Triumph Bancorp, Inc.

Second Quarter 2018 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 morning, ladies and gentlemen, and welcome to the Triumph Bancorp Second Quarter 2018 Earnings Conference Call. All participants will be in listen-only mode. Should you need assistance, please signal a conference specialist by pressing the star key followed by zero. After today's presentation, there will be an opportunity to ask questions. To ask a question, you may press star then one on your telephone keypad. To withdraw from the question queue, please press star then two. Please note this event is being recorded.

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

Luke Wyse
Good morning. Welcome to the Triumph Bancorp conference call to discuss our second quarter 2018 financial results. Before we get started, I would like to remind you that this presentation may include forward-looking statements. Those statements are subject to risks and uncertainties that could cause actual anticipated results to differ. The Company undertakes no obligation to publicly revise any forward-looking statements.

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

I'm joined this morning by Triumph's Vice Chairman and CEO, Aaron Graft; our Chief Financial Officer, Bryce Fowler; and Dan Karas, our Chief Lending Officer. After the presentation we'll 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. Good morning. For the second quarter, we earned net income to common stockholders of $12.2 million, or $0.47 per diluted share. These results were impacted by a couple of material items, including:

On June 2nd we closed on the acquisition of ICC, which was one of our primary competitors in the transportation factoring space. We incurred $1.1 million of transaction-related costs. Adjusting for these costs, adjusted earnings per diluted share were $0.50.

Asset quality remains acceptable. Net charge-offs were $400,000, or one basis point of average loans. Non-performing assets as a percentage of assets moved lower by almost 20 basis points to 1.28%. We continue to expect this to improve over the rest of the year, and our goal remains to get NPAs below 1% by the end of the year.

Non-performing loans as a percentage of loans are up slightly, two basis points, reflecting the addition of one $5.2 million commercial real estate relationship secured by a retirement home and a 90% government guarantee.

Our provision for loan loss was $4.9 million for the three months ended June 30, 2018, which is $2.4 million higher than the first quarter and reflects growth in our loan portfolio; $1.8 million of this increase is attributable to the additional operations of ICC. Additionally, we recorded net new specific reserves of $2 million during the quarter compared to $800,000 during the prior quarter. The increase in our provision was partially offset by lower net charge-offs during the second quarter.

Loan growth was $322.5 million, inclusive of the assets acquired with ICC. Organic growth in the quarter was $191.5 million, or 6.7%. We have previously discussed the seasonal trends in our business and our expectation that Q2 loan growth would be stronger than the first quarter, consistent with historical trends.

During the second quarter our commercial finance business continued this pattern. Asset Based Lending grew $31 million, or 13.5%; Equipment Lending grew $30 million, or 11.4%; and Factoring, excluding the ICC acquisition, grew $76 million, or 19%. The ICC portfolio grew $8.7 million from June 2, or 7% for the month. Overall, the commercial finance portfolio was up 29% this quarter and is now 38% of total loans.

Our community banking portfolio grew 3%, driven by strong growth in mortgage warehouse net of a net decline in commercial real estate. The remaining community bank portfolio was stable; mortgage warehouse average balances increased $51 million this quarter to $238 million.

At Triumph Business Capital, our factoring subsidiary, including the incremental impact of the ICC acquisition, our quarter-over-quarter performance remains very strong. Purchases increased by approximately $250 million, or 27%, to $1.16 billion during Q2. Our number of active clients increased by 2,146 clients to a total of 5,584. Excluding ICC, our client growth was 352 clients in Q2, which is approximately 10% in a single quarter. As I have said before, this is a key performance indicator for our future growth, and it continues to point to positive momentum. I want to congratulate our team on their continued outstanding performance and their excellent work integrating ICC into the TBK team.

The number of invoices purchased increased by 135,000 to 656,000, and the average dollar value of those invoices grew $20, from $1,751 to $1,771. We've included a table in our earnings release published last evening that provides some further breakout of this information between both transportation and non-transportation invoices. Transportation-related invoices comprised approximately 84% of the growth balance of factored receivables at June 30, 2018.

As it relates to TriumphPay, we have 76 clients utilizing the TriumphPay system, which is up from 61 last quarter. During Q2 TriumphPay processed 45,000 invoices, paying 13,000 carriers approximately $62.7 million. While not yet a meaningful source of revenue, we continue to believe this is a transformative technology for the industry, and certainly our institution, and we continue to have high hopes for its future.

In May we participated in the BiTA Transparency 18 Conference, where we presented our integrated ledger payment solution. Many of you have expressed an interest in this video. A recording of that presentation is available on our website at www.triumphpay.com/demo.

Net interest margin was 6.36%, which continues to be among the best in the industry. Net interest income was up $6.1 million over Q1. This includes $1.6 million of purchase discount accretion on the acquired ICC portfolio.

Due to the quick average turnover of this portfolio, the entire discount was accreted to interest income in Q2, but was offset by $1.8 million of provision for loan loss to establish an appropriate allowance at quarter-end. These purchase accounting adjustments will not continue in future quarters. We estimate that the GAAP yield on the total accounts receivable portfolio at TBC, including the ICC portfolio, will be approximately 19% in Q3.

Our loan to deposit ratio at June 30, increased to 122%. This ratio was inflated 13% by our use of FHLB advances to fund mortgage warehouse lending. We also chose not to aggressively pursue deposit growth with rate in the national markets this quarter, as we have an eye towards closing the previously announced bank acquisitions in Q3 and acquiring their $300 million excess liquidity position.

Net interest margin adjusted to exclude discount accretion was up 11 basis points to 5.92% for the quarter, while the cost of total deposits increased 5 basis points to 73 basis points.

Non-interest income, excluding the $1.1 million gain on sale of Triumph Healthcare Finance during the first quarter, was up $800,000 from Q1 to $4.9 million. This increase was led by seasonal patterns in service charges on deposit accounts and card income and stronger fee income from Triumph Business Capital and ICC.

The increase in non-interest expense was driven primarily by the transaction-related and operating costs of ICC for the month of June totaling approximately $2.4 million and was in line with the guidance we previously provided for the quarter. We expect Q3 non-interest expense to be $41.5 million. This increase is related to a full quarter of ICC operations, technological development around our factoring and TriumphPay platforms and investment in our overall infrastructure.

Triumph is a rapidly growing institution and we expect to continue investing for the future of our business. The ICC acquisition resulted in our recording $43 million of goodwill and $14 million of amortizable intangible assets which will be amortized on an accelerated method.

Factoring in the intangible assets recognized through the ICC transaction, we expect total amortization expense for all of our intangible assets to be $3.7 million over the second half of 2018, and $6.7 million for the 2019 fiscal year. These amounts are contemplated in the Q3 expense guidance I mentioned previously. The ICC transaction has an element of contingent consideration, with a maximum payout of $22 million that could be paid 30 months after closing.

The final payout will be determined by macroeconomic factors that mirror changes in average invoice prices over that 30-month period. The fair value of this liability was measured at $20 million at quarter end. So, our potential net negative earnings impact is $2 million over the next 30 months if the maximum payout is paid at that time. The fair value of the associated liability will be measured at fair value each quarter, with the resulting valuation change reflected in earnings. In the event we end up paying the maximum $22 million, that would be an indication that average invoice prices have been consistently elevated over the 30-month period, which would have a net earnings benefit to our bottom-line.

This was a successful, tremendously busy quarter. I'm exceptionally proud of our team and the effort it took to bring all of this together. For those of you who are listening to this call, I want to say thank you and well done.

With that, I'll turn the call back over to the operator for any questions.

QUESTIONS AND ANSWERS

Operator
Thank you, sir. Ladies and gentlemen, we will now begin the question-and-answer session. To ask a question you may press star then one on your touchtone phone. If you are using a speakerphone,

please pick up your handset before pressing the keys. If your question has been addressed, you may withdraw from the queue by pressing star then two.

Your first question this morning will be from Brady Gailey of KBW. Please go ahead.
Brady Gailey
Hi. Good morning, guys.

Aaron Graft
Good morning, Brady.

Brady Gailey
So even if you exclude ICC, it looks like in your factoring business the number of clients added saw a notable tick up from kind of where you guys were running for the last year. Is there anything specific to point to that provided that nice increase in the number of factoring clients?

Aaron Graft
Yes. it's a combination, Brady, of economic factors which are bringing more small companies into the transportation industry, and the fact that we are now the dominant market player in this industry, the brand recognition that we have. Finally, as a result of the investments we've made in our digital and other marketing channels, we are able to reach more customers. That's 432 net new clients, excluding ICC, is a tremendous order. I mean that puts you on a 40% annualized growth rate, which obviously is where future invoice purchases come from when you onboard these clients.

It's a good economy, especially in trucking, we are doing some things well. We are reaping the benefits of investments made in the past, and the team is doing a very, very, very good job.

Brady Gailey
All right. And then on the funding side, I know we have the 300 million of excess funding that's coming in this quarter with the acquisitions, but if you look organically, I know you guys are opening the office there in Dallas, you are also rolling out a new treasury management platform, maybe just talk about the opportunity to increase the organic growth rate of funding.

Aaron Graft
Well, there is an opportunity to increase the organic growth rate of funding in our deposit franchise, within our branch network where we get almost 65% of all deposits with the remaining deposits coming to the Dallas branch and the national market. For us, we try to do this in a measured way. We know that the opportunity is there if we need to increase rates to gather deposits, a greater market share in those markets we can. We just don't want to re-price the existing portfolio ahead of when we would need to do that. We are seeing traction in the Dallas market. Treasury management by Q3 will be live, and Q4, you will really start to see us bringing clients onboard in that on to our treasury management platform.

There is an opportunity. I can't quantify what the number is. I can tell you, Brady, the way we look at it is we think transactional accounts will grow. There is some marketing focus on things we are working on in retail that we think will help, but the bottom line is given our loan yields, we are not going to miss out on the opportunity to continue to grow our commercial finance portfolio due to a lack of deposits.

Brady Gailey
All right. And then last from me, you have talked about the 180 ROA goal, just an update on when you think you might be able to achieve that level of profitability.

Aaron Graft
I stand by what I have been saying, which is Q4 of '19, that's our goal to achieve that level. We view this quarter as a pretty good quarter, a lot of noise, a lot of work going on, but there will be further synergies to come with the ICC acquisition. We continue to see strength in equipment finance and factoring, revenue growth looks really good. And as we harvest these efficiencies, bring on the banks that will be closing on September 7, it will put us in line with where we need to be internally in order to achieve that goal by Q4 of '19.

Brady Gailey
Great. Thanks for the color, guys.

Aaron Graft
Sure.

Operator
The next question will be from Steve Moss of B. Riley FBR. Please go ahead.

Steve Moss
Good morning, guys.

Aaron Graft
Good morning.

Steve Moss
Starting off with the factoring business and the growth you saw there, what are your expectations for the third quarter, and how should we think about that as it impacts the margin going forward?

Aaron Graft
Yes. We keep setting all-time records every month, Steve, I would be hesitant to give you a number because every time I do, we end up outperforming it. And there are team members probably listening to this call, who are pretty tired, so I don't want to set another goal that much further out.

But what I would say is look at the growth rate of clients, and as long as your net new client growth is happening at the levels that we are seeing, it's going to lead to a roughly equivalent growth in the number of invoices purchased, and invoices continue to tick upward. If you put all three of those factors together, I would suspect that Q3, you are going to see material growth off of Q2. There could be some macroeconomic event where transportation slows down, but failing that, as I have said, we've sowed these seeds over a period of years and built this market position, and it just continues to grow organically.

Steve Moss
Okay. And so then, just so we think about the margins just backing out the 21 basis points from the ICC acquisition in terms of purchase account accretion, margin probably should head higher excluding that given the factoring receivables growth? Is that fair?

Bryce Fowler
It should. This is Bryce. The inclusion of ICC for a full quarter in Q3 will tend to drive that up a little bit. As a reminder though, banks will be closing during that quarter as well. That will tend to dilute it back down. Overall, I kind of expect loan yields in the third quarter to be about flat to this last quarter.

Steve Moss

Okay. That's helpful. And then on expenses, you mentioned it was 45 million for the third quarter. Obviously, you have deals closing towards the back half of the quarter, just wondering what you guys are thinking about fourth quarter expenses as well.

Aaron Graft
Let me clarify. So 41.5 million is what we've called out Q3, four one point five. That does not include any increase related to the acquisition of First National Bank of Durango, Citizens Bank of Pagosa Springs, or Bank of New Mexico which will come on towards the first part of September. You won't get a full run rate on that.

At this point, we're not going to give guidance out to Q4 around expenses, but we're at 41.5 million in Q3 organically where we sit, that does include the amortization of the intangibles that are on our books. And then Q4 we'll give guidance on our next call for where we think Q4 will be with the inclusion of the banks.

Steve Moss
All right. Well, thank you very much for that color.

Aaron Graft
Thank you.

Operator
The next question will be from Brad Milsaps of Sandler O'Neill. Please go ahead.

Brad Milsaps
Good morning.

Aaron Graft
Good morning, Brad.

Brad Milsaps
Just to follow-up on Steve's question on the expenses, has anything changed around your original assumptions with cost savings, either at ICC or the bank acquisitions? I am just curious, I assumed your guidance initially for 41.5 million might have included some contribution from the bank. Just curious, is most of that increase all related to ICC or other continued investments in there as well?

Aaron Graft
Yes, I think it's 4.2 million is related to ICC, having that in for a full quarter. Understand ICC has not been fully integrated. In fact, the integration is in its infancy. As far as costs saves, I don't think anyone should expect material cost saves in ICC. The cost savings come from the integration of their team on to our platform as we continue to grow this business 25% a year organically for us to grow it without expenses growing 25% a year organically.

Them coming on to the operating system, the Delta project you all have heard me talk about that we've built, that happens in October, where we'll really start to see the efficiencies of being able to allocate workload to the larger labor pool we have. We will start to see that in Q3-Q4. As far as around the bank acquisitions and our expected cost savings, we're in the 20% range. This is the guidance we gave when we announced those acquisitions. There haven't been any changes with respect to that.

Brad Milsaps
Okay, great, Aaron. And just one follow-up, just around TriumphPay, I know you guys have been

running hard presenting at all the conferences you mentioned. I know you've been targeting maybe signing up a top ten freight broker, I apologize if you mentioned it earlier, but just curious, any update there, any further traction and any additional color would be great.

Aaron Graft
Yes, well we've gone from 61 clients utilizing the system last quarter to 76 this quarter. On a percentage basis that's a lot. Of course we’re starting with a pretty small denominator so we're not counting the percentage there. I would say that work continues in multiple discussions with potential bellwether clients to come on to our platform, and I'm hopeful that in the coming quarters we'll be able to announce one of those, and when we do I would expect more to follow. We continue to see interest in the system, the number of carriers onboarding on to the system has increased.

The jump you saw from just Q1 to Q2 is indicative of where it will go. But when we land a top 10 freight broker, which I am convinced we will, I think we'll land multiple of them because it's just a better way to go to market, it's better for them, better for the carriers, better for everyone involved, you'll start to see the volumes going through that TriumphPay platform jump dramatically.

Brad Milsaps
Okay, thank you.

Operator
The next question will be from Brett Rabatin of Piper Jaffray. Please go ahead.

Brett Rabatin
Hey guys, good morning.

Aaron Graft
Morning, Brett.

Brett Rabatin
Wanted to make sure I understood, you obviously had a really short duration portfolio on ICC which created the provision, just wanted to make sure we talked a little bit about the ongoing provisioning needs, and just you've now got a higher reserve. Can you talk maybe about the ongoing provision from here and what's required with the new portfolio going forward?

Bryce Fowler
Sure, this is Bryce, I'll take the first shot at that at least. But let's just clear up a little bit on ICC. It is a very short portfolio so that portfolio turns on average, let's call it, roughly every 40 days or so. Through that acquisition we're in essence under purchase accounting we bring it over without an ALLL that portfolio, and we've provided now a full allowance on the full outstanding balance that was outstanding at the end of June, that created the need for the large provision expense in the quarter. That's behind us now, because that portfolio is now fully reserved.

Going forward on that one we believe that kind of normal accounting of net changes in charge-offs, specific reserves, and growth impact that would drive that provision expense, that would be back to normal. Outside of that in the rest of our portfolio, that thing has really shifted on us. Our loss rates and all that our factors are drifting down over time given the low loss rates we've been experiencing in the good economic environment that we're in, but nothing unusual.

Brett Rabatin
Okay, just want to make sure that was the case. And then the discount accretion level from here on

ICC, did you essentially capture most of it in Q2 or any thoughts on the discount accretion from that deal specifically going forward?

Bryce Fowler
Sure. That has all been accreted, on both sides of that. The provision has been fully provided for and the discount accretion is all gone, there's none going forward.

Brett Rabatin
Okay, great. And then just thinking about TriumphPay and income, and I know a lot of it is going to predicate on what you add from here in terms of the client base. But do we start to see that show up more in fee income in the next few quarters in your view, Aaron, or what can you tell us about that part contributing more to earnings going forward?

Aaron Graft
Yes, I think you'll start to see a number that starts to become more relevant in 2019, that's the first answer. But one of the reasons we're so excited about TriumphPay is it works both ways. Not only does it provide an opportunity to pay carriers, that is, the independent truckers who are hauling on behalf of these large freight brokers to pay them efficiently and gain market penetration through doing that, it also gives us the opportunity to provide credit to these large freight brokers and improve their cost of capital. And so you're going to see it in fees and you're going to see it in lending. And we'll call it all out for you as we go forward, but it works both ways, up the supply chain and down the supply chain as a financing tool for both freight brokers and carriers, which we think is exciting and just gives us an opportunity to maximize revenue around it.

In addition, we hope also that you'll start to see fee income in 2019, Brett. The data that we are capturing, the spot freight market data that we are capturing we think has elements to it that aren't captured by anyone else in the industry. And so we're in the process of evaluating ways to monetize that data and use it for marketing purposes and to monetize it to third parties, just the amount of loads we're clearing we think could be pretty valuable. You should see some fee income from that which is not directly related to TriumphPay but it's all part of the same ecosystem. That starts to really show up in 2019.

Brett Rabatin
Okay. And then just one last one for me, if you look at the accounts receivables purchase you're almost double year-over-year. And if I think about slide 13 in your deck, my question is if someone said, hey, that could double again in the next year or two, would that be out of the realm of possibility in your view? And then thinking about slide 13 where are you on that market share of the available opportunity that's out there?

Aaron Graft
Right. So if you look at slide 13 and you look at the Triumph business capital side, which would be the traditional invoice factoring, you see that market is $60 billion. If you take the current run rate that we're at I would say we're on pace in Q3 to buy somewhere -- or annualized from this point going forward with ICC to buy around $6 billion in invoices annually. It could be a little more, it could be a little less. You would approximate that we are, as the market leader by I think a pretty long measure, at least on the information we have, we're 10% of the market, and we think the market continues to grow.

And so I think there is absolutely the opportunity to go create that market share. It requires us continuing to invest in the team, in the processes, in the technology, in the marketing, and all the things we've done, but it's not as if we're running out of room in this market.

Brett Rabatin

Okay, great. Appreciate the color.

Aaron Graft
Sure.

Operator
The next question will be from Gary Tenner of D.A. Davidson. Please go ahead.

Gary Tenner
Good morning. My questions have largely been answered. Just to clarify in terms of the fee income line item. Is that just purely regular way Triumph Business Capital and ICC fees on factoring or is there any element of the processing fee from TriumphPay that gets embedded in that line item as well?

Bryce Fowler
That's all substantially factoring. The TriumphPay is not in that line item, it's down—

Gary Tenner
And is that reflected anywhere as a fee or is it so de minimis at this point that it wouldn't—

Bryce Fowler
It's so de minimis now that it doesn't round up very big.

Gary Tenner
Okay. I think everything else I had was asked and answered. Thank you.

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

Matt Olney
Hey, thanks. Good morning, guys.

Aaron Graft
Good morning, Matt.

Matt Olney
I want to go back to the funding side. And I believe you said you utilized some of the wholesale borrowings in 2Q as you await for the closing of some of these bank acquisitions in the third quarter. Can you just quantify anything around this in terms of what were the cost and duration of some of this wholesale borrowing? I'm trying to understand kind of what the impact could be to some of our [audio disruption].

Bryce Fowler
Yes, this is Bryce, Matt. Most of what we did there you'll see really was in the brokered market on the deposit side. It was all pretty short durations stuff inside of one year, so the cost was really not very large. And they'll be rolling off maturing give us an opportunity to refinance that potentially with the bank acquisitions as that funding comes in. It's really not that large. We really did not, as we noted, pursue going out into the national markets and competing toe to toe on one-year-plus money that's more expensive. We were just bridging over until the bank closes.

Matt Olney
And Bryce, if I assume those bank deals closed in the third quarter, are we looking at a loan-to-deposit

ratio that would move from 122% now to down to a 108% or 110%, or help us understand what that could be next quarter.

Bryce Fowler
Yes, well, it's a function of a lot of variables and continuing loan growth and those kind of things, but I think that range you threw out is about right, probably 108%, 110% level.

Matt Olney
Okay, thanks. And then you already went over some of the details as far as your goals for return on assets in 2019. You've also talked in the past about the net overhead ratio. Could you just remind us about your expectations for that ratio, you mentioned at the end of 2018 and the end of 2019.

Aaron Graft
Well, yes, that's a great question, Matt. The goal that we've laid out there, if you're looking at slide 8 in the deck, is 3%. Now the conundrum in that is the fastest growing part of our business is our factoring business, which happens to also have the highest overhead ratio. What you'll see normalized in Q3 is the net overhead ratio come down by virtue of acquiring the banks that we're acquiring. But the natural pressure right now is you're not seeing the downward pressure that you would normally see in that business because factoring is growing so rapidly. That number I still have the long-term goal of getting to 3%, but I think it will take longer.

I still think with a net overhead ratio in the 3.25% to 3.5% range we can achieve our 1.8% ROA because the net interest income to average assets will be higher given that the GAAP yield on our factoring portfolio is close to 20%.

Matt Olney
Got it, okay. I appreciate that, and those are my questions. Thank you.

Aaron Graft
Thank you.

Operator
And the next question will be from Brett Rabatin of Piper Jaffray. Please go ahead.

Brett Rabatin
Hey, I just wanted to follow-up and ask, Aaron, your funding for the back-half of the year looks good with the banks you're closing, but it would seem like, given the growth that you're having in the factoring business, that you'll need to re-up in early 2019 with some additional bank deals. Can you maybe give us just a lay of the land in terms of if anything's going to change relative to when you struck the deals for the banks in Colorado and how you view the outlook for M&A in 2019 as you think about the funding growth going forward?

Aaron Graft
Yes. Well, since we announced those acquisitions, as you well know, some very high profile Colorado deals have been announced, very good banks, weren't on our radar because they don't meet our need, which was excess funding, for the most part were pretty loaned up. Bank pricing, M&A pricing continues to go upwards, you could say it's very full-priced, people are feeling good. For us we continue what we've done in the past, we continue to look in more secondary markets where pricing is better and we think deposits are stickier and you're not facing such intense competition. We continue to look at branch deals, both from regional banks and from some of the money center banks who are in a position that they may want to shed branches in what they view as non-core markets.

And then we look at whole bank acquisitions that are large enough in other markets that we might consider establishing a footprint, but in order to do that it would have to be well over a billion dollars and approaching something larger, and certainly have the balance sheet profile that gives us more core funding.

On the whole; I would say everything's gotten more expensive. We think there are still opportunities out there since we look at the world slightly different from many of our peers. But the deposits we were acquiring back in 2012 and '13, and even more recently than that, all of that has gotten more valuable in the market's view.

Brett Rabatin
Okay. And then just one other follow-up, the excess liquidity that you're absorbing in 3Q with the bank deals, how quickly does that get deployed and what do you do with it in the interim?

Aaron Graft
Loan growth will, I would suspect in Q3, still be strong. You saw that commercial real estate for us was almost flat quarter-over-quarter. That's just because we think the market opportunities have gotten more slim, but notwithstanding that fact you're still going to see us grow in equipment finance, factoring, commercial finance as a whole, and you see mortgage warehouse as well. Between the combination of that, plus the short duration we have on some of our more expensive funding that we'll allow to roll off, that $300 million of liquidity is effectively deployed the day we buy them, it's not going to be a drag.

Brett Rabatin
Okay. You're essentially going to use all that day one, okay.

Aaron Graft
Yes.

Brett Rabatin
Great. Thanks for the color.

Aaron Graft
Sure.

Operator
The next question will be from Travis Meyer of Hewes. Please go ahead.

Travis Meyer
Hi, guys. I just had a quick point of clarification. The 20% GAAP yield on factored receivables you're talking about, is that something we should apply to the AFE of 400 or the factored receivables balance, is it 600?

Bryce Fowler
Yes, this is Bryce here. In the introductory comments gave an estimate of what we expected the total yield next quarter to be, 19% for the next quarter.

Aaron Graft
And that would be on the entire AR portfolio of $577 million.

Travis Meyer
Okay. And how fast did you guys think that you were going to be able to grow this portfolio over time, is

it 20% you said?

Aaron Graft
It’s hard to know, Travis, I would hesitate to make a prediction. What I would point you to is we had 11% organic client growth in last quarter, and that's not annualized, that's just 11%. Every time we add net new clients that sows the seeds for future invoices that we will purchase. When you couple that with the fact that invoice sizes continue and even post the close of last quarter have continued to trickle upwards, we're going to see growth, but there's so many variables at play in this market I hesitate to give a number, but I would just tell you I expect Q3 to be better than Q2 where we sit. I would be surprised if Q4 were not even better than that.

Travis Meyer
Excellent. That's all my questions. Thanks.

Operator
The next question will be from Jared Shaw of Wells Fargo Securities. Please go ahead.

Timur Braziler
Hi, good morning. This is actually Timur Braziler filling in for Jared. I guess my first question, just looking at the two deals that are slated to close in the third quarter; I just want to make sure I heard correctly. You're expecting early September close there?

Aaron Graft
September 7th is our goal date to close them, Timur.

Timur Braziler
Okay. And then just specifically looking at the deposit base of both those institutions as rates continue to move higher and there's been some other deals in the market, just wondering what the visibility is to attrition thus far and how your expectations around deposit attrition changed since the announcement of these deals?

Bryce Fowler
Hey, this is Bryce. Their performance since we've struck the deal with them has been very good. Their balance sheet overall has been very stable, including on the funding side. Really everything is in line with what we expected at the time that we did that deal with them, really nothing has changed on it.

Timur Braziler
Okay. And then just one last one for me, looking at the mortgage portfolio, you guys were expecting a good quarter here in Q2, and that's certainly materialized. Just looking forward, how much of that momentum is going to carry into Q3, and any color you can provide on expectations around that portfolio would be great.

Dan Karas
Good morning. It's Dan. An interesting note is that the mix because of the rate environment has shifted for us from roughly 55% purchase to 80% purchase. We had a good quarter, and I'm really impressed with that quarter, and the momentum continues into Q3. We will probably be more susceptible to seasonality because of the mix between purchase and refinance, but overall the team is doing a great job.

Timur Braziler
Perfect. Thank you.

Operator
And the next question will be follow-up from Gary Tenner of D.A. Davidson. Please go ahead.

Gary Tenner
Thanks. I just wanted to clarify your expense guide for the third quarter of that 41.5, I know you said that did not include any of the operating expenses of the bank acquisitions that are forthcoming, but is that 41.5 a clean number or does that include any incremental transaction cost related to any of these deals, either ICC or otherwise?

Bryce Fowler
Right, it does not include any estimate on transaction costs, and nothing from the acquired banks. It's our current structural run rate.

Gary Tenner
Okay, perfect. Thank you.

Bryce Fowler
You bet.

CONCLUSION

Operator
Once again, if you would like to ask a question please press star then one. We'll pause just a moment for any additional questions. And in showing no additional questions, we will conclude the question-and-answer session.

I would like to hand the conference back over to Aaron Graft for any closing remarks.

Aaron Graft
Thank you all for joining us. It's 105 degrees in Dallas today, so stay cool out there.

Operator
Thank you, sir. Ladies and gentlemen, the conference has concluded. Thank you for attending today's presentation. At this time, you may disconnect your lines.