CIT Group

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Ken Zerbe: All right. Welcome back, everybody. I am Ken Zerbe, the midcap banks analysts for Morgan Stanley. Our next presentation/fireside chat is with CIT. With us today, we have Ellen Alemany, Chairwoman and CEO, and also John Fawcett, EVP and CFO of the bank. Ellen will give a few prepared remarks and then we'll go into Q&A. Ellen?

Ellen Alemany: Thank you, Ken. Good morning. Thank you for joining us today.

John and I are pleased to be with you today to give you an update on CIT. Before we start, I want to point you to our safe harbor language on Slide 1. And for those on the webcast, you can access our presentation on cit.com.

In 2018, we completed a multiyear strategic transformation of the company and today CIT is a top 50 national bank focused on empowering businesses and personal savers with the financial ability to navigate their goals.

We have strong positions in our key markets. We are a leader in middle-market lending, a top three bank provider of equipment financing, a top four provider of rail car leasing, a top provider of factoring services, a focused participant in commercial real estate, and a top 10 direct bank.

Our deep industry knowledge, structuring and collateral expertise, longstanding client relationships, and proprietary digital platforms are what differentiate 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 customers.

On Slide 3, I want to touch on some key aspects of our transformation. As I mentioned earlier, at the end of last year we completed our multiyear transformation plan that simplified the company, strengthened our financial profile, and reduced our risk. This included selling or divesting more than $13 billion of non-core assets, including exiting all overseas operations.

We also significantly improved our funding and capital profile. Deposits comprise now more than 80% of our total funding as we have continued to grow consumer deposits and reduce unsecured debt. We are also optimizing our capital position and went from a 14% common Tier 1 equity ratio in 2017 to 12% at the end of 2018.

And we strengthened our risk profile both in terms of our mix of assets and our risk and compliance framework. CIT's risk profile has significantly improved over the last decade and, in particular, over the past three years. We are now an OCC-regulated bank with robust safety and soundness practices and a prudent risk management framework. We exited businesses with higher credit and regulatory risk. We shifted our focus towards lending and leasing against assets that have higher-quality collateral and reduced cash flow lending. And we have strong credit and risk functions with seasoned bank talent in those areas and drive a strong risk management framework.

Overall, our foundation and operating model have been transformed, and we're well positioned for the future.

I mentioned what we exited and fixed. And on Slide 4, I want to discuss what we have retained and expanded on. These are our core commercial and consumer banking operations.

Our core expertise and market strengths are in working with small and midsize companies in the commercial space. These are often complex transactions or high-volume vendor relationships that require a level of knowledge and commitment that speaks to what we do best. We have strong market positions in each of these divisions that are supported by the talent and technology to deliver value for our clients.

On the consumer front, we have been growing deposits and have some complementary lending products such as mortgage and SBA loans to offer diversity in the portfolio and provide for stronger customer relationships. The only non-core piece in that segment is the legacy mortgage portfolio, which is running off.

We have steadily been expanding on our core strengths in both the commercial and consumer segments, and I'll touch on some of our specific initiatives in a moment.

Growing consumer deposits has been a core part of our strategy, and on Slide 5 is an overview of our business. Growth of consumer deposits has driven a more stable and efficient funding profile for CIT, and we're able to leverage both a branch-based bank in a strong market as well as a national direct bank which offers a competitive value proposition to a growing number of customers.

Our direct bank has posted strong growth and is highly scalable. From the start of 2016 when we began the strategic plan through the first quarter of this year, the direct bank has grown deposits by nearly 72% and expanded our customer base by nearly 200%. Many of those new customers are Gens X, Y, and Z, which allows us to build a longer-term relationship as these groups build their savings strategy. We have developed a steady pipeline of products to appeal to a broader audience of consumers, and we look forward to continued expansion of the direct bank.

On the retail branch front, we have long-term customer relationships, a strong average deposit balance per branch, and a presence in strong southern California markets. Our retail branch strategy is building on a strong community connection and delivering a high level of service to our customers.

Overall, our consumer deposit business offers a strong foundation for growth.

The next phase of our strategic plan is really to build on the elements we just spoke about, which will enable us to unlock the full potential of CIT. Our key pillars to the plan are: to continue to grow our core business by deepening client relationships and continuing to innovate and drive value in the marketplace; to further optimize our balance sheet through efficient deposit growth and additional capital optimization; to drive greater operating efficiency through expense management and improve our operating leverage; and to maintain strong risk management through credit discipline and strong capital and liquidity practices.

Let me touch on some of our key business initiatives that will support our growth initiatives. We continue to identify specific business initiatives and market opportunities in each of our divisions to support our growth plan and expand on our core capabilities. We have outlined a few of those initiatives on Slide 7. We have deep roots in commercial banking, and we have made some important strategic shifts more recently to reduce risk and expand our portfolio with collateral-backed or secured lending and reduced our cash flow lending.

Key growth initiatives have included re-engaging in the aviation and maritime markets, as well as building on our presence in healthcare, real estate, and power and energy finance. We have continued to expand our presence in clean energy projects. For example, in 2018 we financed 15 projects, generating 1,500 megawatts of renewable power and are off to a strong start for 2019, as well. I'll touch on a few recent transactions, as well.

We have also been expanding our asset management capabilities, which is an opportunity to expand our addressable market, leverage our ABL knowledge, and generate fee income.

The business capital division is a strong growth engine for CIT, and we have proprietary digital platforms that help us to drive an integrated relationship and a seamless customer experience. This division services small-, mid-, and large-ticket equipment financing across a range of industries, and we expanded our territory more recently to include material handling and other areas of industrial. We have core competencies in this area, and we believe that there's more runway for growth here.

The factoring business had a strong year in 2018 and expanding into additional areas of consumer goods such as housewares.

The rail division plays to our core strengths in financing against collateral, and we have some key advantages in this industry, such as a young and diverse fleet with broad market coverage. Our team is opportunistically purchasing new cars where we see strong demand and returns, and we continue to manage through the cycle.

Our real estate business specializes mainly in construction and bridge lending to commercial investors and developers. The team is being prudent about growth and focusing on strong relationships and markets.

And finally, our consumer banking business is focused on efficiently growing deposits and driving lending opportunities through the mortgage and SBA businesses.

Through our transformation, we laid the groundwork to unlock the potential in our core businesses. That started to bear fruit in 2018, and we plan to build on those strengths, going forward.

Additionally, Bob Rubino recently joined the CIT team as the president of our bank subsidiary and head of commercial banking. Bob is a seasoned commercial banker with an extensive track record of developing and growing sustainable businesses. He is laying the groundwork for additional initiatives to expand our channels and capabilities in order to advance our overall growth program.

On Slide 8, I'd like to highlight a few recent commercial deals that really demonstrate our expertise in collateral-based lending and the way we are deepening relationships through a number of products and services.

The first is a $425 million financing with AdaptHealth, which is a full-service provider of medical equipment. This has been a five-year relationship, and we have financed a number of transactions over their life cycle to help fuel their growth. We were the lead arranger and administrative agent on the deal. And in addition to the financing, we also expanded our relationship and provided capital market services, treasury management, and we receive commercial deposits.

Next is a 379-megawatt renewable energy deal that is slated to be one of the largest solar projects in Texas. Our power and energy team was the lead arranger on the deal, which was fairly complex and required a deep understanding of the marketplace. We're a leader in lending to the renewable power market, and this deal was another great example of how we work with clients to get these sizable projects done.

Our last example is in aviation financing, which is a market we have decades of experience in. These are often long-term relationships and highly complex structures that require a deep understanding of the assets and the market. Since we re-entered this industry at the end of 2017, we have financed 34 aircraft, and we have another 15 that are committed and set to close this year. This is a key part of our shift to collateral-based structures in an area that we can continue to grow.

These are just a few examples of the work that we are doing with clients every day to thoughtfully support their growth, build ongoing relationships, and deliver products and services that are valued in the marketplace.

On Slide 9, we have our 2019 financial goals, which demonstrate continued progress and a focus on steadily delivering shareholder value as we have done in the past. We achieved our financial targets at the end of 2018 and we've continued to raise the bar to create value.

We are focused on achieving mid-single-digit growth for 2019 and are off to a solid start, with 2% average growth for the first quarter in core loans and leases.

We are committed to further improving our operating efficiency and announced a $50 million reduction in operating expenses by full-year 2020. This is in addition to the $150 million expense reduction that was already in the transformation plan.

We also plan to continue to optimize capital and are targeting to get an 11% common Tier 1 equity ratio by the end of the year. And we remain committed to our return on tangible common equity targets of 11% by the fourth quarter of this year and at least 12% by the fourth quarter of next year.

We have a demonstrated track record of hitting our key milestones, and we're committed to continue to deliver value for our shareholders.

To close out this portion of our presentation, I want to say that over the past few years at CIT we have crossed a number of milestones. We have built a strong management team and accomplished what we set out to do. It's our privilege to take this 111-year-old company through the next phase of its journey as a midsize bank serving business customers and personal savers and helping them bring their ideas into outcomes. That's what motivates us every day and what, in turn, allows us to build on these strengths and create shareholder value.

With that, I'll turn it back to Ken for Q&A.

Ken Zerbe: Great. Thanks, Ellen. Ellen, you did a great job describing how the transformation has occurred at the bank over the last three years. Can you just address, like, how do you see the transformation from here over, say, the next three years?

Ellen Alemany: So, the transformation has really allowed us to get down to our core businesses. We divested almost $13 billion worth of assets. We went through the franchise. We said what are our core expertise, which is deal structuring, collateral expertise. We also want leadership positions in the businesses that we're in. We basically brought in on the functional side completely new business heads, functional heads. We de-risked the company. We put our plan in place of growing these core business, optimizing.

I think the focus, going forward, is going to be more around deepening customer relationships. So, we have these customer relationships. How do we cross-sell more to these companies?

More asset management strategies. We formed the Allstate joint venture last year. We're working on another cash flow JV right now. But CIT historically was a company that warehoused and sold. And then kind of, I guess, right after coming out of the bankruptcy, we started taking everything back on balance sheet. So, we are looking at asset management strategies because we have great origination capability and it will allow us to not put everything on our balance sheet, but just take a fee and sell more.

And then, really a more leading with deposit raising. I think we've traditionally been a heavy lender, and we have to do more on the deposit front. And with Bob Rubino coming in to run commercial banking, he's a very proven commercial banker out there. I think he's going to bring a lot more energy. All the commercial businesses, we put underneath him. I think we'll get some more synergies in the business and will allow us to deepen and cross-sell more products.

Ken Zerbe: All right. Now, having a rail business makes CIT rather unique versus a lot of the other midcap banks that I cover. How does rail fit into your broader business strategy?

Ellen Alemany: Sure. As many of you know, we exited the international piece of our rail business, and it was the only international business we had left. And when we looked at the requirements to support just one international business, we couldn't justify it. We also thought that rail as a percentage of our footings was just too outsized for this size company, because after we exited the aircraft leasing business we shrunk down to roughly $50 billion in assets and rail was outsized.

We decided to keep rail, though, because it really – it's our core expertise. It's understanding collateral. We have a leadership position: we're #4. We have 14% market share. We have a great management team running the business. They've been – except for George Cashman, who retired last year, the whole team has remained intact. We have an excellent quality fleet. If you look at the quality of our rail cars versus our competitors, it's a much younger fleet. And we have great customer service. And it's one of our highest return businesses in the company.

And what we're focused on with rail is moving more rail assets into the bank. So, as we can put more rail assets in the bank, we can fund them with deposits and we'll make an even greater spread on the business. So, that was our rationale for keeping it.

Ken Zerbe: All right. Now, John, maybe a question for you. Staying on rail, this business has been under pressure for some time. Maybe for those who are less familiar with the business, can you just talk about the drivers that have been pressuring rail and also kind of what you see as the outlook for this business, going forward?

John Fawcett: Sure, Ken. I think the first thing people have to recognize is that these are very long-lived assets. So, these are 40- and 50-year lived cars. Typically, they're on lease for anywhere between four and five years. That's an average lease term. You can go out as far as 10 years. So, the cycle to these cars is actually quite long.

What we're actually talking about is about $6.3 billion worth of assets: 117,000, 116,000 rail cars, about 400 locomotives.

What it comes down to is essentially the renewable rates associated with the cars. And the way we look at the car business is that there's two populations: there's the tank cars and then there's the freight cars. And so, in round numbers, there's between 25,000 and 30,000 tank cars, but they're across different segments. So, yes, some of them move crude, some of them move refined products, some of them move food stuffs, corn syrups, that kind of thing, ethanol.

And so, what's been going on in the latest cycle is – and these are crude numbers – but imagine a tank car that went on lease when oil was $150 a barrel was going out – again, round numbers – $1,500 per car per month. Fast forward five years, comes off lease. Oil prices are $28 or $30 a barrel. That same car is going to reprice down dramatically to, say, $500 per car per lease.

But I think this business is very well equipped in terms of keeping the cars on the tracks and maintaining strong utilization. So, the utilization across the whole business is 95%, 96%.

What we've seen thus far in the tank space is this is a pig moving through the python. As oil prices have kind of come down, the peak prices on the rail cars that had gone out eight, 10 years ago at a higher price are starting to trend down. At the same time as we've come off floor of oil prices, the pricing has kind of come up. And so, we're starting to see a convergence and, actually, a stabilization.

And so, '19 is probably going to be the last real challenged year; '20, there might be a little bit of spillover into – in 2020, there might be a little bit of spillover in terms of the tank car repricing, but we actually feel pretty good about the tank cars that are repricing and coming out. So, that's feels like that's a cycle it's gone through.

When you turn to the remaining 70,000 or 75,000 freight cars, it's a much more stable business. And so, it's auto tracks, it's box cars, it's flat cars, it's mill gondolas. It's a variety of cars related to infrastructure.

Across '18, those were actually pricing up against prior renewal rates anywhere from 99% to 107%, 108%, and we're continuing to see that into '19. The interesting thing is last year if you looked at our guidance, our guidance was against prior-year renewal rates that we would be down 25% to 30%. Last year, on a full-year basis, we were actually down 17%. This year, our guidance has been down 15% to 20% versus prior year. And in the first quarter, we were down 10%.

So, we feel you can see it actually turning inside the company. And so, we're actually kind of hopeful and optimistic that the worst is behind us. And especially as oil starts to stabilize, the pricing remains pretty secure.

Ken Zerbe: Great. Now, one of the differentiators with CIT has been the online bank. Right? Online deposits, if I'm not mistaken, were up $2.4 billion just in the first quarter alone, which is actually just stunning. Now, it did account for, like, literally all your deposit growth. How do you see the online bank fitting into your overall deposit strategy over time? And is it fair to say – can you develop customer relationships through the online bank? So, it's a multi-part question.

Ellen Alemany: The online bank is absolutely a key part of our strategy, going forward. It really allows us to engage with customers that want a relationship and a digital experience. And we've had tremendous growth. Maybe we had a – we were overly successful, really, in the first quarter. The first quarter was a quarter where we actually had a great product introduction. And maybe in retrospect, we could have pulled back a little more, but we've been making really good progress in the direct bank.

One of the things we want to make sure, though, with our direct bank is that we're – even though we're digitally engaging with a customer, that we're also – it's high touch with the customer, as well.

We've invested a lot in the technology. We put through 48,000 customers in the first quarter, which was amazing. All the work that we've been doing with filters and the account opening process, etc., has come through, and the customer experience has been really positive on the direct bank.

And so, we will use it as a key mechanism. And what we've been doing is really targeting savers. That's our segment. And we think that we're attracting a lot of Gen X, Y, and Z type of clients, but these are folks that want to engage digitally and want to save and have savings goals. So, we reward them on savings goals. So, the last offer that went out, it was either you leave a minimum balance with us or you commit that you're going to invest at least $100 a month to save with us, and we'll give you this rate. And that's the – and we think that over the long term these customers will be much stickier for us.

John Fawcett: And the targeting is critically important, just to add to what Ellen said. If you look at the 48,000 relationships that came in in the first quarter, 80% of them were Generation X, Y, and Z. So, this isn't casting a large net across a large universe. This is about targeting and almost digitally profiling who it is that you want to attract. And to Ellen's point, bringing in Generation X, Y, Z and millennials, they're typically smaller balances, they're stickier balances.

And the proof point that this is actually working is the book of business has completely flipped upside down from when Ellen got here three years ago. Because if you looked at what was in the online bank three years ago, it was largely baby boomers. And the thesis at that time was you take deposits from the people who have the money, which were the baby boomers. And at that time, it was probably 60/40, 70/30. And now, that's completely upside down in terms of the retargeting and who it is that we're going after.

And so, time will tell. But so far, so good.

Ken Zerbe: Now, I know when people think of the online bank, they think high cost. And I know your savings build the product. The yield is actually pretty high versus even some of the other online banks. Can you – is there a way to sort of think about the all-in cost of an online deposit and what that's worth versus, say, a low-cost retail deposit across the branch network?

Ellen Alemany: So, we don't really disclose the cost, but we're at a point now where roughly the cost, the all-in costs, of running the online bank versus the branch deposits are pretty much the same.

But we are extremely committed still to our branch network because we think of the branch network as almost the ballast in the franchise. We're headquartered in southern California. We did some branch optimizations. So, we now have 64 branches, but it's $175 million a branch. We're really embedded in the community. It allows us, helps us meet our CRA requirements.

And our strategy is we want to be a customer's other primary bank. Most customers will have a couple of banking relationships. And we're saying we can give you great customer service and a good rate and be close to you. So, that's kind of been the strategy. So, we will continue to really work both brick-and-mortar and the direct bank, but right now our costs are roughly the same.

John Fawcett: And the value in the online bank is that it's actually scalable. So, last year I think we closed six branches. We went from 70 down to 64 branches. Having the online bank gets us out of southern California where, as you might imagine, there's an enormous amount of competition for deposits and allows us to kind of open up to – however you count deposits – whether it's $10 trillion, $12 trillion, $15 trillion of consumer deposits across the United States. And that's become very powerful for us, especially as we go through this in a targeted approach.

Ken Zerbe: That's interesting that they're so equal in all-in cost. Turning to expenses. John, you're targeting a $50 million expense reduction through 2020. Now, that excludes the impact of the lease accounting changes. How much further can you cut the expense base from here?

John Fawcett: Well, look, we were very careful in terms of what we said. We said at least $50 million. And so, $50 million in my mind is a floor. I think there's always more to do. I think this is a journey. I've been here for two years. I think Ellen has been the first bank operator that's ever lived in this space. And when you listen to the stories about the way it was and the way it is, it's night-and-day difference. And so, we're managing things that way.

As I look at the expense base, 75% of our expenses are tied up in people, technology, and in professional services fees. And so, from a people perspective we spend a lot of time on organizational simplification, spans and layers analysis. It seems like we go through the exercise at least once or twice a year to make sure that people are kind of coming out of the process. We're investing in the front office and taking people as much as we can out of the back office.

As it relates to digitization, I think there were two elements. There's the front office element, which Ellen touched on, in terms of making the customer experience as seamless and as peaceful as possible, and that's most obvious in the deposit side. But there's also an enormous amount of technology and investment that goes on in the back office. One of the things we did when I got here two years ago, we had two general ledgers. We had a One West general ledger, and we had the CIT general ledger. I had 550 people in the finance organization. We transitioned to a single general ledger, which we actually closed the books with in the first quarter. And my headcount has gone from 550 people down to below 400 people, and we'll probably be around 350 by the end of the year.

Ellen has just embarked on another similar kind of strategy – not in finance, but credit end to end – to again bring efficiency across the board to the entire company. And that again will unlock more saves.

And then the last element of it is professional fees and services, which if you just have looked two years ago versus a year ago versus where we're going to wind up this year, it's been a straight line down. And I think we've gotten increasingly efficient as Ellen has brought people into the organization that know how to do self-help, that how to kind of do the work on their own and you don't need the outside consultants as much.

But I think to answer your question, $50 million is – it's an aggressive target. It doesn't feel like it's a layup internally. But I think this is a journey, not a destination, and we're just going to keep going until we get to where we think we have to be. And I think at the end of the day – Ellen talks about this often – it's really around the efficiency ratio and can we get down into that low-50 space. And I think aspirationally we talk about that all the time internally.

Ken Zerbe: You mentioned tech spending as part of all that. Like, one of the things that we're trying to understand is how much banks are spending on technology, and maybe it doesn't matter. Obviously, you need to, but is there a way to think about, like, are you spending "x" or your tech spend is growing by "x" amount and then your "y" spend is obviously shrinking dramatically to get the net $50 million? Is there a way to break out those two?

John Fawcett: We disclose the tech spend. So, you can see that. Internally, I think we're very focused on it. Anything we do, we've got an internal working group that actually looks at every technology project that comes online. It has to have a sensible return. It has to have a sensible timeline. I think we've worked our way through a lot of the regulatory, mandatory kind of projects, and now these are things that are aimed at, again, customer-enabling, easing the customer experience, or enabling us to take costs out of the back office.

So, I would say that at a very high level – and it's not going to go quarter to quarter because quarters are going to be lumpy from here to here – but I think as you look year to year what you're going to see is tech spending leveling out, while headcount kind of comes down. And as it comes down, what should be happening is that we're hiring more people that are going to touch customers and relationships, that are front office revenue generators, and we'll have fewer people in the back office. And so, me going in finance from 550 to 400 to 350 – and I've got a target in the back of my head in terms of where I want to get to by 2020 – everybody's got the same kind of mindset in terms of operating that way.

Ellen Alemany: Ken, I do agree. In some cases we're investing more to take out expenses. So, for example, as we go through credit transformation, which is a really big piece of the next $50 million save, we're going to be investing in new technology in order to do that as we're digitizing the business.

I also want to say that we don't have any end-of-life systems at the company now. We've been doing so much over the last, like, three years that I could say that there's no more end-of-life systems.

Ken Zerbe: Sort of on the tech side a little bit, you guys have a really interesting business: the small business solutions group. I'm going to call it a little more of a digital fintech type lender to very small businesses. How has that performed versus your expectation? And where do you see that going over time?

Ellen Alemany: It's basically performed very well. It's one of our highest growth businesses in the company. We're really excited about it. It was – we bought this company, Direct Capital, about, I guess, five years ago. And what we do is it's a digital platform that does same-day processing of leases. So, for example, if you take QuickBooks, QuickBooks has about 3.5 million customers. If one of those customers wants to come in and apply for a lease, same day they can put in the application and get funding the same day on a transaction. We're using this technology to do end-to-end vendor integration. So, our Konica Minolta, for example, copier program, it's just straight-through processing.

We're building on this product. The idea is to get more lending. Right now, we're just kind of doing leasing. And we also have the technology in the branches, but we really want to use this as our platform to build out more small business lending.

John Fawcett: And it's actually an unbranded program. If you walk into a store and you want to buy 20 pads or notebooks – and again, we can't use the name here – the back office, the financing for that is CIT.

Ellen Alemany: Yes.

Ken Zerbe: Gotcha.

Ellen Alemany: Or you go to a Ritchie Bros. auction and you win a piece of industrial equipment, you buy a tractor. You go into the website, and it's CIT to do the financing.

Ken Zerbe: In terms of capital, actually your CE Tier 1 ratio. Now, that's been coming down quite a bit. I think it was still very strong. It's, like, 12% in the first quarter. I know your target is obviously to bring that down. But even your longer-term guidance, if I got it right, I think it's, like, 10% to 11% CE Tier 1 long-term. Why is that the right ratio for CIT? I know a number of other banks have sort of targeted CET1 ratios, call it, 10% or far less than 10%. Why is that the right ratio for you guys?

John Fawcett: I think the way I think about it is – and we've still got to work through an entire regulatory framework. So, notwithstanding the fact that we're not a SIFI, we're not a CCAR bank anymore, the Fed is still alive and well. And we have a great partnership with them and the OCC, as well.

So, I think we've been on a glide path. I think we've been very conscientious about the way we've returned capital to shareholders. And so, as you say, 14% to 12% was a Herculean effort. But that was kind of managing with a machete because it was a lot to cut through. I think 12% to 11%, we're a little bit more thoughtful and mindful about where we are.

I think beyond the Fed and the OCC and their expectations about where capital is, we're also mindful of what the rating agencies thinks. And so, one of the things that we're focused on is making sure that as we glide lower everybody understands our risk profile.

Our long-term targets are 10% to 11%, and we'll see where we go and how long it takes us to get there. But if you called it a split at 10.5%, I think that that's not a bad place. I think that works for most of the rating agencies. Hopefully it will – knock wood – work for the Fed. And that's a longer-term place. But again, we're targeting 11% by the end of this year.

I think in the back of my own mind, I think given the inherent risk that we have in our portfolio, I would say vis-à-vis the rest of the regional bank market we might expect to hold 100 basis points more capital, common equity Tier 1 capital, than an equivalent-sized regional bank.

Ken Zerbe: Now, it's kind of an unfair question with 35 seconds left but, Ellen, how are you thinking about M&A opportunities?

Ellen Alemany: As I've said before, we're really open to M&A opportunities. We set out targets of getting to 11% by the end of this year and at least 12% next year. We're painfully aware that there are other banks out there that are in the 14% to 16% range. So, anything we could do to accelerate that, we're very open to, whether it's an MOE, whether it's an acquisition.

Now, the issue is, as you know, where we trade, and we don't want to do – things are really expensive out there. But we would be open to some type of – if there was a deposit opportunity, portfolio purchases, anything that would help us diversify, give us a little more scale, we would be really open to.

But the goal here is to maximize shareholder value. But we're working on a plan and the plan is about continuous improvement. We started this plan a lot later than other banks. I think we've made great progress in three years. I think we're going to continue to make progress. The question is, are there opportunities to accelerate it? And if there are and it makes sense for us, we're open.

Ken Zerbe: Perfect. Alright. We'll leave it there. Thank you very much, both.

John Fawcett: Thanks, Ken.