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PRESENTATION

Operator

Good day, and welcome to the First Merchants First Quarter 2019 Earnings Conference Call. (Operator Instructions) Please note, this event is being recorded.

I would now like to turn the conference over to Michael Rechin, President and Chief Executive Officer. Please go ahead.

Michael C. Rechin - *First Merchants Corporation - President, CEO & Director*

Thank you, Allison. Welcome to our earnings conference call and webcast for the first quarter ending March 31, 2019. Joining me today are Mark Hardwick, our Chief Operating Officer and Chief Financial Officer; along with John Martin, our Chief Credit Officer.

First Merchants released our earnings in a press release this morning at approximately 8 a.m. Eastern Time, and our presentation speaks to the material from that release. The directions that point to the webcast were also contained at the back end of the release, and my comments are going to begin on Page 4, a slide titled first quarter 2019 highlights.

So the company reported earnings of $38.8 million of net income, a 5.8% increase over the first quarter of 2018 translates to earnings per share of $0.78, a 5.4% increase over the first quarter of '18.

Our balance sheet grew with total assets of $10.2 billion, 7.8% over the first quarter of 2018. And we had organic loan and deposit growth of 5.7% and 9.8%, respectively, over last year's first quarter. So 4 strong measures of earnings and growth on a year-over-year basis. Our revenue in the first quarter of 2019, net interest income and non-interest income were a little soft in comparison with the fourth quarter of 2018 and in a couple of moments Mark will provide some specific insight into the lower net interest margin we reported and the non-interest income flatness.

Bottom of Page 4, before we go there. The quarter's operating ratios and [the operating] ratios continue to reflect a really high-performance banking company and a strong start for 2019.

So at this point, I'm going to hand it over to Mark.

Mark K. Hardwick - *First Merchants Corporation - Executive VP, CFO & COO*

Thanks, Mike. My comments will begin on Slide 6 where total assets on Line 7 increased by $738 million or 7.8% since the first quarter of 2018 and now total $10.2 billion. Loans on Line 2 increased by $397 million or 5.7% during the 12-month period and investments on Line 1 increased by $319 million or 20.7%.

The composition of our $7.3 billion loan portfolio on Slide 7, continues to be 2/3 of variable rate based and continues to produce strong loan yields. The loan portfolio yield for the first quarter of 2019 totaled 5.3%. When normalized for fair value accretion, our yield in the loan portfolio totaled 5.17% versus 5.19% last quarter and 4.68% in the first quarter of 2018.

On Slide 8, our $1.9 billion bond portfolio continues to be high performing. Yields totaled 3.49% for the quarter and gains in the portfolio now totaled $26.1 million, a $34 million positive swing since year-end.

Now on Slide 9. Total deposits reached just over $8 billion and increased $720 million or 9.8% over the same period last year. The increase was the result of growth of $589 million in nonmaturity deposits on Line 1 and $238 million of growth in time deposits on Line 2. The increases in deposits allowed us to add nearly $400 million to investments during the past 12 months while paying down $163 million of borrowings on Line 4 as stated in the press release. The loan-to-deposit ratio now totals 90.7% reflecting a stronger liquidity position than in recent periods, including 94.2% from a year ago.

As I previously mentioned, the mix of our deposits on Slide 10 is a strength of our company. First quarter 2019 deposit cost totaled 120 basis points. Our deposit beta since Q1 of 2017, which includes 7 increases over 9 quarters is 47%.

All regulatory capital ratios on Slide 11 are above the regulatory definition of well-capitalized and our internal targets. The capital generation resulting from a strong financial performance provides us with maximum capital management flexibility.

The corporation's net interest margin, on Slide 12 declined to 8 basis points from the same period last year and 20 basis points from the fourth quarter of 2018. Of the linked quarter decline 8 basis points resulted from last fair value accretion income, 6 basis points came from 2 fewer interest earning calendar days in Q1 versus Q4. And additionally, we had 5 basis points as the result of interest expense associated with strong deposit growth early in the first quarter while investment income from these funds lagged due to trade settlements.

We expected 5 basis points from the bond portfolio and 3 basis points from the additional calendar day, to be fully reflected in our second quarter net interest margin and net interest income.

Fair value accretion is more difficult to predict as payoffs from purchased credit impaired loans can elevate accretion income as it did in the fourth quarter of 2018, where accretion totaled $1.7 million. Accretion for the first quarter of 2019 was only $580,000.

On Slide 13, non-interest income totaled $18.7 million for the quarter, an $848,000 decrease from the first quarter of 2018. Of the decline, gains from the sale of mortgage loans on Line 4 accounted for $526,000, as approximately 1 half of the quarter's loan production in the mortgage portfolio was added to the balance sheet versus being sold into the secondary market. And traditionally, we would sell about 30% and -- I'm sorry, put 70% -- 30% on the balance sheet and sell 70%. On Slide 14, non-interest expense totaled $56.6 million up from the first quarter of 2018 total of $53.7 million. Of the $2.9 million increase, salary and benefits accounted for $802,000, other real estate and foreclosure expense accounted for $763,000 and other outside data processing accounted for $720,000.

Now on Slide 15, earnings per share increased by $0.04 or 5.4% over the first quarter of '18 and our efficiency ratio on Line 10 remains in the low 50s.

On Slide 16, you can see our trends in tangible book value totaling just over $20 per share. So we are trading at less than 2x book value. Our current PE and book value multiples are a consideration as we contemplate buyback levels post closing of Monroe Bank & Trust. You should also anticipate a dividend increase announcement as part of our Annual Shareholder Meeting on May 9.

On Slide 17, we continue to be pleased that our compound annual growth rate of tangible book value per share is nearly 10%.

Thanks for your attention. And now John Martin will discuss our loan portfolio composition and related asset quality trends.

John J. Martin - *First Merchants Corporation - Executive VP & Chief Credit Officer*

All right. Thanks, Mark, and good afternoon. I'll begin my walk-through of the deck on Slide 19 with changes in the loan portfolio, review asset quality and the asset quality roll-forward, cover the allowance and provisioning and then close with some summary remarks in the portfolio.

Turning then to Slide 19. The loan portfolio grew in the first quarter 1% to 4% annualized with both commercial and industrial and owner-occupied commercial real estate lending up for the quarter. A combined $51 million on Line 1 and 2. This represents a combined 8.4% annualized growth rate for both categories. Construction loans were mostly flat [down of] $4 million on Line 3 while CRE nonowner occupied was up $23 million on Line 4.

The C&I and investment real estate lending gains were somewhat offset by a modest decline in ag production and ag lending on Lines 5 and 6, which declined a combined $17 million as we continue to face a more challenged ag lending environment. Finding out the -- finishing out the portfolio [changes slide] consumer and mortgage lending on lines 9 and 11, grew -- from 9 through 11 grew a combined $26 million with a robust consumer lending activity.

We continue to grow the portfolio in a balanced way and construction concentrations continue to hover at around 50% of risk based capital with the investment real estate concentration hovering at around 220% of risk based capital. These levels continue to give us the flexibility and give us considerable room for real estate growth as opportunities arise.

Turning then to asset quality on Slide 20. Asset quality remains healthy. On Line 1, nonaccrual loans increased $1.9 million. We had an ag relationship go to nonaccrual this quarter, which totaled roughly $3.5 million. And we continue to work with the borrower and plan to have the relationship resolved over the next couple of quarters. Now that aside, other real estate loans, renegotiated loans and 90-day delinquent loans all decreased in the quarter by a total of $2.5 million, offsetting the increase, which left total NPAs and 90 days delinquent down $600,000.

Turning to Slide 21, which reconciles the migration of nonperforming assets. We started the quarter in the far right column titled Q1 2019 with $31.3 million in NPAs and 90-day delinquencies. We added $5.2 million of nonaccrual loans in the quarter, resolved $1.2 million of the same on Line 3 with only $200,000 of new ORE on Line 4 and $1.9 million of gross charge-offs on Line 5. This netted to a $1.9 million increase in nonaccrual, as I just mentioned on Line 6. Then dropping down to other real estate [charges] on Line 7 through 8, which offset each other with $300,000 of ORE write-downs, which are included in the ORE and credit-related expenses, Mark made reference to in his comments.

The net effect was a slight decrease in ORE of $300,000, then finishing out this slide, 90-day delinquencies and renegotiated loans, both declined in the quarter by $1.8 million and $400,000, respectively leading to the overall change in NPAs and 90-plus day. [Delinquent for the quarter] of $600,000, another healthy quarter for credit.

Then moving to Slide 22, which highlights the ALLL and fair value summary. For the quarter provision expense offset charge-offs on Lines 2 and 3 by $300,000, resulting in an increase in the [ending] allowance despite the increases in non-accruals. The last couple of quarters, ALLL coverage remains healthy at 290% on Line 5 with allowance coverage remaining at 1.11% of loans.

Then summarizing on Slide 23. We're off to a good start for the year with a 4% annualized growth rate. C&I loans increased in the quarter, growing 3.6% and 15.1% year-over-year. Mike will give additional activity color, but the pipeline continues to remain -- continues to expand with strengthen -- with strength in C&I lending. And we continue to see balanced growth, as I mentioned it earlier, across the portfolio. Asset quality remains healthy, as I mentioned a minute ago with provision expense coverage, covering charge-offs with some increase for portfolio growth. And finally, the allowance coverage is unchanged with a 1.11% coverage of total loans and 1.24% coverage of nonpurchased loans.

Thanks for your attention, and I'll turn the call back over to Mike Rechin.

Michael C. Rechin - *First Merchants Corporation - President, CEO & Director*

Thank you, John. I'm going to cover the points on Slide 25, and then open up the call for questions. And so on 25, a couple of thoughts under looking forward caption. And the first one would be managing our market presence, core banking business as job 1 for the company. Execute against our plan. We got several tactics that we really like, that are directed towards an ongoing build of market share all over the company and in all lines of business. And so that's where we put the majority of our attention. And that would include the second bullet point on the page. It speaks to optimizing our retail and commercial deposit strategy. It's a mix and volume related effort. We clearly have deposit price sensitivity and yet we know the value of funding for our company that's been able to grow 6% to 8%, 9% organically over the last several years. I would expect our loan and deposit growth rates to move probably closer together as they usually have in the past, which produces a really profitable liquidity deployment.

Really, we're quite pleased with our success in deposit gathering and understand the levers available within our markets and within our client segments.

Next bullet point down, leverage balance sheet muscle. I just -- it's some of the flexibility that Mark Hardwick covered earlier. We like the fact that in the press release, we cited healthy expanding local economies in our markets. We like a flexible balance sheet to get after it with. Playing offense and yet we are aware of the stage of the recovery. You might have heard some of that in John's comments about diverse loan portfolio and so we're aware of the stages of recovery. And so we look to utilize the flexibility of our balance sheet that provided [in] the liquidity we have, the asset quality, the allowance levels and the capital levels.

Next bullet point is market disruptions can equal opportunity. And so typically, when you hear about disruptions in the financial services, you're talking about nonbanks. I think we are in connection with what that means to us and we watch for those impacts. But in this connotation, we feel like some of the disruptions mean opportunity for First Merchants. And so in our geography, you've seen several announcements around Wells Fargo, thinning their retail banking presence in Fort Wayne area in particular as it relates to opportunity for us. The closing of Fifth Third and MB means opportunity for us. KeyBanc rethinking their retail configuration. The announcement and very recent closing of the Horizon and Salin transaction. And even from 2 years ago, the main source for financial combination provides opportunity for our company in talent additions, adding depths in some of our most traditional businesses, retail, commercial, wealth, adds opportunity in gathering clients and earning retail households, allows us to look at filling in capability in other businesses of our syndications as 1, as we distribute the credit that we originate.

So we continue to feel like the change in the environment presents opportunity to our company. In the last bullet point, in tandem with some of the comments in the release, excited about the Monroe acquisition. So we would expect a second quarter closing and the third quarter integration. All of our plans in that light remain intact. We've got significant integration planning taking place right now people, product, technology, culture intended to produce a strong entrance for us into Monroe's marketplace.

So at this point, Allison, ready to take questions should there be any in the queue.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question today will come from Damon DelMonte of KBW.

Damon Paul DelMonte - *Keefe, Bruyette, & Woods, Inc., Research Division - SVP and Director*

So first question, just wondering if you could give a little color on the direction of the core margin. I know Mark, you talked to a couple points of the [side] basis point strategy from the liquidity kind of getting added back to that 377 level. And then pick up a day on the calendar, count here that's another 3 basis point. But outside of that, as you look at the obvious potential here -- of the Fed pausing and future rate hikes, how do you see the margin shaping up?

Mark K. Hardwick - *First Merchants Corporation - Executive VP, CFO & COO*

Yes. I appreciate you highlighting those couple of items because they -- we absolutely expect those to return and even some fair value accretion. This is probably the low -- what is the lowest levels we've had in about 6 quarters or so. Anticipating a little bit of add back from the purchase credit impaired activity even though we clearly don't control when that occurs. And I would say with the yield curve, where it is and maybe a little more biased to falling rates and rising rates, if we have a bias. I think deposit -- management of our interest expense through our deposits is when Mike talks about organic growth, this job 1 is probably right behind it. So we're actively managing all of the different categories from retail deposits all the way up through commercial and then to our institutional money and there is some pressure. So I think we'll have to continue to manage that as we move forward. But we have those core items that we expect to increase. Should get the lift back in our yield on earning assets both in the bond portfolio and the loan portfolio in the second quarter. And we're doing our best to make sure that we're outrunning the interest expense pressure.

Damon Paul DelMonte - *Keefe, Bruyette, & Woods, Inc., Research Division - SVP and Director*

Got it. Okay. And then with regards to your outlook for expenses, could you give a little update on that? And kind of help us frame out the potential impact of MBTF coming out at some point during the second quarter?

Mark K. Hardwick - *First Merchants Corporation - Executive VP, CFO & COO*

Yes. We think the current level is a good level for the second quarter as well. When we were trying to look at extraordinary items, really nothing to report from that standpoint. So we think our current levels are good going forward. And then all of the numbers that you have in your -- that everyone has in their models are still intact as it relates to onetime charges. When the transaction closes in the second quarter, we'll have all those onetime items. And then we will absorb their organization into ours with the third quarter integration. After the integration occurs, that's usually integration plus about 30 days is when we really get back to the new operating level. And so that -- we would expect to be back to normal operating levels by the fourth quarter.

Damon Paul DelMonte - *Keefe, Bruyette, & Woods, Inc., Research Division - SVP and Director*

Got it. Okay. And then lastly, Mike, as you kind of look in your crystal ball and look at your pipelines, are you still comfortable with your previous guidance on loan growth?

Michael C. Rechin - *First Merchants Corporation - President, CEO & Director*

Yes. We really are a little bit soft on an annualized basis in the first quarter at 4% relative to what you might remembering, where we've talked about a middle-high single-digit number, 5%, 6%, 7%, 8%. I still feel like that's what's available to us. And that comes quantitatively from our pipeline tracking. This would be First Merchants standalone. No commentary around Monroe is added into this. But on an organic basis, our mortgage business is up, our consumer lending businesses up. All of the commercial banking geography -- it's not all of the commercial banking geographies are up but our specialty structured group is up. So all in, we're close to -- we were $470 million in aggregate and so pleased with that. That should not only help the loan side, it will help some of the fee businesses as well. So we feel good about that. That is kind of the pipeline we've talked about, Damon, previously on, kind of, where First Merchants has issued a commitment to move forward. Equally encouraging to me is what Mike Stewart tracks, which is in kind of an earlier pipeline of activity, which is the highest it's been in 5 quarters. And so while the committed pipeline is encouraging and consistent with the level of growth that I just referenced, kind of 6%, 7%, 8% on an annualized basis, the earlier one, which is probably less firm, speaks to a real high level of activity in the mid-western market place.

Operator

The next question will come from Nathan Race of Piper Jaffray.

Nathan James Race - *Piper Jaffray Companies, Research Division - VP & Senior Research Analyst*

Question for John to start off. Just maybe kind of thinking about the trajectory of credit cost and provisioning going forward. Just curious kind of what you're seeing in terms of criticized classified migration in the quarter? And assuming you kind of get that back up to that high single-digit loan growth trajectory, just how we should be thinking about the provision line of the following few quarters?

John J. Martin - *First Merchants Corporation - Executive VP & Chief Credit Officer*

Yes. The first question you asked was about the criticizing the classified -- the trajectory. If you see it on the bottom and we've -- I've actually spelled it out on the bottom of the Slide 20, where you kind of see the -- what happened in the quarter and we had a good quarter in terms of classified assets but I don't see anything that is going to push that at a real high rate going forward. So I would imagine it would be at this level somewhere going forward at least in the foreseeable future. In terms of the provisioning expense, say $2 million, maybe $2.5 million is probably not a bad number on the high side.

Mark K. Hardwick - *First Merchants Corporation - Executive VP, CFO & COO*

And just looking to -- if you look historically, we've have been able to maintain our allowance levels at a pretty constant pace around $110 million or $111 million and so kind of anticipate that on a go forward basis.

Nathan James Race - *Piper Jaffray Companies, Research Division - VP & Senior Research Analyst*

Okay. That's helpful, appreciate that. And then perhaps just thinking about expenses going back to the earlier question. After you guys did MBTF converted in the third quarter, any censored -- can update us in terms of how the kind of core operating expense should, kind of, traject by 4Q '19?

Mark K. Hardwick - *First Merchants Corporation - Executive VP, CFO & COO*

Yes, well, we have all of our plans and I would say we're -- when we look at budgeting and everything else, we feel very confident that we can maintain the levels we're at on a core basis. We are continuing to invest where we need to and divest where we need to. To make sure that we are kind of redeploying our expense levels into the right places. So I think it's -- the core run rate, if anything, a really modest increase, maybe 1% or 2% on a go-forward basis. And then we're absorbing the cost of MBT post cost savings. And if those are the numbers that you are looking for, I could provide those to you. But I think the -- you already have that captured in all the modeling.

Nathan James Race - *Piper Jaffray Companies, Research Division - VP & Senior Research Analyst*

Got it. That's helpful. And then just in terms of the tax rate going forward, just kind of 17%, [it always kind of] rate proximation to use going forward?

Mark K. Hardwick - *First Merchants Corporation - Executive VP, CFO & COO*

Yes. We've said between 16.5% and 17%. I don't think it's more than that.

Operator

The next question will come from Daniel Tamayo of Raymond James.

Daniel Tamayo - *Raymond James & Associates, Inc., Research Division - Senior Research Associate*

So just kind of drilling down a little bit more on the NIM. It's -- there was about a 14 basis point decline in the commercial loan yields, it looks like. Can you break out what was due to the decline in accretion there? Do you have that number in front of you, in terms of what was organic, if you will?

Mark K. Hardwick - *First Merchants Corporation - Executive VP, CFO & COO*

Yes. I do. Let me just turn to this page real quickly. So the decline in the loan yields -- so if we were -- we've reported $530 million, and 13 basis points of that yield was related to fair value accretion. And last quarter, we reported $541 million and 22 basis points of fair value accretion was part of it. So it's a 9 basis point impact -- negative impact and from Q4 to Q1 related to fair value accretion.

Daniel Tamayo - *Raymond James & Associates, Inc., Research Division - Senior Research Associate*

Okay. That's helpful. So still a little bit of compression there. Is there -- was there anything unusual on the commercial loan side. I guess [that] was expecting to see a little bit of expansion given the move in the final rate hike in December. And then going forward, anything that would provide any stability there? Or do we expect that to kind of trend with Fed funds rates going forward or LIBOR?

Mark K. Hardwick - *First Merchants Corporation - Executive VP, CFO & COO*

Yes. I know -- yes we've had 3-year trend of fourth quarter to first quarter declines in our yield on our loans. And it's really because of the number of days. I hate to get into that level of detail, but we lose -- the fourth quarter was a 92-day quarter. This was 90 days. And because we're so heavily commercially oriented, and commercial loans accrue on a daily basis, not kind of just 30 over 360. We've lost -- we get hit by $1.4 million from the fourth quarter to the first quarter. And then we gain a day of that back in the second quarter. So we have a $700,000 lift and in the third and fourth quarters we get the full $1.4 million back each quarter. And so if you look at our trends historically, you see that same decline that occurred last year and then we had a nice pick up again in the second quarter and even all the way back -- so that happened from '18 -- '17 to '18 and even '16 to '17. And so we're still optimistic about those loan yields and the fact that it's 2/3 variable and when a rate move happens, that we see it come through the income statement.

Daniel Tamayo - *Raymond James & Associates, Inc., Research Division - Senior Research Associate*

All right. I appreciate all that detail. And then on the other side of the equation with the deposits. Is there still pressure on the non-interest bearing, which we saw coming down again in the -- on average basis in the first quarter? The rest of the quarter especially on a period end basis, very strong deposit growth, it's definitely above what we were looking for here. But still seeing that mix shift. So how are seeing and what are you expecting in terms of continued shift in the deposit base?

Michael C. Rechin - *First Merchants Corporation - President, CEO & Director*

This is Mike. Mark might be -- I see him looking at a page. I know that, if you listen to the woman that runs our consumer banking business, she sees a continued shift for our clients to interest-bearing products, but staying within the bank. And so we keep an eye on that. We are trying to design them around their preferences and understand the competition. I feel like it was in your question that we had a really, kind of, a large organic deposit growth quarter. And if that were to continue and if it were to continue to be sizeably larger than our organic loan growth, we'd probably even get sharper with our pricing around the growth in that. So I think it's a dynamic category. But we like the fact that people want to do business with us on that side of the balance sheet and it's -- we really look at it quite closely on a market-by-market, product-by-product basis. But yes, I think that going back to your question, our customer is opting for interest-bearing products out of non-interest bearing, yes, I think that's the case.

Operator

Our next question will come from Terry McEvoy of Stephens.

Terence James McEvoy - *Stephens Inc., Research Division - MD and Research Analyst*

Mark, a question for you. I know the fair value accretion is difficult to predict on a quarterly basis. And just to maybe establish a kind of a baseline, do you know what the scheduled accretion looks like for the second quarter?

Mark K. Hardwick - *First Merchants Corporation - Executive VP, CFO & COO*

Yes. The numbers are difficult [to] this quarter. And we did have $500,000 let me get back to -- I think it was $500,000 of purchased credit compared -- in the first quarter compared to $1.7 million last quarter. So just the scheduled amortization would have been some $1.8 million.

Terence James McEvoy - *Stephens Inc., Research Division - MD and Research Analyst*

Okay. And then Mike, I love how specific you were when talking about the market disruption and then how that could help you. I guess the flip side is others may say the same thing about Monroe and South East Michigan. So my question is how are you prepared for that not to happen? Has there been any disruption so far? And do you feel like you've got the key people locked in place?

Michael C. Rechin - *First Merchants Corporation - President, CEO & Director*

Yes. Well, that's a great observation on your part. We would absolutely be a target for people that had [like] strategies to take advantage of that. I feel like we do the best job. I mean our history of protecting the franchises joining us is pretty strong and so I -- some of the protocol we've used in terms of locking people up, it's more of a cultural lock than it is anything contractual because good talented employees can do what they like. We try to identify really early what their role would be, where their management would be. And in this case, like any of our recent acquisitions, even a like size one like IAB, we look for a local market leadership that came from that franchise. And so Doug Chaffin, the CEO of the bank, he's going to be leading the effort there. He's got some really strong senior management team that are doing a deep dive into the way we run the company and quite frankly they are quite similar. And so that's kind of our best defense for that is to empower the bankers with information and let them tell our story and be augmented by some of our team when necessary. But no, it's the observation is a good one.

Operator

The next question will come from Brian Martin of FIG Partners.

Brian Joseph Martin - *FIG Partners, LLC, Research Division - VP & Research Analyst*

Maybe one for Mark or actually maybe it was for Mike. Just the committed pipeline, Mike, you talked about earlier being -- I think it was all in around just under $500 million. Can you give some indication of where that was last quarter? Or kind of year-over-year just what are the benchmarks there on that?

Michael C. Rechin - *First Merchants Corporation - President, CEO & Director*

Yes. That's a good question, because when I mentioned $470 million, it sounds really sizable when you consider that our entire loan portfolio grew by about $75 million in the quarter. And so what is included in that number is all of our renewals. And so we track, kind of, what I would call new originations and renewal but quite frankly at a renewal, the client has the opportunity to either stay with you and grow or go someplace else. So we treat them similarly as those opportunities go into the pipeline. And so the specific point to your question, the $475 million pipeline I just referenced, would've been $50 million lower than it was a quarter ago. And so your pull through of that number is really the critical measure, when you see how much your balance sheet actually grows. But I would also tell you that it's larger than it had been at this point last year, and we had a really sizable second quarter of loan growth. So it's a -- it's the correlation, which I think is at the heart of your question, isn't perfect for the magnitude of a committed pipeline versus how much your balance sheet actually grows. In addition to which, the pipeline would have unused commitments in it. So if you have a pipeline and say that that would include a $20 million line of credit, the usage on that line of credit is really difficult for us to predict.

Brian Joseph Martin - *FIG Partners, LLC, Research Division - VP & Research Analyst*

Okay. That's helpful. And just how were the payoffs this quarter? I mean I don't -- if you guys commented, maybe I missed that, but just how were -- how they track relative to where they have been?

Michael C. Rechin - *First Merchants Corporation - President, CEO & Director*

I don't have that quantitative me -- in front of me, although I get that question a lot particularly when it relates to people asking about nonbanks taking exposure of ours away. And I don't think we had an extraordinary payoff quarter. John, do you have any specific item on that?

John J. Martin - *First Merchants Corporation - Executive VP & Chief Credit Officer*

Yes. I don't. The only reference, I think we've talked about in the past was some utilization numbers, and we don't really track to your point, churn if you will within the portfolio, what's paid off and what's added.

Brian Joseph Martin - *FIG Partners, LLC, Research Division - VP & Research Analyst*

Okay. That's all right. Just the last 1 or 2 for me were just the -- Mark maybe just going back to margin for a minute. If you add back the 8 basis points or so, you talked about earlier you kind of get to a low $380 million type of number. Just as you think prospectively for 2Q and you kind of think about the Fed on pause and the yield curve and where it's at. I mean I guess, is it your expectation that you can kind of hold that margin [if that low] $380 million, I guess referencing on a core basis. Is that how we should be thinking about it? And then secondly, just the second part of it, just the impact that reminds me the impact that Monroe has, as you go into the third quarter?

Mark K. Hardwick - *First Merchants Corporation - Executive VP, CFO & COO*

Yes, our plan this year is to hold the margin at its current levels. Note it should recover as we just mentioned from first to second, but then hold the levels where we think very little upside. And so it will be about protecting the downside risk. And then Monroe really feeds in quite well to the margin numbers, and we've communicated a couple of quarters in a row, we think that they'll fit nicely and shouldn't put pressure on the margin. And it's really because of some of the strategies we had in the bond portfolio. So I know they are releasing earnings as well and they sold their bond portfolio last quarter. And it was so that we could reinvest, so they could reinvest at higher yields. I think they were earning somewhere around $210 million, $215 million, and we feel like they have the ability to reinvest in the mid 3s.

Brian Joseph Martin - *FIG Partners, LLC, Research Division - VP & Research Analyst*

Okay. And when you say-- go ahead.

Mark K. Hardwick - *First Merchants Corporation - Executive VP, CFO & COO*

If you just put the 2 companies together as they stand, it would pressure margin, but because we are investing differently in the bond portfolio, we think [it's very look alike] to us.

Brian Joseph Martin - *FIG Partners, LLC, Research Division - VP & Research Analyst*

Right. Okay. That make sense. And just, when you referenced holding the margin kind of stable, I guess, are you referring more to the GAAP margin? Are you looking at that core margin, kind of, the one that bounces back [to] as you think about second quarter?

Mark K. Hardwick - *First Merchants Corporation - Executive VP, CFO & COO*

Yes. Definitely. I mean we don't really know how to forecast that exactly what happens with fair value accretion. And -- but on the core, that's what I'm referring to.

Brian Joseph Martin - *FIG Partners, LLC, Research Division - VP & Research Analyst*

Okay. All right. And then just the other one was the deposit growth, and according to you guys referenced it being particularly strong. I mean I guess was there something driving that, were there special that you guys were doing or was there some remixing in there? Anything that was unusual that you guys would call out?

Mark K. Hardwick - *First Merchants Corporation - Executive VP, CFO & COO*

Well, I mean, we won't call out customers specifically, but we had a number of large opportunities that we were working on and cultivating last year. And to be sure [that we didn't] cross $10 billion, we were sort of -- we really did want to cross $10 billion at [12/31]. So we were planning to acquire these customers, that was our hope that would occur in the first quarter, and it has. And so the growth is more in the first quarter than what I would anticipate for the remainder of the year in some of those categories. But we were very pleased by the new relationships we were able to add to our balance sheet.

Michael C. Rechin - *First Merchants Corporation - President, CEO & Director*

I think -- this is Mike, Brian. The other complementary thought is that all throughout 2018, we were adding resource and effort around, kind of, an upmarket institutional deposit [orientated calling] effort and it's paid off. And I think as Mark has covered in the last couple of calls, is [that a] different volume levels which is attractive. It's also the higher price level, which we digest as we need the funding. And so I like the relationship orientation of that. And it served us well. And the other part of your question was, do we run specials? Yes. But I would [call] the traditional consumer bank effort, definitely looks at specials at a retail product level on market-by-market basis based on specific competition.

Mark K. Hardwick - *First Merchants Corporation - Executive VP, CFO & COO*

And the recent pullback in yields, especially in the bond portfolio have caused us to reevaluate those specials accordingly.

Operator

Ladies and gentlemen, this will conclude our question-and-answer session. At this time, I'd like to turn the conference back over to Michael Rechin for any closing remarks.

Michael C. Rechin - *First Merchants Corporation - President, CEO & Director*

Allison, I don't have any other than appreciation for the participation and the listening in on the call. We look forward to talking to you in 90 days to talk about our second quarter results.

Operator

Thank you, sir. The conference has now concluded. We thank everyone for attending today's presentation. And you may now disconnect your Lines.
