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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the CrossFirst Q2 2020 Earnings Call. (Operator Instructions) I would now like to hand the conference over to your speaker today, Matt Needham. Thank you. Please go ahead.

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

Welcome, and thank you for joining us today. On the call 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 or presentation, copies of which are available on our Investor Relations website. All earnings share metrics discussed on today's call are provided on a diluted share basis.

I'd now like to turn the call over to our new CEO, Mike Maddox.

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

Thank you, Matt. I'm really excited to be here today at the close of my second month as President and CEO of CrossFirst Bancshares to discuss our results as we continue to navigate the pandemic and associated economic uncertainty. I'd like to wish the best to our employees, customers, shareholders and their families, and hopes that they are staying safe and healthy. CrossFirst Bank is committed to doing all we can to contribute to the health and well-being of the communities in which we serve.

I want to take a moment especially to thank George Jones for his leadership the last few years and for making our leadership transition smooth and successful. As a part of the management succession, Steve Peterson, who has been serving as our President of our Wichita location, has been promoted to Chief Banking Officer and will be located in Kansas City. Steve has consistently performed by managing and growing our Wichita market for over 10 years, and we are happy for the leadership he brings to our company. He will oversee the revenue-generating portion of the bank, which includes marketing and the oversight of our 5 markets.

As we begin the next chapter of CrossFirst, we want to build on our foundation and continue to drive responsible and profitable growth. While other banks work on branch rationalization strategies, our branch-light model, relationship banking focus, and technological capabilities have allowed us to efficiently serve our customers throughout the pandemic. Over the next couple of years, our organization will be heavily focused on enhancing efficiency, optimizing our capital structure, improving our return on equity and delivering earnings per share growth. Having said that, the bank will not deviate from its core mission, and we'll continue to work with and support our customers through the course of this pandemic.

Despite the headwinds that continue to face the banking industry, I'm really proud to announce our 25th consecutive quarter of operating revenue growth. Although we experienced a year-to-date net loss of $3.5 million, our year-to-date pretax pre-provision net profit of $30.9 million is the best in the company's history, which includes a noncash $7.4 million goodwill impairment charge and is significantly higher than in the same period of the prior year. Operating revenue for the quarter rose 20% year-over-year to $43.8 million and increased 9% from the prior quarter.

We are navigating through the challenging environment and have provided you an update regarding our COVID-19 response. We are continuing to operate under our pandemic plan, and we currently have approximately 90% of our employees working on a rotational schedule with time split between home and our offices. We continue to take necessary precautions for the safety of our team members who are back in the office serving our customers. Our lobbies are operating by appointment only, and the company will continue to remain flexible regarding the branch reopening process.

We have an unwavering commitment to help the local businesses and communities we serve, but we do not want to jeopardize our employees' or clients' safety.

During the quarter, the bank prudently added $21 million to the reserves, bringing our ALLL to loans to 1.6%, which impacted our bottom line net income and related performance metrics. While the current economic environment has necessitated this decision, we remain steadfast in our ability to take advantage of future opportunities given our focus on quality credit, combined with strong capital and liquidity levels. We continue to monitor our at-risk segments and modifications to identify any challenges and to proactively offer our borrower solutions. We reported efficiency ratios of 71% for the quarter and 63% year-to-date. For the quarter, our non-GAAP core efficiency ratio was 53%, which continues to show tremendous quarter-over-quarter improvement. As the company approaches $5.5 billion in assets, our assets per employee ratio rose to $15 million, the highest level in the company's history. Although we reported a net loss of $0.14 per share at the end of the quarter, our tangible book value per share rose 5% -- $0.05 per share to $11.65. Our common equity Tier 1 ratio remained relatively flat in the quarter after building approximately $21 million of reserves, while our overall risk-based capital ratio increased quarter-over-quarter. We did experience some previously anticipated migration in our loan portfolio that has subsequently impacted our asset quality metrics. Randy Rapp will go into more detail regarding our loan portfolio performance in a few moments.

Our teams continue to deliver healthy organic deposit and loan growth. In the quarter, we grew to nearly $5.5 billion in assets. Excluding the PPP loans, our quarter-over-quarter loan growth grew conservatively at 1.2%. In addition, our overall deposits grew by 8%, and DDA balances increased by $183 million as we were able to capture deposits from PPP loan proceeds and customers.

As of June 30, 2020, demand deposits represented 18% of our overall deposits, which is a significant improvement quarter-over-quarter. We are also extremely excited to announce that our first Frisco, Texas location opened on July 13, and we plan to relocate our Missouri office to a new country club plaza located in Kansas City, Missouri by the end of September.

As of June 30, we have funded approximately $369 million of PPP loan proceeds, including $79 million to new business customers. We have transitioned many of these customers into stronger, long-term relationships, and they have contributed to the large increase in our DDA accounts.

Our average loan size for the PPP program was $312,000, which shows how our team is truly focused on helping support small businesses in our communities. Furthermore, CrossFirst continues to support organizations that are helping individuals facing unprecedented challenges at this time. Against the backdrop of this unprecedented economic situation, our second quarter performance highlights our continued operating leverage growth as well as our increasing earnings power from efficiency, both of which have allowed us to effectively build reserves. While the range of credit outcomes is wide and highly dependent upon the length of the pandemic and related downturn, we remain determined to support our employees, clients and communities in our local markets. We are focused on prudence and managing our capital, safety, soundness and asset quality to be good stewards of the capital entrusted to us by our shareholders. I'd like to end by thanking all of our employees who continue to serve our customers during this crisis. Our team here has demonstrated unwavering dedication through these difficult times. I look forward to answering your questions at the end.

And now, I'd like to turn the call over to our Chief Credit Officer, Randy Rapp, for a more in-depth discussion on credit. Thank you.

W. Randall Rapp - *CrossFirst Bank - Managing Partner & Chief Credit Officer*

Thank you, Mike, and good afternoon. As Slide 9 illustrates, our nonperforming assets to total assets ratio ended the quarter at 0.74% compared with 0.59% at March 31 due to several energy loans and several small C&I loans being moved to nonperforming status. During the quarter, we completed the majority of our spring borrowing base redeterminations for our energy portfolio, and as a result of lower oil prices, the portfolio experienced some grade migration, driving the need for additional reserves. In Q2, we reported $1.3 million in net charge-offs, including a $1 million charge down of a previously identified nonperforming energy credit.

Next, I want to take a minute to discuss the migration within our loan portfolio and the level of payment modifications within it, summarized in our slides. We have provided a high-level summary of loan migration information by quarter, noting that the majority of the increase in substandard loans during the quarter was due to migration with the energy portfolio. We also experienced some migration in the C&I portfolio, primarily, as a result of the negative impact of the COVID-19 influence. We processed a significant number of loan modifications during the quarter. And for most clients who requested payment deferrals, we modified their loans to help preserve cash flow, capital and liquidity. As of June 30, we modified almost 330 loans, representing over $700 million. We are working side-by-side with our clients to help them through this unique period, which should benefit CrossFirst, our communities and our clients in the long run. It is important to highlight that of the loans that have been modified, almost 90% have a pass rating. Thus, we have an expectation that they will continue to perform in the future. 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. Adding a $21 million provision, we finished the quarter with an allowance to total loans of 1.61% and allowance to total loans less the PPP loans, which we expect to be fully forgiven, of 1.76%. The increase in the reserve for the quarter was related to changes in risk ratings and deterioration in economic conditions driven by the impact of COVID-19 and energy volatility on the U.S. and global economies.

As previously discussed, our classified assets for the quarter increased mostly due to migration within our energy portfolio. And at the end of the quarter, we have built reserves equal to 4.5% of the total energy portfolio. The increase in the allowance for credit losses takes into consideration our best estimate of the impact of slower economic growth and elevated unemployment, which is partially offset by the benefits of government stimulus programs as of June 30. Estimates are based on current portfolio performance, along with many quantitative factors and qualitative judgments, and we believe it is prudent to continue building reserves during these uncertain times. We are actively managing our portfolio, but there remains uncertainty around the long-term outlook and how much of our reserve allocation will materialize into actual loss.

As Mike mentioned, we have again included exposures to certain at-risk segments given the current environment in the 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 Mike also stated, we are well capitalized and have stressed the portfolio for potential losses. At this time, we do not have any plans to adopt CECL in 2020, but we continue to run parallel analysis on the potential impact on our reserve and capital. Our balance sheet is strong, our customers are diverse and our credit underwriting standards remain thorough. I look forward to answering any questions you might have in a few moments.

I would like to now 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*

Thank you, Randy, and good afternoon, everyone. During the quarter, we invested significant time and resources, measuring our company's capacity to absorb loan losses in times of stress. With our strong capital base and consistent growth in core earnings, we expect to be able to continue to grow and expand the franchise. We have aggressively stress-tested our credit and capital using a myriad of Fed-defined and other more stressful COVID-19 recessionary scenarios. Within our earnings presentation, we have included an illustration showing our capital base affected under different economic conditions using the assumptions outlined in the presentation.

Currently, we have $71 million of loan loss reserves and $580 million of regulatory-defined common equity Tier 1 capital, for which $242 million is excess over and above the regulatory buffers. We modeled an immediate absorption of our capital with 13 quarters of losses utilizing historical loss factors provided by the Federal Reserve for banks between $1 billion and $10 billion. Although there can be no assurances as to the future results given the economic uncertainty, the results show that CrossFirst remains well capitalized and can comfortably accommodate the modeled pandemic scenarios.

As Mike mentioned, we had another positive quarter of operating revenue growth, primarily because we successfully minimized the reduction in net interest margin while responsibly growing our balance sheet. Net interest income grew 8% on a linked-quarter basis to $41.2 million and 18% from the second quarter of 2019. Tax equivalent net interest margin decreased 5 basis points from 3.24% to 3.19% as the rate paid on interest-bearing deposits decreased 74 basis points on a linked-quarter basis, largely offsetting a 70-basis-point decline in loan yields during the same period. Net interest margin for the quarter was helped from the bank's PPP loan activity, largely due to the portion of the processing fees that we were able to recognize in the quarter, combined with the interest income from the loans. This income had a positive 5-basis-point impact on net interest margin for the quarter and will continue to contribute to interest income throughout the loan forgiveness period.

As you look at the information we have provided, our year-to-date loan yields have declined 109 basis points from a year-to-date 2019. And our year-to-date interest-bearing liability costs have declined 87 basis points as a result of the declining interest rate environment. This led to an 18-basis-point year-over-year margin compression. We anticipate that our net interest margin will remain under some pressure as long as low interest rates and a flat yield curve persist. We have room, however, to further decrease our deposit costs to mitigate the expected slow drift downward in earning asset yields.

Earlier in the quarter, brokered and subscription deposit rates stayed elevated, which made Federal Home Loan Bank advanced funding more attractive. Therefore, Federal Home Loan Bank advances increased $48 million while wholesale deposits decreased during the quarter, contributing to a slight increase in our loan-to-deposit ratio.

The marketable securities portfolio continues to perform well and had approximately $33 million in unrealized gains at June 30, 2020. The taxable portfolio consisting of MBS and CMO securities experienced very high prepayment speeds and generated $33 million -- $35 million in cash flows during the quarter. A portion of these funds were reinvested in new securities with a fully taxable yield of 2.24%. The portfolio's fully taxable yield year-to-date was 3.15%.

During the quarter, we sold $13.7 million of municipal bonds, which both improved our credit exposure in this sector and created $322,000 in gains. 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.

Total operating revenue for the second quarter grew by 20% compared to the second quarter of 2019, and 9% compared to the previous quarter. We reported $30.9 million of pretax pre-provision year-to-date profit compared to $27.2 million for the prior year, and it would have been $38.2 million year-to-date when excluding the goodwill impairment charge. While we continue to provision for circumstances around the macro economy, our core operating performance remains quite strong. Net income quarter-over-quarter and year-to-date is obviously down due to provisioning for uncertainty surrounding the pandemic. Noninterest expenses on a linked-quarter basis are relatively flat when we take the onetime goodwill impairment into account. We plan to stay the course with minimal net interest margin compression and consistent balance sheet momentum, combined with diligent expense management to drive efficiencies.

As mentioned earlier, we took a $7.4 million impairment charge on goodwill from a 2013 acquisition. Our interim evaluation of the intangible asset, combined with our stock trading less than book value, made this adjustment advisable at June 30, 2020. The transaction was a noncash charge with no tax implications, and the accounting treatment was simply a book entry that has no impact on the long-term value of the company.

Our non-GAAP efficiency ratio on a linked-quarter basis, excluding goodwill impairment, decreased to 53.1%. This improvement is attributed to a strong increase in operating revenues and improved expense management. As a core component of our strategy, we strive for disciplined expense management to sustain positive operating leverage to increase pretax provision profitability. The $15 million assets per employee measure mentioned earlier by Mike continues to improve, and so does our efficiency. We have a few onetime expenses and ongoing provisioning during the quarter that have impacted our return on assets and earnings per share. Return on assets for the quarter was impacted not only by the elevated loan loss provision and onetime impairment charge but by a larger balance sheet from carrying an additional $369 million of PPP loans. While we reported a negative return on average assets for the quarter, our year-to-date pretax pre-provision return on average assets was 1.19%, which was also reduced by the goodwill impairment.

In closing, there has been some noise in our financial statements this quarter, but core operating performance remains strong. We will continue to stress test our credit and capital to ensure that we remain well capitalized while planning strategically to optimize our capital structure in the future. Our business model involving robust growth has not changed, but we will not grow at the expense of prudent risk management.

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.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question from the line of Brady Gailey from KBW.

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

It's Brady. Why don't we start with deferrals? They're 16%, I think, as of the end of the quarter. There's a lot of focus on how many will need a second deferral. How do you think that shakes out as far as the need for a second deferral for that 16%?

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

Yes. Brady, I'll let Randy address that.

W. Randall Rapp - *CrossFirst Bank - Managing Partner & Chief Credit Officer*

Yes, Brady, it's Randy. First of all, I think it's important to go back and say when the inter agency guidance came out in March, like, it really set a tone of this was an unprecedented event and encouraged the banks to really work with clients. And we took that to heart. We also felt like it was important to partner with our clients as they went through this, again, unprecedented period. And so we felt very comfortable with our level of deferrals on the portfolio. And as we show in our slide, the majority of those were 90 days.

In some of the harder-hit industries, lodging, we went to 180, but most of the deferrals were 90 days. Those will start coming due late this month into August. We're already starting to have some discussions with our clients about what's next. In round 1, if the client was in good standing and asked, we were pretty lenient on extending that deferral. Our tone on round 2 is there may be some, in fact, we need to defer for another 90 days, again, staying kind of within that 180 days, but that's going to be a little bit tougher ask on the next go around.

So we're going to sit down and visit with them. It's case by case. A couple of industries are still very negatively impacted by this. A couple have not been as negatively impacted as maybe they would have thought, and we'll start right back on payments. So that's how we're approaching it. We felt like it was the right thing to do. We're comfortable with the level we gave. A second 90 days will be a little bit more in-depth analysis.

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

All right. That's helpful. Next, I wanted to talk about the net interest margin. If you look at your cost of funding, it was down pretty nicely, which helped protect your NIM, and your NIM down only 5 basis points, so that's pretty good. How do you think about the ability to continue to reduce funding costs? And kind of tied in with that, I mean, do you expect NIM stability from here? Or do you think you could see somewhere NIM slippage?

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

We expect some slippage yet in our NIM. It shouldn't be dramatic because we do have the ability to continue to bring our funding costs down just with the maturities that are happening naturally in our CD portfolio and our brokered CD portfolio and what we're doing in the wholesale side of the bank. We are continually lowering the cost of that money. But we also have some significant deposit buckets that we have room to reduce our rates in. We're evaluating that closely right now, and we think we can continue to bring our deposit costs down a little bit as well. That should mitigate some of the impact of the loan portfolio that will continue to come down, I think, slower than it has in the last quarter. Our bond portfolio yields will continue to come down a little bit just due to the speed of prepayment in our taxable portfolio. But in general, we do expect we'll go outside of our band that we like to operate in. But we don't think it will be dramatic. I would -- if I was to put a number on it, it'd probably be in the 3.10% to 3.15% range the balance of the year.

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

Brady, I'd also say that going forward, at least for the rest of this year, new loan growth will be dramatically less than expected. And that ought to allow us to focus more on some of our deposit costs and not put the traditional pressure on trying to keep that deposit growth going the same way.

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

And Mike, that was actually my final question on growth. I mean you guys -- when you went through the IPO, it was very much a growth-driven story. And then kind of the backdrop changed here with the pandemic. So how do you -- what are you doing differently now than you had planned to do when we went through the IPO process? Now I'm guessing you're going to -- I mean loan growth will obviously slow, but I'm guessing you'll probably slow some of your expense plan as far as new hires and new locations.

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

Yes. That's a great question. The pandemic and the economic conditions have changed so dramatically since we talked a year ago when we did the IPO. And we are definitely slowing new loan growth. I will say that we're very focused on making sure we're taking care of our great existing customers and helping them where there's opportunities too. And there are some industries that are still doing really well and people who can take advantage of what's going on. But we are focused on all areas of noninterest expense. We have slowed hiring. We're looking at every area we can to try to become and work on our efficiency. Everything. We're looking at all of our vendor contracts, renegotiating some of those. Just an example is we're going to enter into a new contract for cellphone providers. That will cut that expense in half. So we're aggressively looking at everything to work on our efficiency. And I really believe that we need to really drive our efficiency down to 50 or better.

Operator

Our next question, from the line of Michael Rose from Raymond James.

Michael Edward Rose - *Raymond James & Associates, Inc., Research Division - MD of Equity Research*

Hope you're doing well. You mentioned in the slides and in the release that the majority of the increase in the substandard and doubtful loans was from energy. Would love to hear about that a little bit more specifically. But also, what were the other pieces? And can we get an update on kind of the enterprise value loans and then some of the specs that you have, and if you've seen any negative migration there?

W. Randall Rapp - *CrossFirst Bank - Managing Partner & Chief Credit Officer*

Michael, this is Randy. Be happy to talk about that. And the first question was on the energy portfolio. As we said, we did see the majority of the increase in our substandard in the quarter in the energy book. Obviously, that was a unique quarter in energy that started at the end of Q1 with what started as a demand -- or excuse me, a supply issue became a demand issue with COVID and commodity prices dropped precipitously, and oil in particular was extremely volatile, as you know, going from negative to -- it's nice to see it back in the 40s.

And so when we went through our spring redetermination, we -- it was an interesting time to set the price deck and what we were going to run those borrowers at. We don't focus as much on the short end of the curve because, as we've said before, I mean, we've got a PDP-only portfolio. We've got long-lived assets. And so we tend to look a little bit further out on the curve when we look inside our price deck. But we did set our price deck, we ran our borrowers through that. And when we look at grade in the energy space, I mean, we're going to look at what happens to the advance rate. What the base case repayment scenario looks like, the liquidity of the customer, what other credit enhancements may be there. And so we factor that all into our model when we look at what the proper grade should be. And again, with the lower prices, you have to think that a lot of these were won at price decks in May when we were in the 20s. At 40, it feels better, certainly, on the oil side. But we're continuing to, obviously, watch and evaluate that portfolio closely. And we have touched the portfolio. And so we could see some additional migration in that portfolio, but we feel like we've put eyes and put metrics on the dollars in that portfolio and feel like we have appropriately graded that portfolio.

I think another part of your question was outside of energy, what was in some of the substandard? We saw some migration in our C&I book at a much lower level. Within that, really, a couple of manufacturing companies that have been negatively impacted by COVID. And we saw one that was in the youth sports area that was absolutely shut down because of COVID. And so it was really diversified. No one really other segment that drove that migration.

I think the third part of your question was about the leveraged lending EV portfolio. As you know, that portfolio for us is about -- is a little bit less -- about 9% of our portfolio today. And that portfolio is actually holding up really well through this. We feel good about our sponsors. There have been instances where the sponsors have stepped in to support the businesses. But we have not seen material grade migration in that portfolio.

Michael Edward Rose - *Raymond James & Associates, Inc., Research Division - MD of Equity Research*

Okay. That's helpful. And then just 2 follow-up questions. If I exclude the PPP loans, it looks like your reserve to loans is about 1.76%, if I'm doing my math right. Do you guys think that this is the peak in reserve building and that future reserves will be more dependent on individual credit? Or are you not kind of willing to make that statement yet?

W. Randall Rapp - *CrossFirst Bank - Managing Partner & Chief Credit Officer*

Well, Michael, I think we feel like we've done some heavy lifting on the reserve build in the first half of the year, and we're still on the incurred loss model. And individual performance and grade migration will drive additional reserves. We certainly feel like the reserve build will be at a much lower rate in the next several quarters than it has been.

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

Yes, Mike. I'd just emphasize, Randy's right. And it just really is so gray out there on what the next 2 quarters is going to look like. It's just really hard to predict what's going to happen with the economy. But we feel like, as Randy said, we've done a lot of the heavy lifting in the first half.

Michael Edward Rose - *Raymond James & Associates, Inc., Research Division - MD of Equity Research*

Okay. And then just finally, and going back to the deferral question. So I was a little surprised to see the plus 90-day deferrals at 23%. Can you explain kind of what sectors those are in and the rationale? That number just seems a little high relative to others.

W. Randall Rapp - *CrossFirst Bank - Managing Partner & Chief Credit Officer*

Yes, Michael. That was primarily in the lodging space. I mean, we have, as you're aware, about -- it's less than $200 million lodging portfolio, and that space has been negatively impacted. And we knew they would need more than 90 days to get their footing. And so that's the highest percentage in that over 90 is in that lodging space.

Operator

Our next question, from the line of Jennifer Demba from SunTrust.

Jennifer Haskew Demba - *Truist Securities, Inc., Research Division - MD*

Just to follow-up on that, the question where you've deferred longer for hotel borrowers. Do you think that there could be a third 90-day deferral period for some of your borrowers? Or is it just too early to tell at this point? And specifically, in the lodging sector, what kind of occupancy levels are your borrowers seeing right now?

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

Jennifer, I think it's way too early to tell whether or not we will get to the point where we'll have to do additional extensions. We feel good about our lodging customers. They're strong. They're well capitalized. Our loan-to-values overall are relatively low. And so as far as that customer base goes, we feel good. That industry has just been hammered, as you know. And so the borrowers I've talked to are starting to see occupancy rates up -- back up in the 40%, 45% range, which gets pretty close on a lot of them being able to at least breakeven. And so we're hopeful that trend will continue to improve. But of all the industries, that one has probably been the most negatively impacted in our portfolio by COVID.

Operator

Next question, from the line of Andrew Liesch from Piper Sandler.

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

Follow-up question here on some of the energy risk rating migration. Just how are the borrowers performing? Are they paying as agreed? Or are they just preemptively moving them down to substandard, preemptively moving onto nonperforming with the paying -- and applying the payments to principal? Yes, just like was there any like -- is there any individual stress at the relationship level that's driving the provision, or just more broader strokes against the entire book?

W. Randall Rapp - *CrossFirst Bank - Managing Partner & Chief Credit Officer*

Yes. So we've looked at the credits individually and put them through the redetermination at the current price deck. So the migration was really on a credit-by-credit basis. At $20, it was hard for them to breakeven. At $40, they're really back at a -- they can break even. They can make their interest payments. And they need a little bit higher than that. In some cases, it's a very diversified portfolio. But in some of the borrowers, a little higher than that to delever their balance sheets. But back at the $40 level, they're more on solid footing. We did -- we saw a small uptick in nonperformings as a bank, and a majority of that was in energy. But again, that was a fairly minor increase as a percentage of the portfolio to nonperforming. We have a couple that we're watching that could slip into nonperforming in future quarters. But one of the things that the industry has done is we've seen them much more proactive in expense management and cutting. And there was a feeling this was going to be lower for longer. And so a lot of our borrowers reacted to try and rightsize their the cost structure to be profitable at a lower breakeven.

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

That's helpful. And then just on the noninterest income side, that came in pretty strong with the HCM and interchange fees. Is there anything specific driving that?

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

A couple of things in the noninterest income line. In our -- credit card fees were strong. Most of that -- or a lot of that was concentrated in one customer. It had a unique set of situation, unique situation in a government contract, had a lot of people out on credit cards. So that will probably come back just a little bit. But that's a good customer. That will remain at a fairly high level, but it spiked a little bit in the second quarter because it was associated with the COVID situation. The rest of the noninterest income stuff was fairly normal. We did take a few bond gains during the quarter. Our swap revenues were down and have been down this year because we've not done a lot of swaps, but we have a pipeline of some stuff we're looking at, at this point in time. So maybe in the second half of the year, we'll see swap revenues pick back up.

Operator

For next question, from the line of Matt Olney from Stephens.

Matthew Covington Olney - *Stephens Inc., Research Division - MD*

I want to go back to loan growth. And I believe it was around 4% annualized when I back out the PPP. And Mike, I think you said the loan growth would be quite a bit lower than what we thought previously. Is that 4% level that we saw in 2Q a reasonable expectation, at least in the near term?

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

Yes. I mean, I think that's probably as good a view as we can take right now as we go forward. It's just very difficult to underwrite new credit. We're being very cautious and really trying to be careful. And all of our lenders are very focused on their portfolios and portfolio management and make sure we're working with our customers. So yes. I just think we're going to see real moderate -- very, very moderate loan growth for the rest of the year.

Matthew Covington Olney - *Stephens Inc., Research Division - MD*

Yes. Okay. That makes sense. And then the interest-bearing deposit costs saw a nice improvement, and it sounds like there's some more room to bring down deposit costs from here, especially when I compare it to peer levels. Can you put some numbers behind this? And how much lower do you think that can go over the next few quarters?

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

There's no question that there's overall another 20 to 30 basis points in our deposit costs that we probably can attack. Some of our core customer deposits, we may choose not to bring down all the way just because we have traditionally paid just a little bit above market. But I would say there is room for another 20 basis points of cost of funds reduction. Part of it is really focusing on the mix. We continue to be very focused on growing our DDA and treasury business. As we've talked, loan growth is going to be moderated. So we've got our folks out there really working on treasury accounts and deposit growth and continuing to grow that noninterest-bearing bucket.

Matthew Covington Olney - *Stephens Inc., Research Division - MD*

Okay. That's helpful. And then going back to the securities portfolio, you gave us some good details in the prepared remarks. Can you give us more idea of what types of securities that you're purchasing, both kind of up from a yield and duration standpoint? And how does that compare to what's prepaying or being called right now?

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

Our strategy at the moment is just to try to replace cash flows because there's just not a lot of value in the marketplace there to build the portfolio. So our cash flows, I think I mentioned, were about $35 million for the third quarter -- or second quarter, that runs somewhere there or a little bit less than that, the balance of the year. It's really difficult to replace those cash flows with taxable securities at the current yields out there. We did find a few in the second quarter. We would probably replace as much of that as we can with munis. You can at least get a little tax equivalent yield out of that, that will come close to replacing what's rolling off. But our duration, our portfolio duration is about -- I'd say it's about 40 months at this point in time. It's a little bit under 4 years. We wouldn't go out much longer than that in any of our replacements. We'll put a higher average life muni on the books with a call feature in it, but we're not trying to drive or extend our bond portfolio at this point in time. The yield on munis today on a tax equivalent basis, probably at best, low 2s, maybe 2.5, if you want to drop down in your ratings. And you all know the taxable yields on the mortgage backs are not very interesting.

Operator

And there are no further questions over the phone. Mr. Needham, please continue.

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

Thank you for joining the call today. In closing, we believe our company is going to be much stronger when we come through this cycle, and the team is working hard to deliver value for our shareholders in the long term. Thanks again. 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, your investment in our company, and thank you for taking time with us this afternoon.

Operator

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