Triumph Bancorp, Inc.

3rd Quarter 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*

Bryce Fowler - *Chief Financial Officer*

Dan Karas - *Chief Lending Officer*

PRESENTATION

Operator
Good day, and welcome to the Triumph Bancorp Incorporated 3rd Quarter Earnings Conference call. All participants will be and listen-only mode. Should you need assistance, please signal a conference specialist by pressing the "*" key followed by "0". After today's presentation, there will be an opportunity to ask questions. To ask a question, you may press "*" then "1" on your touchtone phone. To withdraw your question, please press "*" then "2." Please note this event is being recorded. I would now like to turn the conference over to Mr. 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 third quarter 2017 financial results. Before we get started, I 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 statements.

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

I'm going to this morning by Triumphs Vice Chairman and CEO, Aaron Graft, our Chief Financial Officer, Bryce Fowler and Dan Karas, our Chief Lending Officer. After the presentation, will be happy to address any questions you may have. At this time, I would like to turn the call over to Aaron. Aaron?

Aaron Graft
Thank you, Luke. We have been busy since the end of the second quarter, and I am very pleased with what our team has accomplished. We completed a successful public offering of our common stock, raising $65.5 million of capital. We completed our acquisition and conversion of nine Independent Bank, Colorado branches on October 6th, adding to our core deposit base in our Western division, and we are progressing as expected toward a fourth-quarter closing on our pending acquisition of Valley Bancorp.

Despite all of this activity, we continued to generate solid core earnings, strong loan growth and improved asset quality in the third quarter. Our total loan portfolio grew organically by 130 million or six percent in Q3. This growth continues to be well diversified across many lending products. Our commercial finance portfolio, which includes our ABL equipment finance and premium finance lending in addition to our factored receivables, comprised the majority of the increase.

This portfolio is now at $887 million, an increase of $85 million or 11% for the quarter and comprises 37 percent of our overall loan portfolio. We also experienced solid growth in a CRE and real estate lending of over $42 million. Triumph Business Capital, our factoring subsidiary, contributed approximately $47 million of loan growth for the quarter. TBC, again, achieved record highs in the number of invoices purchased, the dollar value of invoices purchased and the number of clients served in the third quarter.

Specifically, TBC purchased 476,000 invoices for a dollar value of $732.4 million and added 235 net new clients in the third quarter to reach 2,925 clients at September 30. Average net funds employed were $260 million during the third quarter, and the average invoice size purchased during this quarter increased to $1,537 versus $1,433 in the prior quarter.

The dollar value of invoices purchased this quarter over the same quarter last year are up 50%. These team members deserve a hearty congratulations or their continuing exceptional performance. I am pleased to see that the investment that we have made in this business is producing above-market return for our shareholders. We are also excited about the prospects of Triumph Pay, our technology-driven reverse factoring platform.

While Triumph Pay is not contribute to our earnings currently, early market adoption has exceeded our expectations and we believe we are building a technology and a platform that could have great promise to the future. With respect to asset quality, or third-quarter metrics continue to reflect improvements. In the third quarter, we recorded a provision for loan loss of only $572,000 primarily to provide for the quarter's lone growth.

Net charge-offs were negligible, at only $2,000 which was aided by $1.2 million of recoveries in the quarter. Our past-due nonperforming loan and nonperforming asset ratio all experienced improvements during the third quarter. Over a year ago, I stated on an earnings call that our goal was to achieve a $.50 per share run rate by the end of 2017, which was approximately a 100% improvement over our current run rate at the time.

We achieved that goal ahead of schedule last quarter. But for the issuance of additional shares to support our announced acquisitions, we would have achieved it again this quarter. More importantly, with our core loan growth and the closing of our previously announced acquisitions, I expect we will continue to meet and exceed that mark into the future as our operating leverage improves.

I point this out to investors and potential investors to illustrate to them what our management and board have believed all along; that we have frontloaded the expense of building a platform that can take us to the next level. We are not done building yet, not even close, but with our current core return on average assets running around 1.3%, I think we have proven the business case for our strategy.

At this point, I'd like to turn the call over to Bryce to provide some additional color on our financial performance for the third quarter. Bryce?

Bryce Fowler
Thank you, Aaron. For the third quarter, we earned a net income to common stockholders of $9.76 million, or $.47 per diluted share. Earnings per share for the quarter were impacted by our public offering of 2,530,000 shares on August 1st. All things being equal, the increased share count was a reduction of approximately $.04 per share. Net income for the third quarter increased $955,000, or 2.5% over the prior quarter. This increase was driven primarily by the $160 million increase in the average balance of loans outstanding over the prior quarter.

The GAAP yield on total loans, including loan discount accretion, decreased 35 basis points from the prior quarter to 7.44%. GAAP net interest margin decreased 26 basis points to 5.90%. Excluding the impact of purchase loan discount accretion, the adjusted yield on loans was only down five basis points to 7.2% for the third quarter. Our adjusted net interest margin decreased only one basis point to 5.69%.

The third quarter included $1.4 million of loan a discount accretion, a decrease of the $1.5 million. The prior quarter included accelerated accretion associated with the prepayment of certain loans, which contributed to the higher GAAP loan yield and net interest margin. As of September 30th, we had $10.8 million of remaining loan to purchase discounts, of which we currently expect $9.4 million to accrete into income for the remaining lives of the acquired loans.

Of disagreeable amount, approximately $1 million is expected to accrete by the end of 2017. Total deposits for the quarter were down $60 million from the prior quarter, primarily due to our intentional plan to reduce public funds. Due to the nature of our asset portfolio, being primarily in the loans rather than securities and continuing a strong low demand, the pledging requirements associated with public funds make many of these accounts non-economical for us to continue.

Our loan to deposit ratio is 121% as of September 30th. Our use of federal home loan bank advances to fund most of our mortgage warehouse portfolio inflates this ratio about 10%. We would also like to note that our third-quarter results do not yet incorporate the $162 million in deposits and net liquidity provided by the Independent Bank branch acquisition or the $296 million in deposits and net liquidity we would expect to acquire in the pending Valley Bank acquisition.

On a static basis, these two acquisitions will reduce the loan deposit ratio about 10%. We remain confident in our ability to continue funding profitable loan growth given our ability to pay competitive deposit rates as our loan portfolio yield remains above 7%.

Noninterest income decreased $1 million from the second quarter to 4.2 million. As discussed in our last earnings call, the primary driver of this decrease is due to $990,000 of earnings we realized the prior quarter on our investment in a CLO warehouse, which was repaid to us in late June.

Noninterest expenses in the second quarter were $28.2 million, which is in line with our expectation of approximately $28 million we communicated during last quarter's call. Total noninterest expense increased about $900,000 over the prior quarter. Most of this was attributable to increased bonus and incentive compensation as our core earnings performance continues to improve since the first quarter of this year. Our FTEs were up only about five positions from the prior quarter, to 711 as of September 30th.

With that, I'd like to turn the call back to Aaron.

Aaron Graft
Thank you, Bryce. A couple of final things to mention regarding expenses and future plans before we turn the call over to the operator for questions. First, investors should expect to see expense growth in Q4 beyond our normal growth due to the completion of our acquisition over the nine branches from Independent Bank and our acquisition of Valley Bank and Trust.

We estimate that the cumulative impact of these transactions will increase our expense run-rate in Q4 two approximately $30.5 million. Q4 will include the Independent Bank branches for nearly the full three months, and Valley Bank and Trust for one month.

As a most of you know, TBK has been a bank headquartered in Dallas, but not really a full-service Dallas bank since the current management group led the recapitalization of the bank in

2010. We expect this will change in 2018. Our board and senior management have deep roots in North Texas. As a result, we have built a significant loan book in our local market.

Many of our borrowers have expressed an interest in moving your entire relationship to TBK, but have been unwilling to do so for lack of a full-service branch. We expect to open a full-service branch in Dallas in 2018. Like most things TBK does, we won't do it quite like other banks. More details on this to come, but know that we are excited about building a true commercial full-service presence in North Texas.

We view this as a very strategic investment into the future growth of our company. As part of this, we are scoping a significant upgrade to systems such as our treasury management solutions. We expect to deliver significant deposit and loan growth through the presence of this branch and these upgrade solutions. With that, I'd like to turn the call over to the operator for any questions.

QUESTION AND ANSWER

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

Our first question will come from Jared Shaw of Wells Fargo Securities. Please go ahead.

Timur Braziler
Hi, good morning. This is actually Timur Braziler filling in for Jared. My first question is on the deposit side. Can we talk a little bit about what you saw there for trends this quarter? How much of that late quarter decline was driven solely by the pending acquisitions, or is there some sort of strategic shift taking place?

Bryce Fowler
This is Bryce. I will try to take that one. I think as far as the changeover evolved, we saw a decline in our public fund deposits of about $100 million during the quarter. That was a result of a conscious decision on our part to rejigger our funding mix and eliminating those over time to us overall.

So otherwise, I can tell you that we were anticipating the closing of the branch acquisitions that are close, as well as Valley, so we were running a little lean and probably not pushing on liquidity and probably not pushing as hard on deposit growth, knowing that those two transactions were on the way.

Timur Braziler
Okay, thank you for that. And then just maybe looking at the Colorado franchise, I know many of those deals are done for the deposit aspect, but what have you seen on the lending side thus far? And then once you roll in these two deals that are one's closed and once expecting to close in the fourth quarter, how would that landscape potentially change or what is your expectation there?

Dan Karas

Hey, good morning. It's a Dan Karas. We're pretty excited about the opportunities in Colorado. We pick up or have picked up in the branch acquisition about $100 million in loans. About $75 million of that is ag, so we're pretty comfortable with the people and the types of businesses that we serve in those markets. In the Valley acquisition, that's about $170 million in loans. A mostly commercial, a little bit of ag mixed in, but that's primarily commercial.

We don't look, as we said before, in our community bank franchise, for the same growth level that we expect in commercial finance, so if we are in the 3 to 5% range organically, we're pretty comfortable with that, and then let commercial finance continue to drive the overall growth.

Timur Braziler
Okay. And then maybe just one more for me. There's been a lot of deal activity recently what's the deal appetite currently from just a back office systems standpoint? When are you guys able to get back into the market and look for incremental M&A activities?

Aaron Graft
Timur, this is Aaron. So the Valley Bank acquisition, legal day one is scheduled for December 8th and of course that involves the merger and conversion. As you would expect, there's an integration process that has already begun, but really picks up at that time. Of course, as you also might expect, there's a few of us at the organization who spend our time not only helping with that but looking out towards what the next opportunity set is.

I don't think it's a surprise to anyone if you step back and just look at Triumph holistically and you think about how do we do M&A that creates value for our shareholders, not just asset growth? That M&A is going to be focused on the opportunity to grow or capture core deposits, and so there are many of those dialogues going on right now from branch deals to full bank deals in markets we're in, adjacent to markets we're in and so I would be hopeful, much like we did in 2017 where we were able to announce and close multiple deals that we could do the same in 2018.

But you won't hear anything from us as far as an announcement goes until after the first of the year just because of where we are in the process with Valley, and as far as what we're capable of doing in our back office. We are so much better than we were a year ago. We have a lot of things we still want to get better at. I mentioned those in the call.

We want to improve the technology-related treasury management and many other things, but a huge upgrades behind the scenes have been made and there are more to go, but we certainly are better-equipped to do multiple deals in 2018 then we were even in 2017. So we expect M&A to be part of our future.

Timur Braziler
Okay, great. And then just, lastly was the expectation of North Texas becoming a bigger component of the overall bank, is it safe to assume that we can see the potential for either branch transactions or whole-bank M&A to be centered around that area or is this more broadly-looking than that?

Aaron Grant
I think it's more broadly-looking than that. Nothing in North Texas. Just to be clear, what we wanted to tell everyone we are doing is establishing a branch in North Texas. That physical branch will already have pre-wired around it a lot of loans and a lot of deposit potential just

because, if you look at our Board of Directors and our management and our relationships here, we just needed to create a physical location where we can direct all of this potential traffic to.

So it's going to grow far faster than if we were to already have five branches here, it'd just be adding a sixth. You're going to push a lot of volume there, so we're excited about that. As far as on the M&A in North Texas, should an opportunity present itself, we certainly will look at it, but I would not put that at the top of the list of at least sitting here today where I expect we would do M&A in 2018.

Timur Braziler
Great. Thank you for that color.

Operator
Our next question will come from Nick Grant from KBW. Please go ahead.

Nick Grant
Hey, good morning, guys.

Corporate Participant
Morning, Nick.

Nick Grant
All right, so you had another really clean quarter from a credit perspective. Are there any pockets of concern at all right now, or is it pretty clean across the board? Was any of the provision related to Hurricane Harvey or anything like that that you can note on?

Dan Karas
Hey, good morning, Nick. It's Dan. Let me start with the Hurricanes first and we're pleased that both of the people and our clients overall have been relatively lightly impacted. We have made a few equipment finance extensions, but really nothing significant as it relates to that. Our largest exposure was in mortgage warehouse, and I'm happy to say that exposure has all but been repurchased at this point, so really there's a no impact that the hurricane had on us institutionally.

As I think about trends and asset quality, nothing really stands out at this point. We had one equipment finance issue in Q3 that we dealt with on the charge-offs and on the recovery side we had two legacy loans that we were able to work through and fortunately have recovery with one healthcare credit that we took a charge out of the first quarter, we had a small recovery on it. So as I look at it today, there's really no meaningful negative trends on the horizon.

Aaron Grant
And Nick, just to add onto that, I would say where we sit now, the bulk of our nonperforming assets are concentrated in a few large relationships that have been around, some acquired, some made, that we continue to progress further onto resolution. Unknowable whether that will happen in Q4 or Q1, but when you get to a point where you have four or five significant assets, were they to complete resolution, could lower our non-performing asset ratio to something that's extremely miniscule. That's exciting to us.

Nick Grant

Okay, great. Thanks. Then can you touch on the decrease in commercial finance loan yields. I realize this is coming at a very high level, but is it primarily driven by more premium finance lowering that or is there something else going on we should think about moving forward?

Bryce Fowler
This is Bryce. I think there's a mix of things happening there where some of it is a little bit of a change in the mix of the portfolio, but really that, I don't think it's a driver quarter over quarter as much as we did have--I wouldn't call it unusual, but we had, within the range of normal, we had a higher level of fee income in the prior quarter versus prior quarter, and that drove a big piece of that.

I think the growth in premium finance is probably a little bit of drag in that quarter over quarter, but even their portfolio yields are improving for us overall, so we really aren’t seeing yield compression in a commercial finance portfolio on the trend basis. We had some chatter from quarter to quarter as these other things happened.

Nick Grant
Okay, great. And then one last one from me, can you touch on your outlook for long growth? Are there any segments you expect to pull back and is this a sustainable pace going forward on a quarter basis? I get you'll be growing off a larger base, but how do you feel in the future?

Dan Karas:
Well, as we talked about, Q2 was an anomaly. We were happy to have that level of success, and Q3, the summer, was a bit slow for us, but really picked up substantially post-Labor Day, so overall we were happy with that mix of commercial finance and commercial real estate growth. The outlook at this point looks similar for Q4. I think we'll see a mix of commercial finance driven in large part by Triumph Business Capital, as well as we've got some real estate projects in the work that I think will close, so perhaps a similar Q4 quarter.

Aaron Graft:
Nick, as I look out just beyond Q4 into the future, one of the things that excites me for TBK is, first of all, it's not lost on us what is going on in the economy and that we've got some tailwinds there, but when we look at the pipeline, yes, Triumph Business Capital has exceeded expectations. Invoice sizes continue to grow, even after this quarter and which it's just going to go straight to the bottom line.

That's great. Triumph Pay could be tremendous opportunity, but it's not just a forward-looking pipeline of factoring or commercial finance growth. I see what we're doing in our CRE business. You know, we have 175% concentration in CRE. We purposely have been judicious in how we wanted to grow there, so we are excited about the opportunity there with some larger projects, lower loan to value projects with good sponsors because we have the balance sheet room and a good ability to do that without becoming overly-concentrated.

In commercial finance as a whole, in our ABL and equipment finance group, I think there's growth opportunities. And not to mention just in our traditional community bank platform, which is now a bigger platform. So I think we're pretty optimistic maintaining a loan growth percentage relative to where we were certainly this quarter and excited, really, about the diversification within that loan growth pipeline for the future.

Nick Grant
Great. Thanks for taking my questions.

Operator
Our next question will come from Brett Rabatin with Piper Jaffray. Please go ahead.

Brett Rabatin
Hey, good morning everyone.

Aaron Graft
Good morning, Brett.

Bryce Fowler
Good morning.

Brett Rabatin
I wanted to ask first, Aaron, I know you're talking about "Wait for the details," but this development in Dallas, and you're going to do it differently, does that mean we're going to look at '18 and see a much higher spending rate on a commercial physical bank build-out, and can you talk about how much you might be spending on technology and the treasury management new platform?

Aaron Grant
Yeah. I'm not prepared right now to give you specific numbers. Look, it's a branch, right? So on the whole of our entire expense base, I don't think it's not going to be a game changer. Directionally, it will certainly be increased expenditure, but we think that will pretty quickly because, like I said, of the pent-up demand, the pre-marketing we will have done, pay off. As far as on the treasury management, we're not building something like Triumph Pay, for example, where there's been millions of dollars spent over time in developing a technology.

When we do that, that will be the top-of-the-line, off-the-shelf product from our current provider. So it's an incremental expense rate. I think the story is you should expect to see absolute expense growth in 2018 as we make these investments, but I don't think it's a sudden leg up. You'll see it start to come into earnings, or into the expense run rate, and probably you won't see much of it in Q1. It'll grow as the year goes on.

Brett Rabatin
Okay, so this isn't the next stair step in that, the next growth phase of your company, so to speak?

Aaron Grant
Yes, sir.

Brett Rabatin
Okay, and then the other thing, just on the margin. It seems like if you have some continued makeshift changes towards the commercial finance, your margin could actually move higher and rates maybe could help, but then everyone is a focused on deposit betas and I'm curious as your thinking about your funding over the next few quarters, just I'm curious on your thoughts on the margin and how you see it playing out.

Aaron Grant
I'll answer generally and then let Bryce correct or explain anything I get wrong. Look, our incremental cost of funding right now is certainly higher, like everybody, I'm sure, than what our

average cost is today. We could absolutely go out and turn on the deposit engine and bring in a lot of deposits in 90 days or 180 days. Our sensitivity is we don't think doing that, and repricing our entire existing deposit customer base, is good for the long-term value creation for our investors.

So, we have instead chosen to be judicious. If there are markets where we can maintain time-deposit rates that are at a discount to, especially in rural markets, to more urban markets, then we think that's what we're supposed to do. That's the smart way to grow rather than just blast out a nationwide CD rate that just makes people line up out the front of your bank. We can certainly do that.

So as I sit here and look at things today, I expect--and I don't have a crystal ball and I'm not an economist--but in 2018, we certainly expect our cost of funds is going to go up. I'd be shocked if it didn't. We think will generate core deposit growth, undoubtedly through what we talked about in Dallas through better marketing, better technology. We certainly would be surprised if we were able to do that at the rate at which we grow assets. That's just the nature of our business.

So M&A will help. Again, we have a very specific focus when we do M&A about what we're after, so that can certainly help, but just the trendlines overall to support the continued growth of our organization and our cost of funds should go up. As far as where we are on assets, it seems fairly stable, and certainly to the extent that we have tailwinds and factoring, which by a large margin is our highest-yielding loan product. Then that would hopefully offset that and continue to maintain the similar NIM profile that we've had the last few quarters.

Bryce Fowler
I might just clarify one thing, if you don't mind, on deposit beta. Just to be clear, in our retail branch system, we have not adjusted our rates up in response to market or competitive pressure. So the rise you're seeing in deposit costs this quarter are really a mix shift in the growth that we're creating net as we turn the portfolio underneath and reprice it on more of the national pricing scale.

Brett Rabatin
Okay. Great. Appreciate all the color.

Operator
Our next question will come from Steve Moss of FBR. Please go ahead.

Steve Moss
Good morning.

Aaron Graft
Good morning, Steve.

Steve Moss
Hi. You guys had a really good growth here in the commercial portfolio, but I was a bit surprised that the loan-loss reserve actually went down two basis points quarter of quarter. I was wondering if you could help about some of the underlying dynamics and how we should think about the reserve ratio going forward.

Bryce Fowler

Sure. I think clearly we pointed out, I think, on the call, that this quarter in particular that we had net charge-offs of basically zero, aided a little bit by some nice recoveries in here, net-net in there. So that was a benefit for this particular quarter. If I could just play with the math on provision expense going forward on future loan growth, of course it will be dependent on mix of that, but it's probably going to be on average something like 80 to 90 basis points would be providing on a net loan growth on the way we have things calibrated today on the provision.

Steve Moss
Okay, that's helpful. And with regard to factored receivables, good growth this quarter. I'm assuming some of this growth may have been due to higher gas prices in part of the quarter. I was just wondering how should we think about fourth-quarter growth and trends there?

Aaron Graft
Yeah, so there are a lot of things going on in transportation. The market moves fast. I certainly think you're correct, that diesel prices have had some effect, although our analysis is it just demand in spot market has been driven to some of very high levels.

If we sit here today and look at where our average invoice purchase price is it today versus what's reported for this past quarter, it is, again, significantly higher. So, we see a lot of tailwinds in that business because, as you know, the invoice size doesn't create any more or less work for us, and so it's incredibly profitable incremental growth when those invoice sizes stay high, which it feels like it to us, and if you read the literature in the industry, is going to happen.

Something I'd point out to you that we do control that affects the growth in that line of business, in Q3 of 2017, we added 235 net new clients. That's more net new clients then we added the entire period of Q1 to Q3 of 2016. And we think that is a result of all of the investments we've made in that business of superior technology, superior marketing, name recognition. Because as long as we're generating a net new client growth, then it's just academic we'll have exposure to more invoices, and you're operating that on the framework, the infrastructure we've built out there.

So all those things considered, I would expect another pretty outstanding quarter from Triumph Business Capital in Q4, and I think it could certainly continue for the foreseeable future.

Steve Moss
All right, thank you very much.

Operator
Our next question will come from Gary Tenner with DA Davidson. Please go ahead.

Gary Tenner
Thanks, good morning, guys.

Aaron Graft
Good morning.

Gary Tenner
I had a couple more questions on the factoring business. The yield in that business in third quarter came down a bit. Is that just a function of timing of collecting on the invoices or is there

anything structural in terms of maybe penetrating into some larger clients, that maybe the discounts are little bit skinnier on the [unintelligible]?

Aaron Graft
I think it's both, and clearly we've, I think, picked up more fleet clients, which you're going to pick up more invoices per client at slightly lower rates.

Gary Tenner
Okay, great. And then you've alluded to this a bit, but certainly the pickup and the average invoice price of over $1,500 this quarter, I imagine that September number was quite a bit higher just given the spot rate impacts post-hurricane. Is that fair?

Aaron Graft
I think month-to-day right now, we're running around $1,650, so yes. Significantly.

Gary Tenner
Great. And just wondering if you have any updated thoughts on what the impact of ELD coming at the end of the year with them to average invoice prices or just to your portfolio, ex any additional growth?

Aaron Graft
It's the same thing I said before, we just don't know. I know there's a big push right now to get the instrumentation of ELD delayed for a year. I have no idea whether that will gain traction or not. I know that President Trump spoke to a bunch of truckers and I enjoyed reading the hashtags about ELD or Me as the independent truckers pointed out, rightfully so I happen to think, how the hours of service rules are negative for them.

So look, what we know is that the day after this gets implemented, freight's still going to have to move, and if you look at, say for example Warren Buffett's investment in Flying J. We don't know what, autonomous trucking, we don't know about battery-powered trucks, we don't know about ELD's, but what we do know is a lot of freight has to get from the coasts to all across the United States, and the only way I know it moves is through truckers, and I think that actually increases in 2018.

And so we think we are as well-equipped as anybody to participate in that market. Whatever volatility comes from ELD or not, we still think the future is pretty bright for us.

Gary Tenner
Great. Thanks, guys.

Aaron Graft
Thank you.

Operator
Again, if you have a question, please press "*" then "1."

Our next question will come from Matt Olney with Stephens, Inc. Please go ahead.

Matt Olney
Hey, thanks. Good morning, guys.

Aaron Graft
Good morning, Matt.

Matt Olney
You've already addressed all my questions on the factoring, so appreciate that. So I want to circle back on commercial real estate and it sounds like there are some nice opportunities there. Can you just speak to the pricing, the terms you're seeing right now within CRE, and then by geography, is this growth going to be in-footprint? If so, which markets do you think a lot of CRE growth will come from?

Dan Karas
Hey, good morning, Matt. It's Dan. Most of the growth is coming in two pockets. It's either the higher quality, lower LTV, think of that as 60-65%, a bit lower-yielding, multifamily or office out of our Dallas office. Most of that is in that this geography. The other component of real estate growth is construction and development and we're seeing that growth in the Midwest market. Those terms, likewise, are similar, relatively modest LTVs who are in that 70-75% range.

Yields are pretty consistent across the board. We are going to see, as we saw in Q3, more draws under existing C&D facilities, not necessarily new commitments in that process. So those are really the two areas where we seem growth over the last quarter.

Matt Olney
Okay, that's helpful, Dan. And on the expenses, in the prepared remarks I believe you mentioned the fourth quarter Outlook called for operating expenses at $30.5 million. Did I get that correct? And is there anything non-operating in that number or is that the clean run-rate, kind of a core number going forward?

Bryce Fowler
Right. This is Bryce. You got the number right, $30.5 million. That's our estimate of a clean run rate number for that quarter. That also includes, again, like Valley not being in there for the full quarter, as a reminder, okay?

Matt Olney
Understood, okay. Thank you, guys. Appreciate it.

Aaron Graft
Thank you, Matt. Take care.

Operator
And ladies and gentlemen, this will conclude our question and answer session. I would like to turn the conference back over to Mr. Aaron Graft for any closing remarks.

CONCLUSION

Aaron Graft
Thank you all for joining us today. We look forward to seeing you down the road.

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