which we believe will significantly enhance our revenue growth and profitability.

To elaborate further on these strategic hires, we previously announced that Curtis Perry has joined our company as Chief Corporate Banking Officer. Curtis brings to us more than 34 years of corporate banking experience with regional banks in the Southeastern United States with many of these years serving in a leadership role. And we expect that his knowledge and connections will broaden the reach and depth of our corporate banking group. Since joining our team, Curtis has successfully recruited 13 corporate bankers and other revenue producers throughout our footprint.

In addition to the corporate hires by Curtis, we hired 18 revenue producers including new market presidents, commercial relationship managers and retail bankers across the footprint during the second quarter. These new team members complement our already strong team both geographically and from a line of business standpoint. We've added teams in Atlanta, Nashville, Memphis and Birmingham, and we've added relationship managers or market leaders in South Georgia, Central Florida, the Florida Panhandle, South Alabama and East Tennessee. These new team members have specialties extending across all of our lines of business including health care lending, equipment leasing, asset-based lending, senior housing, commercial real estate, C&I middle-market lending and business retail bankers.

The production from these new team members won't be fully reflected in our balance sheet until 2020. As the portfolios mature over the next 9 to 12 months, we expect net loan growth for the company to be in the low to mid-single digits this quarter, mid-single digits in Q4 and high single to low double digits or better in 2020.

Further, we plan to stay opportunistic in our hiring efforts to bolster our long-term growth goals. We believe that taking advantage of various market disruptions, whether due to organizational restructuring or merger activity, presents a great opportunity for our company. Although we are capitalizing on this market disruption to accelerate the pace of building out our corporate and commercial teams, we believe that we have the right team in place to support growth and expansion from all lines of business and markets.

We remain committed to growing a low-cost stable deposit base to fund our loan growth. Total deposits increased slightly from year-end to $10.2 billion at the end of the quarter. Even as interest rates on deposits increased in the first half of '19, we experienced success in growing our noninterest-bearing deposits by $90 million when compared to December 31, '18.

Looking forward, we are both excited and optimistic about future loan production and growth on both sides of our balance sheet. Adding talent to our already strong team of associates has us positioned well for continued success.

Now I'll turn the call over to Renasant 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. Overall, the company had a strong quarter. Net interest income was relatively flat at $113 million quarter-over-quarter and up $21 million when compared to the second quarter of '18. Net interest margin was 4.19% for the second quarter of '19, down 8 basis points as compared to 4.27% for the first quarter of '19. Core margin followed a similar trend.

Several factors led to the decreased margin quarter-over-quarter. On the asset side of the balance sheet, a decrease in the yield on mortgage loans held for sale had a negative impact to margin of 3 to 4 basis points while an increase in prepayment fees on mortgage-backed securities had a negative impact of 1 to 2 basis points.

Turning to the liability side of the balance sheet. Our cost of deposits increased 4 basis points, negatively impacting margins. While cost of deposits increased during the quarter, we are beginning to see deposit costs moderate. Also as Mitch previously mentioned, we have been successful in growing noninterest-bearing deposits in the first half of '19 and while we will continue to look at ways to manage our deposit cost in the current rate environment. It is also worth mentioning that although loan yields -- portfolio loan yields were relatively flat, the weighted average rate on new and renewed loans in the second quarter of '19 represents one of the highest new and renewed loan yields we have experienced in the current cycle.

Noninterest income continues to be a great source of income for us, representing almost 30% of our total revenue. On a linked-quarter basis, we grew noninterest income by $6 million, nearly all of which was generated by our mortgage division.

I should note that as of July 1, we are now subject to the Durbin limitations on interchange fees. Based on debit card income for Q2, we expect the impact from Durbin to decrease our noninterest income by $11 million to $12 million annually.

As interest rates declined during the quarter, our mortgage division had a great quarter. We saw an increase in our mortgage production and experienced higher margins on that production. During the quarter, our [locked] volume was $941 million, which was up approximately $285 million from the first quarter.

The previously announced acquisition of FirstBank wholesale mortgage operations was completed on July 7, '19. Given the closing date of the transaction being so late in the quarter, the acquired FirstBank operations did not have a material impact on our results for the second quarter, but we are looking forward to the boost that these operations will give to our mortgage division going forward.

Noninterest expense increased quarter-over-quarter by $4.5 million. This increase is primarily attributable to an increase in salaries and employee benefits, which is being driven by the new hires previously mentioned by Mitch, and a $3 million increase in mortgage commissions related to the increased mortgage production.

Our efficiency ratio was 58.3% for the second quarter of '19, which represents the fifth consecutive quarter during which we've maintained an efficiency ratio below 60%.

Shifting to our asset quality at June 30, '19. Our overall credit quality metrics continued to remain strong. As a percentage of total assets, all credit 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 $676,000 or 3 basis points on an annualized basis of average total loans for the second quarter of '19. We provided $900,000 in provision for loan losses during the quarter.

Though our strategy is focused on long-term growth, we will not sacrifice credit quality for the growth. We remain disciplined in our underwriting standards including margin and structure and will not concede to competition if we believe the structure terms are too aggressive for our risk appetite.

We have discussed in detail during this call the hiring of production which will drive long-term growth. It is worth noting that during the quarter, we've added 3 senior credit officers and other credit support staff to our already strong credit team to support our new production team members. For more information or specifics on our financials, I'll refer you to our press release for specific numbers or ratio.

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

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

Thank you, Kevin. In closing, we see a healthy loan pipeline, and with the addition of new banking talent, we expect to experience a strong second half of '19 while we continue to maintain our credit quality metrics at or near historic lows. Now Jamie, I'll turn the call back over to you for Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question today comes from Catherine Mealor from KBW.

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

I wanted to start with your outlook for the margin. Can you talk a little bit how you're thinking about the margin moving forward, particularly if the Fed does cut in the back half of this year?

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

So we're preparing for 2 rate cuts, 2 25-basis point rate cuts, and so we're actually taking steps now to start the process of mitigating that. As I mentioned, the prepayment fees on the security portfolio, that weighed on margin, but also we'd positioned our portfolio, our security portfolio for rising rate environment to gen off cash flow. And so that's laying on margin at the current time. So some of the efforts we're going to do to help mitigate margin is reinvest and restructure the security portfolio to extend the life of it. We are actively managing the deposit costs today in advance of rate cuts. If we look at our deposit costs that increased during the quarter, they increased 4 bps. Compared to last year, that's a win, where we were increasing 9 to 12 basis points per quarter but we are seeing real signs of pressure on deposit costs are slowing. If we break that 4 basis points down, the 4 basis points really came from increase in time deposits and money market, and that's where we are taking initiatives now to address pressure on funding going forward.

And then last of all, we'd say, that we continue to be disciplined in our pricing to ensure that we are getting compensated and not only trying to give it all on the liability side but the restructuring and pricing on the asset side with new and renewed pricing to help mitigate any margin compression. And I would also just remind, again, in our prepared remarks, that our new and renewed rates were some of the highest that we had experienced, at least in the recent history in the -- or in the current rate cycle.

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

And with all that in mind, I mean, we saw I think more-than-expected core NIM pressure this quarter. Is it fair to say you've got enough of these levers to kind of keep the core NIM fairly stable even with lower rates? Or you still feel like there's additional compression from here off of this lower rate?

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

Yes. There could be additional pressure. We think we can mitigate a significant portion of that, but the pressure we experienced on the margin in Q2 really was as a result of the long end of the curve not the short end of the curve. The mortgage loans held for sale, the security portfolio, that's all reflective of just the flatness or the inversion or the movement on the longer end of the curve. With the shorter end of the curve moving, that gives us the opportunity to move deposits. Now that will help us mitigate any rate cuts that would impact rate-sensitive loans. But what we experienced in Q2 was more on the long end of the curve.

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

Okay. And then one more on the margin. The accretable yield was higher this quarter. How are you thinking about how we should model that for the back half of this year and then as we get into 2020 post CECL?

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

First, so just breaking it down between the 2 components. The total accretable yield, some portion of it being the accretable yield. We expect that piece of it -- more of the interest rate mark, we expect that portion to stay in the margin post CECL and, throughout 2020, decline a little bit but at a fairly close rate to what we have today. The nonaccretable difference is the wildcard. That's where we -- loans that we had identified as credit impaired at date of acquisition and then anticipated losses and then our actual performance and cash flow have exceeded what our loss -- the performance has done better than what we expected, and we recapture that discount. That's that nonaccretable difference recapture that throws a lot of volatility into our margin. As we project or as we look at it and as we understand CECL today, the discount on those purchased impaired loans, that discount goes into the allowance. But if the performance of that portfolio continues to be as it has historically been, which is -- which means better cash flow, then that discount will free up much like it has this quarter and previous quarters. But rather than flowing through the margin, it flows through the provision. And so we may have a more stable margin, but going forward, we may have a little bit more volatile provision for loan losses just as we continue to work out that acquired portfolio. So as we feel, we don't see a material change in pretax income as we implement CECL and isolate that component of the implementation related to the purchased credit impaired loans.

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

Got it. So basically, if we were pre CECL, assuming some level of accelerated accretable yield in 2020, and if you're going to take that out in 2020 with CECL, you would need to at least offset it in the provision.

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

Correct.

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

Is that a fair way to think about it?

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

Correct.

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

Okay. Okay. That's helpful.

Operator

Our next question comes from Michael Rose from Raymond James.

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

So obviously, a lot of hires brought on the team, too, with Curtis coming on. Just wanted to get your thoughts on additional hiring from here. And as it relates to expenses, it kind of sounded in the prepared remarks that there would be some further upward pressure on expenses as we move into the back half of the year. Is that the kind of the right way to think about it?

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

Yes. Michael, this is Mitch. I'll begin and let me make a few comments just on the hires to date and I'll let Curtis maybe expand on what we are building in corporate, and followed up with that, Bartow can make some other comments on our continued hiring across the commercial space. So as I had mentioned earlier, you just think about across the just geographic spread, Atlanta, Nashville, Memphis, Birmingham, and then I mentioned the other markets across our footprint, we continue -- to the first point that you asked, we continue to see opportunity, and that has continued even early in Q3. We expect that to continue as we continue to build out the corporate, the commercial space. And as I mentioned as well, we're also seeing opportunity in other business lines, in the retail bank and in the business bank. So we expect that to continue as we go forward. But Curtis, if you want to expand on the corporate piece and then, Bartow, a little bit more on the commercial.

Curtis J. Perry - *Renasant Bank - Chief Corporate Banking Officer*

Absolutely, Mitch. So Michael, we've been focused on adding talent to an already outstanding team across the major markets within the Southeast, and our focus has been on acquiring bankers with deep experience in their particular business line within the corporate segment, bankers that have long-term relationships with a number of prospects and customers that they've served in many cases over 15 or 20, 25 years even. And we find that the opportunity to present Renasant in style of delivery that focus on the customer and the opportunity to practice disciplined delivery of credit services and the origination of other fee-based businesses, fee-based revenue and deposit services are a good fit with the folks that we've been focused on recruiting. So in all fairness, hiring good people is a little bit opportunistic and so it ebbs and flows. And I think typically, toward the latter part of the year, the hiring activity drops off a bit and picks up again in late first quarter, second quarter. That's just been my experience over time, and I would think it would look something like that here as well.

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

So this is Bartow. I would concur with what Curtis said with the opportunistic with hiring. If we jump back to when I came on from Brand and execute on what Robin and Mitch asked me to on building out the commercial, I had thrown out that number to keep the growth rate where we wanted to be as a company that we were going to need to add 6 more commercial bankers every quarter. As I began to have the conversation with Curtis in the relationships he had, we knew that we were going to get some of those in 1 quarter. But as a go forward, if you think about the second quarter where we had about $1.5 million worth of expense associated with the new hires, some of those hires came later in the quarter, and so the full run rate of those hires are going to be $2 million to $2.2 million per quarter and think about that in the third and fourth quarter. That's not to exclude that we have -- we will have to continue to hire future -- RMs in the future as we interview them in order to keep the growth rate at the number that we have signaled out to the market. Just quick -- go ahead.

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

Michael, I'm sorry. I was going to add, and I'll underscore, Kevin mentioned it, Curtis referred to it as well, we are remaining very disciplined in underwriting and pricing. Kevin mentioned that earlier. And as we've added 3 senior credit officers this past quarter, and I would say, too, to an already outstanding credit team, as I'll say that about our production team, we just simply, to Curtis' point, the people that's joining the company I think it's driven by culture, it's driven by relationships, it's driven by platforms that's positioned all for product and service. And we're simply just being available to have those conversations across our footprint.

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

No, that's great color. But maybe circling back to the expenses. It seems like there would be, from all the hires and what you're planning, I appreciate all the color, some upward pressure on expenses. And then if I look at the other expense category, Kevin, was there anything in there that was nonrecurring because it did jump up from first quarter level?

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

Not so much that was nonrecurring. We did have some in and outs and some accrual adjustments. Probably the most significant item was about $1 million increase in our FDIC insurance premiums. Just with going over $10 billion and being over $10 billion for 4 conservative quarters, the increase in FDIC insurance premiums kicked in in Q2. That's not one time. That run rate is going to be with us. That's the most significant item that's in that, that other noninterest expense line item that caused the increase quarter-over-quarter.

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

Okay. Maybe just switching gears a little bit to the loan growth outlook that you provided, Mitch. I think you said low to mid-single digits this quarter. Is that on an annualized basis? Or is that just quarter-to-quarter, which you would expect, and I think you said mid-single digits in the fourth quarter and then low -- or if you can repeat the guidance, that'd be great, to clarify.

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

Sure. No. Good point. That is on an annualized basis. And what I mentioned in Q3 this quarter, we expect low to mid-single digit annualized. That's with the understanding or likely that payoffs remain at the current level as well and then in Q4, mid-single annualized, and then in 2020, high single to low double or higher.

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

And that's on the nonpurchased portfolio, correct?

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

That is net. Those numbers that I mentioned. That's net loan growth.

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

Okay. And then one final one for me. Just as we think about the efficiency ratio, you guys have obviously done a very good job keeping it below 60% now for 5 quarters. Given the hiring efforts, it seems like a little more margin pressure. Do you think you can get close to the 60% level or maintain below it at this point?

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

Michael, Kevin. So a good question. Efficiency, we're looking at -- we look at it hard, and then we use that as our guide stick as to whether or not we are being -- giving the right returns off of our investments. So to answer your specific question, the hiring we're doing will put pressure on the efficiency ratio but we knew that going into it. We view it as very similar, if you remember our de novos that we did back in '10, '11 and '12, we were willing to invest and put pressure on the efficiency ratio but invest a couple of pennies this quarter to get more than enough of a payback in future quarters and beyond. We view this as a very similar strategy, as Curtis mentioned, as Bartow mentioned, being opportunistic, to pick up team members that will exponentially increase our growth but also will more than sufficiently return EPS in future quarters to offset, what, may be 1 or 2 quarters of expense pressure. So it's a very similar strategy to what we deployed several years ago on the de novos, but we also -- we're doing it, recognizing it's going to put some pressure on efficiency but we will see outsized improvement on the efficiency ratio as we get into next year. And their portfolios, the lender's portfolio is fully maturing as we get into the back half of next year.

Operator

Our next question is Jennifer Demba from SunTrust.

Jennifer Haskew Demba - *SunTrust Robinson Humphrey, Inc., Research Division - MD*

A question on M&A. Interest, at this point, given your hiring opportunity, seemed to be so significant.

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

Jennifer, yes. This is Mitch. Yes. As we've stated in the past, we continue to evaluate opportunities that would drive shareholder value. And I would say that certainly has not changed with the recent hiring activity, and the metrics that we've looked at in the past, first, beginning with culture and business model and making sure that alignment exists and then being immediately accretive to EPS, TBV earned back 3 years or less and an internal rate of return of 18% to 22%, just all the -- answer the question are we better together. And we continue to evaluate those opportunities.

Operator

Our next question comes from Will Curtiss from Hovde Group.

William Davis Curtiss - *Hovde Group, LLC, Research Division - Director*

I wanted to maybe go back real quickly on the hires that you made. And wanted to see is there -- was there a specific concentration geographically? Or maybe as you -- as your prepared comments alluded that this was, in fact, broad-based in terms of where most of these hires were made.

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

Yes. Will, good question, and it was broad-based. As we have talked about for some time now, being very intentional to build out the commercial and corporate bank, which, in large part, takes us to our larger markets of Atlanta, Nashville, Memphis, Birmingham in particular. But also as I mentioned, we continue to grow our various lines of business. We continue to grow in other commercial business, in retail segments which really spreads across the footprint. We see opportunity as a company and it's, as we have done in the past, had the ability to hit on many different cylinders, and we continue to build out a core bank. We certainly will remain focused on that. But at the same time, we're very intentional and focused on building out what Curtis and Bartow described earlier, which is a true commercial and corporate bank, and we see that very much as an opportunity. So we're focused on all of those areas across our 5 states.

William Davis Curtiss - *Hovde Group, LLC, Research Division - Director*

Right. And then in terms of the loan growth outlook, I just want to make sure I understand that kind of the progression that you laid out. What does that include or assume in terms of runoff of the purchase loans? Because I think this quarter, it was pretty consistent with what you guys had laid out last quarter. So just curious how the -- what the expectations are for the runoff there.

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

Absolutely. So you are correct. If you go back and look at the purchased loans, I think this quarter it was around $172 million. Prior quarter, it was I think $171 million. And prior to that, it was around $219 million. And as we typically see, right after a transaction, that could be somewhat elevated but we have seen that leveled out. So as to other payoffs that we've discussed in the past, we do remain to see those coming at the level that they've been in the past. Prior quarter, we were about $20 million below the 4-quarter average. This quarter, we were about $20 million above that but still generally in the same range on those payoffs, still largely driven by where the bar is selling the underlying asset, or we lose the deal on terms that we're unwilling to match. And I think that just gives testimony to our discipline that we have in place in our company in underwriting and pricing. But the net production that I quoted is taking into consideration the stabilization, which we believe it has of the acquired book the typical runoff there as well as the current level of payoffs that we're seeing and really is driven by the increased production both from, I mentioned earlier, the outstanding talent that's already in place in the company, that as well as those that have joined the company and will be -- to Bartow's point, that will be joining the company.

Operator

Our next question comes from Brad Milsaps from Sandler O'Neill.

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

You guys have addressed most everything, but Kevin, I wanted to follow up on a couple of small items. You mentioned last quarter there might be a few [troughs] or debt issuances that might get phased out as you've gotten larger, that you might take a look at refinancing or paying off. Just kind of curious where you are in that process in terms of kind of how you're thinking about the capital of debt stack.

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

Yes. Sure. So yes, we did disclose -- we've got some sub-debt that became callable in the third quarter. So it became callable July 1. We're in the process of calling that. It's debt that we assumed in an acquisition. Its stated rate is much higher than its effective rate, its purchase accounting rate. But the effective rate on that or the rate that rolls through the income statement is about 5% to 5.5%. We're in the process of calling that. We view that very similarly to how we're managing our capital with the buyback. As Robin mentioned, we've got roughly $30 million of availability in our buyback and would plan to be as active, if not maybe a little bit more active, in Q3 as we approach the expiration of that in October but are looking at several ways to just manage our capital and our capital stack to leverage just our returns right now as well as keep a little bit of capital in reserve for some of the future growth that we expect as we get into 2020.

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

That's helpful. And then just to follow up on the accretion discussion. I think we're all getting our arms around CECL slowly but surely. But could you envision if you had a quarter similar to this quarter where you'd have a negative provision in 2020 under the CECL framework? In other words, you had about $1 million provision this quarter but you had about a little over $4 million in nonaccretable loan discount accretion income. Is that the correct way to think about it? Or do you think that's too aggressive?

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

No. I think that -- I don't think that, that would be a frequent occurrence, but it could be a possibility. And it just simply goes to how you're recapturing that discount. Right now that discount flows through the margin. It's enhancing net interest income. It would enhance provision but it could result in an abnormally low or even possibly a negative provision. That is a possibility.

Operator

(Operator Instructions) Our next question comes from John Rodis from Janney Montgomery.

John Lawrence Rodis - *Janney Montgomery Scott LLC, Research Division - Director of Banks and Thrifts*

Kevin, just back to your comment on the buyback in response to Brad's question. I think you just said in the third quarter you expect it to be active, as active in the second quarter? Or I just didn't hear that?

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

Yes. As active in Q2. I think we started off in Q4, purchased roughly $7 million, purchased another $13 million in Q2 and would expect that to be as active as we were in Q2.

John Lawrence Rodis - *Janney Montgomery Scott LLC, Research Division - Director of Banks and Thrifts*

Okay. And then just back to expenses, and I'm sorry if I missed this, so you had I guess a small amount of merger expenses in the quarter, very small. So the expenses were roughly $93 million, and then you said mortgage was higher by roughly $3 million and then you got new hires coming on still. So from -- on an absolute basis, if you assume mortgage maybe slows a little bit but then you got new lenders and so forth, is core operating expenses around $93 million, $94 million? Is that sort of a good area?

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

Yes. So a couple of variables. It's going to be largely dependent on mortgage. Again, mortgage will ebb and flow. So mortgage has started off the quarter strong. Their production is strong. We expect typically Q3 is seasonally strong. So we expect an equally strong quarter for mortgage which means their commissions and salary expenses will remain at an elevated level compared to Q1, Q4. It may be in line with Q2, but at the same time, we will be opportunistic to bring on hiring if available. So just trying to forecast expenses, we have a couple of moving pieces. But with the ins and outs, could see it being relatively stable at $93 million depending on what happens with mortgage. If mortgage has a good quarter and we're successful in hiring, that could bump up in the $94 million, $95 million range. But where the expenses are going are being -- the increases in expenses are more being tied to revenue producers rather than the expenses being tied to expenses or dead calls. As I did mention, we did have an increase in the FDIC insurance. We somewhat anticipated that. But as going forward, to really get the efficiency ratio levers that we expect, it's going to be investing those expenses, that salary burden in revenue producers. And so it's hard to really pin a number, call it, $93 million or if we're successful in the hiring, being more $94 million, $95 million but the distribution of that expense being more weighted towards revenue producers and the opportunity to grow revenue at a faster pace in 2020.

John Lawrence Rodis - *Janney Montgomery Scott LLC, Research Division - Director of Banks and Thrifts*

And the higher FDIC premiums, that doesn't go away, correct?

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

Wish it did. It does not. The kind of fees just that there might be a rebate, that rebate didn't show up this quarter. We'll save that coupon for future quarters.

John Lawrence Rodis - *Janney Montgomery Scott LLC, Research Division - Director of Banks and Thrifts*

And then one final question, Kevin. Just on the tax rate, it's sort of been running around 23% for the first half of the year. Is that sort of a good level going forward?

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

It is. That's where we are approximately right now. And so that 20 -- yes, that 23% range is a good effective tax rate.

Operator

(Operator Instructions) In showing no additional questions, I'd like to turn the conference call back over to Robin McGraw for any closing remarks.

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

Thank you, Jamie. I want to thank everyone for joining us today. We appreciate your time and interest in Renasant Corporation, and we look forward to speaking with you again soon. Thanks.

Operator

Ladies and gentlemen, that does conclude today's conference call. We do thank you for joining today's presentation. You may now disconnect your lines.
