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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the CrossFirst Third Quarter 2020 Earnings Conference Call. (Operator Instructions) Please be advised that today's conference is being recorded. (Operator Instructions) I would now like to hand the conference over to your speaker today, Matt Needham. Thank you and please go ahead, sir.

Matthew K. Needham - *CrossFirst Bankshares, Inc. - Director of IR*

Welcome, and thank you for joining us today. On the call today are Mike Maddox, President and CEO; Dave O'Toole, Chief Financial Officer; and Randy Rapp, our Chief Credit Officer. As a reminder, a telephonic replay of this call, along with our earnings release and presentation, will be available on our Investor Relations website for an extended period of time.

Before we begin, let me remind everyone that this call may contain certain statements that constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. We caution investors that actual results may differ materially from the expectations indicated or implied in our forward-looking information. We provide a comprehensive list of risk factors in our SEC filings, which I highly encourage you to review. Any forward-looking statements apply only as of today, and we undertake no obligation to update them, except as required by applicable securities laws.

Reconciliations of non-GAAP financial measures to the nearest comparable GAAP measures are included in the release and presentation, copies of which are all available on our Investor Relations website. All earnings per share metrics discussed today are provided on a diluted per share basis.

I'd now like to turn the call over to Mike Maddox.

Michael J. Maddox - *CrossFirst Bankshares, Inc. - President, CEO & Director*

Thank you, Matt. I'm excited to be here today as we discuss our third quarter results on what has been an unprecedented and challenging 2020 for our industry and our customers. At CrossFirst, the health and safety of our employees, clients, shareholders and the communities remain a top priority, and I'd like to wish them all the best in the hopes that they are staying safe and healthy.

As we work through a difficult macroeconomic climate, I'm proud of our third quarter performance. We continue to improve operating leverage. We have maintained strong capital levels and increased our earnings power through efficiency initiatives, all of which I believe will make the company stronger as we navigate through the current downturn. The bank reported positive income and prudently added another $10.9 million to the loan loss reserves, bringing our allowance-to-loans ratio to 1.7%. We expect to continue building our reserves for the remainder of 2020 in order to continue strengthening our balance sheet and position us for a stronger 2021.

To offset the impact of elevated provisioning and margin compression, we have focused on creating operational efficiencies by optimizing our staffing levels, investing in technology and controlling discretionary expenses. Our markets, technology focus and branch-light strategy have allowed us to continue to grow and serve our customers effectively during the pandemic. In contrast to other areas of the country, the Midwest and Southwest markets we serve have unemployment rates that are lower than the national average, and their economies continue to improve steadily.

We are also excited to announce that our Board of Directors approved a share repurchase program of up to $20 million. We feel strongly about the strength and the direction of our company and believe executing a stock repurchase program is prudent given our stock, along with much of our industry, is trading below tangible book value. The company has the discretion and flexibility to repurchase shares under the program through the end of 2021. The timing of repurchases and the exact number of shares of common stock to be purchased will both depend on market conditions and other factors.

Disruptions caused by the pandemic have not prevented us from achieving positive accomplishments. Our team delivered net income of $8 million or $0.15 per share for the quarter. In addition, the company produced record quarterly and year-to-date pretax pre-provision profits despite operating in a pandemic and a historically low interest rate environment.

Year-over-year, we delivered loan and deposit growth of 23%, which includes our execution of loans under the Paycheck Protection Program to support our customers and our communities. Excluding PPP loans, our quarter-over-quarter loans grew conservatively at 1.6%. In addition, our overall deposits grew by 4.4% from the previous quarter. That includes robust demand deposit growth year-to-date. While our loan and deposit growth has historically been very strong, strategically, the company is focusing on fee income generating opportunities to diversify our revenue and take pressure off our margin.

While our teams will continue to execute our growth model, we also remain focused on enhancing our efficiency and optimizing capital to deliver earnings per share growth. Our largest noninterest expenses are salaries and benefits. And while we optimized our staffing levels this quarter, we plan to maintain such efficiency as we continue to grow. Hiring the best talent in our markets is one of our core strengths as a company. We remain committed to hiring talented bankers and employees in a measured approach to support our growth objectives. We have a great team in place and that is highly capable of successfully executing our strategy.

During the quarter, we also completed 2 key strategic accomplishments with the opening of our second full-service bank in the Dallas metropolitan area located in the Hall Park complex across from the Star District in Frisco, Texas. And in September, our Kansas City team moved into a new prominent location on the Country Club Plaza, which is in the heart of Kansas City. Both locations will enable us to expand our presence in 2 of our fastest growing markets. We believe these locations will help us grow core middle market customers and expand our demand deposit base.

We are still operating under a pandemic plan, and the team continues to serve our customers in extraordinary ways, while a large percentage of our employees continue to work remotely. We have approximately 90% of our employees working on rotations with time split between home and our offices. Our lobbies continue to operate by appointment only. We will remain flexible regarding the office and branch reopening process.

We have been experiencing a relatively normal volume of churn in our loan portfolio, which is a positive indication of the strength of our markets. We experienced just over $300 million of paydowns during the quarter, and we still had net growth in the loan portfolio. The paydowns we did receive were primarily from secondary market refinances as well as asset sales.

We continue to see new business opportunities but are very cautious in assessing and underwriting new credits. During the quarter, we originated approximately $183 million in loans to new customers. Our commercial banking teams are actively engaged with our customers to proactively support them. Our team continues to do a very good job of administering our loan portfolio. Our modifications continue to move downward, which is also a good sign that our customers are managing through this difficult economic environment. I am so proud of the level of support we were able to provide our customers to allow them to better weather the initial days of the pandemic.

As expected, we continue to see grade migrations in our loan portfolio, which has led to elevated provisioning and negatively impacted our asset quality metrics. As an organization, we will continue to work with customers who remain negatively impacted by the pandemic. Randy Rapp will go into more detail regarding our loan portfolio performance and modification trends in a few moments.

As of September 30, we continue to hold approximately $369 million of PPP loans. Like most banks, we have begun the forgiveness process and started seeing some loans forgiven. We will likely see the bulk of these loans forgiven during the first half of 2021. As of quarter end, we have submitted to the SBA 64 PPP loans for forgiveness, totaling $49 million.

Before I turn it over to Dave, I want to thank our employees, who, despite the various challenges of the pandemic, have continued to execute on our strategies and most importantly, are delivering extraordinary service to our customers. The last 6 months have tested our employees, customers and communities, and I am proud of the way they had responded. Our performance during this pandemic shows the progress we've made toward achieving efficiency, managing our risk and setting the stage for future growth and success.

I would like to turn the call over to our Chief Financial Officer, Dave O'Toole, for a more detailed discussion of the financial results.

David L. O'Toole - *CrossFirst Bankshares, Inc. - CFO, CIO & Director*

Good afternoon, everyone. As Mike mentioned, we had another positive quarter of pretax pre-provision income and maintained our operating revenue levels. With the current interest rate environment, net interest income declined 4% on a linked-quarter basis to $39.3 million but was 10% above the third quarter of 2019. Regarding our net interest margin, we experienced a decline of 21 basis points from 3.19% to 2.98% during the quarter. The rate environment, the PPP loan drag and several loans moving into nonaccrual contributed to this outcome. The key drivers were loan yields decreasing 38 basis points, a decrease in associated loan fees and the tax equivalent yield on securities decreasing by 14 basis points. A reduction in deposit costs by 12 basis points was not sufficient to fully offset the declines in earning asset yields. The credit workout process negatively impacted the third quarter NIM by approximately 7 basis points.

We also entered into a small deleveraging transaction, whereby we prepaid a high-cost $4.5 million Federal Home Loan Bank advance, including a prepayment fee of $175,000. Offsetting this additional interest expense were the securities gain. The long-term benefit of this transaction sufficiently offsets the 1 basis point impact on NIM this quarter.

When comparing loan yields in Q3 with the previous quarter, it is noteworthy that the PPP loan fees were higher in Q2 than Q3 due to the accounting treatment for recognizing those fees. The PPP income should have a slight positive impact on loan yields and net interest margin in the future as the company works diligently to accelerate the forgiveness time line and, as a result, be able to recognize the remaining $7 million of PPP unearned fees as income.

As you will notice in the information we have provided, our 2020 year-to-date loan yields have declined 128 basis points from the same period in 2019, and our year-to-date interest-bearing deposit costs have declined 116 basis points compared to the same period, primarily as a result of the declining interest rate environment. We anticipate that our net interest margin will remain under some pressure while low interest rates and a flat yield curve persist. Despite the pressure, we expect net interest margin to be higher in the fourth quarter due to the approximate negative 8 basis point impact from the transactions discussed previously and continued recognition of PPP fee income. We continue to have room for further reductions in our interest-bearing deposit costs to mitigate the expected slow drift downward in earning asset yields.

The marketable securities portfolio continues to perform well, and we had approximately $34 million in unrealized gains at September 30, 2020. The taxable portfolio, consisting primarily of MBS and CMO securities, continues to experience accelerated prepayment speeds and consequently, generated $39 million of cash flows during the quarter, a portion of which we were reinvested in new tax-exempt securities with a fully tax equivalent yield of 2.60%.

The portfolio's fully tax equivalent yield year-to-date was 3.08% through September 30, and during the quarter, we sold $11 million of municipal securities, which both improved our credit exposure in this sector and created $1 million in securities gains. Approximately $4.5 million of the securities were sold, and the associated gains were sold and made in connection with the Federal Home Loan Bank deleveraging transaction. And the remaining security sales were taken selectively as we monitor the credit quality of our portfolio. The sales included approximately $5 million of commercial airport bonds because they were being evaluated for rating downgrades. In all cases, we were able to dispose of the bonds at a meaningful gain. Given the current economic environment, we continue to maintain a portfolio of fixed rate investment-grade securities that are monitored with the assistance of an independent third-party adviser.

Turning to operating revenue for the quarter, we saw an increase of 11% year-over-year to $43.4 million with only a slight decrease from the prior quarter. We reported record pretax preprovision income for the third quarter of $20.4 million and $51.3 million year-to-date compared to $45 million year-to-date 2019. Pretax preprovision income would have been $58.7 million year-to-date when excluding the goodwill impairment charge from the second quarter.

Noninterest income was up 54% on a linked quarter basis and 26% year-over-year. Credit card fees, service charges and securities gains contributed to the positive improvement and more than offset the declines in swap fee and BOLI income. Noninterest expenses on a linked quarter basis were relatively flat, excluding the impairment charge taken in the second quarter.

As Mike mentioned, we felt it was in our best interest to optimize staffing levels during the quarter, reducing headcount from 364 full-time equivalent employees at the end of the second quarter to 332 employees by the end of the third quarter. The annualized $4.1 million future impact from this action will be reflected in Q4 and beyond. After the optimization of our workforce, our assets per employee ratio rose to $16.6 million, the highest level in the company's history, and reflects the value of our branch-light strategy.

We reported efficiency ratios of 59% year-to-date and 53% for the quarter despite having several nonrecurring charges, as discussed previously, that negatively impacted the ratios. Our commitment to efficiency will mitigate some impact from margin compression in the future. Overall, these efforts are all part of our plan to strengthen the balance sheet in 2020, which should drive stronger forward earnings in 2021 and 2022.

We, again, had a few nonrecurring expenses and elevated provisioning during the quarter that impact our return on average assets and earning per share calculations. Disciplined expense management continues to contribute to our overall pretax pre-provision profitability. As previously disclosed in our second quarter report, we have performed significant stress testing that indicates our reserve levels and capitalization can support potential credit losses in an extremely adverse economic scenario. We reported a 0.58% return on average assets for the quarter, with year-to-date pretax pre-provision return on average assets of 1.48%, both of which are calculated with an inflated balance sheet from carrying $369 million of PPP loans.

CrossFirst continues to improve operational efficiency to complement our proven history of growing operating revenues. The outlook for pre-provision profitability is favorable, and we are confident we have the capital and capacity to absorb loan loss provisioning required to make it through this unprecedented time and the staggering impact it is having on the economy and our customers.

I look forward to answering your questions at the end. And now I would like to turn the call over to our Chief Credit Officer, Randy Rapp, for a more in-depth discussion of credit.

W. Randall Rapp - *CrossFirst Bankshares, Inc. - Chief Credit Officer of CrossFirst Bank*

Thank you, Dave, and good afternoon. Our nonperforming assets to total assets ratio ended the quarter at 1.49% compared with 0.74% at June 30, mostly due to the migration of an energy loan and a previously disclosed C&I loan that was in the process of being restructured at quarter end. The loan has subsequently been restructured as anticipated and as of today is no longer classified as a nonperforming loan. This brings our nonperforming assets to total assets ratio down below 1%. For the quarter, we recorded $6 million in net charge-offs, primarily in our C&I portfolio.

Next, I want to discuss the migration within our loan portfolio during the quarter and the level of payment modifications. We have provided a high-level summary of loan migration information by quarter. I would like to give more color on our elevated level of classified assets. Of our total classified assets, 56% represent energy credits and the previously mentioned C&I loan. The strategy and course of action for our energy portfolio is to continue to support our customers through this low commodity price environment. As previously reported, our energy portfolio is comprised of long-lived producing assets. Risk ratings are more directly susceptible to energy prices, but ultimately, we believe this portfolio has a lower probability of recognizing actual loss.

Next, I would like to give an update on our loan deferrals. Our second round of deferral approvals was more stringent than the first round. They included a more detailed risk assessment, an elevation of near-term and long-term recovery potential and a review of the support provided by borrowers, sponsors and guarantors. At quarter end, we had $318 million of loan that received some form of modification compared to $709 million at the end of Q2. The current balance is 7% of loans compared with 16% of loans at the end of Q2 when the PPP loans are included. Of the $318 million of modifications that remain on the balance sheet, $133 million received second modifications, and the remainder were first-time modifications, some of which were made in the third quarter. As you can see on the slide, the majority of the remaining modifications reside in heavily impacted industry. It is important to note that, of the loans that have been modified, roughly 89% have a pass rating. Again, we have an expectation that these borrowers will recover from the pandemic and continue to perform in the future.

Of the modifications on our hotel portfolio, most are longer-term modifications due to the continued significant impact from the pandemic. We believe we have taken a very proactive approach in evaluating credit quality across the entire loan portfolio and considered risk rating changes in the evaluation of our allowance for loan losses. We believe it is prudent to continue building reserves throughout the remainder of 2020, especially during these continued uncertain times. After our Q3 provision of $10.9 million, we finished the quarter with an allowance to total loans of 1.70% and an allowance to total loans less PPP loans, which we expect to be forgiven of 1.84%. The increase in reserves for the quarter primarily is a result of continued grade migration, assessment of historical loss factors and further uncertainty created by the pandemic.

We have again included exposures to certain higher risk segments of our loan portfolio in our supplemental materials. We have a strong relationship-based credit culture at CrossFirst Bank as well as proactive management, cash flow-focused lending and meaningful portfolio diversification. As we disclosed in the second quarter, we are well capitalized and have stressed the portfolio for multiple loss scenarios. We do not have plans to adopt CECL in 2020, but we continue to run parallel analysis on the potential impact of adoption on our reserve and capital.

I look forward to answering any questions you might have, and we'll now turn the call back over to Mike.

Michael J. Maddox - *CrossFirst Bankshares, Inc. - President, CEO & Director*

Thank you, Randy. Our balance sheet is strong. Our customers are diverse, and we believe we have been proactive in our risk rating approach throughout 2020. Thank you again for joining our call today. And as we mentioned earlier, our full results and financial metrics are included in the earnings release and presentation.

This wraps up our prepared remarks, and now I'll turn it back over to the operator to begin the Q&A portion of the call. Stay safe and healthy. Thank you.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question comes from the line of Brady Gailey with KBW.

Brady Matthew Gailey - *Keefe, Bruyette, & Woods, Inc., Research Division - MD*

Why don't we start with the $6 million of net charge-offs? Maybe just a little more color on -- I know you talked about some C&I and energy but just a little more color on what that included.

Michael J. Maddox - *CrossFirst Bankshares, Inc. - President, CEO & Director*

It covered several loans, Brady, some in the energy space and a couple in our C&I portfolio. We don't think it's anything systemic. And part of it was a result of a restructured and recapitalized credit.

Brady Matthew Gailey - *Keefe, Bruyette, & Woods, Inc., Research Division - MD*

Okay. Which I'm guessing is the liquor distributor [loan] you've been talking about for a while.

Michael J. Maddox - *CrossFirst Bankshares, Inc. - President, CEO & Director*

No, it was a different credit, and we really can't discuss any more detail about it due to the agreement and the restructuring.

Brady Matthew Gailey - *Keefe, Bruyette, & Woods, Inc., Research Division - MD*

Okay. And then the NPA increase of about $38 million, can you give us a little more color on some of the larger inflows into that NPA bucket? And like -- I know you mentioned energy. Kind of what's the story with the one larger energy NPA?

Michael J. Maddox - *CrossFirst Bankshares, Inc. - President, CEO & Director*

I'll let Randy talk to the NPAs.

W. Randall Rapp - *CrossFirst Bankshares, Inc. - Chief Credit Officer of CrossFirst Bank*

Brady, this is Randy. So as we said, the NPAs did increase during the quarter, and that was primarily due to one energy transaction and to the restructured C&I loan. It's important to note though that, that was restructured, and our NPAs are down to $54 million post that restructure. So there was a slight increase, and it really reversed there with that restructure. And of the NPAs, a high percentage continue to be in the energy portfolio.

Brady Matthew Gailey - *Keefe, Bruyette, & Woods, Inc., Research Division - MD*

Okay. So I'm backing into it. The restructured C&I loan looks like was about $24 million. How much was the energy NPA that was added?

W. Randall Rapp - *CrossFirst Bankshares, Inc. - Chief Credit Officer of CrossFirst Bank*

So your math's correct on the C&I. The energy credit that was added was just below $7 million.

Brady Matthew Gailey - *Keefe, Bruyette, & Woods, Inc., Research Division - MD*

Just below $7 million. Okay. All right. It was good to see the buyback announcement. It looks like $20 million is about 4% of the company. How aggressive do you think you'll be on the buyback in the near term?

Michael J. Maddox - *CrossFirst Bankshares, Inc. - President, CEO & Director*

Well, I think, Brady, we want to be prudent. We're still very cognizant of the economy we're in. We like maintaining our strong capital position and having the excess capital. But at the same time, as our stock continues to trade below book value, we'll be methodical, and we'll evaluate it on a daily and weekly basis.

Brady Matthew Gailey - *Keefe, Bruyette, & Woods, Inc., Research Division - MD*

Sure. And then finally for me, you pulled the expense lever in the third quarter just given the headwinds. Are there more levers to pull on the cost base as we look to 2021?

Michael J. Maddox - *CrossFirst Bankshares, Inc. - President, CEO & Director*

We feel like we've done a pretty good job of managing the expense side of the company. And the last piece of that was really getting our staffing levels to a point at which we feel comfortable operating. And we're really happy with kind of a $16.5 million in assets per employee. We think we can operate very efficiently there. And as we said in the release, a lot of those reductions in costs haven't flowed through yet, but we expect that will help us in 2021.

Operator

Our next question comes from (inaudible).

Unidentified Analyst

This is [Brandon King] on for [Jamie]. I wanted to touch a little bit on loan growth. I know ex PPP, loan growth was pretty nominal, but you mentioned that there were some business opportunities in some areas. And I was wondering if you could go into more detail about those specific areas or maybe geographic regions where you're seeing some loan growth opportunities.

Michael J. Maddox - *CrossFirst Bankshares, Inc. - President, CEO & Director*

Well, a majority of our loan growth is coming out of our Texas and Kansas City regions primarily. We continue to see a lot of opportunity on the real estate side, primarily in the industrial space and the Class A multifamily space. Those 2 areas, in particular, seem to be strong.

And it's also just kind of a hit and miss. There's a lot of industries that continue to really thrive in this environment. For example, we have a number of our restaurant customers that continue to grow and expand and have never been more profitable. So there's just different segments that there are some staffing companies that continue to have a lot of success in this environment. So it's all over the board. But primarily, our growth right now, most of the opportunities are coming from Kansas City and Dallas.

Unidentified Analyst

Okay. And I also want to touch on card fees. I think they were materially up this quarter and they had been year-to-date. Could you kind of explain was -- what are the underlying factors going on there? I know [somebody] mentioned that cards fees are expected to be declining. But I was wondering if there's any sort of special trends going on for you guys.

Michael J. Maddox - *CrossFirst Bankshares, Inc. - President, CEO & Director*

We have several customers that are -- become very, very busy as it relates to in the health care space of treating patients affected by the pandemic. And that's caused them, frankly, a lot of travel, which then has incurred -- has really driven their use of cards up to support that travel. And so that, in large part, what's driven our fees up.

Unidentified Analyst

Okay. And do you expect that to stay at an elevated level for the next couple of quarters or near term?

Michael J. Maddox - *CrossFirst Bankshares, Inc. - President, CEO & Director*

Well, I wish I had a crystal ball. From an earnings standpoint, we like it, but from a public health standpoint, probably not quite as much. But I would expect we'll continue to see increased activity over the next quarter or 2.

Operator

And our next question comes from the line of Andrew Liesch with Piper Sandler.

Andrew Brian Liesch - *Piper Sandler & Co., Research Division - MD & Senior Research Analyst*

I just wanted to follow up on the loan growth question here and the pockets of opportunities that you're seeing. Just curious, what's the average size of what you guys have been adding?

Michael J. Maddox - *CrossFirst Bankshares, Inc. - President, CEO & Director*

Well, I mean, I think it's fairly consistent with what we've done historically. Probably in that $5 million to $15 million range, that would be what we're seeing. And our internal hold limit is $20 million, so we're -- we'll participate something out if it's larger opportunity. But we're seeing a number of middle market opportunities and -- on the C&I side. And as I said, again, still see really strong demand in the industrial and multifamily space.

Andrew Brian Liesch - *Piper Sandler & Co., Research Division - MD & Senior Research Analyst*

Got you. That's helpful. In the presentation, you referenced $105 million of purchased loan participations and $346 million in syndicated loans. How much of the growth this quarter was in those 2 types? Or I guess I'll ask another way. Do you have what those balances were at June 30?

Michael J. Maddox - *CrossFirst Bankshares, Inc. - President, CEO & Director*

Those numbers are totals. Those aren't the changes. And so we've had very, very little change, if any, in loans purchased or syndications purchased.

Andrew Brian Liesch - *Piper Sandler & Co., Research Division - MD & Senior Research Analyst*

Okay. Great. And then just shifting over towards the margin, just a point of clarification. So it sounds like there's 8 basis points of embedded rebound just from some of the transactions that took place this quarter. Does that include like roughly 7 basis points of foregone interest that might come back from that large C&I nonaccrual? So is it more than 8 basis points that could come back here? Or does that 8 basis points include that foregone interest?

David L. O'Toole - *CrossFirst Bankshares, Inc. - CFO, CIO & Director*

Andrew, this is Dave. It's probably too early to tell whether that interest will come back to us, but obviously, it was associated -- some of it was associated with the restructured loan. And we're hopeful that we do get to recover that at some point down the road.

But you are exactly right. We should have some rebound in our margin just due to the 2 transactions that I talked about in my presentation to getting this back to the level that we thought we would be in this quarter, which is about a 3.05 NIM. We expected some decline in the quarter but not this much. And I think as I mentioned, we have a little room yet in our deposit cost to go ahead and continue to offset the gradual decline in loan yields.

So I think we should be able to hold margins. They'll be better in the fourth quarter than they were in the third quarter. We should be able to hold them in the low 3s going forward and if the current interest rate environment remains as it stands.

Our time deposits are maturing, and that gives us an opportunity in the time deposit area to lower the cost of our deposits. The indeterminate maturity deposits don't have a lot of room in them, but we may have a little room there to lower costs as well without impacting our ability to grow the loan portfolio. So we think margin is going to remain in the low 3s for the foreseeable future.

Operator

Our next question comes from the line of Joe Yanchunis with Raymond James.

Joseph Peter Yanchunis - *Raymond James & Associates, Inc., Research Division - Senior Research Associate*

Most of mine have been answered, but I have a couple left. So I have one question on credit. I was wondering what were your criticized and classified loan balances at the end of the quarter.

W. Randall Rapp - *CrossFirst Bankshares, Inc. - Chief Credit Officer of CrossFirst Bank*

Yes. This is Randy. Be happy to answer that. So our criticized and classified loan total at the end of the quarter was $477 million, and classifieds were right at $300 million.

Joseph Peter Yanchunis - *Raymond James & Associates, Inc., Research Division - Senior Research Associate*

Got it. I appreciate it. And one more on the reserves. So you mentioned you expect for reserves to continue to build throughout the fourth quarter. When do you think reserve levels will peak? And I was hoping you could provide any insight on what reserve levels would be under the CECL framework.

W. Randall Rapp - *CrossFirst Bankshares, Inc. - Chief Credit Officer of CrossFirst Bank*

Yes. This is Randy again. Happy to answer that. So we continue -- as we said, we plan to continue to build reserves in Q4. We think our provisioning in Q4 will be close to what you saw us provision in Q3. And we feel like that the reserve should peak at the end of this year and pop out probably close to that 2% mark. And we feel good about that reserve level.

On CECL, we're still continuing to tweak the CECL model. We're running -- we've got our methodology stood up, and we are running that model because we don't have to adopt in this year or next year. We've not fully calibrated that model. So at this point, we don't -- we would not anticipate a significant or material difference between the 2 models.

Operator

(Operator Instructions) Our next question comes from the line of [Thomas Windberg] with Stephens, Inc.

Unidentified Analyst

This is [Thomas Windberg] on for Matt Olney. A quick few -- few quick questions for me. I know you guys went over deposit costs pretty well. I remember in 2Q, you kind of guided 20 to 30 bps of leeway there. We saw 12 bps of that this quarter. Is the 10 to 20 bps kind of left? Is that a good way to think about it?

David L. O'Toole - *CrossFirst Bankshares, Inc. - CFO, CIO & Director*

Probably not as much as 20, but there should be 10 to 15 basis points left in our total funding costs. We've got some wholesale funding, too, that can provide some relief as those liabilities mature. So I would think 20 would be a bit of a stretch, but 10 to 15 certainly is remaining.

Unidentified Analyst

Okay. And then with swap income, it's kind of remained low here. Can you give us an idea of what we should think that'll be at in 4Q?

David L. O'Toole - *CrossFirst Bankshares, Inc. - CFO, CIO & Director*

We have been looking at some occasional swaps, but at the end of the day, we have made some decisions to go ahead and just put those assets on our books at a fixed rate to protect margin. We'll do the swap if it makes sense. The demand for that is not as heavy as it was, so I would expect the swap revenues to remain fairly low for the foreseeable future.

Operator

And I'm not showing any further questions at this time, so I will now turn the conference call back to Matt Needham for any closing remarks.

Matthew K. Needham - *CrossFirst Bankshares, Inc. - Director of IR*

Thank you again for joining us today. This call can be accessed via replay at our website, and as always, you can contact me with any follow-up questions you might have. Again, we appreciate your interest or investment in our company, and thank you for taking time to be with us this afternoon.

Operator

Ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect.