Bank OZK

Transcript of the Fourth Quarter 2022 Conference Call

January 20, 2023, 10:00 am

Note: Administrative communications of the operator and other greetings and social exchanges of no substantial import have been omitted from this transcript.

Good morning, I am Jay Staley, Director of Investor Relations & Corporate Development for Bank OZK. Thank you for joining our call this morning and participating in our question and answer session. In today's Q&A session, we may make forward-looking statements about our expectations, estimates, and outlook for the future. Please refer to our earnings release, management comments and other public filings for more information on the various factors and risks that may cause actual results or outcomes to vary from those projected in, or implied by, such forward-looking statements.

Joining me on the call to take your questions are:

- George Gleason, Chairman and CEO;
- Brannon Hamblen, President;
- Tim Hicks, Chief Financial Officer; and
- Cindy Wolfe, Chief Operating Officer.

We will now open up the lines for your questions. Let me now ask our operator, Victor, to remind our listeners how to cue in for questions.

Stephen Scouten – *PiperSandler & Co.*

Congratulations on a great quarter. First of all, when you all are thinking about RESG originations, I think it was $2.81 billion in the quarter, it's still extremely high relative to what we saw in 2021 or early 2022. What's the reason for the thinking it will be a little slower? Is it just overall economic slowdown? Are you seeing more construction projects kind of get tabled today than you were maybe 90 days ago? Or how can we think about those trends that you're seeing from customers in that space?

Brannon Hamblen

Yes, we actually, last quarter, we had the same question, and the answer is similar. You hit on a couple of the items that are impacting deal flow. Costs have continued to increase, although I would say that we are hearing and seeing anecdotal evidence that the velocity of those cost increases is coming in. So it's still up but at a slower pace. But obviously, interest rates have not slowed down. So that piece of the puzzle is still pressing against new deals. But we are still seeing new deals. We are still signing up new opportunities. But given that the pie is a bit smaller, we will probably take a little bit less in 2023. I mean competition is really not a piece of that answer. We've had really good success in pushing into and getting our fair share or more given where the competition is. And as I've said in the past, the quality of what we're able to originate today in light of less competition is lower leverage and better spreads on the deals that we are quoting and winning.

Stephen Scouten

This question may be a little early, but I think it starts to become interesting. If rates begin to roll over in the back half of the year, how do your floors play into that?

George Gleason

Obviously, the longer the Fed stays at whatever their terminal rate is, the better that works for our floors because loans that we originated two years ago had floor near the origination rate on those loans. We're obviously way away from those floors before they would become active. The loans we originated last quarter may be at or very near their floor rate. So the longer the Fed stays at whatever their peak rate is, the more we roll off older loans that are far from their floors and replace those with new loans that are at or near their floors at the time of origination. The scenario where the Fed slows their rate increases and maybe has one, two or three more quarter point increases and then stays at that rate for a year or longer, the longer they stay there, the better it is for our floors and the more defensive it is for our margin.

Stephen Scouten

Yes, that's helpful. At a very high level, is it fair to think about the -- and I understand what you're saying, George, is -- these numbers are improving every quarter, but almost the inverse of the charts you were showing previously as rates went higher and the percentage of loans that would fall into protection from those floors -- is that kind of roughly how we could think about it?

George Gleason

Yes, exactly. And if you think back a year or two, we had a lot of loans, the floor rate was way above what the formula rate was at the time and rates had to rise 50 or 100 or 150 or 200 basis points before we got above those floors and those loans activated. The Fed kept that from being a big issue by raising rates a lot in big chunks, and quickly in big chunks. So we quickly got over those floors, and you can see the benefit of that in our record levels of net interest margin and core spread that we've been achieving. So yes, the flip side of that is true.

And Stephen, that's why we've made the comment that when the Fed stops raising rates and deposit costs catch up, we will see a reversal of some of this significant improvement in net interest margin and core spread that we've had over the past year. It's possible that Q4 was the peak in our net interest margin and core spread. It's likewise possible that we could have another quarter where we have some improvement in NIM and core spread. But based on the fact that the Fed is going, it seems like 25 basis point increases, and the number of those is a legitimate question. Is it one? Is it two? Is it three? Is it four? But those quarter point increases, we're going to see a catch-up in our deposit costs. If we didn't hit peak NIM and core spread in Q4 we would probably eke out some small incremental gain in Q1. I hope we will have a gain in Q1, but that's questionable. But at a slower rate of increases, we have deposit costs, which lag beginning to catch up, we'll see some erosion of those recent gains probably in Q2 at the latest.

Stephen Scouten

Well, if the NIM peaks at 550 range you're going to be doing better than 99% of banks anyway. So we're fine with that. I guess the one follow-up is just when you think about that deposit lag in the back half of the year, how do we try to frame that up at all? Because that, to me, is the hardest thing to try to anticipate. We can think about betas when rates are rising. But when they're not, how do you think about that kind of lagged pressure in the back half of the year on deposit costs?

George Gleason

The way we're thinking about it is doing everything we can do to roll floors up and make sure that the deposits that we put on are not too long in duration. Now we added some duration to the deposit base last year and you saw that with an increase in the volume of CDs. That was intentional to put some duration in that book knowing that we were going to have strong loan growth in 2023, and probably weren't going to see rates coming down much, at least in the front half of '23 and maybe not at all in 2023. We're beginning to shorten the duration on new CDs we're adding and still doing a bit out longer, but we're pulling some of those in on some categories of deposits just to get ready to have deposits repricing late 2023 and early 2024 as we think that's probably the likely timing that the Fed might be in a cutting mode, if they are.

Stephen Scouten

I appreciate it and congrats again on all the record results.

George Gleason

Well, I want to give a shout out to Cindy Wolfe and Ottie Kerley, our Chief Deposit Officer and Drew Harper, who manages our wholesale funding that deposit team and all the guys that work for Ottie and Drew and Cindy. They have done a really good job of making adjustments to what we thought our interest rate risk profile is. And we've had a really nice expansion in our net interest margin, core spread, net interest income. And that just didn't happen. They've been very strategic in the way they've managed that on the liability side as our asset guys have. The team deserves a lot of credit for how well they've managed that.

Manan Gosalia

Morgan Stanley

I wanted to follow up quickly on the last line of questioning. With the new CDs that you're putting on, and the fact that you're reducing the term of those CDs, should a large chunk of the CDs come to you for repricing towards the mid to end of 2023. Did I hear you right there?

George Gleason

Manan, I would say that they're more laddered out throughout '23 and into early '24. So it's a pretty well-managed ladder. We've got CDs maturing every day, and we've kept a considerable focus on keeping that distributed fairly even so we can just manage that effectively instead of having big chunky pieces of it maturing here and there. So it's very well diversified on a day-to-day basis throughout '23 and into '24.

Manan Gosalia

Then just a big picture question on repayments. Given that the refi market takes out a larger portion of your loans, guess just based on your conversations and given how close we are to peak Fed rates, how quickly do you think that the capital markets can open up and push sponsors to move to more permanent financing? And based on how you've seen this play out before guess, what's the best estimate in terms of how high repayments can go this year?

George Gleason

Well, again, we've said that we think our RESG repayments will be in the range that we achieved during 2021 and 2022 -- that's $6.22 billion to $5.65 billion -- is the likely number there. It could be a little more than that. It could be a little less than that. But we're thinking that, that is the range for repayments next year. And I would tell you the capital markets are not closed. Transactions are getting done. Sponsors were just not as excited about the rates they're getting as they would have been on rates a year ago. One phenomenon that we've seen, and I want Brannon to comment on this, but one phenomenon that we've seen in the past, Manan, in response to your question is, if sponsors tend to think that they're going to get a much better exit six months or 12 months down the road than they are today, a lot of times they'll stay in our more expensive construction loan a little longer. If they think they're going to exit today at a 7% long-term rate, and they think they can get a 6% rate if they wait nine more months, they will tend to stay in our loan a little longer to get that better exit. Sometimes they do that, sometimes they're just ready to put the permanent to bed and go on down the road. But Brannon, do you want to comment on refinance activity in 2023.

Brannon Hamblen

You characterized it correctly, George. I think we will likely have a number of those short-term extensions, six, nine, 12 months, just as you said. And really, there's so much we don't know about exactly where longer-term rates are going to go. As George said, the market is still open. But as those rates move back to a more normal place, we would expect the repayments to accelerate. I think the back half of the year is likely to be higher than the front half of the year. But as we know, it is to our benefit certainly from an average earning assets point of view. And when we make those loan extensions a lot of times, we'll obviously get a little more fee income, perhaps a little more minimum interest, but they're not long term in nature. And so when the capital markets come back, they'll move on. Our rates are not as attractive, obviously, as the long-term rates.

George Gleason

Yes. And I would emphasize Brannon's point that we view loans staying on the book six months longer, or 12 months longer, is a very positive thing. It greatly improves our return on equity on those loans to have them sit on the books longer.

Manan Gosalia

Yes, that was going to be my follow-up. So if it stays on the books for longer, you have higher earning assets that helps your NII even if NIM is declining. But as you run your scenarios on the different macro assumptions, are there any situations in which NII peaks and starts to decline? Or should we just continue to see this NII ramp up and get to peak NIMs in the next couple of quarters and then move down from there.

George Gleason

Well, that's a good question, Manan. I would tell you that our prevailing thought is, is that we will see some compression in NIM and core spread in the coming quarters. But that's going to be more than offset by growth in average earning assets. We alluded to this in our management comments, specifically, and I've referred to it internally as a baton handoff where that growth in net interest income ceases to be driven by NIM, and that actually becomes a little headwind. But we've got great originations that have occurred in 2022 that will drive loan growth in 2023 and 2024. And the continued increasing diversification of our portfolio should also help us drive loan growth in 2023 and 2024. So we are cautiously optimistic about a positive net interest income story.

Timur Braziler

Wells Fargo Securities

Just following up on that last line of commentary, how should we be thinking about balance sheet loan growth in 2023, given the expectation for slowing originations. Is that pretty much scheduled and you know what you're expecting from a funding standpoint? Or could that too slow?

Tim Hicks

Given the level of origination volume we've had over the last four to six quarters, given our construction loans and the fact that and many of these loans we’re funding later in the construction phase, we do kind of know the schedule to a great extent of the funding for those loans. So that gives us confidence. You saw on page five of our Management Comments that we said we thought for 2023 that loan growth would meet or exceed the $2.47 billion we achieved in 2022. A lot of that is just the delayed funding sequence we have in those RESG loans and in combination with the growth profile that we have from some of our other business lines like asset-based lending and our Community Bank. We've got pretty good visibility into that for the 2023 year.

Timur Braziler

And then a follow-up for you, Brannon. In looking at the national markets, and asset classes within RESG, where are you seeing the most amount of resiliency right now? And then conversely, are there any geographies or asset classes that are seeing any kind of marked slowdown in either activity or valuation.

Brannon Hamblen

The book that we see coming to us continues to be a fairly diverse book, both geographically and from a property type perspective. I think one that stands out, and we've talked about it before, the upper Midwest, which includes Chicago, has been a little slower the past several quarters and that continues to be the case. We're still looking at good deals there, but just on a relative basis to our history, it's a bit slower there. But when I look at what we've got signed up in the pipeline to close, it has a pretty similar mix as historically -- less office probably than we've seen, but we are still seeing office opportunities with pre-leasing frequently available in those opportunities. And as I said before, we're in a really great position to achieve the low leverage -- that is our standard -- and really improving on that. But the southeast continues to be, the south, southeast, southwest, those states where we've seen so much good origination historically remain sort of the feature. I would say it's little slower on the coasts, but we're still doing deals on both coasts as well.

Timur Braziler

Looking at the comments made around net charge-offs for the coming year, recognizing that 2022 was a record year. How can we start thinking about normalized charge-offs? And then as we're looking at provisioning levels, just maybe talk us through your thoughts on provisioning trajectory here in 2023, given the broader uncertainty?

Tim Hicks

As you can look on Figure 15 in our Management Comments, our net charge-off history, obviously, what a great year it was in 2022 to be able to record a four basis point net charge-off ratio, which was an all-time low. The range that we've had over the last three or four years, in 2020 we had a 16 basis point net charge-off ratio. Obviously, there's a lot of uncertainty with the pandemic going on that year. And six basis points in 2021 and 11 basis points in 2019. It's hard for us to know what the net charge-off number is going to be for 2023. It's likely to be somewhere in that range, would be our best guess based on what we know today.

As it relates to provisioning, obviously, a lot goes into that. The macroeconomic factors that we get from Moody's go into that. Those scenarios became a little bit more adverse compared to what they were as of September 30, 2022. And so you saw us shift our weighting slightly, although we still are weighted to the downside through our combined weightings on Moody's S4 and S6 scenarios. The provision in the last two quarters has greatly been influenced by the growth that we've had in our funded balance and unfunded balance. So the impact of our growth in funded and unfunded balances obviously, will impact the level of provision we have from quarter-to-quarter. And then as we get through 2023, obviously, Moody's economic scenarios, we look at those during a 2-year forward projection. As you get towards the end of 2023, the two years ahead of where you are, are the scenarios that we will be looking at. And so obviously, there's a lot of uncertainty in what 2023 brings. When we get more clarity, that may influence Moody's forecast too and our weightings related to those as well. A lot of factors go into that. Obviously, the last two quarters related to the growth that we had in both our funded and unfunded balance. And you did see our overall total ACL to total commitments move up a couple of basis points in the last -- both for the last two quarters reflective of that growth and really the economic forecast you're seeing from Moody's and our selection of those. Hopefully, that helps.

George Gleason
I'm going to add a comment on something. A comment has been made that our ACL for unfunded loans is a lower percentage than our ACL for funded loans. And the question has come up previously, as funded loans moved to, or as unfunded loans fund and move to the funding category, does that mean we're going to put up more ACL on it. That doesn't follow. That's not a connect. The reason that our unfunded percentage is lower than our funded percentages is because RESG is a much higher mix. It's 90%, roughly, of the unfunded and is low 60s percent of the funded. And our RESG loans are lower leverage, so they have lower risk associated with the lower loss exposure if you have a default on one of those loans. So the ACL for those loans is lower. The other loans, the typical community bank loans, consumer loans, RV and marine loans, all the other stuff that is mostly funded has higher ACL allocations. So the movement of a loan from unfunded to funded doesn't change the allowance allocation for that loan in any meaningful way. So I thought I might clarify that because I think there is some confusion out there about that.

Catherine Mealor

Keefe, Bruyette, & Woods, Inc.

I wanted to talk about the office portfolio, which you gave a little bit of disclosure on in your Management Comments. Can you walk us through how much of that $4.9 billion is funded versus unfunded, and what the leasing looks like for some of these newer projects.

Brannon Hamblen

I don't know exactly the funded versus unfunded dollars off the top of my head. But with respect to leasing, that as we've said, some of the projects we originate have pre-leasing when we originate, and some are spec. When we look at projects that are complete, we are seeing continued green on the screen moving forward with improved leasing. Obviously, there's a range of results across that portfolio, but we are still seeing positive leasing momentum in those projects.

And as I said, the newer stuff that we're putting on the book is predominantly going to have pre-leasing involved with it. So on the whole, as we've noted numerous times, with the flight-to-quality thesis we are seeing that continues to play out, both in the loans that we have in our portfolio and in the markets generally in terms of the lease activity that we see out there. Again, there's a range of success across the portfolio. Some are slower than others. Some are knocking it out of the park. But on the whole, we're pleased with what we see there.

Catherine Mealor

Back to the margin conversation, can you talk to us about where your deposit rates were towards the end of the quarter just to get a sense as to where funding costs might be coming as we reach the peak Fed?

Cindy Wolfe

Yes. Catherine, this is Cindy. December was 1.66% on cost of interest-bearing deposits.

Catherine Mealor

And on average -- I know your CD rates kind of range in different markets. But on average, where a new CD rates is coming on?

Cindy Wolfe

I don't have that information. I don't have an average, and you're right, it varies depending on the market.

Catherine Mealor

Back to your previous comment, George, about NII growing from here. Should we think about that on a year-over-year basis? Or should we think about that from a fourth quarter annualized basis because you've seen such a big increase in your NII growth over the course of the year. So just trying to think about obviously, as the margin peaks and then falls, I think year-over-year growth is, for sure, going to happen just given the ramp we've seen throughout the year. But is it fair to say we could see just from this quarter's annualized run rate, a little bit of a compression, just NII as that margin falls as funding cost increase.

Tim Hicks

Yes, Catherine, you're correct. Year-over-year, obviously, we have the potential to have a really, really strong year-over-year comparison. If you're comparing it to just each quarter compared to fourth quarter, I think there will be one or more quarters in which we have higher net interest income than we did in the fourth quarter.

Matt Olney

Stephens Inc.

I wanted to ask more about capital and specifically the CET1 ratio. It's come down a little bit over the last few quarters from the strong loan growth. I'm just curious what you think about further capital deployment and what you consider the floor for the CET1 ratio.

Tim Hicks

Obviously, our growth in both funded and unfunded has contributed to our risk-weighted asset growth over the last several quarters. We've got a lot of earnings power, obviously, as we've demonstrated over the last quarter or two, and we have the ability to do multiple capital deployments, which you saw in the fourth quarter, where we had good growth and a little bit of share repurchases. We're comfortable where we are on CET1. I don't know that you'll see that much risk-weighted asset growth that we had. Obviously, the funded growth, we've outlined our thoughts there. On the unfunded as we approach the end of the year, the unfunded balance is likely to decline some, which will give us some relief on the risk-weighted asset side. We've got internal targets on CET1. We're well ahead of those and expect to continue to be well ahead of those as we go throughout the year.

Matt Olney

Then going back to the core spread discussion, obviously impressive in the fourth quarter. The loan yields were particularly impressive in 4Q. And I think those loan betas moved up higher than 4Q versus 3Q. Any color you can give us as far as the higher betas we're seeing in 4Q? I know Brannon mentioned some potential extension fees in 2023. In the future, do we see any of that in the fourth quarter?

George Gleason

I would say that was a fairly typical run rate for minimum interest, extension fees and so forth in Q4. It wasn't particularly low. It wasn't particularly high. It was kind of in the range of what we would have considered to be a normal range. And I don't think we have the expectation that it's going to be a huge factor in 2023. I think we'll see a fairly typical run rate on that. I mean it will vary up and down a few million dollars from quarter-to-quarter, but that's not going to have a big impact on our margin over the course of the year or probably more than a few basis points in any particular quarter.

Matt Olney

And George, if it wasn't the fees in the fourth quarter, any other color on the stronger loan betas we saw in 4Q versus 3Q?

George Gleason

Everything that was variable was off its floors, essentially, and the Fed was moving quickly. Those translates through into our loan yields. Obviously, loan yields will go up less rapidly with the Fed moving 25 basis points instead of 75 and 50. What we can do there on increasing loan yields is definitely tied to a large extent to the magnitude of Fed rate increases.

Matt Olney

Thinking about liquidity and funding the growth in 2023. Clearly, deposit growth is going to be a big factor this year. But on the securities portfolio, you disclosed what cash flows you expect this year from that. Will that be a source of funding for loan growth? Just curious if you think you could work down that portfolio in terms of size this year? And if so, how much?

George Gleason

That's going to depend purely on what we see as reinvestment opportunities with the inverted yield curve, and steeply inverted as it is, and assuming a likely Fed pivot seems to be priced into the yield curve faster than what we would think the Fed's going to pivot. There's not much attractive for us to buy. We're pretty much on the sidelines and letting that portfolio run off. If there is a reversal in that sentiment, and we get some higher yields and a better entry point, we would buy bonds and might buy a lot of bonds if it were what we thought was a very attractive entry point. But the bond market seems to be a little ahead of itself right now with that steep inversion in the yield curve. So we're sidelined and we're not going to chase it. If we miss that and that portfolio just gets smaller, and we're okay with that.

Matt Olney
Congrats on the quarter.

Jennifer Demba
Truist Securities, Inc.
I'm just curious how the new mortgage lending operation is going? And if you have any interest in starting any other new business lines anytime in the next several quarters?

George Gleason
We're working on the technology. We've got our three senior members of the mortgage team on board, and they're doing all their process, governance and risk build-outs around that. We are in testing on the technology product that's going to drive that business. When we get the technology product fully vetted and tested, we'll start adding some origination teams and begin doing business. That probably is third quarter before we actually start that business. We'll start it in a small scale way and ramp it up slowly. So that really is probably a 2024 matter that you'll begin to see a little bit of trickle of results in there in late 2023, but nothing that's going to move the needle until possibly sometime into 2024.

Michael Rose
Raymond James & Associates, Inc.
I wanted to start on the expense side of the house. You guys have done a bunch of different initiatives and projects kind of over the years. Just wondered to see if you had anything on tap for 2023? And then how should we think about different components, whether it be kind of wage inflation, annual merit increases, health care costs, FDIC costs going up. If you can just kind of contextualize the expense outlook, I would appreciate it.

Tim Hicks
You rattled off a long laundry list, and we've got probably more that we could add to that list. But we added a chart on page 28 of Management Comments, which is Figure 31, which shows you the headcount

increase that we had throughout last year. And you can see that we've, from our low point on June 30, 2022 through the back half of the year, we added 172 people, which is a 7.5% increase in the headcount. We also gave a lot of good raises throughout the year and some additional raises that go into effect. We'll continue to add headcount as we go through this year. We've already gotten started in January with additional headcount. So that headcount will continue. I mean we were really at pandemic diminished levels, as we said there at our headcount, so we needed to add back staff to support our growth initiatives. You mentioned wage pressures -- those are real. Those will continue throughout this year. You mentioned the deposit insurance assessment -- that's going up. And if the balances didn't change, it would go up $1.2 million a quarter. But you also have to take into account the increase in assessments that we'll get from our growth in average assets as well. Really, we'll have increased advertising and marketing as we go throughout this year, probably similar to Q3 and Q4 levels to support our deposit growth initiatives. And then you've got the inflationary pressures on all the other kind of line items, some of which are probably delayed a little bit. When you think about vendor contracts that come up for renewal for one year or two year or three-year contracts. So all of that kind of adds up to our expectation for low double-digit increase, year-over-year, full year 2023 compared to the full year 2022. We would expect it to be in that low double-digit range increase in total noninterest expense.

And I'm sure you were about to point this out, but I wanted to at least point out that, that would still put us at a mid-30% efficiency ratio for the year, which would still be among the industry's best.

Michael Rose
Yes, exactly. Just one follow-up, separate question. Figure 25 on Page 23 of Management Comments, the RESG chart. I noticed that the LTV on the Tahoe credit was up from 79% to about 84%, 85%. Any sort of updates there on that particular credit and any sort of resolution opportunities at some point? I know it's a longer-term kind of credit, but just looking for any updates.

Brannon Hamblen
As it relates to the bubble floating, that has to do more with the asset mix at any given point in time. We have a few remaining single-family lots at the project and a club. Then we've got roughly -- well, there are 17 townhomes under construction and 34 townhomes to construct and sell beyond that. And those town homes have had -- because of the price appreciation they've had over time, when we originate those loans, they have a pretty attractive LTV on them. And then when you sell them, and start, you've got others that are not as high, it has a slight impact on your LTV. But we did close one townhome sale in the

quarter at a very nice price. We've got, as I said, 17 under construction and 6 of those are under contract. We still feel good about the project.

I would tell you that COVID created sort of a frothy pace of transactions in that market as people were really focused on getting out of town and being in a better place if they were going to have to hunker down and work from home, if you will. And we definitely saw the benefit of that. It's pulled back a bit as rates have increased, and that has affected things. But still a decent mark, resale prices in the community are doing well. That one sale we had was at a very, very nice price point. So as you said, it's a long-term sort of resolution, but certainly made a lot of good progress in the last couple of years and expect that to continue, albeit at perhaps somewhat reduced pace.

Michael Rose
And then just finally, the special mention rated credit. I think that's a new addition. Just wanted to get any sort of details there if there's any concerns on your end.

Brannon Hamblen
That credit is a site that was planned for a very high-end development and construction costs have escalated materially over the last couple of years. And ultimately, the borrower decided not to proceed with this vertical development there. And in light of his abandoning the development plan, we obtained a new appraisal dated December of 2022, which concluded to an as-is value of $100.4 million. That compares to the original 2021 appraisal of $139.1 million and results in a current LTV on the new appraisal of 63%. The loans current sponsor is actively marketing, working to liquidate the property. But given the aborted development plan and their decision to liquidate the property, we concluded that a special mention rating was appropriate for that credit.

Brian Martin
Janney Montgomery Scott
Maybe just one on the loan side for a second. I appreciate the commentary about the growth outlook this year. Just wondering if you can provide any perspective on just where that growth, how you're thinking about the different buckets of where that growth comes from. Both from the RESG standpoint, I think you also called out kind of the community opportunities on the Community Banking and the ABL front, just kind of trying to understand where the growth might be coming from this year?

George Gleason

I think it's going to be diversified again. Obviously, with the high level of RESG originations, the record level of originations in 2022, a lot of those loans will start funding up in 2023 and finish funding up in 2024. So RESG's funded balances will undoubtedly grow, and should grow in a decent manner, because of the big originations last year. But at the same time, we are getting good traction as shown in the little waterfalls there on growth in the portfolio in Management Comments, we're getting good traction in our ABL group and various elements of our community banking group as well as some positive momentum in indirect RV and marine. The Corporate and Business Specialties Group that shows a slight reduction in funded balances at a couple of quarters since last year has actually had nice growth in their commitments outstanding for funding. So even that group is growing in total commitments. So we think we're going to see good diversification and probably better contributions from some of those community bank units in the next year than we saw in the last year, and that was positive. So we're constructive on the continued trend toward diversification in the portfolio.

Brian Martin

Got you. And the pipeline in the ABL portfolio is pretty healthy at this point?

Brannon Hamblen

It is, and as George said, they had a good year last year, and they've got some great credits on the book. Looking at some others here early in the year, one of the things I would note about that particular portfolio, those credits have a very nice sort of accordion characteristic to it, if you will. Defensively, as sales volume pulls in, our credits weigh ahead of that with the formulaic structure, but also as these businesses experience great health and expansion opportunities. So you don't have to necessarily book a new credit to realize a good pipeline there. We actually had three different credits expand during Q4 and was at dinner last night with another credit, a customer that is contemplating expansion as well. So really, really encouraged about the growth opportunities for that portfolio.

Brian Martin

I might have missed, what you said earlier on the expenses, but just given that ramp up and kind of the hiring and what you guys talked about even the increases starting this year, just kind of the growth rate? Or how should we think about that ramp-up in expense growth from kind of this fourth quarter level, which is obviously a peak as we get into 2023. And would it be year-over-year or quarterly, just -- did you provide anything on that? Or maybe I missed what you said there.

Tim Hicks

Year-over-year, we're expecting a low double-digit increase. If you're starting with fourth quarter, Q1 is always seasonally tough. You've got a full load of FICA. You've got health insurance increases. You've got a good amount of raises that come in. And then you've got the FDIC insurance that's kicking in. The increase is kicking in January 1. And then advertising and marketing, we're doing a lot of that right now. So I would expect another healthy level of increase in Q1 and maybe not as much increase as we get throughout the year. But overall, year-over-year, low double digits.

Brian Martin

And then just one other one was on the repurchases, what's your outlook there? And then just on the deposit front, the brokered deposits were up a bit. Just kind of wondering what the appetite is there, just kind of where you want to see that trend as you kind of go throughout the year or just over the next couple of years?

Tim Hicks

Obviously, we grew a lot in our funded and unfunded balance in Q4. We repurchased some shares, not as much as we had in previous quarters. We've got really good capital levels and a good earnings profile. I think we can do multiple things at the same time. So we'll look to be opportunistic on the share repurchase and find opportunities where we may have quarters that are above that fourth quarter number and there may be quarters where we are below that number. So we'll be opportunistic and try to find opportunities to see where we use that authorization.

Cindy Wolfe

And this is Cindy. On the brokered deposits, I'm going to borrow Tim's words and completely parrot that and say we're going to continue to be opportunistic and disciplined and look for the opportunities that Ottie and Drew and the teams are finding for the brokered, which had worked its way down, as you know. And as we get back into that space, we're being very surgical and focused on finding the best possible opportunities we can. So we're pleased with the way we're managing our increase in our brokered book.

George Gleason

And the percentage of brokered is probably not going to see any material increase in that percentage going forward. We're in our target zone for what's acceptable on that in our internal standards and we're not going to materially increase it. So you're not going to see that at 12% or 13% or 14% of deposits would be our expectation. We're not going there. So probably sub-10% or around the 10% sort percent range is probably about the max you'll see on that.

All right. Thank you guys very much for joining the call today. We're glad to celebrate a really great quarter and a great year with you. We appreciate your interest in our company, and we'll see you in about 90 days. Thank you so much. Have a great day.