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Prosperity Bancshares Q1 2009 Earnings Call Transcript

Question-and-Answer Session

Operator

(Operator Instructions) Your first call comes from Jon Arfstrom – RBC Capital Markets.

Jon Arfstrom – RBC Capital Markets

Dave Hollaway, in terms of the margins, is everything baked in? Does that fully reflect the repositioning of Franklin deposits and Solomon Securities portfolio also so that we have the potential to see something more stable going forward?

David Hollaway

I think that's absolutely right. That fourth quarter everything was still in flux and it was hard to get a good read on it but absolutely true. On the asset side everything has been fully invested specific to Franklin, and so now on a go forward basis, it's just a matter of what we always do with these acquisitions, it's try to get their mix of money to reflect more of our mix of money.

What I mean by that, our CD percentage as a total of deposits is generally lower than these transactions that we take over so we'll start seeing some of that going forward so you might get some efficiencies on the CD's continuing to re-price down, and that's a bank level statement.

But the other side is, we have to focus on what's going on in the asset side because again, we have a big percentage of our money in a bond portfolio and as that cash flow comes off, what are we going to be reinvesting in? Is it going to be loans? Will it be chasing off CD's, high cost CD's and it pays that off or do we try to stay short because we have to cognizant longer term of extension risk.

We don't want to do something in the short term on the security portfolio side that causes us pain going forward and so what that means, bottom line is, we may have to stay shorter if the money goes back into the security portfolio meaning less yield there. So I think it's a long way around to say you're absolutely right. I think the margin will probably be a lot more stable at least over the next six months.

Jon Arfstrom – RBC Capital Markets

In terms of the commercial real estate balances, they were stable sequentially and they were stronger than the other categories and I'm just wondering if you could talk a little bit about impressions of the Texas real estate market and in terms of what you're avoiding and what you might be attracted to in that category.

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