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First Republic Bank (FRC) CEO Jim Herbert on Q2 2019 Results - Earnings Call Transcript

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Q3: 10-15-19 Earnings Summary

Press Release

EPS of $1.31 beats by $0.10 | Revenue of $863.3M (8.67% Y/Y) beats by $6.93M

Earning Call Audio

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First Republic Bank (NYSE:FRC) Q3 2019 Earnings Conference Call October 15, 2019 10:00 AM ET

Company Participants

Shannon Houston - SVP & Chief Marketing & Communications Officer

Jim Herbert - Chairman, Chief Executive Officer & Founder

Gaye Erkan - President

Mike Roffler - Chief Financial Officer

Conference Call Participants

Steven Alexopoulos - JP Morgan

Casey Haire - Jefferies

Ken Zerbe - Morgan Stanley

Brock Vandervliet - UBS

John Pancari - Evercore Partners

Jared Shaw - Wells Fargo

Arren Cyganovich - Citi

Aaron Deer - Sandler O'Neill and Partners

Chris McGratty - Keefe Bruyette & Woods

Matthew Clark - Piper Jaffray

Lana Chan - BMO Capital Markets

David Chiaverini - Wedbush Securities

Operator

Greetings and welcome to the First Republic Bank's Third Quarter 2019 Earnings Conference Call. During today’s call, the lines will be in a listen-only mode. Following the presentation, the conference will be opened for questions.

I would now like to turn the call over to Shannon Houston, Senior Vice President and Chief Marketing and Communications Officer. Please go ahead.

Shannon Houston

Thank you and welcome to First Republic Bank's third quarter 2019 conference call. Speaking today will be Jim Herbert, the Bank's Chairman, Chief Executive Officer, and Founder; Gaye Erkan, President; and Mike Roffler, Chief Financial Officer.

Before I hand the call over to Jim, please note that we may make forward-looking statements during today's call that are subject to risks, uncertainties, and assumptions. For a more complete discussion of the risks and uncertainties that could cause actual results to differ materially from any forward-looking statements, please see the Bank's FDIC filings including the Form 8-K filed today. All are available on the bank's website.

And now, I'd like to turn the call over to Jim Herbert.

Jim Herbert

Thank you, Shannon. It was a very good quarter. Growth continues to be quite strong across our franchise. In fact, in terms of loan originations, this was by far our best quarter ever.

Let me share a few highlights. Total loans outstanding were up more than 19% year-over-year. Also year-over-year total deposits have grown 15% and wealth and management assets are up more than 7%. This strong growth led to strong financial results, particularly in the phase of the somewhat challenging interest rate environment both in terms of the yield curve, as well as somewhat lower rates.

These results reinforce once again the power of our growth model, as well as the strength of our active client base and the markets in which we operate. Year-over-year total revenue growth grew approximately 9%. Net interest income has grown 10% and tangible book value per share has increased 11%.

I would note that tangible book value per share, since we bought the Bank back in mid 2010 has grown 15% compounded annually. Our credit quality remains very strong. Net charge-offs for the quarter were only $4.3 million, while we added $17 million to our loan loss reserves due to the continued growth in our loan book.

Non-performing assets were only 12 basis points at quarter end, down a bit from last quarter. Capital is also very strong. Our Tier-1 leverage ratio was 8.5% at September 30. In this interest rate environment, net interest margin has declined a bit. However, net interest income has continued to grow very nicely. Mike will talk about these in a moment.

The lower rate environment does however represent a terrific opportunity to attract high quality new households through home loan refinance. This was a driver of our record loan volume. We continue to grow safely and organically. First Republic produced net interest income growth of 10% for the quarter.

As we head into the fourth quarter, economic conditions in our urban coastal markets continue to be quite good. Our loan pipeline also remains very strong and we are optimistic about the level of business. Overall, it was a very good quarter.

Let me turn the call over to Gaye Erkan, President.

Gaye Erkan

Thank you, Jim. We are very pleased with our third quarter results and the consistent growth across the franchise. Loan origination volume was a record over $11 billion for the third quarter, which was up 18% over last quarter's also record of $9.4 billion.

Single-family residential volume was a record at $4.9 billion for the quarter. I would note that the average loan-to-value ratio for single-family residential originations during the quarter was a conservative 58%. The decline in interest rate has shifted to mix of home loan originations towards refinance. Refinance activity accounted for 63% of single-family originations in the third quarter.

We are quite pleased that the majority of the refinances are for loans previously held at other institutions. Refinance remains a great opportunity for First Republic to acquire new clients. Most importantly, credit quality remains very strong. We continue to maintain our conservative underwriting. We have not and will not compromise our credit standards.

Business banking also had a very strong quarter. Business line commitments were at $20.6 billion, up 29% year-over-year. This is a key metric for business banking because it reflects our ability to acquire new client relationships and deepen existing ones. The utilization rate of these business lines fluctuates regularly as we have noted on previous calls.

During the third quarter, utilization rates decreased from 37% to 33% resulting in a slight decrease in outstanding balances.

Turning to funding, it was another quarter of very good growth. We are pleased total deposits were up 15% from a year ago and we continue to maintain a diversified deposit funding base. Checking deposits remains strong and represented 58.5% of total deposits at quarter end. Business deposits represented 58% of total deposits consistent with the prior quarter.

Turning to wealth management, assets under management grew 7% year-over-year to $140 billion. Our client-centric culture and our integrated banking and wealth management model continue to attract very successful wealth managers.

Since our last call, we are quite pleased to have welcomed four new wealth management teams in Palm Beach, Los Angeles, Silicon Valley, and the New York Metro area. We look forward to welcoming their clients to First Republic over the next couple of quarters.

We are pleased as well with the continuous diversification of our wealth management business. Insurance and foreign exchange fees for example, are collectively up 40% year-over-year.

Finally, as Jim noted, our client acquisition continues to be strong. Our success in household acquisition and our low household attrition rates are the result of our ability to consistently deliver exceptional client service. Our client satisfaction level as measured by the net promoter score remains more than double the banking industry average. Overall, we are very pleased with the quarter across the franchise.

Now I would like to turn the call over to Mike Roffler, Chief Financial Officer.

Mike Roffler

Thank you, Gaye. Let me start with an additional comment about wealth management. On our last call, we said we expected to retain approximately $2 billion of assets related to the second quarter departure of some wealth managers. In fact, we are pleased to have actually retained approximately $3 billion, while completing the resolution of their departure.

In mid-September, we announced the redemption of Series D preferred stock which occurs this Friday. Following the redemption, our ongoing quarterly dividend on preferred stock will be 10.2 million. For the fourth quarter of 2019, it will be approximately 10.7 million. Our liquidity position remains very strong as high quality liquid assets were 12.7% of total average assets in the third quarter.

We will continue to maintain HQLA to average assets above 12%. As Jim mentioned, the inverted yield curve continues to have an impact on net interest margin, which declined to 2.80% for the third quarter. For perspective, since our last call, the 10 year treasury fell from about 2.10% to as low as 1.45%. It has of course rebounded a bit recently.

We currently expect net interest margin for the fourth quarter to be about 2.75% and therefore we expect our net interest margin for the full year 2019 to be approximately 2.82%. Importantly, I would note that net interest income was up 10% year-over-year and continues to be powered by our strong growth.

The efficiency ratio was 63.8% for the third quarter. For the full year of 2019, we now expect our efficiency ratio to be about 64.5%.

Our effective tax rate for the quarter was 18%. For the fourth quarter, we expect the Bank's effective tax rate to be between 20% and 21%. For the full year 2019, we expect effective tax rate to be about 18%.

Overall, this was a very good quarter. We continue to grow loans at a strong pace, which drives the growth of net interest income, at the same time, we continue to effectively manage the growth of our expenses. Both of these contributed nicely to this quarter's 10% year-over-year EPS growth.

Thank you. Now I will turn the call back over to Jim.

Jim Herbert

Thank you, Gaye and Mike. It was a very good third quarter and we have strong momentum heading into the fourth quarter of the year. Over the Bank's 34 year history, our business model has succeeded in a wide variety of yield curves and interest rate cycles. As always, we focus intensely on superior client service.

Our credit quality and capital strength also remain excellent. We continue to execute our straightforward business model and look forward to the fourth quarter.

Thank you very much. We'd be happy to take questions.

Question-and-Answer Session

Operator

[Operator Instructions] Our first question will be from Steven Alexopoulos with JP Morgan.

Steven Alexopoulos

Good morning, everybody. I wanted to start on the NIM. Mike I appreciate the updated guidance for 4Q. If we assume the forward curve pulls we get just about two more cuts. Do you think that NIM could stabilize in that 2.75% range beyond the fourth quarter? What are you thinking about that?

Mike Roffler

So, I think it's a good question. I think one of the questions that follows that is what will be the shape of the curve? Because obviously, in the last week, it steepened a bit, which is a bit beneficial. But I think 2.75% in the fourth quarter is sort of a good launch point for next year and then it will really depend on the shape of the curve going forward.

Steven Alexopoulos

Okay. Okay, that's helpful. Over the past year, when we look at loans, you've grown 19%. Deposits have lagged to 15%. So loan-to-deposit ratio is now over a 100. Do you guys expect the need to ramp deposit growth like to more match loan growth moving forward, which I'd imagine would put some pressure on NIM?

Gaye Erkan

So, I'll take that one. This is Gaye speaking on it Steve. We are actually very pleased that with the mid-teens guidance that we have given before the deposits have grown organically at mid-teens, so as you know I should say, relationship model and we seize opportunities with our clients as they deepen the relationship.

And I would also note that the full service banks that have come out today on their earnings calls, so our total funding, just to take it beyond deposits, because we are largely deposit funded not every bank is as such, our total funding rate was at 89 basis points compared to the three full-service top three banks at 138 that they disclosed. So it's 35% lower cost of total liabilities and almost three times growth on the deposit side. So very pleased with that.

Steven Alexopoulos

Okay. Thanks, Gaye. And maybe just one final one for Mike Roffler, in terms of CECL I was hoping this to get delayed, but it looks like it's coming. What's the expected day one impact from CECL for you guys and how should CECL impact provisioning on a quarterly basis? Thanks.

Mike Roffler

Yes. So, we've done – we are in the middle of our third pillar run. At this point, the impact to our reserve looks to be immaterial and the capital impact is just a few basis points. Sort of a reminder that our history of credit is very important when you think about the life of loans. It could cause provisioning to be maybe a little bit more up and down in a given quarter depending on your economic outlook. But as a growing company, we've already had a provision that's been sort of greater compared to others because of our loan growth. So I don't think the delta is that significant.

Steven Alexopoulos

Okay. Terrific. Thanks for taking my questions.

Operator

Thank you. Our next question will be from Casey Haire with Jefferies.

Casey Haire

Yes. Thanks. Good morning guys. Wanted to touch on efficiency. Obviously, a pretty good job this quarter. Just wondering how sustainable is this going forward? Obviously the shape of the curve is tough for our NIM's margin,, but you guys obviously did very well this quarter. Did you defer a lot of things or you just did better than you expected?

Mike Roffler

So, we are certainly mindful of the shape of the curve and the pressure on net interest margin. It's about the pace of growth in expenses and we are trying to contain certain of our headcount, it slowed a little.

We really aren't deferring anything important and that has a big impact on client service. But if there are other things that may we can wait and we can contain ourselves that's what we are trying to do to better match the revenue outlook and sort of the growth in net interest income.

Casey Haire

Okay, great. And just on the capital front, it sounds like you guys are not going to refinance the recent redemptions. Just wondering, I know the Tier-1 leverage is what you guys look – at what point would that ratio prompt you to act and address capital?

Jim Herbert

Well, it's Jim. We would – we don't expect at least immediately replace the deferred to reducing, but as you know, or refunding rather. As you know, we are very opportunistic when it comes to capital markets. But the growth of the enterprise usually dictates that. We are very comfortable with our capital right now, particularly in the current credit climate, but we will be – we will watch the capital markets very carefully.

Casey Haire

All right, great. And just last one, the tax rate, from reading the release correctly, it looks like the stock option expense benefit, if memory serves, it expires next year in the third quarter 2020. Is the right tax rate around 21%?

Mike Roffler

Yes. So the options mostly will be exercised by the end of the second quarter in 2020 and so you are right. Toward a 20% 21% is a good after that go-forward.

Casey Haire

Excellent. Thank you.

Operator

Thank you. Our next question will be from Ken Zerbe with Morgan Stanley.

Ken Zerbe

Great. Thanks. Good morning. Sorry, Mike, just to follow-up on the stock option question. So, if the right tax rate is 2% to 21% if I heard you right, I thought you said guidance for the fourth quarter was also 20% to 21%. Are you assuming no additional stock option exercises?

Mike Roffler

No. There is still little bit left, but they were a bit larger in the third quarter and based on what's left, that benefit should drop off a bit.

Ken Zerbe

Got it. But still – sorry, but just to be clear on your guidance, so, if the benefit drops off, should the tax rate, is the 20% to 21% include the expectation for ongoing or additional stock option exercise?

Mike Roffler

It does include an expectation in the fourth quarter for a very modest benefit, because there aren't a lot of options left.

Ken Zerbe

Got it. Okay. That definitely helps. And then just in terms of loan growth, I mean, obviously this quarter was amazing in terms of how strong you guys grew. Can you just talk about the outlook especially for Resi mortgage given the rates are still – let's call fairly low. I mean, is this something that could continue on the resi side at least a quarter two or three more?

Jim Herbert

Yes, it could, I mean, it really depends on rates. As Gaye indicated, we were over 60% refinanced which is a shift over the last few quarters from 55%, 60% purchase. The refinance markets are obviously heavily rate-driven.

We take aggressive advantage of them because as Gaye indicated, we can pull clients most of the refinance is actually new clients to us coming from other banks and they are refinancing at that bank and gives us an opportunity to bring in new households which we take as you know, historically quite aggressively, because of the acquisition of the quality household that you have for 20 or 30 years is a very special moment. And so we see the opportunity lasting for at least a couple quarters.

Ken Zerbe

Perfect. Okay. Thank you.

Operator

Thank you. Our next question will be from Brock Vandervliet with UBS.

Brock Vandervliet

Great. Good morning. Just going back to Steve's initial question on NIM for next year. The forward curve has a modest steepening throughout the curve, but certainly 2.10 in the year end 2020. That would bode well given your earlier comments. I would think we could also see some relief on the funding side as you get the full benefit of deposit repricing late in 2020. Could you speak to that?

Mike Roffler

Yes. I mean, I think, as the Fed has moved, there is an ability I think on funding to have some slight modest reductions. I think, one of the things that also is part of that first question, we are a growing company and so we may not have as much sort of leverage to that because you are funding and growing balance sheet and a growing loan portfolio.

And rates are obviously just lower overall and so that's driving strong competition in the lending book and you are not really able to raise rates at great amount and so I think that's why we are cautiously optimistic on the curve steepening a little bit, but still competition will be a big driver.

Jim Herbert

I would add to that just about what you saw in this quarter is the power of growth. I would note that some other, the institutions that have reported this morning already had a net interest income growth that was actually negative a couple percentage points were up about 8 or 9.

And the power of growth comes through in this environment not only do we acquire new households, but the balance sheet growth that comes from the intrinsic growth of the current clients we already have and the acquisition of new households is very powerful and far outweighs a few points of compression on NIM.

Brock Vandervliet

Thank you. And in Q4, Mike, should you get more of a benefit and lower FHLB costs?

Mike Roffler

So, on the – any short-term type funding, we do definitely get a benefit there and new advances we're taking out as they roll off, they are slightly lower than what rolls off, but the bigger benefit probably doesn't come to that till the middle of next year when those start to roll off.

Brock Vandervliet

Great. Thanks for the color.

Operator

Thank you. Our next question will be from John Pancari with Evercore Partners.

John Pancari

Good morning. On the loan growth front, just – I appreciate the color on the residential mortgage side. And I wanted to see how are you guys thinking about growth in the business loan growth? It looks like it declined on a linked-quarter basis, if you can give us a little bit of color if that was VC private equity portfolio that impacted that and what type of trends you are seeing there? Thanks.

Jim Herbert

The primary – and Gaye mentioned this in her conversation, the primary metric on business banking longer term is in fact the growth of outstanding commitments. And that's been up year-over-year 28%, 29%. The volatility lies and the unpredictably volatility lies in the utilization are primarily are just in timelines of credit for venture capital and private equity funds.

We were down this quarter. I think she noted that we were at about 33% utilization versus about 37%. But the long-term trend of commitments and business banking relationships and loan outstanding amounts is up and it's running probably over a two or three year period regularly in the mid-teens to low-20s.

John Pancari

All right. That's helpful. And could you just remind us what the new money loan yields are for that – for the VC private equity portfolio right now?

Gaye Erkan

On the capital call lines, it ranges from 5 minus 50 to 5 minus 100.

John Pancari

Okay, great. Thank you. And then one last topic on the credit side. I know, last quarter you had about a $100 million relationship that have moved on to non-accruals related to a spec real estate credit on the West Coast. Can you just give us an update on that credit if you've seen a resolution and then separately any other developments in the real estate portfolio worth mentioning?

Jim Herbert

No other developments in the real estate portfolio worth mentioning actually and that particular situation is still about status quo. It’s still paying. It’s current and there are some action on the sale of the homes but nothing is closed yet.

John Pancari

Okay. Thank you.

Jim Herbert

Thanks.

Operator

Thank you. Our next question will be from Jared Shaw with Wells Fargo Securities.

Jared Shaw

Hi, good morning.

Jim Herbert

Good morning.

Jared Shaw

Just a couple follow-ups here. I guess, on the single-family residential portfolio, could you share with us what the new origination yield was in that portfolio as well as what percent are ARMS in the portfolio?

Gaye Erkan

The – let me comment on the yields. New originations are in low threes on the single-family residential. The six week great lock yield is in line with origination yields in the first quarter.

Mike Roffler

And the peer adjustable on the home loans is a pretty modest percentage to the – tied to LIBOR but it's pretty modest.

Jared Shaw

Okay. And then, I guess, when you look at the 2.75 margin guidance, is that assuming that we continue to see the single-family residential growth at the relative pace it is sort of taking us to the end of the year or is that more of a static analysis of where the balance sheet is right now?

Mike Roffler

It does forecast sort of volume in the new business into the future and right now the pipeline and the backlog of single-family is pretty strong given where rates have been. And so we do expect it to continue to grow at a nice pace.

Jared Shaw

Okay. Great. Thanks. Then, looking at the brokerage revenue this quarter, really strong quarter. Could you break that down in terms of how much is coming from new client origination versus increased volatility and taking advantage of the market and is that a good level to jump off for the rest of the year?

Jim Herbert

So I think the latter thing you said was important obviously what the volatility in the quarter, it did drive our clients to be a bit more active and look at different products and offerings. So it maybe a little bit high as you head into the fourth quarter depending on what volatility would be. But we are really pleased that it did have a very strong result for the quarter.

Jared Shaw

Great. Thanks very much.

Operator

Thank you. Our next question will be from Arren Cyganovich with Citi.

Arren Cyganovich

Thank you. On the single-family side we are seeing gain on sale margins increased for the industry. Yet it doesn't seem like you are kind of getting back into the mode of selling those mortgages. Is there any thought to maybe selling some and helping fix some of the mismatch between the loan originations and the deposit growth?

Gaye Erkan

We did – we had a very small modest amount of sale at about 13 basis points of gain. But the secondary market is still a bit disconnected from the mortgage origination market. So, we will be opportunistic and as we see the opportunities we will definitely take advantage of them.

Arren Cyganovich

Okay. And then, I had a question recently from an investor about the Unicorn valuations coming down. Obviously, some weakness in Silicon Valley. How would that affect your business if at all?

Jim Herbert

Probably very little if any impact, we don't lend into that sector directly and generally not even indirectly very much. It's clearly going to have some ripple effect on some funds but we don't anticipate any real direct effect at all.

Arren Cyganovich

Okay. Thank you.

Operator

Thank you. Our next question will be from Aaron Deer with Sandler O'Neill and Partners.

Aaron Deer

Hey. Good morning everyone. It looks like you are starting to see little bit of benefit from bringing down the deposit cost. I was wondering if you could give us maybe what the spot rate was on deposits at September 30 relative to June 30? And then, also where they stand today?

Gaye Erkan

So, the spot rate for nine, it was mid-60s and when you ask about the relative to last quarter, we said low-70s and our deposit rate quarterly average came at 65%. So the mid-60s spot rate for 9/30 does not yet fully reflect the September rate cuts.

Aaron Deer

Okay. And subsequently you have continued to bring that down?

Gaye Erkan

Yes, a bit. I'll revert back to the NIM and the NII guidance that we have provided on that. That is all baked in.

Aaron Deer

Okay. And then, Mike, you mentioned LIBOR. I am curious, I think you guys have discussed switching to - on new originations and just curious to know what some of the volatilities we have seen there has caused any – caused you to rethink the direction that you are going in terms of what your time rates to going forward?

Mike Roffler

Yes. So, good question. Just to clarify, we are not tying any loan originations or indexes to silver maybe for just the reason you sort of hint at is it is a bit volatile and does move around and if you think about our business being consumer based in a great part that may not be a good thing for consumers.

And so, obviously we are studying it, but there are other indices that you can use like the one year CMT for example that behaves in a much more logical fashion from our perspective when we think consumers also benefit from that.

Jim Herbert

We have been originating on that index for the last several months.

Aaron Deer

Okay. Terrific. Thanks for taking my question.

Operator

Thank you. Our next question will be from Christopher McGratty with Keefe Bruyette & Woods.

Chris McGratty

Hi, good morning. Mike, if I look to 2020, the source of deposit growth I think is going to important for the industry. How should we be thinking about the composition of getting these deposits next year? I mean, last year there was lot of CDs for the industry, but with rates moving down, I am wondering your thoughts on mix change?

Gaye Erkan

So, in 2019, the strategy between checking and CDs have worked out pretty nicely. That still continues to be case. Having said that, with rates – with the short-term rates coming down, it actually looks our money market checking and money market savings to be more attractive than it used to be.

And also makes us we have discussed the other borrowing vehicles more attractive too. So we will be doing it. We always did dynamic optimization across all the funding sources and we see strong organic growth given the household acquisition and retention.

Chris McGratty

Great. And one more on the spot rate. I am very interested, Gaye, if you could talk about securities you purchased in the quarter, the yields that you purchased in Q3 and maybe what you are looking at today? Thanks.

Gaye Erkan

Thank you. So we have purchased about $2.1 billion in total securities. This is before all the runoffs and that was about, call it, mid-threes and mostly in the – some munis and some HQLA. And net-net the growth was about $1.2 billion in the investment portfolio.

Chris McGratty

And that was Q3 and how about it kind of where the rate drops and recently how those – are they still kind of in the mid-threes or maybe low threes?

Gaye Erkan

Yes. For the HQLA, more high twos and for munis, that would be three to three-and-a-quarter percent.

Chris McGratty

Great. Thank you.

Gaye Erkan

Thanks.

Operator

Thank you. Our next question will be from Matthew Clark with Piper Jaffray.

Matthew Clark

Good morning. First question just on other noninterest expense. Just wondering if there is anything unusual in that line item this quarter?

Jim Herbert

Nothing unusual. It’s a reflection sort of our containment. When you hire a few less people, you have less recruiting cost, you have less sort of internal events and so it’s been a real conscious effort on part of the team to really focus on what adds to both value for – internally for our colleagues.

Gaye Erkan

And to add, I would just say, everybody in the bank has done a fantastic job and that speaks to the entrepreneurial spirit of First Republic where great prioritization everyone pitching in and being really agile.

Matthew Clark

Okay. And then just on operating expense growth for this year, it looks like you are going to – it could come in slightly below your prior guidance of low to mid-teens growth for this year. Can you speak to expense growth for next year knowing that there is going to be some step-up for the expansion into Hudson Yards? Just give us some range of expectations maybe.

Jim Herbert

Yes, so on Hudson Yards, the cost, so to speak will probably not start in late 2020 and even more fully in 2021. So I don't think that causes a big step-up next year. We are going to end this year sort of in the low double-digits.

It looks like a little bit than as you mentioned at low-teens. For next year, obviously we are still going to try to contain ourselves while continuing to invest in the franchise and we'll have sort of more to say I think as we get towards the end of the year on relative growth percentages.

Matthew Clark

Okay. Just last one for me on the weighted average rate on originations. Not just SFR, but can you give us the overall rate in the portfolio this quarter?

Jim Herbert

Yes, if you look at real estate lending which is obviously a bulk of what we do, it's about 3.25 and then when you factor in business banking and others, it goes up sort of 10, 12 basis points from there.

Matthew Clark

Great. Thank you.

Operator

Thank you. Our next question will be from Lana Chan with BMO Capital Markets.

Lana Chan

Thank you. Good morning. Sorry if I missed this, but did your margin guidance in the fourth quarter include a potential October rate cut?

Mike Roffler

It does include one more rate cut for the year, yes.

Lana Chan

Okay. Thank you. And then, just a question on your brokerage fees. Any potential impact from the discount brokers are going down to zero in commissions?

Mike Roffler

So, very little. We do not earn much in the way I think it's less than $1 million from online commissions and obviously we will be acting accordingly compared to what's happening in the market in the near future.

Lana Chan

All right. Thanks, Mike.

Operator

Thank you. Our next question will be from David Chiaverini with Wedbush Securities.

David Chiaverini

Hi, thanks. A question about your commercial real estate office portfolio. With co-working space companies having come under pressure with the WeWork IPO delayed. How much of an impact if any do you expect to slowdown in the growth of co-working space to have on your office portfolio?

Jim Herbert

Probably not very much. We have no WeWork space in any buildings and we have that we have long gone. So that particular situation has no impact on us at all. To the extent that they are not going to grow in commercial real estate for a while if – it will take a little – it will put a little space and money going them back on the market. But I don't think it's going to be much of an impact to be honest with you.

David Chiaverini

Okay, thanks. And my follow-up, could you provide an update on your millennial strategy and the student refi products?

Jim Herbert

The student refi product and the professional loan program products are going very well in fact. This year they are running about the same as last year which was a tremendous growth year. And the deposit-to-loan ratio inside that portfolio was stronger this year than it was, which is indicative of the fact that the – that we are their full-service bank. We are right around 25,000 such households at this point in the bank and we actually couldn't be more delighted with the progress of that whole activity.

David Chiaverini

Thanks very much.

Operator

Thank you. At this time, I'd like to turn the call back over to Jim Herbert for closing remarks.

Jim Herbert

Thank you very much. Thanks everybody for listening today. We appreciate it.

Operator

Thank you. Ladies and gentlemen, this concludes today's teleconference. You may now disconnect.