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Earnings Call

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Call Participants

EXECUTIVES

Gary M. Small
President, CEO & Director

Paul D. Nungester
CFO & Executive VP

ANALYSTS

Brendan Jeffrey Nosal
Piper Sandler & Co., Research Division

Christopher William Marinac
Janney Montgomery Scott LLC, Research Division

Michael Anthony Perito
Keefe, Bruyette, & Woods, Inc., Research Division

Presentation

Operator

Good morning, and welcome to the Premier Financial Corp. Fourth Quarter 2022 Earnings Conference Call. [Operator Instructions]. Please note this event is being recorded.

I would now like to turn the conference over to Paul Nungester from Premier Financial Corp. Please go ahead.

Paul D. Nungester
CFO & Executive VP

Thank you. Good morning, everyone, and thank you for joining us for today's fourth quarter 2022 earnings conference call. This call is also being webcast, and the audio replay will be available at the Premier Financial Corp. website at premierfincorp.com.

Following our prepared comments on the company's strategy and performance, we will be available to take your questions. Before we begin, I'd like to remind you that during the conference call today, including during the question-and-answer period, you may hear forward-looking statements related to future financial results and business operations for Premier Financial Corp. Actual results may differ materially from management forecasts and projections as a result of factors over which the company has no control.

Information on these risk factors and additional information on forward-looking statements are included in the news release and in the company's reports on file with the Securities and Exchange Commission.

And now I'll turn the call over to Gary for his opening comments.

Gary M. Small
President, CEO & Director

Thank you, Paul, and good morning to everyone. We really appreciate you joining us today. Just as a comment, as we begin, I want to acknowledge that Matt Garrity, a gentleman who's been a participant on this call for a number of years, will not be with us this morning. Matt has accepted a role as CEO at a very fine institution over in Western Massachusetts. And I wanted to take a moment to thank him for all these contributed to us over the years. It's very much appreciated, and we wish him well at his new endeavor.

Last evening, we reported net income for the quarter of $25.3 million or $0.71 a share with full earnings for the year, topping $102 million, or $2.85 a share. The fourth quarter saw a continuation of the theme for Premier in 2022. Strong loan and deposit growth driving net interest income, tempered by higher growth-related loan loss provisions and a weakened residential lending environment. In addition, Q4 expenses underperformed uncharacteristically for the organization this quarter.

For the year, loans were up 20%. Deposits are up 7.7% and net interest income was strong. Through the 3 first quarters of the year, excuse me, the first 3 quarters of the year, deposit pricing lagged very purposefully and margins expanded. The fourth quarter results reflect higher repricing velocity in select deposit portfolios along with an increase in noncore funding, and thus, the margin has retracted.

The Fed's actions over the third and fourth quarters have elevated our clients' deposit pricing expectations. And when combined with our increased utilization of noncore funding sources, our total cost of funds are likely to remain elevated in the near term. Beta management has never been more important.

We've made meaningful strides in repricing our most elastic deposit business lines to ensure deposit retention and in support of growing our deposit base in '23, and Paul will have much more on this topic shortly.

Overall loan growth for the quarter was up $239 million. That's 15% on an annualized basis. That ran a little hotter than we had telegraphed at the end of the third quarter. Commercial growth was up just shy of

13%. The higher-than-anticipated loan growth triggered a hike in our loan provision figures for the quarter as well as it has all year as is a seasonal impact on such growth.

Full year total loan growth totaled $1.17 billion, with the commercial growth of 20%. Consumer was up 26%, and residential mortgage growth came in at 25%. The new money commercial commitments were $1.75 billion for the year. Obviously, a very big year for the team and good momentum going forward and a nice combination of business to both existing and new clients.

Our C&I originations totaled 41% in the fourth quarter, and it continues to be a primary focus for our commercial team, while line utilization remains under 40% because our clients are utilizing their cash on hand.

Residential mortgage originations for the quarter came in at about $200 million and $1 billion for the year. That's about 75% of the expectation we had when we entered 2022 when the year looked so different. Difficult market -- a difficult market and a challenging environment to be selling to the Fannie and Freddie network. Our gain on sale continues to underperform historical levels in terms of basis points.

Swings in residential construction hedges valuations unfavorably impacted fourth quarter revenue as falling residential rate environment in November actually negated a positive hedge position that we recorded in the third quarter. And so net-net, the 2 quarters combined, the right number got posted, but it certainly had an unfavorable impact on the fourth quarter alone, and we estimate it to be about $0.04. So think of that as timing within the 2 quarters.

12/31 delinquency was 74 basis points, and that's very much in line with the performance over the course of the year. Net charge-off trends remain very low. We had 1.5 basis points of net charge-offs for the year when you exclude a large charge-offs that we took in the midyear that we had specifically reserved for in 2021. Nonperforming loans were down 4% versus the third quarter.

So Paul, I'll give it over to you for more details.

Paul D. Nungester
CFO & Executive VP

Thank you, Gary. I'll summarize some of our fourth quarter and full year results, beginning with the balance sheet growth.

Total loans, including those held for sale, increased by $239 million during the quarter, representing a 15% annualized growth or 20.5% year-over-year growth. As Gary mentioned, growth occurred in all categories, including commercial, residential and consumer.

Deposit growth was also healthy where we added $100 million of customer deposits in the quarter or 6% annualized growth or almost 8% year-over-year. Noninterest-bearing deposits led the way with over 9% annualized growth in the quarter, while interest-bearing deposits grew almost 5% annualized.

Due to loan growth outpacing deposit growth, creating a continued reliance on higher cost FHLB and an accelerated deposit beta, we did experience some compression of net interest income and margin during 4Q. Excluding PPP and marks, loan yields increased 27 basis points to 4.51% and total interest-earning asset yield increased 31 basis points to 4.21%. These represented betas of 18% and 22%, respectively, compared to the increase in the average effective Federal Funds rate for the quarter.

Deposit costs, excluding marks and broker deposits, increased 34 basis points to 0.72% for a 22% beta in the quarter. However, total cost of funds, excluding marks but including broker deposits and floating rate borrowings increased 41 basis points to 0.97% for a 28% beta. The increase in cost of funds in excess of the increase in our earning -- interest-earning asset yield less than the margin compression for 4Q.

On a full year basis, net interest income increased $15 million or almost 7% on a tax equivalent basis and $29 million or 14% on a core basis, excluding PPP and marks. Net interest margin also increased 4 basis points to 3.28% on a core basis.

Next, noninterest income of $14.2 million for 4Q was down $2.5 million from the prior quarter primarily due to mortgage banking. Mortgage banking income decreased $4.3 million on a linked-quarter basis due to a $4.6 million decrease in gains offset slightly by $300,000 higher MSR valuation gains. This was primarily driven by hedge fluctuations.

In prior quarters, our hedges increased in value as rates increased and mortgage prices decreased, and the reverse occurred in 4Q at an accelerated pace such that our prior hedge gains were effectively eliminated. As a result, the cumulative net hedging as a wash, but the individual quarters can be volatile -- volatile once corrections occur like in 4Q.

Security gains were $1.2 million in 4Q, primarily from $1.3 million of gains on the sale of $8.7 million of equity securities which were partially offset by $100,000 of decreased valuations on our remaining unsold equity securities. We also sold $9.6 million of available-for-sale securities for a minor gain and the combined $18.3 million of proceeds from security sales will benefit net interest income beginning in the first quarter of 2023.

On a full year basis, noninterest income declined $17 million with $5 million from security gains and $12 million from mortgage banking, which decreased due to lower production, salable mix and margins.

Expenses of $43 million were up 4.7% on a linked-quarter basis partly from further lower deferred costs related to the lower quarterly residential mortgage loan production as well as higher health care benefit costs that increased in 4Q after positive trends in the prior 2 quarters. On a full year basis, expenses increased $7 million or 4.6%, primarily due to compensation and benefits, which increased due to higher staffing levels for our growth initiatives and higher base compensation for annual increases plus one year adjustments that we mentioned previously.

The allowance increased $2.2 million in 4Q due to $3 million of provision expense for loan growth, offset partially by $830,000 of charge-offs. Our asset quality stats remained solid during the quarter with annual decreases for nonperforming loans and classified loans of 30% and 37%, respectively.

At December 31, our allowance coverage of nonperforming loans was 215%.

Finishing the balance sheet of capital with a quarterly increase primarily due to earnings in excess of dividends and an $8 million positive valuation adjustment on the available-for-sale securities portfolio. At December 31, our tangible equity ratio was 6.78%, an increase of 11 basis points from 9/30 and excluding AOCI, TE would still be approximately 9% at 12/31, consistent with 9/30.

Additionally, our regulatory ratios remain comfortably in excess of well-capitalized guidelines with Tier 1 capital at approximately 10.1% and total capital at approximately 11.9% on a consolidated basis at 12/31.

That completes my financial review, and I'll now turn the call over to Gary for some additional remarks.

Gary M. Small
President, CEO & Director

Thanks again, Paul. I'll share a few thoughts on our financial performance expectations for '23 as is our norm.

Expect point-to-point earning asset growth of a more modest 5% or so, plus or minus, in '23. Average balance growth will benefit from the very strong '22 growth trajectory we've experienced. Pipelines entering '23 a bit lighter as you might expect. Deposit growth will be in line with the balance sheet growth. And our core net interest income, excluding PPP grew $29 million in '22 versus '21, and that same momentum and trajectory will be a benefit to us in '23.

We have a bit more margin uncertainty in the first 6 months of the year. We think we could see movement in either direction to some degree until things settle down with the Fed and customer expectations. We do have 50 bps of Fed turns cooked into our plan for the upcoming year.

Provision for growth and modest net charge-offs meet our expectations. No meaningful movement and unemployment is expected, which would affect potentially the provision expense. No material change in

the residential mortgage fee income contribution in '23 versus '22, we're going to assume it continues to be a soft market. Noninterest income otherwise will range between 3% and 5% up.

We have the typical cost containment measures, and we expect 3.5% or so year-over-year. We continue to support our digital bank enhancement program for this year, which is our mobile and online offering. And this year also, '23 will include the annualized effect as the midyear salary year readjustments we made in '22. So 3.5% is an aggressive number. For '22 as a whole, we were up 4.6%, which I think would be a bit higher than we had anticipated, but well within the environment and what we're seeing with peer organizations.

Our efficiency ratio targeted for '23 is just a hair over 53% and we do have positive operating leverage when we adjust '22 for the PPP and security gains impact.
So we've given you a lot to work with there. And I'm ready to turn it over for questions.

Question and Answer

Operator

[Operator Instructions] And our first question today goes to Brendan Nosal of Piper Sandler.

Brendan Jeffrey Nosal
Piper Sandler & Co., Research Division

Just to start on the mortgage piece I want to make sure I kind of interpreted your commentary right. It sounds like the sum of the past 2 quarters is kind of the right run rate going forward. Does that kind of imply like roughly $1.5 million to start the year in total mortgage banking income on a quarterly basis?

Gary M. Small
President, CEO & Director

I think we were a little north of $6 million for the year. I think we're closer to $8 million, like $2 million a quarter.

That would include the servicing income along with the normal gain on sale. That's why it was so the answer there. The $6.5 million might mean the gain on sale, but overall fee income would be $8.5 million.

Your point on the hedge activity kind of overstated Q3 and with the rate movement that if it hadn't occurred, we'd still be sitting -- sitting on it, but the rate movement did the offset in Q4. So that's the mismatch.

Brendan Jeffrey Nosal
Piper Sandler & Co., Research Division

Okay. Understood. Understood. And then maybe one more for me before I step back. Certainly, we hear your comments, Gary, on kind of margin sounds like plus or minus from here depending on the variety of factors that are influencing things. I mean, what gives you confidence that we won't see another quarter or 2 of compression of this magnitude in the fourth quarter?

Gary M. Small
President, CEO & Director

Well, and Paul can share some details. We have dug into the product portfolios and the business portfolios as we've gone through our pricing strategy in response to some of that higher demand and asked some of our clients as well as our intent to raise new money in the market. And we've really find very managed betas in our consumer book, the majority of our business book and so forth. And we've isolated all of our efforts around wealth management and certain segments of our business clients, where we see that elasticity and the competition really being fierce.

And we have at this point, I'll take wealth management book as an example, that's a money market book of about $0.5 billion. We have repriced 75% of that book. So I guess if I would leave you with anything, I'm not sure everybody has got to that point yet, but they will. But that was one -- we're wanting to raise deposits. The first thing was, let's not unintentionally lose deposits by dragging our feet too long in that book.

But that gives you some indication of where we've been very busy in getting repriced and so we don't have that to deal within the next 6 months. So there's that. And I think we've isolated the other portfolios to understand the elasticity and we feel pretty comfortable that we will be able to continue to sort of slow place some rate increases as we launch or the competition elsewhere.

Paul, anything you would add there?

Paul D. Nungester
CFO & Executive VP

No, you pretty much hit it. I mean, included in the business would be pub funds. And those would have higher betas traditionally than some of the other buckets, partly just due to the product mix, like a STAR Ohio product.

Gary M. Small
President, CEO & Director

Yes. And that's the obvious one. I mean, we do have pricing that's linked to the Federal Home Loan Bank. So to the extent the Fed is not going to do 225 basis points of movement in a quarter, then '23 would be a little bit more stable relative to that large funding source as well.

Operator

And the next question goes to Michael Perito of KBW.

Michael Anthony Perito
Keefe, Bruyette, & Woods, Inc., Research Division

So obviously, Gary, you provided quite a bit of commentary for next year, but just to confirm on the efficiency ratio, kind of taking into consideration all different parts. I mean it sounds like you expect to be more in the full year range than the fourth quarter, I think you said the 53%. I just want to make sure that I'm thinking about that correctly, which would likely assume some rebound in mortgage, maybe some stabilization in NIM and then the cost efforts that you mentioned. Is that fair?

Paul D. Nungester
CFO & Executive VP

Yes. Correct. Mike, this fall on the full year estimate for efficiency. It won't be the fourth quarter run rate. We have some elevated expenses there, as we mentioned, but that will be coming back down. And yes, NIM plays out the way that we're talking about here, if mortgage -- we're not projecting it to really rebound. We just expect it to be kind of steady state.

If you look at it on a full year basis, '22 versus 23 mix will be different. Gains should be a little better, but we won't have the MSR gains that we had this year but servicing in excess of our amortization. So net-net, call it a push or so on mortgage that's how we're getting to that full year efficiency estimate.

Gary M. Small
President, CEO & Director

The fact that we've got -- it's not as high as our traditional number, but we do have positive operating leverage kind of helps keep a cap on the efficiency ratio.

Michael Anthony Perito
Keefe, Bruyette, & Woods, Inc., Research Division

Got it. And then just on the -- maybe a follow-up to the NIM kind of line of questioning. I mean when I think about the fourth quarter and what happened in terms of the NIM compression, it doesn't really seem like kind of the foundational elements of how your NIM structure change. It just seems like loan world accelerated in a quarter where incremental funding was expensive, right?

And so I guess, the follow-up I would have is you guys guided to slower earning asset growth, but like, what's the line to site on that? I mean it sounds like pipelines are a bit slower to start the year. Is it more environmental? Is it both environmental and you guys being more selective? Is there more of an effort to kind of target a specific earning asset growth rate that will be easier to fund in this environment? Or is it just kind of the way the cards are playing at this point in time?

Gary M. Small
President, CEO & Director

Mike, I think your comment on the environment combined with targeted effect will be bought us by design, whereas take the fourth quarter, I think we had targeted that we thought we'd see 1% to 2% growth, let's call double of that and the third and fourth quarters for both quarters, we thought we would see a pullback on the client -- from the clients on business and it just kept coming.

So as we plan for '23, there will be certain asset classes and transaction types that core customers and so forth that will get more preference on our attention, and we will manage our number from a growth standpoint to deliver those sort of growth that we talked about, a little more so than we've had to do in the past.

Michael Anthony Perito
Keefe, Bruyette, & Woods, Inc., Research Division

Is it just a simple Gary, is limiting the on-balance sheet mortgage production? I mean that would seemingly -- if you have decent growth elsewhere and you just put a lot less mortgages on, that would seemingly we get you like 6% or 7% point-to-point growth on the loan book. I mean is that -- is it that simple? Or is it more nuanced than that?

Gary M. Small
President, CEO & Director

Mike, we started in '22, back in the middle of the year to do just that on the mortgage book. We still have some funding that's coming from that because we're in a -- we're a pretty big construction player. So commitments that we had made back in '21, we're funding all during '22, even though we weren't still originating in that space.

But -- so rest assured that we have backed off and made some product adjustment and we're back to about a 70% sales versus portfolio mix, and we had allowed ourselves to get off of that when the pricing was so forth, Fannie and Freddie back in the second quarter of last year, and we won't be doing that this year.

Same thing on the consumer side. We had a really great consumer growth through the first 3 quarters, and then we put the TAMPs on it, mostly around indirect, which is what that portfolio is designed to do. And we really haven't grown that book in any meaningful way over the last 4 months.

We are creating our capacity for balance sheet growth through commercial. But having said that, if we just let commercial run, given the team we've got in the market the way it is now, we might be surprised at how much growth we see just through the commercial channel. So we will be managing our effort a little more so in '23 to make sure that we don't outrun our appetite and get over our skis too much. That's the right side of the balance sheet catch up with the left side.

Michael Anthony Perito
Keefe, Bruyette, & Woods, Inc., Research Division

Got it. And then just lastly for me. As we look to next year, based on the guide you provided should still be generating pretty good capital internally. I think the back half of this year will probably be the low point on capital for you guys, especially if the balance sheet growth kind of moderates. I'm just thinking -- wondering are you seeing similar M&A headwinds? And does that free up maybe some capacity to do some buybacks in '23? Or just any updates on the capital plan would be great.

Paul D. Nungester
CFO & Executive VP

Yes. Thanks, Mike. Yes, it does create that kind of capacity. But we've turned the corner here on capital. So we're going to let this chug most likely for a while here and kind of let that grow a bit. But obviously, opportunistically, if it makes sense.

We've got over -- sorry, 1 million of approved shares for our buyback plan that we could deploy if it made sense at the time. But we don't have dividend plans right now to do that at this point. So we'll just monitor the market.

Gary M. Small
President, CEO & Director

Mike, over time, we've always said we play a balance for our card on equity utilization. We want enough there to support organic growth. We want to provide the dividends and shareholder return through that vehicle and buybacks are part of that shareholder equation.

With the balance sheet growth that we've seen right now, it feels like balance sheet -- organic balance sheet support gets a bit of a priority, but it didn't change the scorecard timing of how we're using our capital and we're fully deployed right now.

Operator

[Operator Instructions] And our next question goes to Christopher Marinac of Janney Montgomery Scott.

Christopher William Marinac
Janney Montgomery Scott LLC, Research Division

So Gary and Paul, I wanted to kind of go back to some of the comments I think you were making at the beginning of the call about loan yield repricing and just better understand the kind of betas on the loan side and maybe even earning assets, too. Is there an opportunity for those to be stronger this next quarter or 2? And do you think that will look differently as this year shapes up?

Paul D. Nungester
CFO & Executive VP

Yes. Good question, Chris. There is some possibility for that, but there's some variables in there, right? So on the loan side, generally, we have a lag in terms of the repricing on that because the -- our variable or floating rate loans reprice first of each month. So the action that happened in December, we won't feel until January and so on.

So a lot happened in that fourth quarter from the Fed and it will take a little while for that to kind of fully come through in those yields. So that's a tailwind for us head in the 1Q here. Part of it will depend on what happens in the C&I book. We're still at pretty low utilization. They came up a little bit during the year, but not that much. So if we get more action there, same thing in the HELOCs and such that are the higher yielding floating rate type stuff, that could be a positive for us.

We're not going to count on it. If it comes great, but that's where we could get some incremental lift because we're pretty low on those utilizations today.

On the flip side, just a reminder, we do have that swap that we had done a couple of years ago. So that -- now that we're -- where we are on LIBOR. That's a little bit of a drag, and that's why our loan yields and overall earning asset yields drive just a touch. I think it was about 7 bps in the fourth quarter there.

So -- but if we do get to the point here where the Fed pauses and rates can stabilize, we will have hit our max impact on that. And then that's future upside, honestly. If rates can start to normalize, either late '23 or into '24 and so on, that will start to come back. And then we'll get extra lift coming down on that side on the yield or on the asset yield side as well.

Gary M. Small
President, CEO & Director

That's well as said, Paul, if there's a silver lining on the current situation, it's just that. I know when we watched the quarter unfold, our loan betas were outrunning our deposit betas in October. They got closer in November and then they get almost to neutral. But what really -- in December, but really changed for December was when -- now we were getting full throat of the Federal Home Loan Bank activity and from just a funding beta regardless of the source of the funds, all of a sudden, we became liability sensitive because of what was going on with the Federal Home Loan Bank rate.

And as Paul mentioned, the swap but was now more in play and so forth. So December was kind of a change month for us on the overall balance sheet, and that's upside going forward is dramatic or as quickly as it showed up it can evaporate as Fed behavior changes.

Christopher William Marinac
Janney Montgomery Scott LLC, Research Division

No, that's great background. And that all makes complete sense. I mean my thinking was kind of a big picture, you have still a lot of advantages for you. You still have access to a bunch of liquidity. Your debt is not high by any means, it's kind of stable from last quarter and you have the good pricing benefits that we just talked about.

Do you have a sense, even though I know it's early to call the whole cycle for the rate move. Would the betas kind of come in high 20s, low 30s, I mean I think you made comments in prior calls. I'm just curious if your thinking is any different in terms of the cumulative beta as you look out a few more quarters?

Paul D. Nungester
CFO & Executive VP

Yes. I think we've always talked about 30s. And we're still in that range. At this point, though, the way the fourth quarter played out, it might be mid- to higher 30s versus the low 30s that we were originally thinking. But we're still in that range.

And one way to break it down, Chris, that I've been looking at, if you just look at the big piles of our deposits there, right? We've got $2 billion of savings and EDAs that don't really move. They haven't moved. We don't plan to move on. So effectively a zero beta there.

We've got $1 billion of our time deposits. Full cycle that will probably have a 30% to 40% beta once we're all set and done with the specials and promos kind of driving that. And then we've got about $2 billion of our money market accounts between wealth and business and pub funds and things like that, as well as retail and the retail piece hasn't really moved. That's our high beta, right? So that's going to be 60% to 75% of beta by the time we're done with this.

So you blend that all together in the $5 billion of those deposits, excluding our broker, and that's a 30% to 40% blend but then you throw in our interest-bearing and we're in the, call it, back down to the 30% range. So -- and then off to the side, obviously, it would be our other funding sources, whether it's FHLB, broker deposits, and those are high beta things. So that's what drives up our overall cost of funds like we saw here in the fourth quarter.

And we've been making concerted efforts to grow the deposit base, our core deposits. We had higher-than-anticipated loan growth in the quarter. So we weren't able to eat into the FHLB like we would have liked, but we're going to keep pushing core deposit growth, and that will get better as time goes on here, and we'll get full upside on the FHLB pay downs as they come through.

Christopher William Marinac
Janney Montgomery Scott LLC, Research Division

Got it. Thanks for all the detail. And then my last question just as a reminder about the cash flow that you get from the investment portfolio, whether it's quarterly or annual however you think about it?

Paul D. Nungester
CFO & Executive VP

Yes. I think we're around $75 million-ish per year. We're still in that range at the current -- in the current environment, and we do plan for roll off. But we also, like I mentioned in my opening comments earlier, when the opportunities come up, we're taking advantage of them. So we exited about half of our equity book for some very nice gains -- cumulative gains of about $1.3 million from when we bought them. And we enjoyed the dividend yields while they were good.

But those -- the ones we exited were all below our incremental borrowing costs. So we got out of those, and that just helps our NIM go forward.

Same thing on the bond book. There are here and there are opportunities that come up, bond here and bond there that we're not going to get a gain off of it, which is okay. But again, the yield is below our incremental borrowing, so we can exit that and not take a direct P&L hit and deployed into some NIM accretion. It's a small stuff here and there, but every little bit is helping.

Christopher William Marinac
Janney Montgomery Scott LLC, Research Division

Sure. And then also had a positive move on the AOCI and tangible book, obviously,

Paul D. Nungester
CFO & Executive VP

Correct. Correct. Yes, that's right.

Operator

And we have a follow-up question from Brendan Nosal of Piper Sandler.

Paul D. Nungester
CFO & Executive VP

You there, Brendan?

Brendan Jeffrey Nosal
Piper Sandler & Co., Research Division

Sorry about that, my apologies. Just some clarification on a few of the items you mentioned, Gary. The earning accent growth of 5%, is that full year over full year? Or is that off the 4Q '22 base into 4Q '23?

Gary M. Small
President, CEO & Director

12/31 to 12/31, the average growth would be much better than that. Loans would probably be another 1% above that, but securities will bring down at least 1%.

Brendan Jeffrey Nosal
Piper Sandler & Co., Research Division

Yes. That's perfect and super helpful clarification. Then just on the cost outlook. I think you said 3% to 5%. I mean, kind of the midpoint of that suggests that the run rate would kind of hold around the fourth quarter level, it's not even a little bit better. Just can you talk a bit the about some of the leverage you've had throughout the year to kind of hold that cost run rate roughly in line with the fourth quarter?

Gary M. Small
President, CEO & Director

Sure. I might have misspoke. I actually had 3.5% relative to the growth range for the year. We have some opportunities from a cost perspective as we rightsize a few segments of our organization and acknowledge the situation that we're in and some projects that are a little less crucial going forward might be put on a partial delay and so forth.

So nothing that's going to change the strategic or the direction of the organization, but the normal trimming that you will do with throughout the organization and throughout business groups where -- where it's appropriate to be doing. So that, combined with just our normal good diligence, but it's kind of in our DNA. We're always looking for the lease value added 2% or 3% of what we're doing and how to redeploy it to the best or the next 2% or 3%, and that's still important to our organization.

I think we got 4.6% up over the prior year. That's probably going to be a pretty reasonable number versus what the industry as a whole delivers year-over-year. That would be an indication that I would expect we'd be on the better side of that average.

Operator

[Operator Instructions] And we have another follow-up from Michael Perito of KBW.

Michael Anthony Perito
Keefe, Bruyette, & Woods, Inc., Research Division

And I apologize if this was in Gary's guide, and I just missed it. But just on the tax rate for 2023, should we be assuming more something in line with the full year versus the fourth quarter? It looked like the fourth quarter was a bit lower than normal?

Paul D. Nungester
CFO & Executive VP

Yes. I mean you can use a 20% effective tax rate estimate, and it will be plus or minus from there. It won't change much.

Operator

We have no further questions. I'll hand back to Gary Small for any closing remarks.

Gary M. Small
President, CEO & Director

Thank you. And I do have a closing comment or maybe something to just keep in mind for perspective.

I would suspect that over the next 12 to 24 months, inflation is going to resolve itself or at least to the amount of distraction we currently are involved with. And the inverted yield curve will abate and the cost of funds curve will return to something a bit more normal for us. And that will be a good day. However, the business that we booked over in '22, the 20% growth clients that we brought on board, the clients we've served, that's going to be with us for the next 7 to 10 years. And the value that, that will bring to the organization over that period of time, I think, will outweigh the bumps that we're experiencing right now.

And just want you to understand. We keep our eyes on the horizon, although we're staring right in the weeds as well. But that is kind of the way we view the business. We're trying to take the steps that add the most value for the shareholder and the organization over time and balance that with some of the issues of the day. And that's what we're busily engaged with right now.

Thank you all for joining us this morning.

Operator
Thank you. This now concludes today's call. Thank you so much for joining. You may now disconnect your lines.