Bank OZK

Transcript of the First Quarter 2022 Conference Call

April 22, 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 Credit & Administrative Officer; and
- Cindy Wolfe, Chief Banking Officer.

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

Timur Braziler - ***Wells Fargo Securities***

Very encouraging signs on your RESG originations, kind of in line with the commentary you provided last quarter and kind of throughout the quarter. I guess my question is on the repayments front and the commentary for continued expectation for a record level of repayments here in 2022. I'm just wondering what's driving that. It seems like we're now at kind of 2018, 2019 vintages that are beginning to pay down -- those are a little bit smaller than the origination activity and funding activity you saw in 2017. Are there some particularly lumpy paydowns that are expected to occur during the course of this year that's driving that commentary? Or is there still some effect from lack of activity in 2020 and 2021 that's kind of getting pushed into 2022 that's driving that outlook?

George Gleason

Timur, I would point out to you Figure 8 in the management comments document that shows that we've got about $230 million left in our 2016 vintage originations and $1.34 billion left in our 2017 originations. You're correct, the normal cadence of payoffs would be in 2022, we would be getting mostly 2018 and 2019 repayments. There's still $1.5 billion plus of 2016 and 2017 vintage originations that are probably paying off a little more slowly than we typically have been the case, just because of COVID delays and construction progress and so forth on those projects. We would reiterate what we have been saying for a couple of quarters that we expect record repayments in 2022 within the RESG portfolio, exceeding the record level that we had last year. Of course, Q1 was lower than any quarter of last year, the quarter just ended as far as repayments. That just reflects, to your point, the chunkiness of those repayments.

There are a lot of larger credits in the RESG portfolio. If you have several of the larger ones repay in a particular quarter, you can really have an outsized quarter, and that was a fairly modest level of repayments in the quarter just ended. We still expect and are pretty confident we will have a record level of repayments this year exceeding last year's record level.

Timur Braziler

And then on the other side, on the origination front, maybe just talk through the status of the RESG pipeline. I know you had called out that you had originated a couple office, and I think there was one hotel loan in the first quarter. I'm just wondering, is most of the pipeline mixed use projects at this point? Or are you starting to see individual offices and hotel type construction starting to come back online.

Brannon Hamblen

In our most recent quarter, we're seeing, as we have been alluding to, a lot of multifamily still and those are definitely the largest in terms of number of loans. But to your point, we are actually seeing a number of one-off

office deals and still have our mixed use -- It's a material part of what we close and what's in the pipeline today. So not a huge shift, I would say, from what we've historically experienced. We're still getting a very good diversity in what we're closing and what we're seeing in the pipeline coming up. The guys are doing a phenomenal job of working an intensely competitive environment to continue to find great projects across really a very diverse market set and success really across all the LPOs.

Timur Braziler

Looking at NII and net interest margin, can you quantify the dollar amount of fees that were booked this quarter compared to last quarter that are included in that number?

George Gleason

We typically don't quantify it. What I would tell you is last quarter, we called out, I think, three categories of contributors to net interest income that I think we suggested about $19 million for Q4 above normal levels. The first quarter of 2022 was much more in line with what we would typically expect for a quarter. Now those numbers bounce around all over the place quarter-to-quarter. Saying what's normal is a fool's errand. But it was a fairly typical quarter in line with our expectations.

Timur Braziler

How does that correlate with the expectation for accelerating paydown activity? Should we expect to see the fees increase with that expectation for paydown activity? Or are we at more or less a normal level here and there's no visibility for future accelerated fees?

George Gleason

We have a lot of payments, particularly longer-dated loans, that have burned off all their fees we amortize over the life of the loan. A loan that was originated in '16 or '17 or even '18 may have no juice left in the fee income on that loan because it's all been ratably accreted over the life of loan. A loan that's more recently originated will typically have some unaccreted fees or minimum interest or so forth. Whether accelerated prepayments or higher levels of prepayments result in recognition of unusual fees or not really just depends on the vintage of that payment, and that's going to vary from quarter-to-quarter. There's not really good guidance I can give you on that. But thank you for your question.

Stephen Scouten - *Piper Sandler & Co*

I guess one quick clarifying question. I noticed that the $664 million commitment loan on Figure 32, either maybe change commitment or left the bank. Can you give any color there on that shift?

George Gleason

Yes. I think we've talked about that project – it contains nine or 10 different buildings within it. The first one of those buildings to complete and pay off left that credit facility which resulted in a very accretive and significant paydown on that credit facility, dropping it from the $600 million bucket, Tim, to the $500 million bucket, is that right?

Tim Hicks

That's right.

George Gleason

Yes. So it dropped it into another bucket. All of that was in line with expectations.

Stephen Scouten

Perfect. Which leads to my next question -- people love to push back on your stock and on your company around outsized risk concentrated loans. Obviously, the history of the credit doesn't support that pushback. But I'm kind of wondering along those lines, how you can give people any more confidence than you have with your track record over time and kind of what drove you to use the stagflation weighting or weight more so to the stagflation model in the Moody's modeling? That seems like a highly conservative move as well.

Tim Hicks

That obviously was a conservative move and a move from what we had at year-end when we had the Moody's S3, which is a moderate recession scenario. There's obviously a lot of variables, more so than what even what we saw at year-end with the economy, and we listed a lot of those in our management comments and thought that that was the most appropriate weighting to go with. I mean it probably is a little bit more conservative than our peers, but we think it's appropriate.

Stephen Scouten

You have, I think, $325 million left in the share repurchase plan, but then obviously, growth opportunities look phenomenal and maybe there's some potential economic dislocation. I know you guys like to keep dry powder to be opportunistic. Can you kind of give us just some high-level thoughts on how you think about that if you might slow the pace of repurchases based on what you're seeing or kind of what the mindset is today?

Tim Hicks

Yes, you're right. I mean we're halfway through our program. We've repurchased $325 million of our $650 million authorization. We've got two and a half quarters to go. There's a lot of factors that go into our consideration. Stock price is one of those, but it's just one of many. Our thoughts on our future growth prospects go into that as well. So given all that, I would expect us to continue to be active, but probably at a little bit more moderated pace than what we've seen just last quarter. Again, depending on a lot of different factors that we look at as well.

Brock Vandervliet - *UBS*

I'm wondering, just to better triangulate on prepay activity, Brannon, I'm assuming you have a lot of visibility behind the curtain in terms of the actual chance of a prepay. I mean, you must be actively in dialogue. You know kind of what's coming at you. Can you just talk about that?

Brannon Hamblen

We are in active dialogue. Our guys are working on what the future holds on a monthly basis. I think the thing I would tell you is, as we've said many times, these are lumpy. They can be lumpy; they can be large. When you have a loan move from one day to the next, that can be the difference in which quarter it falls into. I think one of the other things that is at play, sponsors are often vacillating between am I going to sell this or am I going to refinance it. You've frequently got mixed use projects that you've got those multiple options across multiple parts of the project. So there are a number of factors that frankly, can move the needle on the timing of some of these projects. So we do our very best.

Our guys are very communicative, but it's not at all uncommon for us to have conversations with sponsors that think they know their direction. And quite honestly, there are some situations where we try to change that direction and try to find a way to keep the loan on book a bit longer if it makes sense from a risk/reward point of view. And so there are a number of different factors and conversations that can change the timing of these repayments. But as I said, some of these loans are large, and they move the needle quite a lot if they fall from one quarter to the next. We're not blind, but we don't control the pace. We just do the very best we can to estimate when those are going to occur. And of course, they're not all one and done. Repayments include partial repayments around condominiums and you're projecting out for example, when is that TCO going to come in? If you've got big presales, again, you move a date out, that affects a pretty significant dollar amount in terms of when it occurs. So that's just some color around some of the variability that we're dealing with there.

Brock Vandervliet

Yes. I would think the dislocation in the fixed income markets and seeing spreads move out on anything has got to be helping there. If you go back to that comment, I think George made on the $1.5 billion of '16 and '17 in originations, that's kind of still out there, what does that represent if you had to bucket it? Are those loans where the projects are just slower than expected? Or did they actually swap out of construction lines and that's quasi-permanent financing at this point? What's in there?

Brannon Hamblen

Well, I would say a couple of things, and at the top of mind is COVID. There were some of those projects that were definitely delayed at some level around completion. Some were delayed around lease-up. And I wouldn't use the term permanent financing in anything that's still on that list. We did, again, where it made good sense, extend some loans and value the opportunity to keep good earning assets on book a bit longer. When you're at the point of selling or refinancing, obviously, the sponsor wants to get every bit they can on an income-producing project before they make either one of those transactions. There's been a good bit of that involved as well. But again, our direction, our guidance around 2022 and what we expect to be a record year would communicate to you that those circumstances largely across the board are going to culminate into a successful sale or refinance in 2022 of those legacy loans.

Michael Rose - *Raymond James & Associates*

So Marine and RV lending, obviously, in an upswing here in the past two quarters. But is there anything out on the horizon that maybe gives you pause about growing that concentration maybe back closer to that kind of peak that you've laid out around 15% just given some broader macro concerns? Just trying to get an intermediate-term view on how you guys see that business and that portfolio.

George Gleason

Yes, Michael, this is George Gleason. Do we have any pause about growing that portfolio back to 15%? The answer I would give you on that is no, not at all, given the quality of the product that we're originating there and the job that our team is doing underwriting and servicing those loans. The flip side of that is I think it's a long way, and I don't know that we have any pathway to see that getting back to 15% of our portfolio. What are we, Tim, about 11% now?

Tim Hicks

Yes, we are.

George Gleason

We're about 11%. We're really pleased to see that portfolio growing the last two quarters on an outstanding balance basis. I think we continue to grow it. I hope we do. I don't know that it will grow every quarter, but I think it grows most of the quarters going forward. But getting enough growth while our aggregate portfolio is also growing to make that get to 12% or 13% would be really pleasing to me. I don't have any near-term expectations that, that portfolio is going to get to 14% or 15% of our outstanding balances.

Michael Rose

Looking at page 14 of the management comments just on the floors and the variable rate loans. There's obviously a pretty high possibility a lot of those loans could be moving off floors here relatively quickly. Can you talk about that interplay along with kind of where your loan-to-deposit ratio is? And any updated thoughts on the liability side as those loans move off the floors just as we think about the margin over the next couple of quarters?

George Gleason

Obviously, even if rates weren't moving, this chart would be getting better each quarter as older loans that had higher floors paid off and were replaced with newer loans that have floor rates closer to where the formula rate for the loan is today. There's a recycling of this chart that occurs anyway. And obviously, with the Fed having raised rates once and the prospect of significant and possibly even 50 or more basis point rate that's coming. More and more of these loans are going to get off their floors and become actively variable in their pricing in the quarters ahead, it would seem, assuming the Fed goes through with its plan to raise rates, that's going to become a much more significant percentage of them that will be actively variable much sooner. So that's helpful to our yield on our loan portfolio, both purchased and non-purchased loans because we have a large chunk of variable rate loans in both the purchased and the non-purchased portfolio. So that should have a positive influence on loan yields going forward.

The flip side of that and pushing the other direction is we've commented for at least a year now that the newly originated loans that we're originating are at tighter spreads than a lot of the older vintage loans that are paying off because market conditions have just gotten very competitive for the last year or two. So that fact that more newly originated loans have lower spreads than the older vintage loans that are paying off put some dampening effect on the increases in loan yields that are coming from upward movement in the variable rate loans. And then the other factor you mentioned is on the liability side, and I think we alluded to the fact that we expect our cost of interest-bearing deposits to be going up in future quarters. We hit what we think is probably an inflection point in our cost of interest-bearing deposits in February. March was up, I believe, a basis point or two over February, which was down a basis point or two from January. So we think we saw, and nobody should be surprised that, that was an

inflection point given the Fed rate scenarios out there. We do think we will see some increases in cost of interest-bearing deposits in the current quarter and future quarters based on the Fed's stated intention, the dot plot expectations for higher rates.

Our job is to manage all those in a good way where the positive impact on our variable rate loans more than offset the negative impact of our more competitive loan pricing environment we've been in for a couple of years and the fact the cost of interest-bearing deposits are going up. We've done a lot of work to make that happen. There's no assurance that that happens, but we'll continue to work hard to do it. And our deposit guys have done a really good job of shifting the mix and the composition and diversifying our deposit book, which should help us manage that deposit beta more effectively. It's still going to go up but more effectively on the deposit beta than what we've seen probably in more recent up-rate environments for our bank. We've got a much more core-focused deposit scenario now than we did a few years ago. So that should be helpful to us.

Matt Olney - *Stephens Inc.*
I want to dig a little bit more into the nuances of the variable rate loans with higher rates. Just help me appreciate the lag time between the LIBOR and the prime loans, and how quickly these loans can reset? Is this a daily reset or a monthly reset, or any kind of commentary you can give us on the nuances behind the resets?

George Gleason
Brannon, the vast majority of our variable rate loans are in the RESG portfolio. It's the biggest chunk by far, so you want to take that question?

Brannon Hamblen
Absolutely. The vast majority of our RESG loans are resetting on a monthly basis, somewhere between the 1st and the 11th of the month. So when we talk about those four graphs moving, they will be moving fairly quickly. And the vast majority of our loans are LIBOR-based or SOFR-based. Obviously, we're transitioning to SOFR as appropriate there. I think we have a couple that are prime-based, but no more than two or three. So I don't know those percentages off the top of my head, but again, the vast, vast majority are going to be the monthly resets.

Matt Olney
On the RESG side, I think over the last few quarters, you've been highlighting that the New York market was going to stabilize and start to grow again. And it looks like we definitely saw that in the first quarter, pretty sizable increase versus kind of late last year. Any more commentary on what you're seeing in the New York market and what you're seeing that gives you the opportunity for even incremental growth from here?

Brannon Hamblen

You're correct and a number of the -- some of the older loans that will be paying off this year are definitely in our New York portfolio, and that's been driving our guidance there. And frankly, I think in the quarter just ended, if I'm not mistaken, we probably had more payoffs in New York than any other market. But again, it's what's there and it's what's gotten to that point and will continue to be the case. But New York also led the way in terms of new originations by number and by dollar volume. So not surprising. We've long said that we absolutely believe in that market. There are a lot of different ways to look at that by product type. The residential market there, as we've talked about many times, has been very strong in its rebound coming out of the pandemic. We see continued strength there in both the rental and the for-sale market. We're very pleased to do business with very reputable experienced and financially stout sponsorship there. So we continue to look to opportunities there and see those opportunities. And really, it's -- it involves condo, it involves rental and involves office projects as well and mixed use. And the hotel market is starting to show some good signs of life. We did close one hotel loan in that market this quarter. So it's really the same thing that we've built it on is what we're seeing today. And so we'll start to see -- while we're going to see a number of the older ones come to fruition and pay off, we're seeing a lot of opportunities to generate new loans as well.

Jennifer Demba - *Truist Securities*

As rates go up, what portfolios do you see as most vulnerable to higher loan losses over the next several quarters?

George Gleason

Jennifer, I would tell you, we feel really good about our asset quality. Obviously, our past due ratios, nonperforming loan ratios, nonperforming asset ratios are all at very favorable levels as of March 31 -- and that's consistent with where they've been for quite a while. And our net charge-off ratio in the first quarter was an unusually pleasing net recoveries number of minus 0.01% -- so a one basis point net recovery for the quarter.
So we feel really good about asset quality. We stress test our loans when they're underwritten and approved based on their ability to withstand interest rate stress in our loan structure and also their ability to withstand interest rate stress based on movement in where the permanent refinance market is for those loans. And also based on the cap rate stress, how far could cap rates move from where they are now, and we still have room to come out on that project. So we don't underwrite loans that don't have a fair degree of resiliency in a changing rate environment, and we focus on that on every single loan. So we feel cautiously optimistic about the quality of our portfolio and the ability of the vast majority of our loans to withstand reasonable amounts of interest rate stress.

Now if rates go up hundreds of basis points, 500 or 700 or 900 basis points, all bets are off in that kind of environment because the world will change dramatically. But when in the realm of rate increases that most folks are expecting, we think the portfolio performs pretty well.

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

One question on Figure 30, a trend that I noticed, I just thought was interesting. This is a small portfolio, but I was just curious on your commentary. I noticed the loan-to-cost increased on the single-family lots and homes category. I'm just curious if you have any commentary on that.

Brannon Hamblen

That's actually being more reflective of the one substandard credit, Catherine. We don't have a lot of single-family lots and homes on our book, and a recent repayment that weighted that number down is the reason you're seeing that drift. I don't recall how many we have left on our book, but that's really reflecting fewer and more impact from the single substandard credit.

Catherine Mealor

Is it really that entire -- is that mostly that one credit.

Brannon Hamblen

I believe that's the bulk of what's there. There's -- I think there are a couple of others in there, but that's the bulk of it.

Catherine Mealor

That makes sense. And then are you seeing -- and with the supply chain issues in general, are you seeing -- I mean I'm sure you're seeing a bit of an increase in cost, obviously, for these projects. And so how is that reflected in kind of how you're looking at these projects on a quarter-to-quarter basis and ultimately kind of any risk that may come with the projects from that?

Brannon Hamblen

Well, there's no question that those issues are out there. And one of the many reasons that we're happy to be working with the sophistication in most cases that our sponsors have and the buying power that they and their very sophisticated general contractors have. Obviously, costs have been increasing. But on the other side of the spectrum in so many of these markets that we do business in, you're seeing very significant rental rate and sale price increases as well. If that side of the equation never changed, then costs would catch up to us much faster.

But both sides of the equation have been moving and supporting continued development of these projects. And we, as you know, spend a lot of time monitoring structuring requiring good subcontractor buyout even behind GMP contracts that, obviously, sponsors sharpening the pencil and making absolutely sure. And so there's almost more certainty because of the cost implications out there around where that's going to land on projects that we're closing into now. So again, as George alluded to, we do really focus on the stress that our projects can incur before our loan has any sort of sense of real risk to repayments. That would include making sure that we've got good contingencies in our loan or in the project capitalization, and very capable, again, contractors, general contractors, and sponsors with deep pockets. And again, enhanced by the massive equity that they're putting in, in front of us. And then beyond that, the stress from a rental rate, from a vacancy rate from an interest rate point of view, that were sort of from all different angles working on making sure that we've got a stress buffer there that enhances our position.

George Gleason

Catherine, I would add a couple of points -- or just to emphasize a couple of points -- and Brannon alluded to this, but I think it deserves a little more emphasis. Obviously, as Brannon said, we're in an environment where costs are moving up on almost every project, if not every project. And our sophisticated sponsorship is, by and large, very sensitive to that. So there is a greater percentage of these contracts and subcontracts that are bought out more than we would have seen in a very stable environment. So the sponsors are de-risking that by getting firm contracts with contractors and subcontractors at a higher percentage of the total project cost than they were before. So that's tending to take some of the variability out. And then the second thing is all of our construction loans have a completion guarantee that shifts the risk of cost overruns on that project to our guarantor behind the sponsor on that. So if there are cost overruns beyond what's budgeted and allowed for with contingencies and projects, the completion guarantors have got to write a check to balance that budget as soon as that out-of-balance condition is identified and bring that project into a completion in the context of your loan. So those completion guarantee structures are very important, and more important now in a rising cost environment than they've ever been.

Catherine Mealor

And have you had to actively used some of these completion guarantees recently?

George Gleason

I wouldn't say we've had to actively use the guarantees, but we have had sponsors on a vast number of projects actively voluntarily writing checks. I mean we've not had to call on the guarantee and say you've got a guarantee

to do this -- they know it's their obligations. So as costs have escalated beyond what were budgeted in the loan, we've had a lot of sponsors writing checks voluntarily to cover those costs because they know it's their obligation.

Catherine Mealor

And then any change at all in condo presales levels? Or is that still as strong as it's been?

George Gleason

That depends on the markets you're in. If you're in Miami, it's 30% to 50%. If you're on the West Coast of Florida, it tends to be 20% to 30%. If you're in New York, it tends to be nothing. So it very much depends on the market you're in. I don't think -- and Brannon, you can comment on this -- I don't think within the what's kind of customary and normal for each market, we've really seen any changes in presale practices or requirements in the last year or two. Is that accurate, Brannon?

Brannon Hamblen

That's absolutely accurate, George.

Brian Martin - *Janney Montgomery Scott*

There was a discussion earlier about just the impact on the deposits and the improvement. Just as you guys think about the deposit betas given the work you've done on that, can you maybe frame up a little bit how you're thinking about the deposit betas behave now versus obviously what they were before in a different deposit mix?

George Gleason

Well, the whole purpose, Brian, of getting a more diversified, more core-focused deposit portfolio, and Cindy Wolfe is in here, and our Head of Retail Banking, Carmen McClennon, and Chief Deposit Officer Ottie Kerley work for Cindy -- and their entire focus on the deposit book has been to build it and improve it and diversify it. And if it works as we think it will and as we have worked hard to make it work, we should have lower deposit betas this cycle than we had last cycle. And it's hard to quantify those. I mean -- we're not sure if the Fed is going to raise rates at the next meeting 25, 50 or if Mr. Bullard gets his way, 75 basis points. So it's hard to quantify exactly how things move. But I think we've done the preparatory foundational work to have better deposit betas than we had in the last cycle. And hopefully, that will be improved enough that people will say, yes, I can see the results of their hard work. Whatever they are this cycle, we'll probably not be satisfied with that, and the goal will be and is to continue to improve that deposit base every month with a goal that it becomes less costly and less rate-sensitive in a rising rate environment. So it's a process that is ongoing.

Brian Martin

Can you just give a little commentary on the ABL and the equipment finance teams? Both have started to be pretty meaningful contributors going forward. And then just secondly, Community Banking had a nice quarter ex the PPP noise, but just kind of thinking on how that -- what was driving that and just kind of the outlook there.

George Gleason

Well, we have talked, as you know, Brian, you have followed this a long time -- we've talked for several years about the need to get a more diversified asset generation book to complement the strong performance characteristics of our CRE Real Estate Specialties Group portfolio. And I think we're seeing traction in that. It was mentioned earlier, we've had a couple of quarters of positive growth in our indirect business. We think that continues in most quarters going forward. We really like the teams we put together for asset-based lending and the equipment finance area. Those guys have got a few skins on the wall as far as transactions to close. They've got decent pipelines of transactions they're working on that look like that will result in some additional closings. And then we're really making a hard push to get our consumer small business, commercial lending and our community bank businesses growing more significantly. We're seeing encouraging signs and saw encouraging signs in the first quarter with that and have good pipelines going into Q2 for that.

Our GGL business, government-guaranteed lending business, which is primarily SBA, has been diverted, as we mentioned, for the last couple of years with getting all the PPP loans booked for our customers to help our customers, and then getting all those PPP loans paid off, and we're getting towards the end of that. That's letting us get those guys refocused on their bread and butter day-to-day mission of originating more 7A and 504 loans in our community banking markets in Arkansas, Texas, Florida, Georgia and North Carolina. So we're cautiously optimistic about the ability to continue to get growth out of most or all of these portfolio, probably not all of them every quarter, but most of them on a quarterly basis going forward. And I think that is helpful to our long-term goal of getting a more diversified asset book in our bank, even as we let RESG and our community bank commercial real estate units continue to generate all the good loans they can. So we expect them to grow, but we expect these other elements to lead to greater diversification over the long-term.

Brian Martin

On the expense outlook, things looked a little bit better, I guess, this quarter. Just -- but it still sounds as though there's pressure out there on the expense line, Tim?

Tim Hicks

Yes, Brian, you're correct. We were obviously very pleased with the way the team managed expenses this quarter,

although I don't think that level is sustainable. We actually -- our headcount was actually down in Q1. We have had some positive trends in the last few weeks there, and we are moving in the right direction there. So we expect to be able to fill a lot more positions this quarter and going throughout the year. So my expectation for Q2 is in the $112 million to $114 million range.

George Gleason

That's for noninterest expense.

Tim Hicks

Noninterest expense. We were at $110 million in Q4, we were $110 million in Q3. So that's a couple of million more than where we were in those two quarters. And then going forward, I would expect probably another couple of million, $2 million to $3 million, per quarter increase over that number that I just gave you for Q2. And most of that will come in the salary and expense line item and will be dependent on the level and pace that we're able to hire folks. So that's current expectations right now around those ranges.

Timur Braziler - *Wells Fargo Securities*

Just one more on the securities book. There's quite a decent amount of cash flow expected both in the second quarter and then the remainder of the year, and balances dipped a little bit in the first quarter. I'm just wondering what the securities strategy looks like in the context of the rest of the balance sheet composition and growth.

George Gleason

Well, that's a great question. And first, I would tell you that we're feeling very good about our decision over the last couple of years to keep things really short. And the fact that over the next three quarters, second, third and fourth quarters of this year, we expect to get a little over 20% of our securities back in cash -- and either be able to use that for other purposes or reinvested at higher yields is helpful. And we expect strong cash flows over the next couple of years. So that helps us address that depreciation in that portfolio in a pretty quick manner. So we're pleased about that.

At the same time, with rates moving upward and having moved upward as quickly as they have and it became pretty evident that we were going to see continued moves upward in rates as the first quarter began to unfold, we pretty much went to the sidelines and elected to not buy much in the way of new securities. And I think the guys running that portfolio have a very big decision to make as to when we're far enough up in rates that it's time to step in and buy a few more securities to replace some of this runoff and when it's time to extend duration a little bit. I don't think they think we're there on either point at this time today. So they'll continue to monitor that.

They've done a very good job managing that portfolio for years. I think they'll continue to do so. But clearly, it's not our view that it's a time to buy today. So we'll continue to monitor it.

Matt Olney - *Stephens Inc.*
Just a follow-up on fee revenue. I see you called out the $1.8 million gain on the sale of the branch deal. Is there anything else worth calling out that's unusual? I'm looking specifically at the gain on sale of other assets that have been $1 million over the last few quarters, but it was close to $7 million this quarter. I didn't know if there's anything else in that line.

George Gleason
Well, the branch sale was in that line. But our special assets guys did an excellent job in liquidating some of our pieces of OREO that we had a very low value in at a really good sales price. So we had -- and I think we referenced this in our prepared remarks, that we had elevated level of gains on sale of other assets, which included that branch number. But it was, as you note, even taking the branch number out, it was elevated. So we would expect that line item to normalize, Matt, more consistent with some of the more subdued quarters that we've seen over the last year or two. We've had branch sale numbers in several of those quarters in the last couple of years as we've pared off and sold at a profit and branches that really didn't fit our long-term strategy. But the main item in that gain on sale line is gains on sale of foreclosed assets, and that was unusually good in the quarter just ended.

Matt Olney
Going back to the discussion around deposits and deposit betas, how much of your deposits are contractually indexed or very similar to indexes that would have a very high beta? And any color on maybe how this would compare to last cycle in that 2015, 2018 time frame?

George Gleason
What I would tell you, Matt, is last cycle, our largest 10 depositors accounted for high teens, close to 20% -- I don't know that we ever hit 20%, but 18% or 19% -- of our deposit base. Several of those, if not a majority of those, were contractually indexed, which meant they had essentially 100% beta. That top 10 concentration list now is somewhere less than 8%, 7% and change, I think, of our total book. And I don't think any of those are contractually indexed. Or if they are, it's a small number of them that are contractually indexed. So we've made a very conscious decision to get away from the big concentrated 100 beta index deposits and try to control that deposit beta much more effectively going forward than we did in the last cycle.