CIT Group

September 14, 2018
9:00 AM EDT

Ellen Alemany: Thank you, Mark. Good morning, and thank you for joining us today.

We're pleased to be here this morning to provide an overview of CIT and our strategic plan. Following my remarks, our CFO, John Fawcett, will join me to take your questions. And before I start, I want to point you to our Safe Harbor language on Slide 2. And for those on the webcast, you can access our presentation on cit.com.

About two years ago, we launched a multiyear strategic plan to transform the company into a leading national bank focused on our core capabilities in commercial lending and leasing and powered by stable consumer deposits. A lot of work has been done, and today CIT is simpler, stronger, and well positioned to grow.

We are a Top 50 U.S. bank with strong market positions. For example, we're a leader in middle market lending, a Top 10 provider of equipment financing, a Top 5 provider of railcar leasing, a top provider of factoring services, a focused participant in commercial real estate, and a Top 10 online bank. We believe that our deep industry knowledge, our structuring and collateral expertise, our longstanding client relationships, and our proprietary technologies are what differentiates us in the commercial marketplace.

On the consumer side, our business is centered on a national direct bank and a southern California branch network. These franchises have been recognized for their compelling savings products and a high level of -service to our customers.

On Slide 4, I want to point out the significant progress we've made to transform CIT. The primary goals have been to focus on our strengths, adapt to a bank model, and deliver shareholder value by simplifying the company and exiting non-core operations, strengthening our financial and risk profiles, and growing our core businesses.

More specifically, we reduced asset and liquidity risk by selling the commercial air leasing business. We exited the overseas businesses to focus on the U.S. market where we have efficient funding and scale. We reduced operating risk by selling Financial Freedom and outsourcing our ongoing mortgage service operations. We reduced leverage lending exposure by repositioning our Commercial Finance business. We simplified our funding profile and increased consumer deposits, with total deposits now comprising nearly 80% of our funding mix. We invested in talent and technology as we added sales teams to serve additional commercial markets. And we developed an award-winning B2B point of sale platform. We took a series of steps to optimize capital, and we know we still have more to do in this area.

All of these efforts, and more, positioned us to return $4.3 billion of capital to shareholders and significantly increase our dividends per share. As we move forward, we're squarely focused on continued growth and delivering our profitability goals.

On Slide 5, we outline the key pillars of the strategy. At the top of the list is to maximize the potential of our core businesses, and I'll touch on each of these business lines in a moment.

Next is enhancing our operational efficiency, and that remains a priority and we're on track to achieve the $1.050 billion target. We believe the resulting operating leverage can be a key contributor to improving our profitability.

We are optimizing our funding costs by reducing wholesale debt and shifting the mix of deposits to mitigate the impact of rising betas.

We are optimizing our capital structure, and we have the ability to return up to $750 million of capital, which we have already begun and expect to largely complete at the end of this year. We decreased our common equity Tier 1 capital by 120 basis points in the first half, and we will continue to reduce it further in the second half.

And lastly, maintaining strong risk management and a disciplined approach to credit are key to our operating model.

Collectively, these pillars are the road map to achieve our profitability goals, which are outlined on Slide 6. These are the key drivers for us to improve our return on tangible common equity to 9.5% to 10% by the end of the year and to achieve our medium-term target of 11% to 12%. While the exact figures for each driver may vary slightly from what is on the page, we expect improvement in our return on tangible common equity to come from asset growth in our core businesses, operating expense reductions, and debt and capital actions.

We've put together a great team to execute on the plan, which is noted on Slide 7. Having a strong plan is important, but you also need the right leaders to drive the strategy, and I'm very proud of the diverse and experienced team that we've brought together. Most of these executives came to CIT from larger banks and have been able to hit the ground running to enhance our functional activities. On the business side, we have a great mix of seasoned CIT leaders with deep expertise and leaders that are new to the company or new to their role that bring fresh perspectives to their areas of the business.

We're also fortunate to have a strong board with diverse experience and perspectives. Roughly 40% of the directors joined CIT within the past three years, and the remaining members have deep roots and understanding of the company's evolution. Our directors hold a range of experience in banking, business, government, regulation, and technology to name a few categories.

So, we've talked about the plan. We've talked about the leadership. Now I want to touch on the differentiating strengths of our business divisions within the commercial banking segment. Let me start with our largest business, Commercial Finance. CIT has deep roots in this part of the market, which provides us some competitive advantages, as long tenured customer relationships, strong market presence and economies of scale, industry expertise across many commercial verticals, and the ability to work closely with clients to customize solutions that help them achieve their goals.

We are focused on leading more deals, which drives stronger relationships and fee opportunities, and we have expanded our capabilities in asset management. The CIT Northbridge JV continues to be an opportunity to expand our addressable market and leverage our ABL expertise. In addition, we see growth opportunities in aviation finance, where we are focused on financing mid-life aircraft, and healthcare real estate, where we're focused on medical office buildings, skilled nursing and assisted living facilities. Competition for quality credits remains high, but we see opportunities and are being disciplined and focused in originating business that meets our goals and the goals of our customers.

Our Business Capital unit provides equipment financing solutions to small-, mid-, and large-cap companies, mainly through technology-enabled platforms. This has been one of our fastest growing divisions, and we continue to gain momentum here. We've expanded our sales team across a number of markets over the last year to support direct and indirect lending.

Our strengths center on our talent and technology. We have strong expertise in designing and implementing vendor programs across a variety of segments, such as office imaging, industrial financing, and technology to name a few. We understand the industries we serve and have decades of experience working with the collateral and setting residual values.

And we have innovative digital platforms that create a fast and seamless experience for businesses and their customers. For example, our award-winning point of sale platform delivers real-time financing and can go from application to completed purchase in minutes. And in addition, our industry-leading flexibility platform offers vendors a customized end-to-end digital solution to administer what they sell, how they charge for it, and who they will partner with. It's a highly integrated system and a key strength of our equipment financing business.

This combination gives us a stronger position in this market, and in the second quarter this business posted 8% growth in core loans and leases year over year.

Our Business Capital division also includes our factoring operation, and we have been a leader in this industry for decades. The business provides good risk-adjusted returns and steady fee income. We have some key strengths in this operation, such as an experienced management team with strong industry knowledge and underwriting expertise and customer relationships spanning nearly 10 years. We have more than 700 clients and operate in a number of industries, including apparel, home products, footwear, furniture, and we're expanding into markets such as consumer electronics, which has contributed to our volumes being up 16% compared to the second quarter of last year.

As I mentioned earlier, we are a top provider of railcar leasing in North America, and this is a core business of ours that draws on our collateral management expertise. About half of this business is in the bank and benefits from that funding model. We have a young and diverse fleet with broad market coverage across a wide range of industries that helps to ensure demand for our cars.

While the market for Rail has been a bit challenging in recent years, the quality of our cars, strong portfolio management, long-term relationships, and a high level of customer service are differentiators and part of why we are in this business. As a result, utilization improved in the second quarter to 98%, and we continue to manage the portfolio efficiently.

On Slide 12, we outline our Commercial Real Estate Finance business, which specializes in construction and bridge lending as well as small balance multifamily loans to commercial investors and developers. Our footprint is heavily focused on two of the largest commercial real estate markets in the country: the northeast corridor and southern California. But we also work with our key customers in other footprints and pursue additional opportunities in these markets that have good fundamentals. We bring high-touch service and strong relationships and expertise to these transactions and are focused on prudent growth and further expansion of our syndication activities.

As you can see, our commercial businesses are highly diversified, well positioned for future growth, and supported by deep industry knowledge, technology, and relationships. We are focused on continuing to unlock the potential in these businesses.

In our Consumer Banking segment, our deposit business is largely comprised of a highly scalable nationwide direct bank and a high-touch branch bank in a desirable footprint. This business delivers stable and efficient funding and a growing base of customers.

The direct bank has been a key source of growth, and over the last 12 months we grew our customer base by 90%, with most of that growth coming from Gen X, millennials, and Gen Z customers. Deposit growth in the same period was about $3.5 billion, and we believe there is still significant runway for long-term growth in our franchise. Our value proposition is built on competitive savings products delivered through a digital experience which is on trend with customer preferences.

The branch bank also offers a source of efficient deposits and is centered on a strong customer service experience and connection to the community. This is evidenced by our long-tenured customer relationships.

The lending side of the consumer business brings incremental diversification and is mainly comprised of mortgage and SBA loans. It allows us to support our southern California footprint and build deeper customer relationships.

In closing, we've made significant progress over the past two years transforming CIT into a leading national bank focused on the middle market, small businesses, and consumers looking to advance their savings goals. We have core capabilities that have endured for decades, which have been complemented by more recent digital initiatives, including deep expertise in the commercial verticals that allow us to structure deals, customize solutions, and foster long-term customer relationships; strong asset management and underwriting capabilities; digital platforms designed to help business customers have a seamless experience with sometimes complex transactions; and a leading direct bank that posted steady growth in deposits and customers.

Our go-forward strategy includes a number of growth initiatives that allow us to expand on our strengths and build deeper customer relationships across the company. We know we also have more work to do on optimizing capital and improving efficiency. Collectively, we believe our initiatives will allow us to deliver on our return on tangible common equity goal and create shareholder value.

With that, John and I are happy to answer any questions. Thank you.

Unidentified Audience Member: Your consumer client base expanded by 90% in the last year?

Ellen Alemany: It has.

Unidentified Audience Member: Could you touch on how you were able to achieve that?

Ellen Alemany: Sure. So, we -raise deposits through four sources: through our commercial banking, through our direct bank, through our branch network, and then we also have some legacy brokerage CDs, etc., from the old OneWest transaction. Most of the deposit growth has been coming through our online bank. For the last couple of years have been working on segmentation work with an outside firm to attract new customers to the direct bank, and we grew almost 46,000 customers in the first half of the year and $3 billion-plus in deposits.

Through the branch network, our strategy has really been to be a customer's other primary bank. We hold an other primary bank strategy, but it's a secondary bank strategy. And we're really competing just on convenience and customer service.

So, that's the way we've done it.

Unidentified Audience Member: (inaudible)

Ellen Alemany: The relationship is mainly – it's remaining deposit-focused.

John Fawcett: I think the business itself is very scalable. If you look at where we've come in two years, we've come from about $10 billion to $14 billion in deposits. To Ellen's point, we raised $1.5 billion of deposits in the second quarter.

I think we've also changed the mix of the deposit relationship and have become a lot more thoughtful about the way we go after deposit relationships. So, if you went back two years, we very much focused on baby boomers, thinking that's where the cash is. They're also the people that raid your call centers asking about when's the next promotion, when's the next rate increase, how much interest did I earn yesterday.

We've completely transitioned that portfolio from being 60% baby boomers to basically 60% Generation X, Y, and Z. The important dynamic around that is that we're attracting more relationships, smaller balances that are stickier relationships. And to Ellen's point around targeting these relationships, they're goal-oriented. We're a secondary bank relationship. So, we're not your operating account, we're not your checking account, but if you're saving for a goal we can be that bank.

Ellen Alemany: Yes. We've also done a lot of work on improving the customer experience in the Direct Bank. So, you have to realize CIT originally had the Direct Bank. It was based in Utah. And then when we acquired OneWest, we moved the operations of the Direct Bank to Pasadena, California. And probably only less than 40% of new customers were really getting accepted and going through the Direct Bank. So, we've done a lot of work operationally. And now the throughput is almost – it's over 75%, which is really best in class in the industry. So, that's helped a lot, too, with increasing the amount of customers.

John Fawcett: And just to broaden out your questions about the consumer bank, we're also seeing quite a bit of growth in the mortgage segment, as well. A lot of it is law of small numbers, but we've actually grown the book of business to about $3 billion at the same time the legacy consumer mortgage portfolio acquired from OneWest is running off.

Typically, with those relationships – and just about every mortgage loan in southern California is a jumbo – we attract 10% to 12%, 15% of deposits. So, if you've got a $1 million mortgage, we're probably picking up $120,000 of deposit relationship, as well.

Unidentified Audience Member: Thanks for attending the conference and taking questions. I wanted to ask you about the guidance and, specifically, the net finance margin, because there's – you guys have done a good job over the last several years remixing the business, making it more consumer-oriented and targeting things like capital finance and leasing. But the net finance margin is still so hard to model every quarter it seems like. What are the yields – in terms of everything that's run off or been sold, like, European rail, air, etc., those higher-yielding assets, what does the remix of yield look like over the next two years, call it, in terms of being able to get to your ROTCE guidance?

John Fawcett: So, I'm not going to go beyond what we've already said. Our guidance is to stay in the mid-range [of 3.20-3.40%]. I would say that in terms of the remix, we've certainly given up some yield. So, when we sold the reverse mortgage portfolio, that was a fairly decent size hit, and it was part of a strategic decision to exit that business. It was important for us to do that from a regulatory franchise risk perspective.

Unidentified Audience Member: Wasn't that in discontinued operations?

Ellen Alemany: No.

John Fawcett: It was not, no.

Unidentified Audience Member: Okay.

John Fawcett: And so, that's essentially $900 million of relatively high-yielding assets: 8%, 9%, 10% yields. And so, that went away, and that was probably worth $15 million to $20 million in top line revenues [per quarter]. And so, as you start to model, going forward, that transaction was settled in May. So, you're not going to have any benefit of that in the third and fourth quarter.

I think at the same time the other things that complicate the modeling are obviously the Rail business and the overhang of what's going on there. So, NACCO will come out – knock wood. We'll have NACCO out of the portfolio in October, certainly in the fourth quarter. And that's another strategic choice. And so, that comes with the territory of executing against strategic priorities.

As it relates to the rail business, writ large, in the United States, certainly one of the challenges we face are the repricing of the tank cars. If you think about the book in two pieces, you've got the freight cars (infrastructure cars), and tank cars. And if you look at the way those freight cars are repricing as they come off lease, they're actually repricing at or around 100% and, in some cases, depending upon car class, actually higher.

The challenge we face in the near term is that we've got a disproportionate amount of tank cars that are working their way through the system. And so, they're coming off uber-high lease rates that were probably set when oil was $150 a barrel. And we've got a whole chunk of cars that repriced when oil was at $28 a barrel. Now, those, as you might imagine, probably went from five-year leases to three-year leases. So, they've got to still run through the system.

But the good news is, is that to the extent that oil has stabilized at $70 or $75 a barrel, the new [tank] cars that we're putting on lease related to oil are off of higher lows. So, we're seeing kind of a convergence of the peak prices coming down at the same time the floor prices are moving up. The problem is, is that it's a long-term portfolio that has to wind its way through. We'll see most of it work through in '19 and some hangover into '20.

Unidentified Audience Member: On the other side of the balance sheet, the deposits and the growth in the direct bank. So far, deposit betas for the industry have been, I guess, lower than people would have expected. But with the expectation that the Fed hikes rates another two, call it, if you're bearish, two times – if you're bullish, four times – over the next 18 months, how do you see the cost of funds playing out, particularly on the deposit side?

John Fawcett: So, it will be a function of what the market does. We're never going to lead the market, but the reality is, is that we've experienced a lot of the same things that other banks have experienced. And so, from the start of the first rate hike to where we are now, deposit betas were around 15%. If you looked year on year, it's about 30%, to the end of the second quarter. And the first and the second quarter, betas ramped up to 40%. So, clearly, as rates start to move, we're going to have to keep moving, as well.

Interestingly, as we've changed our deposit strategy – we went out with an offer rate on a money market product in February of 1.85%. We've been stuck there at 1.85%. And so, if you went online and looked for the CIT online bank rate, it's 1.85%. If you looked at our old strategy, literally every quarter there'd be another promotion that's out there. So, we're kind of dragging our feet in terms of what we have to do and when we have to do it.

The other element in the equation, obviously, too, is you don't want to be long deposits unless you're seeing the asset growth on the left-hand side of the balance sheet. And we've seen good growth in pockets, and notwithstanding the fact that we've seen record levels of originations, we've also seen in Commercial Finance and Real Estate tons of prepayments, and mostly coming from the non-bank space. And there's just not a lot you can do about that.

So, it's a very balanced, thoughtful model that we're working our way through, and I think everyone else is, too, as well.

Mark DeVries: Thanks. Jim took a lot of my first few questions. But just to follow up on the beta, are you seeing any change right now? Or are deposit betas holding pretty steady?

John Fawcett: Right now – look, it's coming. It's just a question of when it comes and how fast it comes. So, I wouldn't be surprised if we were at 40, 50 now to see 50, 60 in the near term. It's just undeniable...

Unidentified Audience Member: Okay.

John Fawcett: ...if you're going to compete for deposits.

Unidentified Audience Member: And to clarify your comments on Rail, it sounds like it's generally stabilized, but the main headwind now is just the tank cars that you've got coming through. So, you kind of see that headwind abating some time early 2020, middle of 2020. Is that correct?

John Fawcett: Yes, I think that's right. I think a big chunk of the tank cars are going to work their way through '18, and there's another slug through '19, and some of it lapses into 2020. But certainly by then we would expect that the bulk of the tanks would have worked through. Knock wood that infrastructure and freight holds up, as well.

Unidentified Audience Member: Okay. Great. And Ellen, I guess this is for you. Given, I guess, some of the stabilization in the trends there, do you still view Rail as a core business? Or is that something you would consider selling in the future?

Ellen Alemany: It's – Rail is absolutely a core business. We've gone through the whole strategic review of the company with an eye towards do these companies provide us with the right risk-adjusted returns, does it work off of the strengths of the company from a structuring asset class expertise, etc. Rail certainly does. And all the fundamentals of the business are terrific. We have a leadership position in the market; we're #4.

We have an excellent management team. It's a really longstanding management team. We recently changed out the top person who runs the business. George Cashman, who ran the business for 15 years, turned 65 and he retired. We went through the succession planning, and we chose Jeff Lytle to run the business, who had been working with the team for a long time.

Our fleet is relatively a younger fleet, which gives us a big competitive advantage versus our competitors, because those cars are actually larger, need less maintenance. And we get great feedback from our customers on the customer surveys, and we have longstanding customers in the business.

I think that Rail is – we've been through the worst part of the cycle. As John said, we still have more time to go on the tank cars, but in terms of the freight cars we're seeing the leases renew at a higher rate. So, we're really optimistic about the future.

And one of the concerns that investors had with the Rail business that Rail as a percentage of our total footings was too large for the size of the company. And that was one of the factors that made us decide to exit our international Rail business.

The other thing that I'm not sure everyone realizes is that half of our Rail business today is up at the holding company, and the other half is in the bank. And when we sell NACCO, which, as John said, is scheduled to hopefully close in October, half of the Rail business at the holding company will exit. And as we grow the bank, we want to put more Rail assets in the bank, funded by bank deposits, which will significantly help the business and the returns, as well.

But it's one of our best performing – highest return businesses in the company, despite what's happened in the environment.

John Fawcett: And if I could just add – Ellen touched on this – 98% of our freight fleet is the larger, 286 GRL cars. So, you're getting a larger car, a younger car, a more efficient car, and a car that requires less maintenance, and that's critically important to the customer.

Unidentified Audience Member: Okay. Great. You've guided to flat earning-asset growth in 2018. Can you help us think about what core asset growth could look like in 2019 and 2020?

Ellen Alemany: So, we – our guidance is low- to mid-single growth. I think that Business Capital has been one of our strongest performers. Over all, if you look at the business volumes, they've been up about 25% year over year, but it's been the prepayments in Commercial Finance and Real Estate that's hurt us.

Every business has a series of initiatives to grow or optimize the franchise. In commercial banking, for example, we've seen – we have the brand new aviation finance team, which we've hired back some of the colleagues that we lost when we sold the business to HNA. They're actually doing lending, not aircraft leasing. We've already booked a couple of hundred million dollars in volume in that vertical. We have started a new business lending to specialty finance companies. That's been doing well. The Northbridge JV has been doing well.

In Business Capital, which we think where we have a lot of proprietary technology, we had one of our best quarters in direct capital, which is the small ticket. And what we also did was we formed a new sales force. Where before we just sold product by product to customers, now we go in, we have a discussion with the CFO on, how can we help you with your customer financing? We've identified the top 1,000 vendor programs out there, and since we formed that group we've won, like, seven programs where you have the capability to build a lot of volumes on those programs.

So, I would say that we've given that guidance. I think the opportunity is really landing a large vendor program or doing a portfolio purchase in that space. That could make the number go higher.

Unidentified Audience Member: And across those different business segments, which do you think will be the biggest drivers of growth?

Ellen Alemany: I would say – right now I would say Business Capital; Business Capital because of the unique technology that we have. We like the – we think we have a lot of asset expertise and residual management expertise in this area. We've seen some of our competitors pull back in the market, whether it's Wells Fargo, GE. Our whole capital equipment finance team is from General Electric. And we also like it because it's asset-based and secured lending.

Ann Maysek: Hi. Good morning, Ann Maysek with Rose Grove Capital. You had – in your glide path to your ROTCE target, you include 70 then 90 basis points coming from debt action. Is that simply refinancing higher-cost debt coming due? Or are there other actions that you're contemplating to execute that part of your plan?

John Fawcett: It's both, actually. So, a lot of refinancing is already taking place, and then I think the other element, obviously, is to actually lower the level of debt. And so, that would come, as Ellen mentioned earlier, if and when we get Rail assets out of the holding company, the associated debt with that would go, as well.

And so, one of the things we do is – and you can see this in our quarterly financial statements – we routinely look at the Rail portfolio and when we sell assets and realize gains from the disposition of the cars that we don't want, that's almost exclusively coming out of the HoldCo assets. To the extent that we're buying railcars, they're all going into the bank. And that will facilitate, obviously, the decline in debt levels.

Jimmy Hanna: Hey, it's Jimmy Hanna, from North Reef Capital. Just a question – I'm not sure if we can make the slides go up, but it's also on the glide path to the ROTCE improvement. It's Slide 6. And I'm just looking here, and I'd love to hear from you guys which part of these do you have the most confidence in, which part given the environment are more challenging. And maybe to that point, just the net operating expense reductions. I know you use your own internal management, but also you use some external sources on finding ways to make the business more efficient. So, I'd just love to hear kind of how that's progressing, as well.

Ellen Alemany: Sure.

Jimmy Hanna: Thanks.

Ellen Alemany: One of the things about this glide path that I feel so confident about is that we are not relying on any one specific item, that it's a whole series of items here, which I think really differentiates us versus others.

One is – you have to say with expenses, that's the one thing that's really under our control. There's no excuses on expenses. When I took over the company, I know when I sat down with the team and said we've got to have an expense program, everyone is, like, "We can't cut expenses. We've had these targets in the past. We've never delivered." I think we've done a great job delivering, and we're planning to meet our $1.050 billion commitment and there's more to do after that.

But I think that we have really changed the culture at the company, and there's still a lot more to do on the expense side, things like sales force optimization, continued declines in professional services, migrating functions from high-cost functions to low-cost functions, digitization of the business. We're putting in Pega throughout the business. So, give you an example: a customer complaint would come in; it would go to a clerk; they'd sit there and they'd have to go through seven screens to get the answer and then send out a reply. Now, it's completely automated. It comes in; there's no human touch; the reply goes directly out to the customer. So, just more initiatives like that in the business.

And still more work to do . We did one level of spans and layers exercise. We're going through another exercise now. So, more to do on the expense side of the business.

I'll let John talk about tax and debt and capital, but just one comment on capital. I think it's kind of unprecedented that we were able to get two interim capital returns approved by the regulators. We're also, as you're aware, no longer a SIFI bank. So, we've been kind of sitting there saying, what does that mean to CIT? I don't think you're going to expect to see a major expense takeout, because a lot of the investment we made for SIFI we're going to keep and remain. But we also want to make sure that we're investing in the business, as well. So, we're not going to give all of it back to shareholders, but we want to continue to invest in the business.

Business revenue, we've been investing in sales forces, etc. It's always tough to project the revenue, but as I said, each business has a list of initiatives to either optimize or grow their revenue.

John, you want to talk about the capital?

John Fawcett: Yes. So, I think we've done a good job of acquitting ourselves in terms of return on capital. As Ellen said, these have been unprecedented levels if you look at where we were at the beginning of the year, call it, 14.5%; half-year, 13.2%; and we're guiding, obviously, down to 11.5% to 12%. We'll see where the market goes. We are still under a regulatory framework. I know everybody thinks that we're not a SIFI and CCAR is gone and we can do pretty much whatever we want. That is not the fact. We still have to work closely with our regulators, and we will continue to do so.

And we will follow a very modest, measured glide path to get down to our ultimate target levels. I think SunTrust came out yesterday and said something that they were – Regions. My apologies. Regions – that they were guiding down to 9.5% [at the end of ‘19]. And so, we'll see how low, low is. But right now, we're talking about 10% to 11%, in that range.

I will quickly touch on tax. I think we clearly get the joke inside the company that our effective tax rate is much higher than other regional banks, and our guidance is 26%, 28%. A large chunk of that has to do with the states in which we operate: New York, New Jersey, and California. So, we've hit the trifecta of bad states, and there's probably a couple that aren't in there yet.

But we're managing it. We're working it. To the extent that we're underweight low income housing tax credits [and other tax advantaged items] – we didn't even have a BOLI program a year ago, and we're just starting to embark on a tax-exempt portfolio. There are a lot of things that we can continue to do and work that, but these are things that are literally around the margin. It's not going to be a spontaneous benefit. These things take time to kind of unfold.

Ellen Alemany: Good. Terrific.