Premier Financial Corp.

Premier Financial Corp.
Q4 and Year-End 2020 Earnings Conference Call

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CORPORATE PARTICIPANTS

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Tera Murphy - *Vice President, Corporate Communications Manager*

Paul Nungester - *Chief Financial Officer*

Gary Small - *Bank President*

Matt Garrity - *Chief Lending Officer*

PRESENTATION

Operator
Good day and welcome to the Premier Financial Corp. fourth quarter and year-end 2020 earnings conference call. All participants will be in a listen-only mode. Should you need assistance, please signal a conference specialist by pressing the “*” key followed by “0”. After today's presentation there will be an opportunity to ask questions. To ask a question you may press “*”, then “1” on a touch tone phone. To withdraw your question please press “*”, then “2”. Please note, this event is being recorded.

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

Tera Murphy
Thank you. Good morning, everyone. And thank you for joining us for today's fourth quarter and full year 2020 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 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 current 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 Mr. Hileman for his comments.

Don Hileman
Thank you. Good morning and welcome to our call. Joining me on the call this morning with prepared remarks on our financial performance is our CFO, Paul Nungester, as well as Gary Small, Bank President, and Matt Garrity, Chief Lending Officer. Vince Liuzzi, Chief Banking Officer, will be available for questions. Last night we issued our fourth quarter and full year 2020 earnings release. And now, we would like to discuss that release and provide some insight into 2021. At the conclusion of our remarks, the team will take any questions you might have.

While 2020 was a very challenging year for the company on many fronts, with the merger of equals, the pandemic, our system conversion, and the branding change, we were able to successfully navigate through the challenges and show strong core operating results for the quarter and the full year. I'm pleased with our results and the momentum in the balance sheet growth, financial strength, credit quality, and strategic performance that carries us into ’21. The fourth quarter 2020 net income on a GAAP basis was $30.8 million, or $0.82 per diluted common share, compared to $12.5 million and $0.63 per diluted common share in the fourth quarter of 2019. Net income excluding, merger costs for the quarter was $32.6 million, or $0.87 per share, compared with $13.2, or $0.66, per diluted common share in the fourth quarter of ’19.

For the year ended December 31st, 2020, Premier Financial earned $63.1 million, or $1.75 per diluted common share, compared to $49.4, or $2.48 per diluted common share, for ’19. Net income for the full year, excluding merger costs and provision, was $99.3 million, or $2.76 per diluted common share, with $50.7 million, or $2.54 per diluted common share, in 2019. At the quarter end our total assets were $7.2 billion. Loan growth, exclusive of the impact of PPP loans and the deposit growth trends in the fourth quarter, were healthy in this environment. Deposit growth continues to outpace loan growth as customer deposit activity remains strong. Our core efficiency ratio ended the year at 50% compared to 59% for 2019.

For the fourth quarter, our ROA was strong at 1.73 and 1.83 on a core basis. This represents continued financial strength and improving credit profile at year end. Our ROA for the full year was .96 compared to 1.5 for ’19. Quarter ROA was 1.5 for 2020 compared to 1.54 for 2019. Net charge offs for the quarter were 5 basis points, or 680,000, compared with a net charge off of 91,000 in the fourth quarter of 2019. Overall, net charge offs remain under our long-term expectations. Our allowance for loan loss ended the year at a strong 1.49%. As you might recall, we have adopted CECL; Paul will add more details on the reserve movement, shortly.

We are pleased with the trend in nonperforming assets this quarter to total assets at .73%, just up slightly from last quarter and consistent with our expectations at this point. The overall credit profile of the organizations continues to remain very strong. As we look into ’21, our continued ability to grow our loan portfolio will be a key strategic focus for us. We are very satisfied to see an increase in loans across our footprint in the fourth quarter driven by our metro markets, even in the face of strong competitive pressures relating to lower interest rates and the difficult economic conditions driven by the pandemic.

We are very pleased to announce an increase in our first quarter dividend of $0.24 per share, representing a 9.1% increase from a year ago and a current dividend of approximately 4%. We also increased the authorization limit for buyback to 2 million shares. These actions reflect continued confidence in our overall performance and reflective of our expectations of our strong capital levels and are consistent with our overall capital management strategy. We ended the year with a strong capital position and will continue to review on a quarterly basis our capital management and would expect that as performance levels are maintained and improved, we would have the ability and the desire to move the dividend payout ratio toward a 35% level, which is our long-term desired level. I will now ask Paul to provide additional financial details for the quarter before I conclude with an overview. Paul?

Paul Nungester
Thank you, Don. And good morning, everyone. I'll summarize our fourth quarter and full year financial performance. Beginning with the balance sheet, total loan growth may appear somewhat muted due to the beginning of PPP extinguishments. However, we generated almost 100 million of normal commercial loan growth, which would be at an 11.5% annualized growth rate. Offsetting this was 56.4 million of PPP extinguishments, which began as a part of the forgiveness program. Residential loans, again, had good origination volumes but continued prepayments and refinancings resulted in a $9.7 million net portfolio reduction, although we did have a $13.6 million increase in loans held for sale. And consumer loans declined again by $12.7 million in this quarter.

For deposits, we grew another $252 million from September 30, for an annualized growth rate of 17%. Noninterest deposits increased as businesses retained cash at year end and represented about 26% of total deposits at December 31st versus 25% at September 30th. Due to excess liquidity, we added $158.5 million of security investments during the quarter as we focus on net interest income dollar growth. Next, I'll explain the allowance. As a reminder, we previously adopted CECL effective January 1st. For fourth quarter, the allowance decreased $6.8 million due to a provision recovery for loans of $6.2 million and net charge offs of $680,000, which only represented 0.05% of average loans. The net decrease in the allowance is related to a decrease in quantitative factors, offset partly by non PPP loan growth. Quantitative factors improved significantly during the quarter due to a better economic forecast including a further improved national unemployment forecast. Given the forward looking nature of the CECL model, this resulted in our ability to release some reserves. Risk migration did not move materially during the quarter as an increase in classified loans was mostly offset by a decrease in special mention loans. And qualitative factors overall were essentially flat.

So, at 12/31, our allowance coverage to total loans, was 1.49%, which is down from 1.63% at 9/30. But if you exclude PPP loans, the ratio would be down to 1.61% from 1.77% at 9/30. In addition, if you include the unamortized balance of purchase accounting marks, the coverage ratio would be 1.84%, down from 2.04% at 9/30. Given the current economic outlook, we are comfortable with this reserve level at 12/31.

Last for the balance sheet is capital, where we ended with $982 million of equity at December 31, up $23 million from September 30, primarily due to continued strong net earnings. At year end, our tangible equity ratio was 9.24% and our total risk based capital is estimated to be about 13.4%. Next, I'll turn to the income statement. As a reminder, year over year comparisons are obviously skewed by the fact that we have 3 and 11 months of operations, including UCFC in the fourth quarter and full year 2020, compared to none in 2019.

I'll start with net interest income which was $55 million for the fourth quarter of 2020. This resulted in a net interest margin of 3.47%, consistent with third quarter. This does include the benefit of accretion from purchase accounting marks with $0.7 million coming through interest income and $0.6 million coming through interest expense. This also includes $3.6 million of interest income on PPP loans on an average balance of $426.5 million with $0.8 million of income related to extinguishments.

Excluding the impact of marks and PPP, our net interest margin would be 3.36%, which is down from 3.41% on a linked quarter basis. This decline would be attributable to the excess liquidity, mostly offset by our increased security investments. For the year, we had $208 million of net interest income and a margin of 3.52%. This includes the benefit of accretion from purchase accounting marks with $4.4 million in interest income and $3.9 million in interest expense. This also includes $8 million of interest income on PPP loans with average balances of $291.3 million.

Excluding the impact of marks and PPP, our full year net interest margin would be 3.42%, which is down from 393 (ph) in 2019. And this is obviously due the extraordinary year we just experienced, with interest rates crashing in relation to the pandemic induced economic recession. While asset yields fell dramatically, our team did a great job reducing funding costs, which declined 52 basis points for the fourth quarter year over year. Noninterest income was almost $19 million for fourth quarter and represented 25% of total revenues. First, mortgage banking income was $5.4 million for fourth quarter 2020. Gains on sales of mortgage loans were $6.1 million, down from $13.8 million last quarter, partly due to seasonality as well as some decisions to retain balances for balance sheet growth.

Servicing revenues and MSR amortization expense were each approximately $2 million and fairly consistent with last quarter. And we did have another negative valuation adjustment but only for $0.5 million, which is down from $1.7 million last quarter as rates and prepayment speed settled a bit next. Next, wealth management income came in at $1.8 million, an increase from $964,000 last year. And insurance commissions were $3.9 million, up from $3.1 million last year. Service fees and other charges increased to $4.8 million from $3.7 million last year, while BOLI and other revenues totaled $1.7 million.

For the year, total noninterest income was $81 million, or 28% of revenues, and up from $45 million last year. Mortgage banking was a key contributor in 2020, with over $28 million of net revenues, due to an incredible year of originations. And our other major business lines did well, including service fees at $21 million, up from $14 million last year. Insurance at $17 million, up from $14 million and wealth management at $6 million, up from $3 million last year. We also had over $1.4 million of security gains, but that was primarily due to the balance sheet restructuring we reported in third quarter.

Next, I'll discuss expenses. First, we incurred $2.2 million in the last of our merger related costs in the fourth quarter of 2020. So excluding merger costs, total expenses were $39.1 million, compared to $39.9 million in the third quarter of 2020, with the decrease primarily due to other expenses that included $1.4 million FHLB prepayment penalty last quarter for the balance sheet restructuring, offset by some year-end accrual (inaudible). For the year, expenses totaled $165 million, or $144 million, excluding merger related costs and that FHLB penalty, which was offset by security gains. And we are very pleased with our core efficiency ratio of 50% for the year, which compares very favorably to 59% for 2019. Additionally, our core pretax pre-provision income was $143 million for 2020, which generated a strong 2.17% return on average assets.

I'll wrap up with a summary of net earnings. On a GAAP basis, we reported net income of $30.8 million, or $0.82 per share, for the quarter. Merger costs this quarter represented $1.7 million on an after tax basis. So, excluding those costs, quarter earnings were $32.6 million, or $0.87 per share, up from $0.66 of core EPS in fourth quarter 2019. For the full year, GAAP net income was $63.1 million, or $1.75 of EPS. However, this included merger related provision and costs, which were $20.5 million and $15.8 million after tax respectively. Excluding those, core EPS for 2020 was $2.76 for an 8.7% increase from $2.54 in 2019. In conclusion, we finished the year very strong after completion of core conversion and synergies implementation. And we look forward to leveraging our solid capital levels in Premier operating profitability as the economy begins to recover. That completes my financial review. I'll turn the call over to Matt.

Matt Garrity

Thanks, Paul. This morning I will be providing an update on COVID-19 related deferral activity, along with thoughts on portfolio performance for the quarter and our outlook for asset quality moving forward. With respect to payment deferral activities, we're very pleased by the high rate of return to pay activity we experienced during the fourth quarter. Its total deferrals are now down to 1% of total loans for approximately $53.5 million, compared to 8.8% of total loans, or $482.7 million on September 30th. Return to pay activity during the quarter was approximately 94% and we're at high levels in all loan categories, including our high sensitivity portfolio, which declined by over 80% during the fourth quarter. These loans that have returned to payment have also been paying as agreed, as evidenced by our payment delinquency performance during the quarter.

In terms of asset quality performance, we stabilized during the fourth quarter. Levels of criticized loans remained relatively steady and overall there was not significant amounts of migration into the classified loan category. Non-performing assets as a percentage of total assets remain relatively stable and comparing the fourth quarter to the third quarter, as did overall payment delinquency. Our outlook for asset quality at this point is more optimistic than we have expressed in our previous quarterly calls. While we still expect some level of credit weakening, it is likely to be more episodic in nature at the individual loan level and not a large migration across the portfolio or portfolio segment.

We see the beginning stages of coronavirus vaccination programs and another round of economic stimulus as positive developments. With that said, we remain diligent in monitoring and managing the portfolio while working with our clients through what is still a very challenging environment. I would now like to turn the call over to Gary Small to provide some insight into 2021. Gary?

Gary Small
Thank you, Matt. Excellent commentary on 2020. Now, I'll provide some color on our performance expectations for ’21. From a balance sheet perspective, expect a year over year commercial flow, excluding the impact of PPP, in the mid-single digit range, very similar to our 2020 experience. The loan growth will fall to--in total will be 3 to 4%, excluding PPP, as we continue to project little to no growth in the combined residential real estate and consumer loan portfolios. We would typically expect mid-single digit growth in the residential category, but with the low interest rates still driving refi activity, we're taking a conservative approach when forecasting for ’21.

We do anticipate expanded securities portfolio in ‘21 versus ’20, larger balance sheet driven by the excess deposit liquidity we're experiencing. Coordinated interest income, excluding the impact of marks and PPP, is really reaching a low point or at least the low plateau at this point. And we would expect ‘21 to be consistent with fourth quarter results, if maybe just a tick lower. From a net interest income perspective, we’ll be up 7 to 8% in dollar terms versus 2020. And that's five to seven, excluded the expected PPP impact.

Fee income, we're really looking for a flattish ‘21 versus ’20. Residential mortgage income is projected to be down slightly versus a tremendous 2020. Insurance revenue will be flat, again versus a very strong contingent income component in the 2020 numbers. Asset management and trust income will experience growth in the low to mid-teens. And our bank service fees and interchange fees are projected as flat as household deposit growth continues to favor our clients. Interchange fees are conservatively projected to run at the same pace as ‘20 as we're not certain of the customer behavior as we head into a second year of COVID.

From an expense standpoint, expect low single digits, less than 3%, when adjusting for the ‘20 merger and acquisition related expenses. Generally speaking, this reflects the addition of a one month of the old Home Savings expense category that would have reflected January ’20, offset by reduced duplicate costs associated with running two back rooms for a portion of ’20. Within that same modest figure, we do plan to expand our commercial and residential mortgage teams in ‘21 and are already off to a good start to that end.

From a credit perspective, the assumption for ‘21 will include a moderate level of charge offs, that’d be in the 20 to 35 basis point range. We anticipate improvement in qualitative factors relative to our seasonal calculation. We already are seeing that benefit. We'd like to see another quarter before, and understand a little bit about COVID, before making the adjustment. And we expect a more favorable core provision figure in ‘21 versus ’20. In summary, the ‘21 plan delivers positive operating leverage, with revenue growth exceeding expenses by about 2% when you adjust for M&A expenses. The annual earnings improvement coupled with buybacks should provide the 8 to 10% EPS range year over year growth that's consistent with our three year planning horizon. With that, I'll turn it back to Don.

Don Hileman
Thank you, Gary. As I reflect on 2020 and the challenges that it brought, I'm very proud of all that we have accomplished as a team, while achieving our eighth consecutive year of record core earnings performance. We brought together two very successful organizations to build a stronger and more competitive organization that remains committed to being a high performing community banking organization. For Premier as a company and as a community bank, our definition of success goes well beyond the numbers on our financial statements.

Our employees have consistently risen to the challenge of finding smart solutions for our clients and communities and our shareholders. The synergies between our employees, both internally and within the communities we serve, have taken us to higher levels of performance and also have allowed us to demonstrate our ongoing commitment to our local communities that provided us with the opportunity to reaffirm our commitment to an elevated customer experience.

During the fourth quarter we launched a new campaign called Powered by (kind) People. Fueled by You. The bank will use this branding for all community outreach efforts going forward. Powered by Kind People represents the strong sense of passion that the bank's associates have for supporting our communities and the bank's commitment to giving back. Fueled by You represents the inspiration that the banks' clients and communities give to them to give back and spread kindness in the places we call home. As part of our kindness movement, we committed $535,000 to more than 75 organizations, bringing total donations in '20 to $1.7 million for the company and the foundation as a whole.

We are honored to support our community partners in making our local commitment stronger, especially in the time when COVID is having such a great impact in the need has never been greater. And just as we have remained dedicated to our communities as a company, our leadership and staff composed of experienced employees from both legacy organizations have shown tremendous dedication to each other and our clients. I am impressed with their commitment and the ability during the difficult operating environment, especially working remotely for a significant part of the year. We will continue to address key issues concerning people, processes, and technology as we look to the future. We are confident we will build upon our collective strengths and continue to adapt our operating environment based on the lessons we have learned throughout our conversion in this pandemic.

In addition to heighten focus on our digital strategy, which will help us further enhance the customer experience in-person, through our digital channels, and within our internal operations, our customers expectation, especially pertaining to digital delivery methods, are changing at an accelerated pace. And we are committed to providing our clients quality products and services within our environment they prefer. We will rely on our customers in place to help us identify ways to improve our customer experience through outreach and be part of implementing innovative solutions to reduce friction.

As announced last night in our release, I will be retiring as CEO of Premier Financial Corp. and Premier Bank at the end of March. At that time, I will become Executive Chairman of the Board, and Gary will transition into the CEO roles for both companies. Since this transition was planned as part of the merger equals, Gary and I have been working extensively together for quite some time so that the transition will be smooth and provide continuity in leadership for the company. I want to personally thank John Bookmyer, our Chairman, for all his support and leadership through the merger of equals and in transition planning. John will remain an active board member. We appreciate the trust you have place in us and your interest in Premier Financial Corp. We will now be glad to take any of your questions.

QUESTION AND ANSWER

Operator
We will now begin the question-and-answer session. To ask a question, you may press “*”, then “1” on your touchtone phone. If you're using the 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 “*”, then “2”. At this time, we will pause momentarily to assemble our roster.

Operator
The first question comes from Scott Siefers with Piper Sandler. Please go ahead.

Scott Siefers
Morning, guys. Thanks for taking the question.

Don Hileman
Good morning, Scott.

Gary Small
Good morning, Scott.

Scott Siefers
Before I get started, Congrats, Don and Gary, both of you on the official position changes coming up in the next few months. So, I look forward to working in a new capacity. Was hoping maybe, Gary, for a little color on the expense trajectory into 2021. If I've done the math correctly, if we just sort of hop on a small bit of growth to the core 2020 expense base, basically what it implies is a run rate less than the $39.1 million of core expenses in the fourth quarter. So, is there, if I've done it correctly, which I hope I have, is there a point where expenses come down from the fourth quarter’s base before grinding back up?

Gary Small
Scott, your math is always good. And I think the direction of your question is right. Paul, you've got the exact answer, but I know that for the full year we're looking at a 150-ish kind of number for the full year by quarter.

Paul Nungester
Yes. Yeah. It'll bounce around a little bit with the quarters, but that's right, Scott. It'll be--we're expecting about 150, which is around the 3%-ish growth off of the core 2020 results. And Gary talked through some of the pieces of that earlier. 12 months versus 11, due to the timing of the merger close and adding some (inaudible) to the portfolio.

Scott Siefers
Okay. Perfect. Thank you. And then maybe just on the fee side. So, the downdraft in mortgage sequentially was maybe a little more than we've seen it at some of your peers. Just curious how the quarter shaped up relative to what you guys had been hoping for. And then, just maybe a little additional color on the outlook for 2021. I know you said down slightly off the strong 2020 in your prepared remarks but would just be curious for any additional thoughts and expectations into the new year.

Paul Nungester
Yes. Yes. Sure, I'll give you a little high level. This is Paul. And then I'll hand it over to Matt for some more color there. But yeah. In the fourth quarter, part of it is seasonality. With fourth quarter, it's usually lower than summer/fall type stuff. But we also proactively started to retain some balances where we could, where it made sense to try and grow the balance sheet.

We continue to have deposit growth. And as I mentioned in my remarks, looking ahead to ‘21 and forward, we're looking to focus and grow net interest income dollars to the detriment of margin in the interim until loan growth really rebounds. So, those are a couple of the main pieces and Matt can give some more.

Gary Small
I would add on that, on the fourth quarter activity, that was a tactical adjustment that was specific in duration. And it equated to, maybe, about one month of activity that we were able to portfolio rather than sell. And then, we moved right back into sales mode.

Paul Nungester
Right.

Matt Garrity
Yes. The only other comment to make on ‘20 is it's always a tough compare when you have just an out of the park Q2 and Q3. And I think we've tried to, on these calls, communicate that this is--this was really rarified air that we were playing in during those quarters. And the fourth quarter is actually on balance, a very good quarter in mortgage banking activity, all things considered.

As we look at ’21, winning is going to be a little bit different from (inaudible). Our expectation is that refi activity will lag a little bit compared to 2020, which is a safe call given the record amount of refi activity we saw in the industry. But we've done a really good job as an organization growing our team and growing our approach. Where there's opportunities within our markets for some additional product penetration into our western markets, which we think will assist us greatly. So, as we look at that and the expansion of our team, we've always had a really good construction and purchase business, so we think with those factors together we're going to win a little bit differently in 2021. So, we think we can really maintain the level of performance overall in mortgage that we saw in 2020.

Scott Siefers
Wonderful. All right. Thank you, guys, very much.

Don Hileman
Thanks, Scott.

Operator
The next question comes from with Michael Perito with KBW. Please go ahead.

Michael Perito
Hi, guys. Happy New Year. Thanks for taking my questions.

Don Hileman
Good morning.

Michael Perito
I wanted to start the balance (inaudible) in pieces it was seeing in 2021 between the accelerating, well not just sustained commercial growth, but the PPP balances falling down. I was wondering, you gave some guidance around the pieces, but if we look at the overall size of the asset base and the earning asset base, any thoughts, Gary or Paul, in terms of how that should track in 2021? I mean, do you think the balance sheet will be sustained in the $7.2 billion range and liquidity and stuff will just remix? Or do you think there's a chance that it could shrink modestly if there's some normalization of liquidity after PPP balances are forgiven? Any thoughts around that would be helpful.

Paul Nungester
Yes, sure. Yes, you're right. PPP is a bit of a variable there, so kind of setting that to the side for just a moment. As Gary laid out, we are planning for growth in ’21. With conditions improving, we will be focusing on our commercial loan growth as well as, hopefully, getting residential done and consumer to at least kind of net each other out to some extent and maybe rebound. PPP will move things around but even with that, we're going to have the current portfolio go through this forgiveness process. And we expect most of that will go away here in ’21 and we’ll get some fees off of that.

But PPP round two has started up and we're participating in that. So, we'll get some new growth off of that. It won't fully offset everything that’s going away on round one. But net-net, we're looking for low single digit growth on the overall loan portfolio, as Gary laid out there earlier, with the intention to grow the securities book with the liquidity that we've got. We continue to get deposits. They continue to grow. With PPP two, if that plays out the way PPP one played out, those deposits will come in and so we’ll park them in securities. We’ll get our net interest income growth. And then, as the normal loan patterns start to come back into play, hopefully by the back half of ‘21 and into ’22, we’ll continue to grow at a true normal pace from there.

Michael Perito
So it doesn't sound like it's unreasonable to think that the $6.4 billion, give or take, of average earning assets, I mean, that should probably grow low single digits in 2021, even if we include the impact of PPP. That seems like a reasonable (inaudible)--

Paul Nungester
Sure, yes. Absolutely. Yes. So, that’s our intention.

Michael Perito
And I wonder if we could talk about capital for a minute. Obviously, the ratios are pretty strong and getting stronger. I mean, who knows when the PPP stuff will normalize. But x PPP the TC ratio will probably eclipse 10% at some point this year. Any updated thoughts about--the group had a nice--a little movement here. Buyback still in play. M&A, any updated thoughts there would be helpful.

Don Hileman
Yes, we signaled. We raised our dividend. We think there's more opportunity for that as we go through and see the strength of our performance here in the next quarter. We authorized the buyback last night so that's a signal of our desire to continue to utilize some of the excess capital. And as we position ourselves throughout the year M&A is clearly on our strategic list of things to consider. And as that market starts to improve, we want to be a player and look at those opportunities as well, Mike.

Michael Perito
And that was always part of the plan, right? (Inaudible)--

Unknown Speaker
Especially with our history, Mike, (inaudible)--

Unknown Speaker
I'm sorry. Go ahead.

Michael Perito
I'm sorry. Go ahead.

Gary Small
I just want to say, consistent with the history you would have with our organizations, we're not going to let capital stack up and go and unutilized.

Michael Perito
Right. I was going to say, is it fair to think that--obviously, the focus out of the gate was going to be on combining the organizations and making sure a lot of the strengths of each were preserved. But it does position you as a larger player in an Ohio marketplace that would seemingly need to consolidate quite a bit. Is that something that you think could start to come to fruition later this year? Do you think there's any roadblocks that could slow consolidation in that marketplace? And can you just remind us, geographically, how you view your footprint and what areas might be more focused than others?

Don Hileman
Sure. Clearly that M&A is on our interest list, if you will, for the remainder of the year. And I think there's a good opportunity as things start to accelerate. You saw a deal announced this morning. We expect that there'll be other opportunities for us to consider if they fit with our strategy. And you we're probably, as we talked about, we want to finish out the quarter. Some things we still need to get accomplished as far as the integration and get a solid base there. But we feel we will be ready in the second half, for sure.

Our footprint, we're going to look at--right now we're across the top of the state of Ohio into Pennsylvania, Southern Michigan and Indiana. I think any of those states, and particularly some of the opportunities in Ohio, are going to be strong. Indiana, Michigan, I think, will be stronger than some other locations. And generally, we're going to look at contiguous opportunities within our footprint to grow the franchise. You're not going to see us jump multiple states or anything like that.

Michael Perito
Okay. Very helpful. Thank you, guys. And then, just lastly, appreciate Gary and all the outlook commentary for 2021. But if we could summarize it a bit. Paul, you mentioned the core efficiency rate for 2020 was just under 50%. I mean, obviously, with the positive operating leverage guys are targeting, it would seem like you expect it to remain below 50% in 2021. I'm just curious, what would be--or what could be some of the impediment to that occurring as you expect in terms of what the risks of the budget and potentially seeing some upward pressure in the efficiency ratio. What are some of the things we should be mindful of?

Paul Nungester
Sure. Yes. The things that come to mind on that there, Mike, would be if the economy doesn't turn the way we expect and that we start to get back to the growth patterns that we're forecasting, we will have to be very quick to pivot and focus on cost containment at that point. We have built the structure and the organization to support growth, including adding some lenders for continuing to build that book there. So, if those things aren't going to pan out, then we'll have to pivot like we always would in such environments and focus on the expense side to catch up to our bottom line expectations.

Michael Perito
Helpful. But the budget does incorporate, already, some hiring activities. Is that safe to assume?

Paul Nungester
Yes. Yes.

Gary Small
Yes. And the buyers are already in. Mike, probably the biggest factor that could, impact wise, would be this residential mortgage. And within that revenue number, there's a number of moving pieces. You've got the margin you make on the gain on sale, the actual volume you produce, MSR offsets. So, when we put in the number, as Matt was saying, to stay consistent with a very strong ‘20 and overall residential mortgage, there's three good guys and a potential tough guy in there. And on balance, it makes us feel confident that we can hit that number to the extent the market might move against us on any one of those, to Paul's point, we've got plenty of oars in the water that we can adjust.

Michael Perito
Great. Thank you, guys, for answering all my questions and for all the color. Appreciate it.

Don Hileman
Thank you.

Operator
Just as a reminder, if you have a question, please press “*”, then “1” to be joined into the queue.

The next question comes from Christopher Marinac with Janney. Please go ahead.

Christopher Marinac
Hey. Thanks. Good morning, everybody. Just wanted to scroll back on a couple of points from the last question. So first, on the mortgage margin, do you think that's going to be less than what you've recently experienced this fourth quarter? Give us a window into the budget for this year. Just kind of curious on how that compares?

Matt Garrity
Sure, Christopher. This is Matt. Our expectations for 2021 on the margin side for mortgage is, overall, it's going to be a little bit more challenging environment than 2020. I think the entire industry enjoyed a really nice margin year on mortgage banking. We think with the decline in refinance activity over the year at an industry level, in the amount of capacity that has come into the industry that that's going to eventually put pressure on margins, as people tend to dive a little deeper to keep their engines running and keep their staffs busy.

As we model it out, we still think Q1 is going to be a good quarter, above expectation for margin as we would set our own expectations. We then think as the year goes on, we revert more back to what our baseline expectations are for margin and some of that largesse that we enjoyed in 2020 probably is not available for us in 2021.

Christopher Marinac
Got it. That's helpful. And I guess I'm still in the big picture. I mean, as a function of the merger from a year ago, you're still in a better place in terms of being able to have a better margin overall. And I think as a smaller company you may have had less margin than you now do. Is that fair?

Matt Garrity
Yes, I would agree with that.

Christopher Marinac
Okay. And then, just to follow--

Gary Small
(Inaudible) the margin offset, we still see production dollars being as high as they were this year, not necessarily number of units because the per unit funding is going up, so that's a bit of a cushion. And we're just going to have a better MSR experience in ‘21 than we did in ’20, which is also a good guy. So, we'll do it in a different fashion, but we still think we can deliver, to Matt’s point, with another very similar to what we got out of ’20.

Christopher Marinac
Okay. That's helpful, Gary. Thanks. And just a final point on expenses, are there any sort of new investments in digital or other things beyond just the mortgage commercial and residential hires that we talked about? And can you pivot from those if need be back to the point about cost containment, possibly?

Gary Small
Matt, you could share just in the mortgage business, because this just came up in with ‘18 when things got tight and we had to make some adjustments, how quickly we can pivot in the net group.

Matt Garrity
Sure. I would say, Christopher, we absolutely have the ability to pivot on the expense side. We have added capacity across our organization, not just in mortgage, to deliver higher levels of sales activity and lending activity, not only on the front end side, on the sales side, but on the support side as well. So, we're constantly monitoring if that activity is meeting our expectations and meeting what we've staffed for. And I think we're pretty aggressive about having the right balance between letting things play out versus calling it as we see it and making that change. So that's something we monitor pretty closely. I'm pretty comfortable that we would know what we need to do there.

Christopher Marinac
Great. Thanks for the additional color. I appreciate it.

Paul Nungester
Thanks, Chris.

Operator
The next question is a follow up from Scott Siefers with Piper Sandler. Please go ahead.

Scott Siefers
Hi, guys. Thanks for taking the follow up. I guess, maybe, just a question of where you see the net interest margin heading. I think, Paul, you had suggested a couple of times that the preferences for NII dollars--

Paul Nungester
Yep.

Scott Siefers
--rather than rate. Just curious, maybe, even a broad sense for order of magnitude of pressure that you might have embedded into your core (inaudible)--

Paul Nungester
Yes. Yes. Yes, I think Gary mentioned it earlier. We think we're pretty much near the bottom or very close to it you. There'll probably be a little bit of compression yet to experience here in '21, mainly do the dynamics of what we talked about, about focusing on securities growth for dollar income while loans start to rebound and grow from there. So, a little bit more. And we think of it mainly in that core contacts, excluding marks and PPP because depending on what happens with the PPP program with extinguishments and the new round two and things like that, they can move it around quite a bit. But we're down in the 336 for fourth quarter. So, a few more dips down from there isn't unreasonable for '21. But we really think we're at an inflection point where we're starting to--we'll plateau. And once we get back into the back half of the year, if loan growth really does come through as we expect, there's opportunity to start to potentially grow from there.

Scott Siefers
Okay. Perfect--

Gary Small
Within the quarter the trend through the months was declining. So, we finished (inaudible) with a better than the quarter as a whole. And while those securities will chip away at core margin, I think slight is the right word to put on it.

Scott Siefers
Yes. Terrific. Okay. Good. Thank you very much.

Don HIleman
Thanks, Scott.

CONCLUSION

Operator
This concludes the question-and-answer session. I would like to turn the conference back over to Tera Murphy for any closing remarks.

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

Unknown Speaker
Thank you.

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