EDITED TRANSCRIPT

Q4 2022 Business First Bancshares Inc Earnings Call

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PRESENTATION

Operator

Thank you for standing by, and welcome to the Business First Bancshares Q4 2022 Earnings Call. (Operator Instructions) Thank you. It is now my pleasure to turn the conference over to Matthew Sealy, SVP, Director of Corporate Strategy and FP&A. Mr. Sealy, please go ahead.

Matthew Sealy Business First Bancshares, Inc. - Senior VP and Director of Corporate Strategy & FP&A

Thank you. Good morning, and thank you all for joining. Yesterday afternoon, we issued our fourth quarter 2022 earnings press release, a copy of which is available on our website, along with the slide presentation that we will refer to during today's call. Please refer to Slide 3 of our presentation, which includes our safe harbor statements regarding forward-looking statements and the use of non-GAAP financial measures. For those of you joining by phone, please note the slide presentation is available on our website at www.b1bank.com. Please also note our safe harbor statements are available on Page 7 of our earnings press release that we filed with the SEC yesterday. All comments made during today's call are subject to the safe harbor statements in our slide presentation and earnings release.

I'm joined this morning by Business First Bancshares President and CEO, Jude Melville, Chief Financial Officer, Greg Robertson; and Chief Banking Officer, Philip Jordan. After the presentation, we'll be happy to address any questions you may have.

And with that, I'll turn the call over to you, Jude.

Jude Melville Business First Bancshares, Inc. - President, CEO & Director

All right. Thanks, Matt, and thanks, everybody, for joining us this morning. We know you have choices about where to be, and we appreciate you deciding to prioritize being here with us. I'll keep the remarks kind of brief so we can jump into questions.

I do want to go over some of the notable trends from the quarter and then some full year highlights and then we'll get into the Q&A.

Fourth quarter, a successful fourth quarter. We were pleased with where we ended the year of. Our Non-GAAP

core net income of $16.4 million and $0.66 per share available to common holders. Better than we expected and for good positive reasons. Primarily, we continue to have good strong loan growth and almost 16% annualized. And one of the things that I was excited about was to see is that was diversified. We added across our regions and then also a good balance between commercial and CRE credits as well.

Second positive impact to the numbers was we had higher loan accretion than we expected. We were able to sell a couple of loans that we felt good timing for us. And then we had a large payoff as well. And those loans had accounting marks related to them that we were able to benefit from. We benefited slightly from noninterest income through SBIC revenue. You'll remember that we have a number of investments in SBICs, which occasionally surprise on the upside, and this was one of the quarters in which we had about $400,000 above budgeted SBIC income.

We continue to focus on efficiencies. So we're proud of the fact that our noninterest expense came in just below expectations. So certainly, given the environment that we're in, being able to have discipline on expenses is important. Even though we were able to keep our expenses lower than we anticipated, we also made a number of key hires, including Jerry Vascocu, who joined us as our Chief Administrative Officer after 17, 18 years at Iberia and First Horizon. And so we're excited to: a, have the contribution of the experience that he's had being a part of growth organizations and certainly the contact base, but also excited that it builds out our exec team. So we feel like we're well established for where we need to be from a senior leadership perspective over the next few years as we begin to approach the $10 billion mark in assets.

We did have an elevated loan loss provision relative to our expectations. We took 2 specific reserves on loans. We can talk more about that in the Q&A, but we certainly consider them to be isolated and one-off incidents, one of which involved fraud. And so we don't feel like that's representative of anything more systemic across the portfolio and our overall credit metrics certainly reflect that.

So, if you adjust the quarterly results for the backing out the additional loan discount accretion and the higher loan loss provision, we would have hit about $15.4 million for the fourth quarter, which is still slightly ahead of expectations. So we feel very positive about that.

Also, although it's a challenge and probably the challenge going forward over the next 2 or 3 quarters, we actually were not unpleased with our performance on the NIM side of the ledger. We did drop down 13 basis points on our core NIM. But you'll remember in our last quarter, we talked about the fact that our third quarter was artificially inflated by about 5 basis points, and we expected to have a 5 or 6 basis point drop modeled on top of that. So it came in really close to what we have modeled, and we feel good about our modeling going forward. We feel like before I say that. So I think it's important to take a step back, not just quarter-to-quarter but first half of the year versus second half of the year, we had a 20 basis point increase in the margin even with that drop. And so we feel like we're in a better place going into next year or this year, I guess, we are now versus where we were next year. We also thought the fourth quarter was a little bit of a catch-up phase; and we have modeled that where we had kind of held off on some rate moves and we're kind of catching up. And we feel like we'll be able to stay about flat for this quarter and then have some slight increases over the rest of the year. So, we'll talk a little more about that when we hit the Q&A. But, now I'm pleased with where we are from a margin perspective.

Taking a step back and looking at the full year in review, it was a record year in many ways for us. We achieved record core net income of $57.6 million for the year; which was about 10% above what we finished at last year. But last year, you remember, included a sizable positive impact of selling our PPP portfolio. So, we actually generated significantly more income this year and feel well poised to take on 2023 with some of the non-monetary accomplishments

that we had over the course of the year, which includes integrating the Texas Citizens transaction out of Houston. It includes integrating a number of banking teams that we picked up at the beginning of the year. So those are the kind of like many acquisitions in a way and they take effort and judgment and time. And so, I feel really good about the success that they're having, and don't feel that they are yet at capacity. So, we should continue to see good things coming from those teams.

We also opened our fourth full-service location in Uptown Dallas and experienced a lot of activity there. We're excited about. We actually crossed over $1 billion in loans in Dallas this past quarter. And when you combine the Dallas and Houston operations, we're at about 35% of our credit portfolio as a whole as in those 2 large and fast-growing metro areas. So, as we have talked about, one of our goals is getting closer to 50% of our exposure outside of Louisiana, so we can be diversified, and we took really big steps towards that this year.

And finally, I would just say that we feel good about fortifying our balance sheet. We raised $122 million in equity over the second half of '22, $72 million in a self-managed preferred equity raise, which this quarter was our first quarter to pay the dividend on the preferred equity raise, which to be able to pay that dividend without yet putting it all the work can still beat our numbers is something that fills another positive, and then we also did the $50 million common equity raise.

So, we feel well placed to take on the opportunities that we fill it out there this next year. Our clients remain highly positive and confident. Certainly, there will be some challenges. But all in all, with the strongest asset quality that we've had and a 45% balance sheet and then a stronger team than we've ever had. We feel well positioned to take on 2023.

So appreciate your time, and happy to answer any questions that you might have.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Feddie Strickland with Janney Montgomery Scott.

Feddie Strickland Janney Montgomery Scott LLC - Research Analyst

So it was pretty impressive you guys were able to replace FHLB borrowings with deposits in this environment. Do you think you'll need to return to the FHLB later in the year? Or do you feel like there's enough deposit opportunities out there that you can kind of avoid wholesale funding for the near future.

Jude Melville Business First Bancshares, Inc. - President, CEO & Director

Well, I think one of the reasons that we maintain access to the line is so that we can have it as a backup. We certainly would prefer to do the core funding raise, and we feel we have some good activity. It had some success in the fourth quarter, and we certainly feel like the first quarter will be even stronger perhaps in the fourth quarter. And over the course of the remainder of the year, we certainly would prefer to do core deposits. But one reason we paid down the line is because we want to make sure that we maintain access to that secondary source of liquidity. So hopefully, we

don't have to use it, but if the opportunities make sense for us from a growth perspective to fund them through the FHLB and we certainly would utilize them if it made sense.

So we're going to try not to. But if we do, we do, I guess, but it was nice to have enough tools in the tool belt as we navigate over the next year.

Feddie Strickland Janney Montgomery Scott LLC - Research Analyst

Got it. That makes sense. And then just kind of more broadly on the margin, what should we expect from here? It came in a little better than we were expecting this quarter, part of that -- it sounds like it was related to a loan accretion income. But can we just talk through kind of where -- I think the core margin was 3.75 if I remember correctly. Can you talk about where you see that going from here? I mean, it's been good to see the yields come up and the loan beta outpace the deposit beta. But just -- I guess I'm wondering, does that continue from here?

Jude Melville Business First Bancshares, Inc. - President, CEO & Director

Great. I'll let Greg talk in detail about the margin.

Gregory Robertson Business First Bancshares, Inc. - CFO & Treasurer

Yes. Thanks, Feddie. I think what gives us an optimistic outlook is -- if you look at the margin kind of month by month in the quarter, we started out in October at 3.71% and November, we moved it to 3.72%. In December, 3.83%. So, we had some pickup in the margin within the quarter, really driven by the top line loan yields that we were able to manage through.

So just to put that in context, September loan yields were at 6.10% on all new new loans. And then the December new loan origination yields were 7.62%. So we continue to update our pricing model every week. We manage that process. We feel like, as Jude mentioned a little bit earlier, we were a little aggressive on moving up our deposit rates late third quarter, early fourth quarter to position ourselves to be able to generate some of those deposits and increase core funding. We think that's going to continue, and we also think we'll be able to push those loan yields forward. What we're thinking in the first quarter is flat to maybe up 1 basis point or 2 on the margin. And then as the year goes on, maybe up 5 to 7 basis points each quarter thereafter.

So we're going to continue with the pricing model the way we have it and manage it that way.

Feddie Strickland Janney Montgomery Scott LLC - Research Analyst

Got it. And is the 5 to 7 basis points each quarter, is that on the core or the GAAP margin or both?

Gregory Robertson Business First Bancshares, Inc. - CFO & Treasurer

That would be on the core.

Feddie Strickland Janney Montgomery Scott LLC - Research Analyst

The core. Got it.

Matthew Sealy Business First Bancshares, Inc. - Senior VP and Director of Corporate Strategy & FP&A

Yes. Feddie, one thing that I'd add, if we look at the loan beta during the quarter, cycle-to-date were about 75% on new loan yields. And when we look at the total portfolio of betas, they were around 30%. So, I think what you saw some of was not as much repricing in the fourth quarter, which we do expect to accelerate as that fixed rate portfolio turns over through the balance of the year, But we do still expect 60% plus loan betas on new loan yields.

Feddie Strickland Janney Montgomery Scott LLC - Research Analyst

Got it. No, that makes a lot of sense. And then one more for me, and I'll step back in the queue. Just loan growth outlook. It seems like you had another strong quarter here. Do we see things start to slow down a little bit from here? Or do you think you can continue kind of the growth rate that you saw in the fourth quarter?

Jude Melville Business First Bancshares, Inc. - President, CEO & Director

So we're anticipating kind of low double digits, kind of low teens. We had a strong fourth quarter, but definitely a slowdown growth on a percentage basis from the third and second. And some of that was slow down, but some of it also was us managing, making decisions. Part of the positive loan data on new loans is the result of us being maybe more disciplined on pricing. And so we'll continue to do that. And we think it's -- over the next year, it's a little bit of important trade-offs where rates are growth versus pricing, and we want to manage that. But, we still feel like we have -- we're in the right markets, not just Texas but also our North Louisiana market is doing really well. Our Capital region, we're the strongest local bank here in New Orleans is catching on. So we feel like -- as I mentioned in my opening comments, the teams that we picked up earlier in 2022 are clicking, and we thought there's more capacity there as well.

So, we feel good about our ability to continue to grow low to mid-teens and then it will be kind of a question of what's the best use of our balance sheet.

So, you're not going to -- unlikely you'll see the 35% -- 34%, 35% organic loan growth that we had over the past year. But I think it will still be productive and moving in the right direction.

Feddie Strickland Janney Montgomery Scott LLC - Research Analyst

Congrats on a great quarter.

Operator

Graham Dick with Piper Sandler. Your line is now open.

Graham Dick Piper Sandler & Co. - Research Analyst

Hey good morning gentlemen. I just wanted to circle back to the NIM, specifically on the deposit side of things. I think you guys talked about a 30% total deposit beta previously. Obviously, you said you guys lock in some funding this quarter, and it seemed to accelerate closer to 40% specifically in this quarter. So, I just wanted to hear any updated thoughts you guys have here on where the cumulative beta might shake out by the time rate hikes are done.

And then also, what kind of trends around noninterest-bearing deposit balances are embedded in those assumptions?

Gregory Robertson Business First Bancshares, Inc. - CFO & Treasurer

Yes. What we saw in the betas, you're right, over the fourth quarter was about a 40% beta. It really was made up of really 3 categories the NOW, money market, and time deposits. Those are around 60% beta in those 3 select categories, and that was the driver, obviously, of the 40% data. We think going forward in Q1 because of the way we price progressively in Q3, early Q4, those to come down more in the 40% to 50% range on our now money market rate and still the time deposit betas because of the nature of the market, still probably going to remain 60% range for Q1, and then I'll let Matt talk about really the betas for the balance of the year, what we're seeing.

Matthew Sealy Business First Bancshares, Inc. - Senior VP and Director of Corporate Strategy & FP&A

Yes, Graham. So like we hit on earlier, deposit growth was stronger and expected, so that's going to drive up the cost a little bit more. But what I think we were quoting when we were talking about 30% betas previously, and typically the way that we'll tend to talk about things are cycle-to-date betas. And so you're right, for the fourth quarter, just the quarter was 40% total deposit beta. However, cycle-to-date through the fourth quarter since the Fed started moving was 25%.

So when we look at it that way, we're still right in line with where we think the betas are going to trend up over time. And through the balance of this year, I think that we'll see that creep up a little bit closer to 30%. But that cycle-to-date beta is very much in line with what we had thought previously.

Quarterly gets a little choppy because when you look at quarter-over-quarter depending on what the Fed does and how the forward curve moves that could be a little misleading, depending on how you're looking at it.

Jude Melville Business First Bancshares, Inc. - President, CEO & Director

Depending on what time in the quarter.

Matthew Sealy Business First Bancshares, Inc. - Senior VP and Director of Corporate Strategy & FP&A

Correct. Yes. Yes.

Graham Dick Piper Sandler & Co. - Research Analyst

Okay, great. That's helpful. Thanks for the clarification there. On noninterest-bearing deposits, are you guys expecting to see, I don't know, up down, way down? Or what's kind of your outlook there on that part of the funding base?

Gregory Robertson Business First Bancshares, Inc. - CFO & Treasurer

Yes, I think we grew from year-over-year in noninterest bearing, we continue for that to be a huge focus for us to come that growth. That will be a challenge as the whole marketplace liquidity is an issue through all banks. So it will continue to be our focus. But we understand there is a challenge has, but accumulating customers that are C&I focused for us that have that noninterest-bearing part of their balance sheet as a priority.

Jude Melville Business First Bancshares, Inc. - President, CEO & Director

As we've talked about previously, we've certainly geared some of our incentive plans towards noninterest bearing. And then we've also made a number of hires in the treasury management department over the past year. And so that's the goal there, and we feel like we're making the right investments and doing the right things. So we'll just have to see how the economy as the whole interact for us in that regard, but we certainly have it as a #1 priority, I would say.

Matthew Sealy Business First Bancshares, Inc. - Senior VP and Director of Corporate Strategy & FP&A

And I would just add that we do see the balances increasing during the first quarter. However, the composition might remain flat or even potentially down as interest-bearing there's just more low-hanging fruit and more opportunity on the interest-bearing side. But we do see the aggregate balances going up in the first quarter of noninterest bearing.

Jude Melville Business First Bancshares, Inc. - President, CEO & Director

Part of the reason the composition might change a little bit is as we spoke about last quarter, the first quarter is typically when we see an inflow in municipal-related deposits, many of which are interest-bearing. So that's that would partially help explain even if we had an increase in noninterest bearing, we may still fall back a little bit as a percent, but that would be a fair trade all for us.

Graham Dick Piper Sandler & Co. - Research Analyst

Okay. And then I guess just one more but turning to expenses. They're pretty well, marshalled this quarter, kind of what lift are you guys expecting to see, I guess, over the course of this year? I know you guys are still building out the franchise and investing in it, trying to get a sense of kind of leverage maybe will drive out of the expense base this year.

Gregory Robertson Business First Bancshares, Inc. - CFO & Treasurer

Yes. I think in the first quarter, what we expect to see is a 4%, 5% increase over Q4, still some seasonality and some things from that standpoint.

But if you look at the balance of the year, I think you'll have a normalized -- more normalized path after Q1 and probably looking at a 10% growth track throughout the year.

Matthew Sealy Business First Bancshares, Inc. - Senior VP and Director of Corporate Strategy & FP&A

And a little bit more color there. That 4% quarterly, not an annualized figure. And it's important to remember that there's seasonality in Q4, but there's also seasonality in Q1 with for similar reasons, payroll accruals and true-ups. But then we also have a partial quarter impact from payroll increases for the year. So that does get you kind of an incremental seasonal pickup in the first quarter -- and then to Greg's point, about a 10% annualized growth rate thereafter, which should account for inflationary pressures and just kind of continued normal course of business increases.

Gregory Robertson Business First Bancshares, Inc. - CFO & Treasurer

Yes. I think the thing that -- the key areas that we're going to continue to look at opportunities to invest in technology personnel. And then as every bank is experiencing right now is the FDIC's assessment has grown across the board in so that's factored into those numbers.

Operator

(Operator Instructions)

Jordan Jen with Stephens.

Jordan Ghent Stephens Inc. - Research Associate

So kind of just following up on the expenses and kind of more in line with what you're talking about of having more capacity and adding personnel. What are your guys' expectations for hiring in 2023? And kind of what do you think is it going to be more towards loan producers or deposit gathering? Or if you could just kind of give more color on that, that would be great.

Jude Melville Business First Bancshares, Inc. - President, CEO & Director

Sure. I would anticipate -- I mean, that's one of the reasons that I pointed out that we feel like those teams have been well integrated, but still have capacity. Don't feel like we need to be ultra-aggressive this year in terms of hiring lenders. What we would plan on doing is making sure that they have the right support staff around them to maximize their capabilities and their relationships. So, and that's particularly true in our faster-growing areas. So, I would anticipate that we would do some hiring on the production side, but it would tend to be more support staff. Dallas has a strong team that certainly capable of continuing to produce over the course of the year. And, we've been pleased with the Houston team integration, but we do feel like we could at a banker or 2 there just to continue moving forward. So, we'll probably see to do that, but on balance across our footprint, a little more hiring on the support staff versus the actual bankers. And we would continue to add treasury capability as well to your point about hiring deposit-oriented folks.

Jordan Ghent Stephens Inc. - Research Associate

Perfect. And then maybe just one more kind of going on that acquired loan payoff. Do you guys anticipate similar levels of payoff in the near term? Or is that just kind of a one-off situation?

Jude Melville Business First Bancshares, Inc. - President, CEO & Director

That was I would call that more of a one-off situation, just -- and we happen to have the 2 loans in the same quarter, but it's not one that we hadn't been working on and kind of figuring out over the course of multiple quarters and the timing was just right. It also happened to be one that had a lower interest rate for a longer period. And so that obviously becomes a little more punitive today than it was even 3 quarters ago. So just a one-off business decision that we made, but I wouldn't anticipate that we would have a wholesale recapture of the accretion on the acquired loans we'll just take them -- make the right business decision on an individual basis. I think we still have, what, Greg, about $20 million, $25 million in accretion...

Gregory Robertson Business First Bancshares, Inc. - CFO & Treasurer

Yes.

Jude Melville Business First Bancshares, Inc. - President, CEO & Director

Of credit mark remaining. But I would anticipate that, that would go back to kind of its normal rate.
I did want to take just a moment point out because unless you look at our deck, you wouldn't be aware just based on the screens that our loan loss provision has increased to 0.83%, which is higher than it's been over the course of the year, but still low relative to peers. But on Page 17, of the deck, you can see the fair value discount when you add that into the overall loan loss provision, you get an effective on loss revision of 1.41%, which is well situated, we believe, relative to our peers and relative to the exposure in our books. So I feel like each quarter, we need to kind of reintroduce the idea that we have a fair value discount built in on top of the loan loss provisions and the loan loss revision, of course, is would what screens when you compare banks, the fair value discount you have to get from our deck. So that was a 20 and change accretion number hanging out there that I talked about. That materially impact our preparation for any adverse incidents over the next year.

Operator

We do have a follow-up with Feddie Strickland with Janney Montgomery Scott.

Feddie Strickland Janney Montgomery Scott LLC - Research Analyst

I just had 1 more question. I appreciate the disclosure on the growth by region. You noted that Texas is about 35% of on paper and some balances now. Could you just tell us kind of what your thinking is over the longer term there? Does that grow towards 50%? Do you have a target number? Or is it just kind of depend on where growth is in the future?

Jude Melville Business First Bancshares, Inc. - President, CEO & Director

So a couple of years ago, we set out our latest 5-year plan. And a couple of the components of the plan were to grow. So we will need to double our loan book over the 5 years. But as we grew, we wanted to increase diversification. So another primary goal of the 5-year plan was to have -- to end up with 50% of our credit exposure outside of Louisiana, not anything being wrong with Louisiana, but we believe in diversification, in particular learning a little bit about the market reaction to perceive exposure to energy in South Louisiana. We certainly felt like there were some benefits, although we did not struggle through that period, we also recognized that we have an obligation to try to be perceived as strong as we can in addition to being as strong as we can.

And so part of that is diversification. And part of that was a goal of being 50% outside of Louisiana. We didn't say Texas specifically but given the choice of investments we could make 2 or 3 years ago. We felt like those were -- that was the right place to do that. And then given the success that we've had there, we feel like building on that success makes sense.

So, I would say the bulk of that 50% non-Louisiana exposure that we expect to reach the conclusion of our 5-year plan would most likely be in the Dallas and Houston areas. And so certainly, we've had some success there, moving to 35%. I believe we were at 6% or 7% when we began the 5-year plan. And, so we're ahead of schedule and hopeful-

ly we'll have that within range prior to hitting the 5-year mark.

Now I will say the one thing that could -- I'm talking over time here, not tomorrow, but over time. If an M&A opportunity in Louisiana made sense for funding purposes, there obviously will also be some credit book associated with that bank. And, so the only likelihood I see taking a step back from the 35% temporarily or whatever number we happen to be at it would be because we have made the business decision to partner with somebody that can help us with core deposits, which would ultimately help us in our overall growth goals.

So, I'm not saying that we'll get to the 50% in the straight line, but so far over the past couple of years, we're ahead of target and would anticipate continuing that strategy, reinvesting in those Texas markets to make the system as a whole stronger.

Feddie Strickland Janney Montgomery Scott LLC - Research Analyst

Got it. Thanks, Jude. Actually, I have one more as you say that. Is Texas going to be pretty much the market for you? Or would you consider as far as being outside of Louisiana would you consider another adjacent market, whether it's Alabama or Arkansas or wherever? Or is there just so many opportunities in Texas, so that's kind of probably be Texas and Louisiana going forward?

Jude Melville Business First Bancshares, Inc. - President, CEO & Director

Again, it depends on time frame, right? So we certainly think we have opportunities across the Southeast overtime. And so when those make sense to pursue, we feel like what we've done in Texas kind of shows our capability of doing that kind of thing. We're not in any rush to do that. We feel like we do have plenty of opportunity in Texas really just in Dallas and Houston, not even the rest of Texas, you could work it for quite a bit of time maximizing that.

Our future expansion once we feel like the time is right, will be as our previous expansion has been, will be banker-driven. So, we -- it's our philosophy that we don't just open up the shop and hope somebody comes, we find a good group of bankers to partner with. And typically, we'll do an LPO and then once we feel established, we'll grow from there. So, I certainly think if we found the right banking partners, we would be open to that idea. But most likely, that's down the road and not something to contemplate in 2023, we have a lot of good potential ahead of us in the markets in which we're currently operating. And feel like achieving a balance between growth and efficiency is something that we have an opportunity to do in a way that we haven't in the past, and we're excited about that.

Feddie Strickland Janney Montgomery Scott LLC - Research Analyst

Makes sense to me. Thanks, Jude.

Operator

Our final question is a follow-up from Graham Dick with Piper Sandler.

Graham Dick Piper Sandler & Co. - Research Analyst

I just wanted to follow up on fee income really quick. -- looks like Smith Shellnut Wilson had a pretty solid quarter, and then there's also the SBIC income. Do you think that the income is probably going to drop back to like $7.5

million? Or do you think this $7.8 million, $7.9 million rate is sustainable?

Gregory Robertson Business First Bancshares, Inc. - CFO & Treasurer

No, I think you're right, Graham, what we expect is that $7.5 million run rate going forward.

Matthew Sealy Business First Bancshares, Inc. - Senior VP and Director of Corporate Strategy & FP&A

Yes, the SBIC contributed about $400,000 more than we had expected.

Graham Dick Piper Sandler & Co. - Research Analyst

Okay. Awesome. And then 1 more quick one. I guess, just on the 2 credits that received specific reserves. I know you said 1 was due to fraud. I was just wondering if you could provide some color on each of those just like what industry they're in, the type of collateral on each and then maybe the overall size of each credit as well.

Gregory Robertson Business First Bancshares, Inc. - CFO & Treasurer

Yes, Gram, what we had these 2 legacy originated -- Louisiana originated loans. One of them was in the timber industry. The other one is the receivables line that is a contractor and does some work, government jobs and other various things like that.

On the timber loan specifically, that loan, what we started seeing was potential fraud in there with multiple sources of collateral pieces.

So, we thought as we're looking at it, and we've been talking about this loan for quite some time. We thought the prudent thing to do because it looks like a pretty long runway to settle on this thing because of the broad nature, but also just the numerous pieces of collateral we have to deal with. The right thing to do would be for us to put a reserve up now. And then that way, we can be prudent, take our time on the collection pieces, and we think we'll get some of that back as recovered.

On the other loan. The loan size on that one is about $1.4 million. So on the other loan, and we marked that at about 80% of the loan in total.

On the other one, the receivables line, the customer is in dispute with -- on a contract. And so because of that...

Jude Melville Business First Bancshares, Inc. - President, CEO & Director

On a governmental contract.

Gregory Robertson Business First Bancshares, Inc. - CFO & Treasurer

Governmental contract, right. And there -- because of that, there -- we think the path to settlement on that is going to be elongated it puts the line underwater and the borrowing base out of trust because we have to remove that disputed contract. So we really put the reserve against that contract. Now we don't think the contract will be total loss. So what we did was -- and that's about 50% of the total exposure of that credit. So we think over time, that will

shake out, we'll get some recovery and they'll get paid, may not be 100%. But at this time, there's a lot of uncertainty and it looks like a long runway on that one as well. But the clients are cooperative working with us.

Graham Dick Piper Sandler & Co. - Research Analyst

Okay. That's very helpful.

Operator

There are no further questions at this time. I'll now turn the call back over to the presenters for closing remarks.

Jude Melville Business First Bancshares, Inc. - President, CEO & Director

Okay. Well, we appreciate you spending with us and we felt like it was very positive fourth quarter. Many of the investments that we've been making over the past 2, 3 years are coming to fruition and certainly, the first quarter is noisy from a seasonality standpoint, but we feel very optimistic about approaching 2023 and look forward to visiting with you all in 3 months.

Thank you, all.

Operator

This concludes today's call. We thank you for your participation. You may now disconnect.