Premier Financial Corporation

Second Quarter 2020 Earnings

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CORPORATE PARTICIPANTS

Don Hileman – *Chief Executive Officer*

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Tera Murphy – *Vice President*

Gary Small – *Bank President*

Matt Garrity – *Chief Lending Officer*

Vince Liuzzi – *Chief Banking Officer*

PRESENTATION

Operator
Good day, ladies and gentlemen, and welcome to the Premier Financial Corp. Second Quarter 2020 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 and then one on your touchtone phone. To withdraw your question, please press star and then two. Please note this event is being recorded.

I would now like to turn the conference over to the Vice President, Tera Murphy. Please go ahead.

Tera Murphy
Thank you. Good morning, everyone, and thank you for joining us for today's 2020 second quarter 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 leadership's prepared comments on the Company's strategy and performance, they will be able 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 current management forecast and projection 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.

Now, I'll turn the call over to Mr. Hileman for his comments.

Don Hileman
Thank you, Tera. Good morning, and welcome to the Premier Financial Corp. 2020 second quarter conference call. Joining me on the call this morning to give more detail on our financial performance for the quarter is our CFO, Paul Nungester; as well as Gary Small, our Bank President; Matt Garrity, Chief Lending Officer; and Vince Liuzzi, our Chief Banking Officer.

Last night we issued our 2020 second quarter earnings release, and now I'd like to discuss that release and give insight into the opportunities and challenges for the remainder of the year. At the conclusion of our remarks, the team will take any questions you might have.

First, I want to thank all of our associates for all their efforts in dedication during these very stressful times as they balance their personal health with their passion for meeting client's needs and serving our communities. The second quarter was clearly a very challenging time for our company. As previously communicated, we closed our merger with United Community Financial Corp or UCFC on January 31st and have been dedicating significant time and resources to assist the conversion that took place on July 12th. Gary will give a more detailed update on that in a few minutes.

We are also very pleased in our ability to respond to the impacts of the current COVID-19 environment and how that is affecting our clients and our operations. During the quarter, we incurred about $500,000 of COVID-19 related costs. These are truly challenging times as all of us continue to navigate through the health and economic ramifications related to the virus.

The pandemic and resulting economic fallout appear to be with us for an extended period of time. We will continue to focus on the servicing of the immediate needs of our clients ensuring health and wellbeing of our employees and the supporting communities in which we live and serve. While a great deal of uncertainty remains regarding the duration of the pandemic, the signs of positive activity across our footprint are encouraging.

Our teams have been working diligently to assist clients, executing the SBA Paycheck Protection Program or PPP, and we currently have 434 million of PPP loans outstanding. We have turned the focus from origination of PPP to the forbearance process. The SBA will start accepting requests on August 10th. We are well-prepared for the process.

In addition, we continue to have a large number of our workforce who are working from remote locations, and we'll continue in this model as we have seen an increase in COVID-19 cases in numerous markets we serve and an increase in requirements in multiple state and local jurisdictions. This flexibility and remote workforce has been a benefit and could migrate into a go-forward operating model of some nature.

All of our offices are open to serve clients and with strong safety protocols in place that include the wearing of facial coverings for employees and clients, enhanced cleaning regiments, plexiglass germ shields, and other modifications to support social distancing. As noted earlier, a great deal of leadership focus has been on the system conversion and the integration of operations. This was a significant milestone in the overall combination of the two companies.

We expect to see cost benefits from this over the remainder of the year with additional benefits of approximately $1.5 million per quarter fully phased-in by the end of the year. Following an active first quarter, I am pleased with the strong core performance for the second quarter and all that we have accomplished in the quarter that proved to be even busier than the first.

Second quarter 2020 net income on a GAAP basis was $29.1 million or $0.78 per common diluted share compared to $12.2 million or $0.61 per diluted common share in the second quarter of '19. That core basis net income for the second quarter was $30.7 million or $0.82 per diluted share.

Pre-tax pre-provision return on average assets was strong at 2.26%, compared to 1.89% for the second quarter of '19. We've also made significant improvement in reducing our efficiency ratio to 48.96% at the end of the second quarter and let us maintain a sub-50 ratio as our target going forward.

Our provision for loan loss was also moderate this quarter, reflecting the current environment. We experienced net recoveries during the quarter. Overall, credit quality was stable in the quarter, and we are diligent in our client monitoring and expect more impact as the stimulus initiatives phase-out. We are working to understand the dynamics of our clients as the original deferral periods expire.

Approximately 16%, excluding PPP loans, of our loan balances are on some type of deferral at quarter end. We continue to see strong performance in our mortgage area, which experienced record levels of activity and gain on sale. Overall growth in the quarter was 6.7% for loans, driven by PPP activity, and 15.3% for deposits with a shift in the non-interest bearing deposits as a percent of overall deposits, as some of the PPP loan funding remained on the deposit side of the balance sheet. We did see strong deposit activity, exclusive of PPP deposits in the quarter, and we expect the PPP balances in the deposit area to ride out over the course of the year as they are utilized by our clients.

Our overall capital planning is supported by our ongoing solid core performance and capital levels. We are very pleased to announce our 2020 third quarter dividend of $0.22 per share, representing approximately a 16% increase from a year ago and an annual dividend yield of approximately 5.4%.

At quarter end, we had 500,000 shares of common stock remaining for purchase under our repurchase plan authorization. In these uncertain times, we continue to assess the uses of authorization as well as the capital strategies we have in our tool box inclusive of sub-debt issuance. At this time, we have suspended any additional buyback activity and are assessing our appetite for sub-debt, but at this time do not feel we have an immediate appetite for that.

I will now ask Paul to provide some more financial details for the quarter before I conclude.

Paul.

Paul Nungester
Thank you, Don. Good morning, everyone. While this quarter had a little less excitement than first quarter with the UCFC merger closing and CECL adoption, it certainly was not boring. The economy entered a recession, and the PPP program represented a significant amount of effort while we continued to work on integration and core conversion. Now, I will summarize our second quarter results and discuss some areas of impact.

I'll start with the balance sheet. First, we had a minor adjustment to goodwill related to the UCFC merger for options, fixed assets, and deferred taxes resulting in a $428,000 increase to goodwill. No other adjustments were made, and the updated summary is in our press release.

Regarding growth, PPP loans were the driver for loans in 2Q, as we completed $434 million as of June 30th. Excluding PPP, loans decreased $91 million from last quarter as we saw shrinkage in each bucket. Residential loans had very strong origination volume, as I will discuss later, but prepayments and refinancings led to portfolio shrinkage. Although we did have a $38 million increase in loans held for sale. Consumer loans declined as spending behaviors cut back during the pandemic, and non-PPP commercial loans declined primarily due to line paydowns.

For deposits, we added $766 million for a 15% quarterly growth rate. This growth is related to deposits of PPP funds as well as lower customer spending behaviors. Non-interest deposit growth outpaced interest-bearing growth and represented about 25% of total deposits at June 30th. Next I'll explain the allowance.

As noted last quarter, we did adopt CECL effective January 1st, and I described the impact of that as well as the purchase accounting for UCFC on our previous call. As a quick reminder, we added $54.6 million to the loans allowance in 1Q for those items.

For 2Q, the allowance increased $2.7 million due to provision expense for loans of $1.9 million and net recoveries of $0.8 million. The net increase is related to an increase in qualitative factors, offset by improved quantitative factors and lower volumes. Qualitative factors were increased in 2Q primarily due to the current economic recession and the potential for future charge-offs. Quantitative factors improved due to better historical loss rates, including net recoveries in 2Q and a better economic forecast.

A key driver for our model is national unemployment, and that forecast if for 9.2% next quarter versus the 12.5% expected for the next quarter at March 31.

Last, volumes are down, because these exclude PPP loans which are guaranteed and do not require reserve at this time. At 6/30, our allowance coverage to total loans was 1.62%, which is down from 1.68% at 3/31. But if you exclude PPP loans, the ratio would be up to 1.76%. In addition, if you include the unamortized balance of purchase accounting marks, the coverage ratio would be 2.05%. More details can be found on our slide presentation posted to the Premier Financial Corp. website.

To finish the balance sheet, I'll discuss capital where we ended with $941 million of equity at June 30; up $25 million from March 31 primarily due to strong net income. At June 30, our tangible equity ratio was 8.85%, and our total risk-based capital is estimated to be about 13%. Next, I'll turn to the income statement.

I will preface this with noting that year-over-year comparisons are obviously skewed by the fact that we had three months of operations including UCFC in second quarter 2020, compared to none in second quarter 2019. Let's start with net interest income, which was $54.3 million for the second quarter of 2020. This resulted in a net interest margin of 3.51%. This does include the benefit of accretion from purchasing accounting marks with $2.2 million coming through interest income and $1.5 million coming through interest expense. This also includes $1.6 million of interest income on PPP loans with an average balance of $298 million.

Excluding the impact of those items, our net interest margin would be 3.34%, which is down from 3.68% on a linked quarter basis. This contraction was mostly expected, given the precipitous drop in the external rate environment that occurred during the middle of 1Q, so we are seeing a full quarter impact of that now. However, it was more than expected due to the excess liquidity from the strong deposit growth and loan shrinkage excluding PPP.

We estimate the impact of excess liquidity to be 11 basis points for 2Q, such that NIM would have been more in line with expectations. Non-interest income was $23 million for 2Q and represented almost 30% of total revenues.

I'll begin with mortgage banking income, which was $9.9 million for second quarter 2020. First, gains on sale of mortgage loans were $11.5 million, up from $4.9 million last quarter primarily due to volumes. In the second quarter of 2020, we sold about $234 million in mortgage loans, which is up more than $100 million from first quarter. This is partly due to having three full months of activity from UCFC this quarter, but is also attributable to the down-rate environment that continue to make mortgage activity very attractive during the quarter.

Offsetting those gains were MSR amortization expenses of $2.2 million, up from last quarter primarily due to three months versus two months for the UCFC portfolio and a negative valuation adjustment of $1.4 million, which is down from $4.5 million last quarter. The valuation adjustment was negative again this quarter, less so do to rates which were relatively flat but more about increased prepay speeds. As rates improve and prepay speeds revert back to normal levels, we will be able to recover against that valuation allowance.

Next, I would like to point out that we made a reporting change for wealth management income. Previously we only showed trust income, but we have now included brokerage and financial advisory income to reflect total wealth management income. Those amounts were previously reported in other non-interest income, and we have restated historical amounts for consistency. Those revenues came in at $1.8 million, an increase from $1.1 million last quarter.

Insurance commissions were $4.0 million, which is down from $5.2 million last quarter, but that is due to $1.3 million of contingent commissions in 1Q. And lastly, service fees and other charges increased to $5.6 million from $5.2 million in 1Q, while BOLI and other income increased to $1.7 million from $1.5 million last quarter.

And as a reminder, last quarter included a non-recurring $1.1 million gain related to an earnout that was not achieved for a prior acquisition. Next, I'll discuss expenses.

First, we incurred $2.1 million in merger-related costs in the second quarter of 2020. So accumulatively we have incurred $30 million to-date. We do expect to incur additional costs in 3Q as we complete core conversion and the implementation of synergies.

As a reminder, we expect the bulk of our synergies to truly materialize in the second half of the year after our core conversion, which was completed July 13th. Before I cover normal operating expenses, I would like to explain another reporting change.

Beginning this quarter, we have begun to report total provision for credit losses inclusive of amounts related to off-balance sheet exposures, which were previously reported in other non-interest expenses. We have provided transparency of these costs on the income statement separate from provision expense for loans which impacts the allowance. Whereas the expense related to off-balance sheet exposures relates to a reserve recorded in liabilities as required under GAAP. Prior period amounts have been restated for consistency.

So excluding merger costs, total expenses were $35.9 million, compared to $30.8 million in the first quarter of 2020, with the increase generally due to three full months of operating costs from UCFC in Q2 versus only two in 1Q.

Compensation represents the biggest component at $19.6 million of expenses, which is up $2 million from the prior quarter, and once again, better than expected due deferred costs on the strong mortgage volume activity as well as PPP loans.

Amortization of intangibles is up to $1.8 million due to the core deposit and other intangibles recorded in connection with the UCFC merger. And other expenses were $5 million, compared to $3.9 million last quarter after reflecting the reclassification of provision expense for off-balance sheet exposures. This fluctuation is related to our deferred compensation plan, which had $682,000 of expense in the second quarter, compared to $676,000 benefit in the first quarter due to fluctuations in the deferred comp plan liabilities.

And last, we estimate we incurred approximately $475,000 of expenses in the second quarter related to the COVID-19 outbreak. So excluding the merger costs, we generated a core efficiency ratio of 46.26%, which compares favorably to 51.62% last quarter, and 61.22% in the 2019 second quarter.

Additionally our core pre-tax pre-provision income was $41.4 million, which generated a very strong 2.38% return on average assets. Obviously, we are extremely pleased with our second quarter operating profitability as we begin to realize the benefits as a combined organization with UCFC. I will wrap up with a summary of net earnings.

On a GAAP basis, we reported net income of $29.1 million or $0.78 per share. Merger costs this quarter represented $1.7 million on an after-tax basis or $0.04 per share. Excluding those costs, core earnings were $30.7 million or $0.82 per share.

In summary, we had a great quarter as we completed core conversion and the implementation of synergies. Our solid capital levels and strong operating profitability provide a good foundation in the current recessionary environment, allowing us to continue to support our customers while we work together during this challenging time.

That completes my financial review, and I'll now turn the call over to Gary for highlights on our community banking initiatives, merger integration progress, and employee engagement efforts.

Gary.

Gary Small
Thank you, Paul. Good morning to all. As you all may recall, we did our legal merger of our two organizations in January 31st, and we've just recently completed operational brand conversion over the months of June and July. And now across our network, we are Premier Bank. We did our core system integration as was noted on July 13th.

All systems are go following that conversion; and while we still are working on a few bumps that popped up during the process, we remain very focused on our customer's experience. Rest assured that we are using a very high-touch approach relative to issue resolution. Our clients are always going to get a call versus just getting an email or a letter, and we expect that approach to ensure that everybody makes the journey with us from one system to the other.

The merger integration process is very much on plan. Savings achievement is on track. Revenue synergies are in place and more are developing as we expected. We're hitting performance metrics that we originally set for the deal back in September of last year. I think as the numbers illustrate, the two combining organizations are creating very strong operating leverage during this difficult period; excellent performance metrics as evidenced by mid-40s efficiency ratio outlined in our results.

Moving to community banking, again we had strong performance during the second quarter while there was plenty of other activity that could have distracted us. Hats off to the group. Excluding PPP activity, our commercial loan origination was strong. Matt will have more on that later over the quarter, but line of credit paydowns kind of muted the loan growth balance figures as PPP liquidity allowed our commercial clients to appropriately curve their line of credit draws. Again, the front door was very strong and much business done.

Residential mortgage continues to fire on all cylinders. By all measures, origination activity, our gain on sale margin, and the saleable portion of our origination activity has all exceeded expectations. The new business activity continues to be outstanding even as the mix of business is returning back directionally to the more normal mix, with now 40% of our origination activity being in the refi space, and that has been as high as 60% or 65% earlier in the year. So it's encouraging to see the numbers sustained. The market continues to be strong, and that's on the purchase and our construction program carrying the day right now.

On the consumer side, indirect auto consumer lending is returning to pre-COVID levels which is good for us in that we have growth aspirations for that book. It's been a very good market for used cars. We write a very high-quality book, and we expect good things to come from that direction.

Over the course of the last quarter and a half, COVID's obviously had many impacts on the organization. And as was mentioned, we spent $500,000 running through our core expenses over the year-to-date, with a majority of that being in the second quarter to do what it takes to get our team through and handle all the safety issues that we'd want to for our customers and our team over that period.

We've also spent about $300,000 of additional backstop in our merger-related expenses, again to ensure that we would not be derailed by any unexpected terms that came about as a result of the pandemic, and that was money well spent. Other items that you'll see in our financials that are COVID-driven as with many, our consumer interchange income lags as retail activity has lagged. Overdraft income is down, as the unemployment funding is doing its job well and keeping people relatively flush.

Digital channels are more popular than ever, and really we view that as an accelerant on the channel migration. April was our high watermark relative to these transactions through the digital channel, and as we opened up the branches, we did see not a return to old levels, but we did see a pull-down from the digital. So clients got very familiar and as is always the case, I expect we will have more multiple channel users going forward.

We learned a great deal about effective ways to work remotely around the organization in this environment, and outside of our branch network we still have 80% plus of our employees that are remote or remote capable; and as Don mentioned, there will be some surviving impacts from that that will be beneficial to all. We identified many employee-friendly features that will improve our position as an employer of choice going forward because we have found that we can work very efficiently and effectively with a remote model. Probably a hybrid of in-office and remote will be the story going forward.

And again, much has been done over the quarter to council our clients during these difficult times. So relative to PPP activity which was very strong or simply just how best to manage your money in this uncertain environment which is the day-to-day council that we provide to all our clients, it's been more appreciated and more important than ever.

From a community standpoint, it's been a difficult time for all and a good time for us as an organization to step in and have our team provide effort and council as always and for the Premier organization providing financial support to help fill the gaps that have been created with so many cancellations and so forth of important events that fund so many non-for-profits. We've been able to do our part to help fill the gap, and we're very proud to do that. And again, our brand statement is right on the money. Premier Bank is truly powered by people, and it's certainly showed over the last quarter.

With that, I'm going to turn it over to Matt for some portfolio discussion.

Matt Garrity
Thanks, Gary. I'd like to give you an update on the performance of our loan portfolio, our actions taken with respect to our clients impacted by COVID-19, and our current view on asset quality in the coming quarters.

As we discussed on last quarter's call, our team was very active in supporting our clients through the Paycheck Protection Program; providing over 2,700 loans to our customers. While the program is currently still available, our volume is down to a handful at this point. To the extent there is some additional round of PPP made available to these borrowers, we are well-positioned to support those requests.

We have also put our forgiveness program in place and are prepared to support this process when it begins. In terms of portfolio performance, while segments of our clients have been impacted, we are not seeing the implications of this on a large basis yet with respect to asset quality. Our expectations have been for evidence of credit weakness at the client level to begin to be more evident in the second half of this year as second and third quarter financial statements are received.

Overall payment delinquency levels remain relatively low, and our increased deposit balances and reduced operating line balances provide us a perspective that our client base is working hard to preserve liquidity. We did not see any meaningful migration with respect to risk rating during the quarter, but we expect to see more of this as we receive financial statements for the second and third quarters.

We have also been supportive of our clients with respect to payment deferral, consistent with regulatory guidance. As of June 30th, we have provided approximately $835 million of payment deferrals of which approximately $23 million have returned to scheduled payments.

In terms of asset quality outlook, the biggest unknown is the duration of the pandemic as it will ultimately drive the pace of economic recovery. Once there is greater clarity on this, it will be instructive on how our clients recover over time. To-date, our loan portfolios remain stable from an asset quality perspective, but we would expect risk rating migration to be more pronounced in the second half of this year. In particular, we are closely monitoring the performance of our higher risk portfolio categories, including hospitality and retail.

Finally, we've conducted fairly robust stress testing on our portfolio, including loan level testing for a large portion of our at-risk portfolio. In both our expected and severe stress test cases, the results show that we remain well-capitalized as defined in regulatory guidance.

I'd now like to turn the call back over to Don for closing comments.

Don.

Don Hileman
Thank you, Matt. In summary, I'd like to again express my sincere appreciation to every one of our employees for their efforts and dedication they have exhibited in serving our clients this quarter. I also want to express my gratitude to all those in the front line as this pandemic continues to show its face.

We look forward to the future as we navigate through a period of continued uncertainty and challenges. I believe we are well-positioned for this environment, and we will get through this difficult time together. And I believe that we, as a company, will emerge from this crisis even stronger. We appreciate the trust you have placed in us. Thank you for joining us and for your interest in Premier Financial Corp.

We will now be glad to take your questions.

QUESTIONS AND ANSWERS

Operator
Thank you very much, sir. Ladies and gentlemen, we will now begin the question and answer session. To ask a question, you may press star and then one on your touchtone phone. If you are using a speakerphone, please pick up your handset before pressing the keys. If at any time your question has been addressed and you would like to withdraw your question, please press star and then two.

Our first question is from Scott Siefers of Piper Sandler. Please go ahead.

Scott Siefers
Good morning, guys. Thank you for taking the question.

Don Hileman
Hi. Good morning, Scott.

Scott Siefers
Hi. I think the first question I want to ask is just on trends you're seeing in deferrals. A lot of good information particularly on slide 17. I just want to make sure I'm thinking about it on an apples-to-apples basis, because I think between last quarter's reporting and the Q, there might have been some reclassifications in the way you guys were thinking about, so just trying to get any color you might have

on how things are trending in the deferral area.

Matt Garrity
Good morning, Scott. This is Matt. In terms of our deferral activity, what I would say is we feel like the majority of our deferral activity is past us. When we look at the amount of deferral activity, the majority was within the second quarter, and the overwhelming majority of our activity was in the month of April. When we look at the trend, April, May, June, we saw comparatively very little in June compared to the level of activity that we saw in April.

Scott Siefers
All right. Perfect. Thank you.

Paul Nungester
You may have seen a higher deferred number in the past, because we were doing some things at a relationship level versus just a note level, and so when we cleaned it up on the second pass, we were able to get down to just the notes.

Scott Siefers
Perfect. Okay. Thank you for that. And then in terms of cost savings, sounds like you guys are all on track with the merger synergies which is great. As you look forward to the third quarter now that the systems conversion is past, what do you expect core expenses to decline on an absolute basis from the second quarter's $35.9 million?

Paul Nungester
Yes. We do expect those to come down. I think we mentioned, we have about $1.5 million straight up from the duplication of systems and personnel related to running two back offices. Now on the flipside, we're not going to have cost deferrals for PPP unless a new program were to come into play, so that benefit coming through on comp would go the other direction.

We had about $1.5 million net benefit from that aspect in the second quarter.

Don Hileman
It will be back-loaded a little bit more this quarter, because the conversion took place in the middle of July. We'll have duplicate costs for a while longer as we go through the process of cleaning up and finalizing acquisitions, so it won't be a full-quarter benefit.

Scott Siefers
Okay. Perfect. Thank you, guys, very much.

Operator
Thank you. The next question is from Feddie Strickland of FIG Partners. Please go ahead.

Feddie Strickland
Hi. Good morning, guys. It's actually Janney. I don't think they switched that over yet.

M
[Overlapping voices].

Feddie Strickland
Yeah, you know, it's fine. Thanks for taking my question. I was just wondering on the CECL double count recapture in future periods, is three years too fast or is that appropriate timing? I was just wondering

if you had any color there.

Paul Nungester
Yes. Three years would probably be a little quick for that. Average tenor in our loan portfolio is more four to five years, so it'd be over a longer period of time. We did have in the second quarter some accelerations coming through the accretion there. When loans in that portfolio payoff, we have to accelerate the marks related to them. We got an extra $1.5 million plus/minus related to that in the second quarter that wouldn't be a normal recurring item there.

I think in our modeling and in our purchasing accounting summary table we mention four years as an estimate for that period of time.

Feddie Strickland
Got it. Thanks a lot. That's very helpful. And then just one follow-up, I was just wondering what's the level of economic activity in the Columbus area versus the more Eastern Ohio footprint? Is there really any differences there? Just curious.

Don Hileman
Yes. I'd say that Columbus has always been a stronger market for us pre and post-COVID-19 environment. That's why both of our companies had operations there and looked to strengthen that market. I would say it has a stronger economic profile than most of the rest of our markets.

Feddie Strickland
Got it. Thanks very much, guys. Appreciate the color.

Don Hileman
Thank you. Appreciate it.

Operator
Thank you. The next question is from Michael Schiavone of KBW. Please go ahead.

Michael Schiavone
Hi, guys. Good morning.

Don Hileman
Good morning, Michael.

Michael Schiavone
Given the significant deposit growth in the quarter, how do you guys anticipate your cash and securities balances will trend in the near term?

Paul Nungester
We are starting to put some of that to use in the securities book. It's something we had to look carefully at given potential concerns on where municipalities may go and things like that, so we don't want to go too far too fast on that, but we are putting some to use there. Cash balances should start to turn back down, including the overnights as those deposit funds get used, not just through consumer behavior but also putting it to use through some loan growth that we expect in the back half of the year here.

Michael Schiavone
Okay. Thanks. And then can you shed some color on the fee income outlook and then just specifically in regards to the mortgage, wealth, and insurance businesses?

Don Hileman
I'll speak to the insurance and wealth business, and then we'll address the mortgage business. For the insurance, I think we're anticipating consistency throughout the remainder of the year there with a slight opportunity for uptick on that. And I'd say that's generally the same for wealth management. We had a little contraction there on a basis of combining the two companies.

We feel good about where we are positioned right now and the opportunity for growth there, so the wealth is a little different. A lot of it's market balance and the activity the market drives; the fees there, so that's a little bit more of an indicator of the environment. But both we would expect some marginal growth in those areas.

On the mortgage side, I think our expectation is based on the rate environment. We'll continue to do well. I don't expect us to do the same level we did in the second quarter. I'll ask Matt to maybe give a little bit more color on what he sees in that area.

Matt Garrity
The second quarter was exceptionally good. As Paul's mentioned, volumes were up. We also enjoyed a little bit of pricing power with capacity. As capacity in the industry tightened up a little bit that was really good for us from a margin perspective. We'll see some of that carry with us into the second half of the year. I wouldn't set my expectations around Q2 as the go-forward for the back half of the year, but we clearly think something in line with Q1 and a little better with Q1 truthfully is an appropriate way to think about our mortgage business.

Michael Schiavone
Okay. That's helpful. Thank you. And then the final one, you talked a little about Columbus, but can you discuss your local economies and which markets you're most concerned about and the exposure of those markets?

Don Hileman
I'll make a general comment, and I'll let the collective group opine on that. I don't know if I would say I am individually concerned about any particular market because of the diversification overall that we have. My concern goes to back to what Matt talked about and what we had when we started looking at the high-impact industries and some of them more impacted than others. That's where I'm focusing on how those industries recover versus geographic markets, if you will. I think more maybe have a concentration in those industries. We're pretty diverse, so I'm not as concerned about geographic exposure as I am industry exposure at this point.

Gary.

Gary Small
I think that's well said, Don. I don't believe that any of the markets that we operate in experienced an asset bubble or anything that might have been occurring elsewhere. We also didn't get an energy bubble. We're really as diversified as [background noise] as far as the spoken concentration levels. And as Don mentioned, there really is a couple of categories which are relatively low in percentage terms, but that's what we're focused on, and that can be spotted all across our groups. But part of the strength of the organization is multiple diverse markets and geographic dispersion.

Michael Schiavone
Thanks for taking my questions, guys. Hope you're all doing well.

Don Hileman
Thank you. You as well.

Operator
Thank you. Ladies and gentlemen, again if you wish to ask a question, please press star and then one. Our next question is a follow-up from Scott at Piper Sandler. Please go ahead.

Scott Siefers
Hi, guys. Thank you. Just wanted to ask about the trajectory on the margin. Paul, it sounds like you're putting a little of the excess liquidity to use prudently but carefully. I guess I'm just curious as to the puts and takes you would see for the margin basically off of this quarter's core 3/27 [ph] level which would I guess basically exclude the PAAs but still have the PPP impact in there.

Paul Nungester
Yes. That's correct. You're right on with that. We believe we're at a trough. We're taking action like I said on the liquidity side to put excess cash to work as quickly as we can and as prudently as we can, and we also continue to address depository costs where we can; more in the higher-tiered buckets, money markets, etc. where we have some opportunity. Again, need to be a little careful on that given the merger and name change and things like that. We don't want to put undue pressure in that area.

But for the most part, we see this as a trough area in the 33 range plus/minus subject to addressing liquidity concerns there.

Scott Siefers
Perfect. All right. Thank you very much.

Paul Nungester
Yep.

Don Hileman
Thanks, Scott.

CONCLUSION

Operator
Thank you very much. This completes our question and answer session. I would now like to turn the conference back Tera Murphy for any closing remarks.

Tera Murphy
Thank you for joining us today as we discussed our quarterly results. We appreciate your time and interest in Premier Financial Corp. Have a great day.

Operator
Thank you. Ladies and gentlemen, the conference has now concluded. Thank you for attending today's presentation, and you may now disconnect.