Bank OZK

Conference Call – October 18, 2019

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 Tim Hicks, Chief Administrative Officer and Executive Director of Investor Relations for Bank OZK. Thank you for joining our call this morning and participating in our question and answer session. In today's Q & A discussion, 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 and Greg McKinney, Chief Financial Officer and Chief Accounting Officer.

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

Transcript of Q&A:

Ken Zerbe – *Morgan Stanley*

I was hoping you could just start off in terms of RESG, very good origination. Can you just talk a little bit about what drove the higher origination volume in RESG? Was it lot of loans, was it couple of large loans?

George Gleason

Ken, I'll address that. Yes, we did have our best origination quarter in RESG since 2017. We had loans of all sizes. We originated our largest loan ever in the quarter. We originated a lot of small loans, I believe, I'm not sure of this number, but I think, the number of closings in the quarter were 30-something, I believe. Don't hold me to that. But it was a good job that our team did. We're being very disciplined in our credit quality, continuing to hold very diligently to our long-established and consistent credit quality standards. We have been very protective of our return on investment on those loans and are not doing transactions that are just so cheap that they are not generating a good return for us. So I'm very pleased with the job that our team did in originating the diversity of credits and diversity of our markets, holding to our credit standards. And we're just going to have to continue to work hard and find those good opportunities that fit our credit and profitability profile.

Ken Zerbe

In terms of the margin, it obviously came down about 19 basis point this quarter and that's on one rate hike, and I get that LIBOR has been coming down too. But if we end up getting two rate cuts, one in September and one in October, how should we think about margin? I mean, is there any reason to think it wouldn't be down twice as much as 19 basis points -- were there any offsets?

Tim Hicks

We had two rate cuts in Q3, July and September. I believe 1-month LIBOR was down 40 basis points during the quarter. So with 75% of our loans are variable, and 82% of those are variable based on one month or three-month LIBOR explains that. We're going to be really variable, very sensitive to that movement in one and three-month LIBOR, specifically one-month LIBOR, until we have a chance for our floors to catch up, and we have a chart in here on floors as well. You can see that on Figure 14, page 13 of Management Comments, that we have total commitments, 27% of our current loans are at their floors, that was 15% a quarter ago. In another down 50 basis points half of our loans, total commitments, will be at their floor, 47% specifically. So that will help eventually alleviate some of the decline in loan yields, which would help alleviate the decline in net interest margin. On the other hand, deposit costs should continue to benefit and continue to go down. We had a good decrease in deposit costs during the quarter, down six basis points during the quarter. We'd expect that to continue in the fourth quarter and the size and magnitude of that will depend on how many rate cuts we get and when.

George Gleason

Ken, we added also, I might refer you to Figure 13 on page 12 of Management Comments, we added a box at the bottom of that, that shows our quarter-over-quarter change in core spread over the Fed increasing cycle in the last several quarters. And as you can see, going back to when the Fed started increasing rates, because of our LIBOR heavy book, loan yields increased faster than deposit costs, and then ultimately deposit costs caught up. So over the up cycle, our change in yield on loans and change in cost of deposits was fairly equal, and obviously with LIBOR plummeting really quickly with Fed cutting rates two times in the quarter and the expectation of further Fed cut, LIBOR is outrunning our ability to reduce deposit costs. We think our full down cycle, in couple quarters or three quarters or something after the Fed is through cutting rates, that our deposit cost changes will largely catch up with our loan yield changes. But just as deposit costs lag coming up, they're going to lag going down. So we would have certainly preferred the Fed have not started cutting rates when they did and given us a few more quarters to cycle our floor rates up, that would have been helpful, but they didn't do that.

Ken Zerbe

And if we do get an October cut, where do you envision NIM falling out in fourth quarter?

George Gleason

We're not giving a specific guidance on that. As you can obviously imagine, if LIBOR drops our loan yields will drop. Tim mentioned we expect deposit costs to continue to come down and get better quarter-to-quarter, but there will be a lag effect in that probably.

Ken Zerbe

You mentioned in the release that you expect expenses to continue to move higher. What pace of expense growth are you envisioning going forward?

Greg McKinney

I think the comment in response to that question will be similar to how we responded a quarter ago. I think we're towards the end, but still continuing to build infrastructure, specifically we had some expenditures over the last quarter or two related to our CECL model validation, scorecard validation, for third-parties, so those have continued to keep our expense increases a little bit on the elevated side. That probably continues for another quarter or two, although we're certainly working towards trying to get that much more moderated. They will still grow, but much more moderated as we get into 2020. We've have our new headquarters coming on so that will begin, the depreciation for that building, we will see it at some point during probably the second quarter of 2020. I think our thoughts around trends in noninterest expense are very similar to our comments last quarter.

Catherine Mealor – *Keefe, Bruyette & Woods, Inc*.

Maybe one follow-up on the deposit side. Is there any way to give us some color around what deposit costs did on a monthly basis? We can kind of see where deposit costs trended for maybe the month of September as a gauge for maybe what we may see in the fourth quarter?

Tim Hicks

September was below where our quarter number was by a few basis points, so that's going to help the fourth quarter, to kind of give us to a good head start. Obviously, there is a lag effect obviously to the two moves that we had in Q3 on the Fed funds target rate. I'd also mention our CD book in Q3, I would say, was probably a headwind to the overall decrease. That should improve as time goes on and be less of a headwind to the overall decrease. So we're not giving a specific range, but we have got things moving in our direction that should help us for Q4.

Catherine Mealor

Maybe just on big picture growth -- we saw a little bit origination volume and we saw a better bottom line growth this past quarter. Any thoughts on just as you look forward to the level of repayments that you may expect in the near term? And do you feel like next quarter kind of into early '20, you will still be able to net grow the balance sheet or is your forecast for repayments still to where we see balance sheet maybe relatively kind of stable to flat?

George Gleason

I think we generally expect moderate growth in the balance sheet next year, certainly not anything that's going to rise to probably the level of robust. We still will be contending with the paydowns from our purchased loan portfolio as everyone has known and seen for several years. We will still be contending with a high level of RESG loan payoffs. We would hope that our RESG team will be able to do what they did this quarter, and that is to work hard to find good opportunities that fit our credit and profitability profile to continue to replace the payoffs and achieve some net growth in the RESG book.

The other two big loan components. Community Banking, we think we will do better in growth in Community Banking next year - one of the reasons that salary costs have been going up is we've been adding staff and will continue to add staff in those Community Bank lending verticals - we feel like we are really getting well positioned to achieve a bit of accelerated growth in the Community Banking area. That, I suspect, will be offset by a more modest growth in the Indirect Marine & RV business. Those of you who monitor that sector from a dealer and manufacturing point of view will know that sales of marine and RV equipment is down and that's resulting in less consumer paper, which is where we are in the space. And yet the competition for that paper is pretty robust. So just like we've done in RESG as we faced a declining volume of opportunities and increased competition, we're holding to our very strong credit standards on that paper. We underwrite that paper in a very specific way so that we believe will achieve outcomes from our portfolio far better than the typical marine or RV portfolio outcome. We're going hold those credit standards tight. We will not go below a certain pricing point. So I think, we'll see a reduction in our growth in Indirect Marine and RV next year. I think we'll have nice growth, but well off the pace of growth we've had there. I think you'll see that largely to some degree plus or minus some degree offset by increased growth in the Community Banking side. So we're not giving any specific growth guidance for next year. We would expect overall loan growth to be moderate. And I'll leave it at that are now for next year.

Timur Braziler – *Wells Fargo*
Maybe just circling back to prior comments on the largest loan booked to date at RESG. Can you gives us a little bit more color on that credit?

George Gleason
Well, I'll tell you it was a loan in the Tampa area in Florida. It meets all of our standards for a really large credit. It has an outstanding sponsorship. It is an incredibly exciting and well thought out and to be well-executed project based on what we've seen. So it meets our standards of being a high-quality project with truly great sponsorship in a great market, and we're very excited about it. It's a very defensive structure. You can see the loan-to-value and loan-to-cost numbers in our tables. You'll notice that on the aggregate, most of the loans we originated, most of volume in the quarter just ended, was at even lower loan-to-value and loan-to-cost numbers than the portfolio. We actually had a slight downtrend in our average loan-to-cost number for the portfolio from last quarter because the things that paid off were slightly higher than the things that went on. So very conservative high-quality project with great sponsorship.

Timur Braziler
Was it a condo, or hotel or?

George Gleason
It is actually multiple buildings that will include office, condo, apartment, retail, a parking facility and various other components. It's a very mixed-use multi-building project.

Timur Braziler
I appreciate all the color around margin and the deposit side. Maybe just looking at the asset mix -- what type of origination yields are you getting on the indirect RV & marine paper, on the community paper and on RESG?

George Gleason

Well, it varies quite a bit from loan to loan on the RESG side. Those are complex credits in some cases and straightforward and simple credits on others. And depending on the different credit type, the different market and the complexity, the value we bring with our expertise to it, we get different pricing on different loans. But I'll tell you, that really hasn't significantly changed this year, the pricing that we were getting early in the year is very similar to the pricing we're getting now there. Obviously, the marine and RV pricing has come down over the course of the year. That is heavily affected by 5-year and 10-year type yield. And as the yield curve has flattened and dropped this year that paper has come down. I think, probably the typical paper we're getting is a mid-5s coupon. Of course, we're paying a premium for that to the dealer or the correspondent on that. So we're looking at a probably low 5s, high 4s, very high 4s net yield on that paper.

Timur Braziler

And then just one last one for me. It's now been a couple of years since Dan's departure from the bank. Just wondering if you can provide an update on how that transition has gone -- how have clients reacted, any kind of meaningful attrition there or anything else worth noting?

George Gleason

I will tell you, I think our RESG team today is the best, most-capable RESG team working in the most collaborative, effective manner than we've ever had. So we are thrilled to death with our team there. Dan's departure was long ago, and that was an issue that was in the rearview mirror for us the day after he left.

Michael Rose – *Raymond James & Associates*

In the Management Comments, you guys talked about a four-pronged approach to turnaround what has been I think three quarters in a row of net interest income decline. Can you elaborate on those a little bit more? And then as we move into 2020, you talked about some modest balance sheet growth. Do you actually think with the margin headwinds, and I know it depends on rates, obviously, but do you actually think you can grow net interest income next year?

George Gleason

That's a good question, Michael. And time will tell on that. Obviously, how many LIBOR and Fed funds cuts we get, what the expectations reflected in forward LIBOR rates become as the rate scenario evolves will have a big impact on that. We are working hard to get our deposit costs down. But we're doing that also in the context of really trying to achieve some qualitative shifts and adjustments in our deposit book as well. And we did that in the quarter just ended, and we'll continue to do that. And we think we'll get deposit costs down.

I pretty much responded to the growth thing in response to Catherine's question. RESG is going to have to continue to stay disciplined and work really hard. As I said earlier, I'm super proud of our team for the job they did, originating the volume they did in a very competitive environment where there were fewer loan opportunities out there that met our high standards than there probably were two to three years ago. So they did a great job, booking good quality business at a good yield in the quarter just ended. If we can continue to do that and offset, or more than offset, the paydowns that will come from the RESG portfolio and have a decent margin of growth in RESG, that will certainly be helpful.

We expect less growth, as I already detailed, probably in the marine & RV space next year than this year. We expect more growth in the Community Bank space. So, obviously, there are a lot of variables. The future of interest rates being a big one there and the rate of decline in interest rates, all those factors play in. If the Fed cuts rates one or two more times and stops, and we have an environment in 2020 where our loan yields are not dropping because the Fed's not dropping rates and our deposit costs are declining and catching up with the decline in loan yields already, that would make for an improving picture. If the Fed continues to lower rates throughout next year or through much of next year, and our deposit cost reductions are always lagging the Fed action, after starting off in a lagged position here this quarter, then that will be a more difficult position. So we'll see how it plays out.

Michael Rose

In the comments, again, no share repurchase program at this point, yet capital continues to build, probably will continue to build. What -- as we think about it in a post-CECL world, where do you kind of see optimal capital levels? I would assume that this is too high. And then, do you think at some point in the future you will deploy some of that capital? But I think consistently you guys have gotten the question about a buyback and return of capital. And just how should we think about all that?

Tim Hicks

I would think about it as an active conversation the management and the Board have in each quarterly Board meeting. Obviously, we've got a very strong capital level. We've never done a buyback in our 22-year history as a public company. We saw a lot of tremendous opportunities during the last downturn. We were able to capitalize on those because we had such strong earnings and capital levels. We want to position ourselves to be able to capitalize on those opportunities if another downturn occurs. But as you pointed out, our capital levels continue to grow, and we'll continue to have the conversation at the Board level, and we'll update you when we change, if we do change. They may come to the same answer every meeting. But as you said, we do have very strong capital levels. And I think that's a great position to be in right now. It allows us to have a lot of flexibility in our strategy planning going forward, and we're satisfied with our capital levels being at an elevated level right now.

George Gleason

And Michael, I would add to that. There is a diversity of opinion probably everywhere on what the right strategy is there. And I'd give an example of that. One of our substantial shareholders who had been a very strong advocate for stock repurchases for several quarters called me after the last earnings call, and I was expecting him to once again articulate his belief we ought to quickly pursue a stock buyback. And I was very surprised when he said he wanted to tell me that he had been thinking about it and in light of the growing geopolitical tensions and political tensions in the U.S. and the economic uncertainty, he decided that we were taking the right approach in accumulating more excess capital. He thought it was prudent in light of the fact that we have a demonstrated ability in economic downturns from the past to capitalize on the significant opportunities, and he thought we would have that opportunity again. Nobody can be sure about that, but that was an interesting indicator to me from one of our shareholders who had been strongly in favor of it that he has now come around at the other side of the equation based on the geopolitical and uncertainty around the economic environment.

Matt Olney – *Stephens Inc.*

I want to go back to the RESG discussion a few years ago following the restructuring. I thought there was a focus to look at some loans in newer markets, markets where maybe were not top five in the country. And at that time, I thought this would result in the average loan size in RESG would be decreasing. But we're not seeing that, we're just seeing RESG do larger loans and of record size. So I'm curious what your expectations are as far as the average size of the RESG loans going forward?

George Gleason

I would tell you both scenarios that you described there are playing out. We are originating loans, for example, our market presence in Philadelphia has increased. Washington, where three or four years ago we had zero presence, has become an important market for us. Boston, we've gotten several significant transactions on board there. We've only occasionally had one or two there in the past. We've got some nice transactions in Minneapolis. We've got a transaction we're actually looking at in Detroit, which I spent a day in Detroit not long ago and was quite impressed with the resurgence that's going on in certain parts of the city there. And there are a diversity of other markets that we are doing transactions in and those do tend to, on average, in the more secondary or smaller markets, tend to be smaller transactions.

On the other hand, in a market where competition is intense and pricing is aggressive on a lot of middle-sized transactions, where we have a lot of value is on very complex transactions that our expertise and ability to execute really makes it worth our customer paying our rates and our pricing and putting up with our low-leverage deal structure to have us in the transaction because we bring value with our expertise and ability to execute. So the other side of that is we are doing a lot of larger transactions, and that's because we get great assets, and really world class sponsorship on those big transactions, because only big companies with great track records and big balance sheets and so forth can do those. So you get great sponsorship on a great transaction, you get paid well for it because they are paying for your expertise and execution ability. So I think, it continues to be a mixture of both of those things. We did a transaction that was our largest ever in the quarter, just ended at the same time, we had $15 million RESG transaction in a smaller market in loan committee this last week. So I think it really does reflect the fact that we are going into some markets doing transactions, smaller transactions in some secondary markets. At the same time, we're continuing to harvest on good opportunities, really primo opportunities that we get because of our expertise and execution ability.

Matt Olney

And then can you just give us an update on the South Carolina and North Carolina loans that we've discussed previously on these calls?

George Gleason

They are both in OREO as they were last quarter. We are working to liquidate those. We think we're making some good progress towards them. We don't have either one of them fully liquidated. We've got several pieces of the North Carolina property under contract to sell. We've got some very serious interest in the South Carolina property, which we hope will result in the closing on the sale of that property. So we're working on them. Nothing adverse, but we don't have them liquidated yet either.

Arren Cyganovich – *Citibank*

Getting back to the deposit discussion -- I think in your management commentary, there is a section where it basically makes the point that over time these changes in loan pricing and deposit pricing will kind of even out. Do you think that, as we head into the fourth quarter, you have some of that benefit, right, because you had your loan change in 3Q and you'll get a bit of a catch-up in 4Q? Is it going to be a longer lag than that? I'm just trying to understand the pace of how that catch-up might work.

George Gleason

I think that really depends on expectations and what the Fed does on rates. If the expectation is the Fed's going to cut rates, then that's going to keep LIBOR trending down. If the Fed actually does cut rates, that's going to cement that decline in LIBOR and the future expectations further down. So we could have a situation for a while, particularly if the Fed's cutting two quarters at a time, where the decline in our loan yields continues to be lagged by our decline in deposit costs. If, on the other hand, the Fed cuts one or two more times and stops, then our deposit costs will catch up more quickly. We, I don't know, had a 13 or 15 or 17 quarter period, where the Fed raised rates nine times, and over that period of time, I think there was a four basis point difference between our change in cost of interest-bearing deposits and our change in non-purchased loan yields. We would expect a similar -- very close correlation between the change in our cost of interest-bearing deposits and non-purchased loan yields over the full gamut of a Fed loosening period and including a couple of quarters, or 3 quarters or so after the end, to allow everything to catch up and normalize. So I don't know when the Fed -- when the deposit costs catch up with the loan yields, but that's just going to depend, as I said earlier, on the number of Fed cuts, the period for all of that and how quickly they do that.

Arren Cyganovich

We've heard that there has been a little bit more interest from smaller banks in terms of M&A, a little bit more discussion from some other banks. Are you seeing that? And I know you don't have much of a currency these days, but you're building capital and you might be able to do a little bit more cash. What's your view on the M&A environment currently?

George Gleason

Our focus really is internal and organic and really trying to improve and enhance the quality of what we're doing as a company every day. That's not to say that we wouldn't look at an M&A opportunity, but I think it would have to be something extremely compelling. And I think the better M&A opportunities for us will be after the next downturn when the quality of our loan portfolio is fully demonstrated. And the quality of what we're doing is reflected in our stock price more significantly. And the aggressive lending that some of our other banks out there are doing is fully reflected in their results and their stock price is down, and they're much more motivated sellers. So I don't see us engaging in M&A activity, certainly, the remainder of this year and probably not in next year and maybe not even the year following that. I think that's a longer-term proposition. We feel that the quality of our portfolio as it's reflected in our stock price today is greatly underappreciated and the quality of some other banks that we see is greatly over appreciated because they are not concentrated, but we see what they're doing and we think that's not very sound. We would never do that. And we think in due time, that dual realization of reality on both sides will make an opportunity for us to make acquisitions that make sense.

Brock Vandervliet – *UBS Financial*

In looking at your deposit composition, you got the cost down, which was great. But it's still kind of driven by the higher cost deposits. And I know you've hired a deposit czar or something similar, but wondering when you're going to be able to show more growth in kind of the lower-cost categories?

George Gleason

I would tell you that's a significant 2020 goal, and there's a lot of effort being expended in that regard. And yes, we've not only hired a Chief Deposit Officer and built out a team of analysts and people in support of him, we've been significantly reevaluating how we greatly improve and position our Community Banking team and products, and so forth for the future. Cindy Wolfe, our Chief Banking Officer, and Carmen McClennon who has taken a significant role in our retail banking deposit side, operational side for the future. The way we do digital services, call center, our online banking products, our existing portfolio banking products, all of that is undergoing a significant revamping that you'll see in the first half of 2020. And we think that we've got a great plan there that will significantly improve the quality and quantity and cost of our deposit base in future years. Steps are being taken incrementally to make adjustments every month and every quarter. But the real significant revamp and redesign of all of that is going to appear and be implemented in 2020. And then you'll start seeing, as 2020 rolls on, some benefits from that.

In support of that, Cindy Wolfe, our Chief Banking Officer; and Alan Jessup, our Director of Community Banking, Cindy is on the deposit and operational side, Alan is on the loan side, and a number of other people -- and I have visited every one of our 260 offices, loan operations, deposit operation centers, LPOs between late November of last year and mid-September of this year. And we've asked our staff to recommend how we can improve our company. We've gotten hundreds and hundreds of recommendations on that. We've really implemented already hundreds of those recommendations. And we've got from that and from visiting all of our markets and really getting down in the deepest way in understanding that, I think we got a plan that's not just a quick-fix effort to improve over deposit mix, but really a fundamental long-term strategy to have to really position ourselves for the next decade, very well on the deposit side. So we're making some progress. We're going to make a lot more progress, but we're going to do that in the context of a really strategic long-term plan for our retail banking operations. And that's all going forward at a very brisk clip. There is a lot of work being done on it, but it's a big project.

Brock Vandervliet

In the meantime, are you opening any branches or really focusing on the network that you have?

George Gleason

We opened a branch in South Fort Worth last quarter. We are opening a branch in South Dallas area this quarter – we have already opened it this quarter. We’ve got three branches we’re opening in the Metro Atlanta area. And then we closed a few branches. We closed a redundant branch in Mobile, Alabama, that was underperforming and similarly closed branches in Clarksville, Arkansas and Magnolia, Arkansas. And -- so we are -- as part of review of all of our retail banking infrastructure, we've identified a few needs we have for opening branches. We've identified a few branches that we think are underperforming and not needed. I think we'll probably identify a few more along the way that we will rationalize and get our structure where it will serve our customers.

Brian Martin – *Janney Montgomery*

Can you just comment at all -- I know you talked about your opportunistic ability in the community bank -- your optimism, I should say, in the Community Banking environment next year just to kind of really see that ramp up. Can you just talk at all about some of the hires you've made or just anymore, I guess, you're kind of looking to beef up on? And how that may contribute to the growth outlook you have with the optimism? And maybe just geographically or by division or segment, you're kind of focused on or what you've seen a ramp-up in?

George Gleason

We are adding folks in a variety of space. We've added a couple of folks in our business aviation group in the last six months or so. We're adding team members in our GG&L, our government-guaranteed, SBA lending group. We're adding a person or two in affordable housing and charter school finance. We've reallocated some internal resources to get a little more horsepower in our, manpower, in our subscription finance business. We are continuing to increasingly integrate our middle market CRE group, that is our Community Banking CRE group that handles CRE loans in an RESG like sort of fashion. But it's not a miniature RESG, it's really an arm that is intended to facilitate and make sure of it is a quality of CRE we originate in our community bank that is similar to the quality of real estate, commercial real estate we do in our RESG group. We're adding a few generalist lenders around in different markets in a lot of these specialty lending vertical guys around in different markets. We've added a couple of guys in homebuilder finance and that business continues to be good. We are trimming some customers whose leverage ratios and inventory numbers are not meeting our standards. We're adding customers that have strong balance sheets and really good business models and good margins and are doing a good job managing their inventory and in markets where there's good growth. So it's just a broad-based continuous adjustment of trying to add people where we see opportunity in different lines of business and curtail or reduce resources in areas where we see the opportunities lining.

After visiting all of our offices in the last 11 months, taking a full inventory and understanding every market in the company and our ability to meet the needs and the opportunities in those markets has really helped us fine tune our plan for allocating resources going forward where we think we'll get the maximum effect from that.

Matt Olney – *Stephens Inc.*

I want to ask about your CECL disclosures. It sounds like you gave it to us in two parts in the management commentary. The first part seems pretty straightforward with the general allowance. But the second part of the CECL disclosure, I guess is the liability for the unfunded commitments. That seems to be more unique to Bank OZK. Can you help us understand how this is going to work? And will that allowance be separate from the overall allowance?

George Gleason

I don't think that is unique to us. It's just more evident in our numbers because with our construction and development portfolio, we have a much bigger number of unfunded commitments than a lot of banks.

Greg McKinney

With the $11-plus billion of unfunded commitment, under CECL, we have to evaluate that, we have to over our projected period forecast the funding of that and then run that through our model for purposes of allowance. From a balance sheet standpoint, that will reside in the liability section, not in the allowance section. So we broke those disclosures out. In evaluating that, we really kind of ran multiple scenarios, looking at a reasonable optimistic, reasonable pessimistic-type scenarios, the weighting of scenarios, to try to set bands around our expectations on where that lands on day one and that's what we provided. That should tighten up somewhat as we move throughout Q4 and get ready to go live in the first quarter of 2020. But, yes, that will reside in the liability section. From an income statement standpoint, it all runs through provision but depending on whether you're talking about whether its funded balance is on the balance sheet or whether you're talking about unfunded, it can land at a different spot on the balance sheet.

George Gleason

And let me clarify, as far as running through provision, the adoption of CECL day one is a capital adjustment.

Greg McKinney

It’s a capital adjustment and then running through provision going forward.

George Gleason

Thank you guys very much. We appreciate you joining the call today. We look forward to talking with you in about three months. Thank you, and have a good day.