Bank OZK

Transcript of the Third Quarter 2022 Conference Call

October 21, 2022, 10:00 am

Note: Administrative communications of the operator and other greetings and social exchanges of no substantial import have been omitted from this transcript.

Good morning, I am Jay Staley, Director of Investor Relations & Corporate Development for Bank OZK. Thank you for joining our call this morning and participating in our question and answer session. In today's Q&A session, we may make forward-looking statements about our expectations, estimates, and outlook for the future. Please refer to our earnings release, management comments and other public filings for more information on the various factors and risks that may cause actual results or outcomes to vary from those projected in, or implied by, such forward-looking statements.

Joining me on the call to take your questions are:

- George Gleason, Chairman and CEO;
- Brannon Hamblen, President;
- Tim Hicks, Chief Financial Officer; and
- Cindy Wolfe, Chief Operating Officer.

We will now open up the lines for your questions. Let me now ask our operator, Kevin, to remind our listeners how to cue in for questions.

Stephen Scouten – *PiperSandler & Co.*

If we could start with the repayments seen this quarter, obviously, down about $1 billion quarter-over-quarter. And I know that can be somewhat episodic and hard to predict. But I took the commentary in the management comments as somewhat of a positive that you don't think it will necessarily be the highest year on record. So can you tell me what you guys are seeing there and what might be driving the reduction in repayments? Is it less opportunity for your customers to refinance out? Or what kind of dynamics are going on there?

Brannon Hamblen

Certainly, you identified one of the issues. Obviously, the finance markets, whether it be bridge or permanent lending markets, are affected as the interest rates have moved to the degree that they have. I would say that while we have repayments from a number of directions, including the sale of for-sale product condos and on a lesser level, obviously, lots in single-family homes, the refinance market is a big part of what takes out our loans. So that has slowed down. We are still seeing those. Obviously, it was a material payoff quarter, but not perhaps as heavy as we expected. And I think as we stated in our management comments, we would expect at least for the foreseeable future that it may not be as heavy. It's hard to say. As you know, these loans are quarter-to-quarter and are a little bit lumpy. But you never know, in Q4 we could still have a heavy quarter that hits the record. We just can't say for sure at this point in time. But, in general, I think a little bit slower.

George Gleason

And Stephen, your assumption there that we view this generally as a positive was accurate.

Stephen Scouten

And then the biggest positive I thought in the quarter, to me, at least, was the relatively low deposit beta. I think that's a testament to the changes and mix changes that you've seen over the years. How are you thinking about deposit betas moving forward even as you've had to start tapping back a little bit into the brokered deposit realm? And what are you seeing on new CD yields where we could see those moves?

Cindy Wolfe

Yes, we were relatively pleased. Also, if you look at first quarter, our low cost of interest bearing deposits of 23 bps, and even though we've had 300 basis points of increases in the Fed funds target rate since then, we're up 36 basis points since then. We're pleased with that, but we don't think that's sustainable. We think that our cost of interest bearing deposits will go up just like we said on page 14 of our management comments. But we're going to continue to be very opportunistic and disciplined in our approach to how we fund the balance sheet. And I'll just reiterate what we've said before. This is early in the cycle, and towards the end of the cycle this ability to avoid outpacing loan yield increases may start to lessen. But we're just going to continue and stay the course and be very disciplined and opportunistic.

George Gleason

Yes. And Stephen, I would add to that. I think our view is that deposit costs, as Cindy said, will rise faster in the current quarter, and may ultimately rise faster than loan yields toward the end of the Fed tightening cycle, all as we've said for a couple of quarters in the management comments. We are cautiously optimistic that we'll see another quarter of positive core spread and NIM expansion this quarter before we see that sort of tighten down and catch up.

But the real key -- and what I thought was the highlight of the quarter -- was the strong growth in our outstanding balance of loans, almost $800 million, and the record growth in our unfunded loan commitments to $20 billion. Because as margins normalize some degree towards the end of the Fed tightening cycle, the key to us putting up continuously improving net interest income is growth. And this quarter was a strong growth quarter, on top of three previous strong growth quarters, in the unfunded number, with a little abatement in paydowns we're beginning to see that translate into funded balance growth and prospects for meaningful loan growth in 2023 and 2024 look very good. I think that was the highlight of the quarter. Now that caused us to have an EPS miss from the consensus number because we had to build reserves for that growth. But we would take that kind of miss every single quarter.

Stephen Scouten

Yes, that's a great story. Do you guys have a number for what percentage of your RESG loans you guys have required to put caps on their side of the structure? I know we've gotten to move past the floor story for right now to just kind of thinking about how you guys are protected from them experiencing too much of an impact from higher rates if you have those numbers?

George Gleason

Yes. We have no loans that have caps on our interest rates, but we do require our customers to purchase caps on their interest rate. Brannon, you might comment on that.

Brannon Hamblen

I don't know the percentage off the top of my head. It's definitely a majority. And we have been very busy making sure those are documented as these rates have risen. And obviously we have those in place and we have an assignment of that as collateral and it’s an important issue that we have been focused on in the past so that we're prepared for the present as it relates to these rate rises. Again, not an exact percentage for you, but it's the majority of our loans.

Timur Braziler - *Wells Fargo Securities*
Starting bigger picture, we heard from some other companies that they're increasing caution on spaces like office, while OZK clearly see record originations and new office projects. Are we in or entering an environment where you're starting to see some competition falling off? It seems like that's the time when OZK typically does best. So maybe just talk a little bit about the broader CRE markets today?

Brannon Hamblen
I would say that's an accurate depiction. I think even last quarter we discussed the same topic and noted that there are increasingly fewer competitors. And again, I will note, when you guys have noted our loan sizes on average are strong and growing and our ability to do some of the larger loans as we do gives us a pretty good competitive advantage in any environment, but more specifically in the environment we're in. We're capitalizing on that opportunity, but not only to perhaps do some deals that we wouldn't have been able to otherwise without tremendous sponsorship. We're still, as I said in the past, doing deals with sponsors we’ve not previously transacted with, but also in an environment like this, improving our leverage, improving our pricing as we operate in what is, to your point, a somewhat less competitive environment.

Timur Braziler
On the expense front, as we look for accelerating pace of our RESG balances to kind of fund up over the next two years, is that infrastructure already in place? Or does the personal nature of the lending vertical warrant kind of accelerated hiring through the next couple of years?

Brannon Hamblen
I would say, and we've talked about this quarter-to-quarter, obviously, our job in keeping, retaining and attracting new talent has been harder this year than ever. But I just want to give a tip of the cap to my team that has done an absolutely phenomenal job in actually improving the infrastructure at RESG. We've moved some things around and strengthened certain key departments, and I would say that this year we're in better shape than we have ever been. And to your underlying question, our ability to scale that is better

than it's ever been. We had yet another quarter of record number of loans that we closed in the quarter. We have been historically and continue to look for ways to adjust and build the team such that it can continue to scale to deploy this good capital build that we've had over the years.

Timur Braziler

How are valuations holding up for projects that are coming up for renewal? It seems like the pages and the management comments to kind of highlight that information were not included in this iteration.

George Gleason

We took that out because we just didn't feel like it was that material anymore as it was in the pandemic. We had that commentary in the management comments for a period of time. You saw, as we have seen in the past, values going up and down on properties as they're reappraised. And Brannon, you may want to provide a little more color on that.

Brannon Hamblen

As in every quarter we have reappraisals conducted. You have some that are up, some that are down. I think, for the most part, those movements were in the range that we've seen historically. The hospitality world is the world that we continue to watch the closest. But across the other categories, really very similar results as you have been seeing in the past where most were within an absolute loan-to-value change of, call it, 5% one way or the other.

George Gleason

We did have one, if you could look at the bubble chart, we did have one hospitality loan that popped up into the low 80s percentage loan-to-value, which is our highest loan-to-value loan. At the same time, just to give you the flip side of that, we had three hotel loans that were cross collateralized that were in our chart last time that were among our highest loan-to-values sort of disappear down into the mass of loans because our reappraisal based on improving performance in those properties, they just priced significantly better.

It's reflecting individual property performance, and as Brannon said, most of these results are kind of plus or minus 5% from where they were originally appraised. You do have, particularly in the hotel sector, some more extreme results because some hotel properties are recovering really quickly. Business-oriented hotel properties that are dependent upon business travel are recovering more slowly towards what you would think would be a normalized level, but nothing material on that front.

Catherine Mealor - ***Keefe, Bruyette, & Woods, Inc***

Just wanted to follow up on the prepayment conversation here with Stephen earlier. Thinking about big picture, how do you think about the risk around kind of the balance sheet moves, where if paydowns really flow from here, and then you've got this big ramp in origination volumes that you could see your balance sheet balloon. And I don't really worry about that from a capital perspective because you've got so much capital. But maybe from a funding perspective, that could put more pressure on your need to spin up deposits across your franchise. So just kind of thinking about how you manage the funding in that if your balance sheet does end up getting a lot bigger than expected next year.

George Gleason

First, I would comment that I don't think we're going to see a huge drop-off in prepayments. Obviously, it was $1 billion something this quarter versus $2 billion something last quarter. But I think we're going to see a pretty regular stream of prepayments on loans. Secondly, I think we're very comfortable with our ability to fund our expected loan growth, even variations and cushions on that expected loan growth, from deposits. And thirdly, we've got about almost $10 billion in unpledged securities, FHLB borrowing capacity and various other miscellaneous secondary sources of liquidity to tap into. So we've got a lot of liquidity sources. Our deposit guys are doing an excellent job. And repayments will continue to be a source of cash flow. It will vary from quarter-to-quarter, but I think those are going to continue to be pretty meaningful.

Catherine Mealor

On the cost of deposits, Cindy, can you give us any kind of discussion or color around where maybe new CDs are coming on today and where you're seeing kind of specials? And then typically, you do your spin-up strategy where you have different rates in different markets and you kind of do it at different times. Just generally, where new funding was coming out, many of course at the end of the quarter -- just kind of give us a sense for the deposit betas in the just the next few months?

George Gleason

That's a tough one. I'm going to jump in for Cindy on that and just say it's all over the board, Catherine. We are getting more aggressive on deposits, obviously, which is in line with our comment that we expect deposit costs to rise more in Q3. And we're adding some duration, and have been adding some duration, in there that is helping in the management of those costs. But we are going to see higher deposit betas than the whatever it is, 21% beta we've seen over the last two quarters. Cindy, is that right? Is that a two quarter number, two quarter net? So that's coming there. And you also might have noted in our noninterest expense an increase in advertising cost. We've got good momentum in adding core accounts, and we're putting some money in the advertising budget and expect to continue to hammer that. It's brand awareness advertising, it's deposit specific product and pricing advertising as well as we've done a lot of advertising designed to enhance our ability to increase employment. The guys did some great work on that. And that has really helped us reduce our unfilled positions and get our retail branch infrastructure close to fully staffed. We're never fully staffed, but we're a lot closer than we were with less than half the number of openings that we had a couple of quarters ago. And that is really helping us serve customers and open new accounts and bring in deposits.

Catherine Mealor

Moving over to loan yields. The loan beta was very high, which is expected because of your variable rate portfolio. But is this a good barometer for the pace that we will see loan yields perhaps increase with future hikes? And I just wanted to confirm that there aren't any outsized prepayment fees or anything within that number just to be aware of?

Tim Hicks

To your point on the minimum interest and other fees that we get from time to time from payoffs, that was a fairly average number within a range for the quarter. So nothing outsized there. And to your point, we've got 78% of our loans that are variable and the vast majority of those are off their floors. It depends on the timing of when we get that increases, the timing of when LIBOR moves and SOFR moves and the timing of when our loans reprice. Most of our RESG loans reprice in the first 10 or 11 days of each month. So all those kind of go into the equation of what would result in an increase in the loan yields. But there was nothing outsized from a minimum interest or any other type fee in this quarter.

Matt Olney - *Stephens Inc.*

My question is similar to Catherine's question around loan yields and loan betas. It seems like we're probably now sitting above and beyond all the floors that we had a few months ago. It seems like we could see even stronger loan betas in 4Q22 and 1Q23 than we saw in the third quarter. Any thoughts on kind of where we sit today versus perhaps earlier in the third quarter?

George Gleason

Most of our loans in RESG have monthly repricing, and they reprice on either the 1st, 10th or the 11th of the month, predominantly. Now there are loans throughout there, but most of them reprice on the 1st, 10th or the 11th. So when we disclosed Q2 data as of June 30 we still had a smidgen of loans that were at their floors at June 30, but lifted above those floors with loan repricing on July 1, 10 or 11. And again, there were some miscellaneous exceptions, but it was the vast majority there. So really, about the 11th of July, I think we could have said the vast majority of our loans were off their floors. And by August, we would have said essentially all of them were off their floors for all practical purposes. I think you had pretty much a full quarter's impact in Q3 of the floor is not constraining the adjustability and variability of that portfolio. The Q3 loan betas are probably pretty indicative of Q4 loan betas. Tim, would you agree with that?

Tim Hicks

Yes, I would.

Matt Olney

On the stock buyback plan, it was mentioned in the management comments that this expires here in a few weeks. And I'm sure there's going to be a board discussion around the buyback. Do you have any commentary about what you'll be recommending to the Board with respect to the buyback next time?

Tim Hicks

As we said in the management comments, we've been fairly active over this program. We've had over 12 million shares repurchased over the program, which was over 9% of the outstanding shares when we began the program. We've been very active. So far this quarter we've not been very active. We’ve had some share repurchases but fairly minimal amounts. The program does expire on November 4. And we'll have to have that conversation with our Board later in the quarter. We've not had that conversation, and we'll have a conversation with them and decide what they would like to do. As we've said in management comments in many quarters, organic growth is our primary priority for use of capital. And you saw this quarter, obviously, we had great funded loan balance growth, we had great unfunded loan balance growth and that was a way to use some of the capital during the quarter. We'll continue to evaluate our program and our thoughts around that with our Board as we get later into the quarter.

George Gleason

I would just echo Tim's emphasis on organic growth. And the good thing about our growth at this point is RESG has obviously been hitting on all cylinders over the last four quarters with four consecutive record quarters of originations. I don't know if we see more records or not, but the pipeline looks relatively good there. And more importantly, as you saw in the management comments, all of our other lending teams are contributing positively to loan growth. We think those guys gain momentum as we go forward. They seem to be gaining momentum now, and we expect that will continue. We are very pleased with the success and the traction that we're finally getting on our efforts to get more diversified contributions to our loan growth in addition to RESG.

Matt Olney

Following up on your commentary on loan growth. It seems like in the past, the bank has been hesitant to give specific loan growth guidance given the variability of the paydowns, the originations and some of these can be quite large, obviously. As we move into 2023, and you feel better about the loan growth pipelines, do you expect to be able to provide more guidance around loan growth?

George Gleason

I don't know. We want to make sure the information we give is good information and accurate information. And we tend to speak more in terms of direction and so forth rather than to give specific numbers. And certainly, as we go into 2023, I don't know. I've been doing this 43 years. I don't know that in my 43 years as the CEO of this company if I ever seen an environment that has more variables and uncertainties from a political, geopolitical, interest rate and economic situation. I certainly don't think it's time to step out and start giving specific growth guidance in an unprecedented environment of uncertainty. But we do feel really good about what our RESG team has done. And the near-term future, we can usually see about three or four months down the road or six months down the road with their pipeline. And we feel very positive about the traction that our other lending teams are getting and they're beginning to contribute more and more to that growth. It wasn't but a few years ago that RESG was 70-plus percent of our non-purchased loans, and it’s at 60% now, and that's a good credit to the other guys that are beginning to carry more and more of the load.

Jennifer Demba – *Truist Securities*

Interesting comment you just made, George, about you don't believe you've been in an environment where there's more uncertainties. So I'm curious if banking industry is expecting more normal charge-offs in the next couple of years, what do you think a normal range of charge-offs is for OZK with your current business model and business mix?

George Gleason

With one year's exception, I think we've sort of been in that high single digit to a very low double-digit annualized net charge-off ratio for seven or eight or nine years, something like that. So certainly, if you just look at that chart that we give on Figure 15 in the management comments, I think you can sort of do a regression analysis on the last decade and decide where you think our net charge-off ratio normalized is.

Jennifer Demba

Do you think the recession that we face in 2023 is going to be a garden variety of recession? Or do you think it's going to be worse than many think?

George Gleason

I studied economics, but I don't consider myself a practicing economist. But it is hard to see how we get into an extreme hard recession when you have employment levels as high as we have. We've got an indirect marine and RV business. It's about 12% of our non-purchased loan book. And I keep watching the past due and charge-off numbers from that portfolio. And it is barely bumping in any sort of way up or down. It's just been pretty darn stable within a normal range of variability. And certainly, other banks who have reported earnings already and have commented on the conditions of their consumer portfolio. I would suggest that the consumer is very strong and holding up very well. And we don't see any reason to think that's not the case from our perspective.

And our RESG portfolio continues to perform very well. There was a question earlier about office, and I get a lot of information from that portfolio. And yesterday on one of our projects that we financed and closed just a few months ago is purely a spec project. We got notice that they had signed their second large lease for 108,000 square feet in it. And business continues to get done and people are hiring people. People are expanding and taking new office space and probably a lot of that is reflective of the state-of-the-art quality modern ground-up construction office space that we're financing, it that's the best in the markets sort of space. I'm not sure I'd want to have a bunch of B & C grade office space in this environment. But business is still getting done. It is hard to see from those sort of perspectives from consumer and business perspective how you have particularly severe downturn.

The Fed is raising rates to what, in the last few decades, are unprecedented levels, and they're doing it at a velocity that is really quick. And obviously, you've got food and energy and supply chain issues, geopolitical issues all around the world. You’ve got the war in Ukraine. You've got so many things going on. It seems like there's a ton of risk out there. But at the same time, the U.S. economy looks like it is humming along pretty well. And the Fed seems bound and determined to raise rates until they break something, and all of us are curious what that is. I'm hopeful that the Fed will complete a couple of more rate increases to get to next year and stop because the lag effect of monetary policy is well documented.

And I think that they need to pause in early next year and let the impacts of their actions resonate through the economy and be measured and seen. I'm afraid if they keep going and we get to 6% and 7% rates because inflation hasn't come today they're going to break stuff unnecessarily. But honestly, I don't know what that is. So we'll see how this plays out.

Brian Martin - *Janney Montgomery Scott*
On RESG, you talked about obviously firing on all cylinders since the last four quarters. With the unfunded growth where it's at, how are the pipelines there today? It sounds like they're still pretty good, maybe not at record levels, like you're saying, but are you still optimistic on that ability to continue to grow today, given kind of the conditions we're seeing and what you're looking forward at here? Can you provide some perspective there given how strong it's been the last couple of quarters?

George Gleason
I'll give you my comment and then Brannon can give you the details. The pipelines are off their peaks. And clearly, inflation is driving up the cost of construction and materials cost. We have seen some sponsors putting projects on hold because they believe that materials costs will come back down next year. Obviously, interest rates are adding to the project costs and eating into cap rates and valuation. So I think there are projects that are getting put on hold just because of that. But, notwithstanding that, the pipelines, I wouldn't say are as robust as they were, but I would say they're still good by historical standards. Now Brannon is on pipeline calls every week, and I'm on them occasionally. So Brannon give some additional color on that.

Brannon Hamblen
George broadly hit the nail on the head. I think it depends on market. I keep bringing up our ability to do somewhat larger loans than a lot of our competitors want to do. And that is often paired with a more substantial and desirable sponsorship to do a deal with. And they've kind of got the staying power and the long-term approach and the capital that allows us to do very attractive leverage on our loans. Week-to-week in these pipeline calls, one week, I'll be like, wow, it's just going to keep dropping off. And then the next pipeline call we have the guys have pulled in more attractive opportunities that have just sort of reached that stage where they're ready to move forward. It does take longer for deals to move forward these days. The sponsors are measuring 2x and 3x and 4x and 5x with respect to cost and value

engineering and all that sort of thing. And as George said, during that whole process, interest rates have been moving up. So again, we're off our peaks, but there is still a lot of opportunities to do some really nice loans across the country. Again, it's a good pipeline. It's not as strong as it was in the past. But we're taking it a quarter at a time, a deal at a time, and I think we will see some nice origination opportunities out there.

Brian Martin

The other diversification benefits you've gotten from these other segments, can you just talk about maybe just where you're most bullish as you look over the next maybe 12 months on all of the other businesses, if they continue to have momentum? And are there certain segments where you see more upside depending on how things play out here going forward?

George Gleason

Our Corporate Business Specialties Group and Asset Based Lending Groups are areas where we've got some good traction. We've made some good progress this year. We expect that to continue. Our indirect and RV & marine business, I think, probably grows, but at a fairly slow rate. I would guess that it kind of stays in that 10% to 15% target range of our total loans, and probably stays in that kind of 11% to 13% range. I could be wrong giving such tight guidance on that. But I think they replace what rolls off and add some, and more or less grow in tandem with our balance sheet. The community banking business, we've got a lot of different teams there. Obviously, our homebuilder finance team is probably going to see less volume -- some of our other lending teams there seem to be seeing more activity and some growth. So I think all of these units contribute to our growth and contribute at a greater percentage to our growth starting in about 2025, 2026 and 2027. And Catherine Mealor in her comments, asked about the future repayments from the wave of RESG originations we've had. And I think we will have -- from this year's originations, in late 2024, 2025 and 2026, a lot of RESG repayments. But we believe in our executing our strategy with the belief that over the next two years, these non-RESG units are going to contribute more originations and that there will be a bit of a handoff on momentum, not that RESG will not ever be our largest piece of business, probably, and largest team and most effective team, but I would think as we catch that next wave of RESG repayments that mute its growth, for a year or two that these other business units will really shine as our engines for growth in that period of time. Now I'm talking three and four years out, and Tim gets nervous when I talked three and four years out because lots of things can change, but that is our strategic plan on how we're going to handle that next wave of RESG repayments, is have these other diversified business units continue to grow as they have done this year and contribute more and more to growth going forward. I think that balances out the growth trends of our portfolio, and I think all of our investors would like to see a more diversified steady sort of growth rate to the portfolio.

Brian Martin

On the expenses, I know you kind of gave a little bit of color on just kind of how that trends look over the near term? But just broadly, as you look to next year on the expenses, how should we be thinking about the growth and the inflation impact and additional hires, high level outlook there?

Tim Hicks

We were pleased with being able to increase our noninterest expense during the quarter, but also show a decreasing or improving efficiency ratio. So that was a highlight. As George mentioned, we did have good momentum in hiring people during the quarter. We hired just over 120 people throughout the quarter. That was good momentum. We still have some good momentum into this fourth quarter as well and some more open positions that we need to fill and are hopeful we'll fill this quarter. I do think our noninterest expense in total will continue to increase several million dollars a quarter. If you really went back to our comments back in our January call, we've been saying that all year -- that we thought depending on the pace of hiring that we would continue to increase our noninterest expense several million dollars a quarter for the near term. That obviously didn't come in the first half of the year where we were not able to be successful in increasing our headcount. But we've got that momentum in the third quarter and continues in the fourth quarter. I believe that we'll continue to increase noninterest expense in total several million dollars a quarter. Again, we're investing in our business. We're a growing bank, so we are investing in our people. We mentioned we would expect advertising and marketing to continue to stay at the elevated level that we saw in the third quarter to support our growth and our brand recognition. Our expense growth is to support the growth of the business as a whole, which we view as very positive.

Brian Martin

I guess a key point is you're not expecting outsized growth per se in 2023, just kind of normal growth to support the business. Nothing out of the ordinary on that front. Thanks for the commentary and great quarters, guys.

Timur Braziler - *Wells Fargo Securities*

I was wondering if you have the spot rate on deposits exiting the quarter?

George Gleason

I'm not sure I understand your question, Timur.

Timur Braziler

The cost of deposits at quarter end versus the average that was provided?

Tim Hicks

You're talking about for the month of September?

Timur Braziler

Yes, for the month of September, end of September.

Tim Hicks

Yes, I think we were 20 basis points higher in the month of September than we were for the quarter as a whole. I can't remember if it was 20 or 22, somewhere in that range.

Timur Braziler

As we think about the allowance level for the funded RESG balances to start kind of growing in the next couple of years, it looks at the reserve on the unfunded loans is a little bit lower than what the total reserve is on kind of a reported basis. So as those loans fund up, is the expectation that additional reserves are added? Or are they kind of evaluated at that type of funding?

Tim Hicks

You're right that our RESG funded allowance percentage is lower than the overall allowance percentage unfunded balances. So it depends on the mix. I mean it depends on the mix of growth of whether that comes down not. It also depends on the economic environment we're in as well. But as we said in our management comments, the provision expense that we had during the quarter was primarily due to growth in the funded balance and unfunded balance and the view that the environment, macroeconomic environment that has a lot of risks and uncertainties in it right now. So as the environment improves, that would be helpful to our reserve levels as well.

George Gleason

And I would comment that RESG is the vast majority of the unfunded loans. RESG is 87% of the unfunded loan balances and 60% of the funded loan balances. Our allowance allocations on RESG loans, because they are so much lower on average loan-to-value than other loans from other lending teams in our portfolio tends to be quite a bit lower. So that's part of that differential in the ratios there.

George Gleason

We're glad you were with us today. We enjoyed getting to report on what we thought was an excellent quarter. We look forward to talking with you in about 90 days. Thank you. That concludes our call.