S&P Global
Market Intelligence

Bank7 Corp. NasdaqGS:BSVN

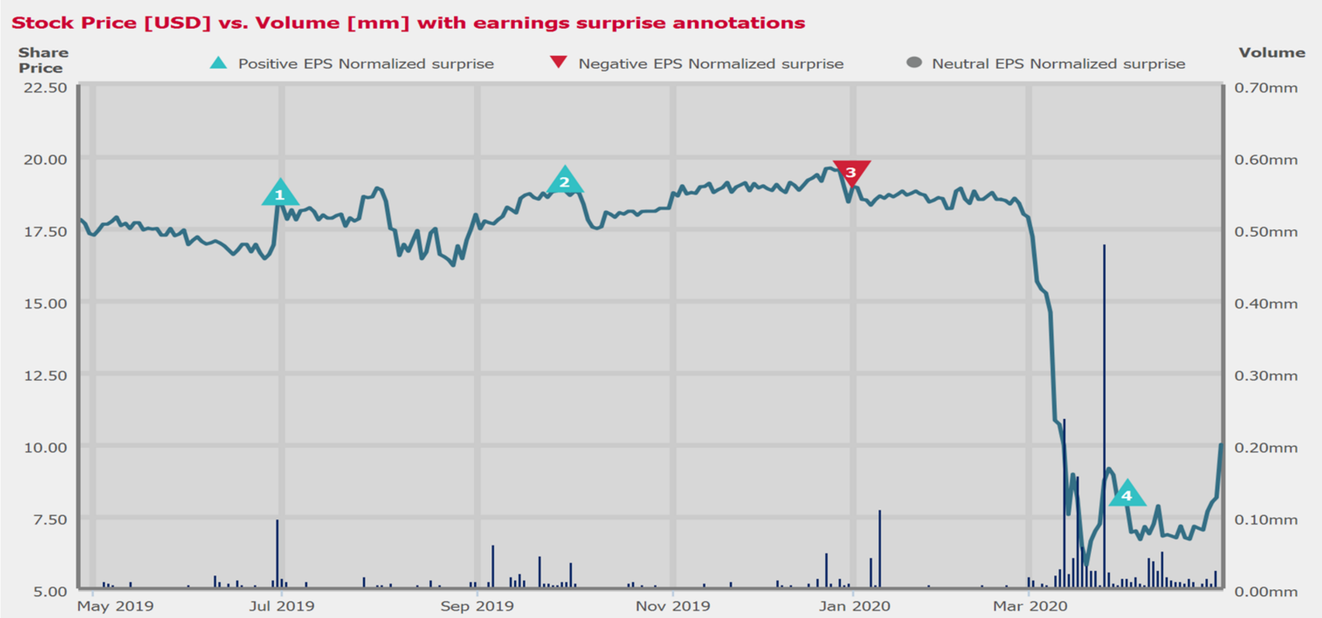
FQ1 2020 Earnings Call Transcripts

Thursday, April 30, 2020 7:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ1 2020-			-FQ2 2020-	-FY 2020-	-FY 2021-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.37	0.51	▲37.84	0.27	1.22	1.35
Revenue (mm)	10.45	11.76	▲12.54	9.95	40.10	39.65

Currency: USD
Consensus as of Apr-01-2020 3:40 AM GMT



	- EPS NORMALIZED -		
	CONSENSUS	ACTUAL	SURPRISE
FQ2 2019	0.45	0.50	▲1 11.11 %
FQ3 2019	0.47	0.50	▲2 6.38 %
FQ4 2019	0.48	0.46	▼3 (4.17 %)
FQ1 2020	0.37	0.51	▲4 37.84 %

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Call Participants

EXECUTIVES

Jason E. Estes
Executive VP & Chief Credit Officer

John T. Phillips
Vice Chairman, Senior Executive VP, Secretary & COO

Kelly J. Harris
Senior VP & CFO

Thomas L. Travis
President, CEO & Director

William Bradford Haines
Executive Chairman of the Board

ANALYSTS

Brady Matthew Gailey
Keefe, Bruyette, & Woods, Inc., Research Division

Matthew Covington Olney
Stephens Inc., Research Division

Nathan James Race
Piper Sandler & Co., Research Division

Timothy Abbott

Presentation

Operator

Welcome to Bank7 Corp.'s first Quarter earnings call.

Before we get started, I'd like to highlight the legal information disclaimer on Page 21 of the investor presentation. For those who do not have access to the presentation, management is going to discuss certain topics that contain forward-looking information, which is based on management's beliefs as well as assumptions made by information currently available to management. Although management believes that the expectations reflected in such forward-looking statements are reasonable, they can give no assurance that such expectations will prove to be correct. Such statements are subject to certain risks, uncertainties and assumptions, including, among other things, the direct and indirect effect of economic conditions on interest rates, credit quality, loan demand, liquidity and monetary and supervisory policy of banking regulators. Should one or more of these risks materialize or should underlying assumptions prove incorrect, actual results may differ materially from those expected.

Also, please note that this conference call contains certain references to non-GAAP financial measures. You can find reconciliations of these non-GAAP financial measures to GAAP financial measures in an 8-K that was filed by the company this morning.

Representing the company on today's call, we have Brad Haines, Chairman; Tom Travis, President and CEO; J.T Phillips, Chief Operating Officer; Jason Estes, Chief Credit Officer; Kelly Harris, Chief Financial Officer; and Henry Litchfield, General Counsel.

With that, I'll turn the call over to Tom Travis.

Thomas L. Travis
President, CEO & Director

Thank you. Thanks for joining us today. We begin by acknowledging the pain that's inflicted upon our fellow citizens in country, especially our friends in places like New York, who've been hit especially hard. We support and appreciate the efforts being made all across the country, especially the work of our medical professionals and first-line defenders, and we stand together to defeat and overcome the terrible pandemic. It truly it is a terrible time.

It's also wonderful to see so many aspects of American exceptionalism coming together. Government policies, the treasury department, the SBA, the USDA, the state banking department, the Federal Reserve, everyone working closely with citizens in the private sector. We're grateful for everyone's efforts.

I'd like to take a moment to congratulate and thank the Bank7 team members for their tireless work. We truly have an exceptional company. Our plan to work remotely was put in place very quickly and has functioned very well. Our operations and IT groups have us working seamlessly. We're very proud of their efforts.

I also want to thank Jason Estes, our Chief Credit Officer, and the entire centralized credit function. They quickly and professionally enabled us to handle loan modifications in the new PPP loans in a very efficient manner.

Last but not least, our lenders and their support staff in every location have done an excellent job, and I personally have received many calls and e-mails from customers thanking us, and frankly, noncustomers who bank at large banks but who had asked us for help, the strength of community banking is revealing itself yet again.

We are certainly aware that in a matter of weeks, our country changed from a vibrant and booming economy to one with severe economic stress. After all is said and done, we expect to had experienced the most sudden and severe recession in the modern history of our country. There is no consensus on how far we will fall, and no one has ever predicted or encountered the speed at which GDP and unemployment have been negatively impacted.

We also know that this pandemic-induced stress has caused an immediate and severe liquidity crunch, which is now morphed into a credit crisis. What is very important to remember is this stress began as a liquidity event, not underlying credit issues unlike 2008, when the banking system was burdened with excessive leverage, especially when you include off-balance sheet items. The industry entered into this period with extreme strength.

Clearly, challenges are everywhere. Our industry will face increased credit risk, margin pressure, stress to our customers and team members and additional threats related to IT intrusions and cybercrimes. Regardless, we remain very focused on our credit book, liquidity, capital levels, expense discipline and internal operations. We have closely analyzed our extreme stress scenarios and are using those in conjunction with our deep transactional knowledge. That's what guides us.

We are comforted most by the thorough involvement between experienced credit executives who work with lenders and their customers. Our stress scenario is very severe. And if it materializes, we remain confident of our revenue stream and the shock absorption capability of earnings and capital. This is why we expect to continue to pay our dividend. However, we will watch very closely as we move through the next weeks and few months. We will continue to provide timely quality information, but we also know events are unfolding and happening at a rapid pace, so it will take continuous effort.

Now let's move into our data. Our focus will be on pretax, pre-provision earnings and how that combines with our already strong capital cushion to provide strength to our already strong balance sheet. Reflecting back to the January earnings call, we were very excited about 2020, which was largely due to our strong loan pipeline, some of which had already been booked. Our projected loan growth for the first quarter did in fact occur. Therefore, our results reflect what we had anticipated a very solid quarter. Our pretax, pre-provision income was very high and consistent with our history.

In our slide deck, we have highlighted one of the great strengths -- one of our great strengths, our wide profit margin. It rapidly adds to our already robust capital levels. Therefore, even with the uncertain future, we are comforted that we will continue to add to our equity cushion. We are very proud of our strength in this area. In the current financial market of environment of "shoot first, ask questions later," let's start with a refresher on Bank7 and how we were built on tried and true fundamentals.

We're a company that provides commercial banking services to companies and their owners. In fact, 98% of our loans are commercial-purpose loans. We deliver the products and services using a branch-like model. Bank7 and its bankers are very close to customers. We're relationship bankers, not transactional bankers. We have virtually no participations or Shared National Credits. We have decades of successful improving credit discipline that has enabled us to avoid meaningful losses. We typically stay away from the high end or speculative loan transactions, focusing more on the blue-collar market segments. It is prevalent throughout our loan book, and that is one of the contributing factors to our historically low net charge-offs.

Essentially, it is more of a needs-based loan book, not a flashy one. You can easily glean that when you review our home construction loan metrics and our hospitality loan book. We consistently maintain a strong NIM. And those factors, combined with our superb efficiency ratio and revenue per employee metrics to produce those wide margins and consistently strong profits which provides our healthy shock absorption cushion. The result is high levels of capital with 98% of our capital being tangible capital, good old-fashioned common stock and retained earnings. I would also add that we remain debt-free. In addition, we also maintained very strong on balance sheet liquidity.

So now let's take a minute and review just a few of those fundamental components, and we'll start with capital. We entered into this pandemic-induced period of uncertainty with very high levels of capital. Included in our slide deck are 2 very important illustration: one that illustrates a significant cushion of capital and the other being a comparison of our pretax, pre-provision run rate as compared to 192 of the smaller exchange-traded banks. You can see our margins are far better. Again, not only did we enter the current crisis with heavy capital levels, our strong margin rapidly adds to our capital base, much faster than most other banks. We are very mindful that the near-term future is full of uncertainty. Nonetheless, we remain confident in our capital strength. The combined efforts from government, the Fed, private industry customers and teammates will enable us to successfully work through the upcoming months and prevent us from experiencing a negative impact to our capital base. Our confidence is further evidenced by the fact that none of the shares owned by our insiders have been sold, not one share. We have far more at stake in this company than anyone else.

Now if we move into another primary component, our net interest margin. We constantly maintain an excellent NIM. As highlighted in our January call, the fourth quarter NIM was very strong, and we had expected that strength to carry into 2020. However, none of us anticipated the sharp and sudden decline in interest rates. Looking forward into the rest of the year, the industry and Bank7 will experience downward pressure on NIM, with most of the pressure appearing in the latter part of the year. Nonetheless, we still expect to maintain our NIM within historical ranges. And remember, we achieved that by being disciplined with our floors. In fact, based on the most recent Fed rate cut, 92% of our loans are either fixed or already at their floors.

Our customer relationships are strong and deep, and our customers know we are reliable partners. And when absolute borrowing rates are this low, there is less pressure from them to lower rates. We also did not allow lenders to negotiate lower rates or floors without executive management involvement and oversight. Each customer requesting a rate or floor reduction is logged into a spreadsheet maintained by the finance department, and each request is evaluated by the lender and executive management. For the first quarter, we had $55 million of loans, which is 7% in the portfolio that was repriced downward at an average repricing downward of 82 basis points. And remember, during this time, the Fed dropped rates by 150 basis points.

So now let's spend a minute on liquidity. Bank7 has historically maintained very good liquidity, typically holding between $75 million and $125 million of cash at the Fed, which is a very substantial amount of money for a company our size, and we continue to operate in that manner. This pandemic-induced stress clearly began as a liquidity event, which quickly morphed into a systemic credit crisis.

Having said that, this clearly is not your father or grandfather's liquidity crisis. The U.S. government and Fed interventions are unprecedented, far-reaching, spread across the board, and those actions combined with a fully entrenched digital electronic currency system have clearly calmed the markets. For the consumer segment, the ability to instantly and seamlessly provide funds to pay for goods and services have significantly reduced consumer panic, which is a good thing, as consumer sentiment is fragile, but will be critical to help the economy recover. After all, 70% of GDP is consumer spending.

Lawmakers, the treasury department, the state banking department and the Fed have demonstrated their commitment to provide multiple backstops to the entire monetary system, and that has added stability to the markets. In fact, when you look at the Fed's most recent H8 data, it is quite revealing. On a year-over-year basis, commercial loans are up in the 25% range, pretty much unprecedented.

You may ask how the loan growth comment relates to liquidity, and that is due to many companies drawing on credit facilities and simply redepositing the money into the banking system. That same H8 data shows annualized deposit growth on a year-over-year basis that is also in the double digits, the strongest anyone can remember. The Fed actions and U.S. government programs are temporarily propping up the economy. And ironically, the liquidity crisis is quickly abated as evidenced by so much money that's ended up in the U.S. banking system.

On top of all of that, the global flight to safety has caused international liquidity to flow into the U.S. and our banking system, with liquidity being sufficient, the long hard work of economic recovery will soon begin. I would argue it's already begun. Another tool to support liquidity is the new Fed funding facility for our PPP loans, which we are utilizing and taking full advantage of, and that allows us to preserve our liquidity for normal banking needs.

Last but not least is credit quality. We are mostly in uncharted waters. However, there are a few moments in history that can help us understand what a recovery might look like. We can refer to the devastating floods in Houston, events such as Hurricane Katrina. In those cases, the insurance industry provided a major backstop compared to today when the government programs and tax policy which will be the primary drivers to help with recovery. We realize this pandemic is far-reaching in different. Nonetheless, we remain confident that our asset quality will remain relatively strong as our underwriting principles and long-time customer relationships have always carried us through the toughest of times.

Our confidence is also based on one primary underlying assumption, which is that the pandemic induced stress is a near-term to medium-term event with America returning to a more normalized environment sooner rather than later. Clearly, a longer period of continued stress will cause or would cause greater uncertainty, and our complete economic recovery will largely depend on how long it takes the country and its citizens to emerge from their homes and get back to work and their lives. Even when that occurs, there will be a new normal, which no one can yet predict, but it is certain that consumer behaviors will change, which will benefit some industries but harm others. Therefore, we expect an uneven recovery. One key factor and strength of Bank7 that must be remembered is our strategy of loaning into more of the blue-collar types of projects and segments, essentially a more needs-based segment.

You can especially see that by reviewing the stratification data within the hospitality and CRE segments. Experience has taught us that economic downturns typically hit the more leverage and higher-end segments especially hard. We also know that past recessions have revealed the strengthen in what we call the cycle-down segments of the economy. We are very confident of our loan book. Being mindful of the heightened scrutiny surrounding credit quality, we have provided enhanced reporting to our energy, hospitality and CRE segments. Our enhanced reporting was provided with a view towards maintaining customer privacy as well as being aware that competitors also review materials.

So with that being said, let's ask Jason Estes, our Chief Credit Officer, to walk us through the credit book.

Jason E. Estes
Executive VP & Chief Credit Officer

Thank you, Tom. With all due respect to the pandemic and the challenges in the world, we had a really strong first quarter in our loan book. Our credit metrics were in line with recent results. We had minimal past due loans, no charge-offs and a reduction in our NPAs. We also had a nice shift in our loan mix as we continued to decrease the energy portion of the portfolio, which now stands at 12% versus 18% of balances a year ago, and this trend is expected to continue. The largest increase was to our C&I book, as we successfully added several clients -- several large clients. Now as the month of March progressed, our markets began to be impacted by the pandemic. Being in the middle of the country, it was a little slower than on the coast. Our first loan modification related to the pandemic was done on March 15. And at the end of the quarter, we only had 25 loans that had been modified. I'd like to dive in a little bit to Slides 11 and 12 in the slide deck related to our hospitality portfolio.

We all know this space was impacted quickly by the pandemic. But long term, we remain confident in our borrowers, our underwriting and the markets within which we loan money. The initial feedback from our customer base about a month ago was that occupancy had dropped all the way down to 5% to 10% in many cases. More recent reports are that they are already experiencing improved occupancy levels with the majority of properties, 2/3 of ours reporting that occupancy rates are already above 30%. 10 of our 34 operating properties report that the last 10 days, they've operated above 50% occupancy. Now full recovery for this industry is expected to take 2 to 3 years. On average, our operators need about 50% occupancy in order to amortize their debt. We believe the recovery to 50% occupancy will take much less than 2 to 3 years. As Tom stated, we remain committed and confident in this segment and our loan portfolio overall.

Now shifting to the energy industry. We have continued to reduce our energy exposure and are well positioned to handle any losses that may materialize from this sector as we presented on Slide 13. Bank7 has been actively reducing our energy lending activity for over a year because the industry was already dealing with a price and supply-driven slowdown. Now the pandemic has destroyed demand and the industry devastation is being well documented. The energy recovery will be slower, and it appears that there will be a lasting impact on companies and the industry overall.

Consistent with prior quarters, we continue to experience migration within the service industry portfolio. Our borrowers in the service segment, now they've been through many cycles, but this one appears to be more severe, at least going into it. Within our portfolio, the E&P and midstream segments continue to perform at a high level in spite of current pricing conditions. I would also like to add briefly on our commercial real estate portfolio. Our construction portfolio concentration has been at multiyear lows over the past couple of quarters. We continue to focus on low-to-moderate priced homes and also expect to see a reduction in our hotel construction activity as projects are delayed while the economy recovers. Our exposure to retail land and lots is minimal and will continue to be that way.

And with that, I'd like to hand it back over to Tom.

Thomas L. Travis
President, CEO & Director

Thank you, Jason. It's a good report on the credit side of the bank. So as we move forward, consumer sentiment is going to be the key to the recovery. People are simply not going to venture out unless they feel safe. This recovery will be different for that reason. Over the past decades, the gradual conversion of our economy into a service-based consumer-driven economy is highlighting how critical consumer sentiment will be to the recovery. It also happens to be why modeling is more difficult as older metrics just are not as reliable. A good reminder of that is that manufacturing now only accounts for approximately 11% of our GDP compared to 70% of GDP from consumer spending. Our focus will continue to be on our fundamentals. We'll continue to produce pretax, pre-provision earnings to create that strong foundation.

Our branch-light model has held up very well in the social distancing environment. It was not a big adjustment for our customers and staff. We're not saying it's business as usual, but we were able to easily adapt. We've always been very close to our customers. We have been very proactive talking to them, making sure they know we're here for them. Our strength of deep customer relationships and interaction has been obvious to us and to them, and we'll continue to do so.

We also know that government stimulus programs and flexibility on future tax rates and measures will contribute to help us emerge and more quickly recover, and we'll stay abreast of all those items. We also will pay extra attention to our digital platform. System uptime has been good and generally speaking has withstood unparalleled traffic spikes. We will evaluate redundancies and system reliability metrics as we know that many people are now accessing the digital offerings and stressing our platforms.

So as we wrap up, we would also like to say that we're seeing green shoots begin to emerge. There are flows of capital seeking opportunities. We intend to be vigilant, but also pay close attention to smart opportunities. In fact, we have a few opportunities right now that are very strong and very safe. In these times, being nimble yet prudent with additional long-term customer opportunities, especially with companies that have worked with large banks and experienced lackluster responses related to the PPP process, it's just a really good opportunistic time that is going to quickly emerge. One example that we could use if we haven't yet is a new main street lending program, but we'll evaluate as they go forward. So wrapping up, we thank you for your time, and we'll open it up with any questions you might have.

Question and Answer

Operator

[Operator Instructions] And the first question comes from Brady Gailey with KBW.

Brady Matthew Gailey
Keefe, Bruyette, & Woods, Inc., Research Division

So buybacks were notable in the quarter. Do you still have excess capital with tangible common equity at around 10%? How are you all thinking about buybacks going forward?

Thomas L. Travis
President, CEO & Director

Brady, we've been consistent that our view of stock repurchases is based on 2 factors: First, whether the price is a bargain; and second, is it consistent with our long-term goals, which balance shareholder returns and having adequate capital available for expansion -- future expansion. As you know, we've commented that we've -- historically, we've seen many companies buy back stock with a view of boosting EPS, not necessarily based on buying at a bargain price, essentially more of a short-term perspective.

And we've also said that we understand that people are entitled to follow that type of program, but our strategy is different. And so when this turmoil began, we observed a severe price drop, and we knew our strong earnings and capital cushions were sufficient, so we began executing on that strategy. So with that being said, specifically to your question, we're not going to deviate from that perspective and that strategy. We don't have a specific number in mind. We don't have predetermined expansion plans right now, but we feel really good about our company and where it is. And J.T. made a comment the other day regarding opportunities. And we feel like that the best buy we could make, whether looking at buying a bank with our own stock absolutely, right?

Brady Matthew Gailey
Keefe, Bruyette, & Woods, Inc., Research Division

All right. That's fair. And then you mentioned your activity with the P3 plan from the SBA. Maybe just update us how much -- how many PP loans have you done so far? I think most banks are enjoying roughly a 3% fee on those loans? Is that roughly the fee that you guys are expecting here?

Jason E. Estes
Executive VP & Chief Credit Officer

Yes. So the first wave, we put on about $45 million of fundings related to the PPP program. And our expected fee generation, I believe it was around 2.9%. So really close to in line with your 3% estimate from others.

Brady Matthew Gailey
Keefe, Bruyette, & Woods, Inc., Research Division

Okay. All right. And then lastly for me, just the hospitality portfolio. I mean it's notable with you guys at a little over 20%. I appreciate all the colors around LTVs and what the vacancy can go to, et cetera. I mean just bigger picture, is this a portfolio that you are concerned about over the next few months? Or do you think even with a shelter in place for another couple of months, this book will still perform relatively okay?

Jason E. Estes
Executive VP & Chief Credit Officer

Yes. I expect this book to perform relatively okay, to use your words. We're confident in these borrowers. They've got lots of operating history. We went and pulled kind of the 10 biggest groups, and there wasn't -- none of them had less than 23 years of experience. And so they're in this for the long haul. And so are we.

Thomas L. Travis
President, CEO & Director

I would say, too, Brady, that the -- you cannot underestimate the drive-to market component compared to the gateway cities like the coasts of East and West Coast. And you're already seeing there will be many, many more people that will get in the car and they will drive to certain places. And we've got that leisure limited service. It's not business convention hotels. It's not dependent on people coming in from international travel. And when you think about that, you can easily see that the portfolio is going to do much better. And as Jason said in his comments, I think it was 9 properties. I forget the percentage, 1/3 or so. There are 10 properties out of 34, 5 that we have that are already above 50%. And it's people that say, I can't go anywhere. Texas is opening up. And so let's go to Dallas for the weekend or let's do this. And so that's our portfolio.

And I would add on Page 12, when you talk about concern and you go down that road to whether people want to speculate if it's 90 days or 6 months before we're back to, pick a number, 70% occupancy, 60%, look on Page 12. And we have a 62% loan-to-value ratio. And so if you think about it in these terms, 70% of our exposure is at Dallas-Fort Worth area, which is a drive-to market. So just a typical hotel, it's a Hampton inn in the Dallas metro area, and the property is worth $5 million, and the borrower owes us $3.1 million. And so are we worried if there's a 90-day to 6-month temporary hiccup to their cash flow? Absolutely not. And this is an example of the dynamics of a combination of more of a blue-collar perspective and the dynamic market that we're in, especially the drive-to segment.

Now one final comment I'd make. I read a piece this morning that there's a lot of belief out there that the Americas national parks are going to be really, really busy because people are going to want to get in their cars and go cross country and do things. And so it's another example of the importance of being a drive-to market and a leisure and combination market and not business convention or gateway cities like the coasts.

Operator

And the next question comes from Matt Olney with Stephens.

Matthew Covington Olney
Stephens Inc., Research Division

I think you mentioned in prepared remarks that the overall level of loan deferments and modifications with pretty modest as of March 31. Do you have anything more recently as far as the modifications or deferments that you can disclose in the portfolio, especially around the hotel and energy segments?

Jason E. Estes
Executive VP & Chief Credit Officer

Yes. I'll go -- I've got overall portfolio details. And then I'll touch a little bit on the other 2 segments. But overall, through the 28th of April, which -- what's today -- 2 days ago, approximately 10% of our total notes have been modified. Now they represent about 30% of our outstanding loan balances, and that's 2/3 made up of the hospitality segment. So of the operating properties, just the program was -- and all of these modifications that we've done have been 2 to 3 months of either interest-only or 2 to 3 months of no payments. And so in that group, the vast majority of that is the hospitality segment.

Matthew Covington Olney
Stephens Inc., Research Division

Got it. Okay. That's helpful. And then within the hospitality segment, any -- were there any past dues or any potential problem loans before March? Just trying to appreciate if there are any kind of laggards in the portfolio that could be hit especially hard, given that they were already hurting beforehand?

Jason E. Estes
Executive VP & Chief Credit Officer

Right. Of the 34, there was 1 property that was approximately 30 days past due going into the problem or the pandemic, I shouldn't say the problem, the pandemic.

Matthew Covington Olney
Stephens Inc., Research Division

And did that loan qualify for a modification under -- or I should ask it this way. Under the current regulatory guidelines, did that loan qualify to be modified without penalty?

Jason E. Estes
Executive VP & Chief Credit Officer

It does. It does. And we'll see what happens with that one property. The owners are working on a few different options. So we'll see, but yes, it qualifies.

Matthew Covington Olney
Stephens Inc., Research Division

Got it. And then on the energy portfolio, can you just review what -- what your expectation is of the size of that book? I mean do you expect that to shrink as some of these loans amortize over time? Or do you expect it to remain a similar size? Just curious what your expectations are?

Jason E. Estes
Executive VP & Chief Credit Officer

My expectations are that the existing portfolio would shrink somewhat throughout the year. But you have to be careful here, remember, through the last downturn, we were presented with several opportunities that made sense for us to extend credit. And though, overall, I expect energy to make up less of our portfolio long term, it would not surprise me if we're opportunistic and have a few really nice opportunities that make long-term sense to extend credit.

Matthew Covington Olney
Stephens Inc., Research Division

Okay. Got it. And then I guess switching over on thinking about the margin and with the Fed actions in March, I'm curious what your thoughts are about keeping that core margin ex the fees above the low end in that range that we've discussed before, which I think is around 4.50% to 4.60%.

Thomas L. Travis
President, CEO & Director

We think we're going to be within our historical ranges, where is the low point the last 5 years.

Jason E. Estes
Executive VP & Chief Credit Officer

4.37%.

Thomas L. Travis
President, CEO & Director

Yes. I mean we think we're going to be within historical ranges.

Matthew Covington Olney
Stephens Inc., Research Division

And can you just clarify those historical ranges, I was thinking 4.50% to 4.60%, but was there something below that, that it could be temporarily?

John T. Phillips
Vice Chairman, Senior Executive VP, Secretary & COO

If you looked at the NIM page -- what page is it?

Jason E. Estes
Executive VP & Chief Credit Officer

2016, it was 4.37% for core NIM, if I remember right.

John T. Phillips
Vice Chairman, Senior Executive VP, Secretary & COO

The Page 8. Yes, it was 4.37% ex fee.

Matthew Covington Olney
Stephens Inc., Research Division

Got it. Okay. That's helpful. And then you disclosed some good stuff in the deck around the construction book, especially around single-family construction and developments and lot exposure, and it seems like a pretty small amount. But I'm just curious, how do you typically underwrite those loans in terms of loan to values and loan to cost?

Jason E. Estes
Executive VP & Chief Credit Officer

On the 1-to-4 family houses, that's 100% centered in Oklahoma City and Dallas metroplexes. And so standard 80% loan-to-value. Those builders -- I'm trying to think -- I think we have 1 builder that's new to our portfolio in the past year, but that was banked by lenders that work here that worked with other institutions, and it worked with the borrower previously. So we really kind of have a stable group of builders that we support. And it's a segment that we don't have any significant concerns within that portfolio.

Matthew Covington Olney
Stephens Inc., Research Division

And what are the policies around the lot and the land development loans?

Jason E. Estes
Executive VP & Chief Credit Officer

In general, we don't do much of that, but the policies are 75% loan-to-value max, but I would give you specific data points, but there's really not enough in there to create a meaningful statistic to quote you. I mean, our -- typically, the developments that we do would be for larger homebuilders that we bank that are building their own lot inventory to chew up over -- I think in terms of 2 years, maybe 3 years max for their absorption, but typically, it's going to be 12 months to 24 months of absorption, and they're the specific end user. It's more of a means to an end, not really a product that we go out in the market.

Matthew Covington Olney
Stephens Inc., Research Division

Okay. Yes. And I appreciate it. It's definitely a smaller size. So I definitely appreciate that. On the energy book, I think you guys answered all my questions. Great disclosures there on Slide 13. I appreciate you guys. Given us some updated stuff around how you guys view the risk of that portfolio. So great stuff.

Thomas L. Travis
President, CEO & Director

Thank you.

Operator

And the next question comes from Nathan Race with Piper Jaffrey.

Nathan James Race
Piper Sandler & Co., Research Division

Just going back to the energy book, not to beat the dead horse, but just curious if you guys can remind us how that portfolio fared during the late 2015, 2016 downturn, and just maybe how that portfolio has changed in composition. It sounds like you guys have been able to onboard some new clients in the wake of that disruption that we saw 5 or 6 years ago. So just curious how you guys look at the portfolio today versus back then and just kind of how the book generally performed from a credit quality perspective during that period?

Thomas L. Travis
President, CEO & Director

Yes. If I can take that, Nate, we lost $10,000 in the history of the bank on net charge-offs to the energy book. And then as far as what happened between '14 and 16, we were opportunistic, but they were very short-term in and out transactions while people were accumulating properties. And so it was in and out, in and out. Then I would say finally, the one significant change compared to 2014, '15 and '16 is we have a little bit more in midstream than we did back then.

Nathan James Race
Piper Sandler & Co., Research Division

Got it. That's super helpful. I appreciate that, Tom. And then just going back to C&I growth in the quarter, obviously, fairly strong. Just curious maybe how much of that was line of credit draws? Or is it just kind of typical blocking and tackling and taking share?

Jason E. Estes
Executive VP & Chief Credit Officer

Yes. Virtually none of it was line of credit draws. That was new clients coming online.

Nathan James Race
Piper Sandler & Co., Research Division

Okay. It's great to hear. And then just general thoughts on just kind of the general lower-to-middle market commercial pipeline. Obviously, some macro slowdown and headwinds on that front. But just curious on how you guys kind of think about that overall book growing. I imagine, to your point, maybe energy and hospitality slows a little bit, along with construction in some places. But generally speaking, how you guys see the loan pipeline today and that kind of extrapolate out into net growth over the back half of this year as well?

Thomas L. Travis
President, CEO & Director

If I could take that one, it's quite interesting because you're really into people's psyche. And I liken it to walking on a frozen pond, you think the ice is thick or it's getting thick and how far do you want to venture out. And so we have this long experience, and we have this great confidence, and we like our book and we like our markets, and we see opportunities. But honestly, there aren't that many people that are interested in asking. And there are -- as I said earlier, there are people that are more opportunistic. And they're starting to appear, but it's certainly not a big a large group of people.

And so I think that that's going to evolve over the next 4 to 6 weeks, and it goes back to the virus and the testing and what's it going to look like in 4 to 6 or 8 weeks and you people feel safe enough and our model works. And we're going to be there when people are ready, but we really are keenly focused on opportunities, especially not to pick on the larger banks. However, we have some really interesting -- I wouldn't say horror stories. But clearly, the larger banks just didn't get it done the way the community banking segment did. And that has already created opportunities for us with really good groups, not desperate people, not people that don't know what they're doing, but people that are really strong. And so we would say that any meaningful growth, I would imagine, would be later in the year.

Nathan James Race
Piper Sandler & Co., Research Division

Got it. That's super helpful. And then kind of along those lines, core deposit growth was pretty strong in the quarter. And it sounds like you guys seen some good opportunities in front of you to continue to take share as well. So just curious if you expect that to also translate into pretty solid core lending growth over the next few quarters, at least, just given some of that disruption that you spoke to, Tom?

Thomas L. Travis
President, CEO & Director

Yes. We would think. We would think it would continue the way it has. And the government programs have been very helpful to the entire country.

Nathan James Race
Piper Sandler & Co., Research Division

Right. And then so I guess along those lines, with us at 0 rates and a lot of your loan book, I think you said 90% at floors that's floating. Is there the potential that we could see some margin expansion in the back half of the year just as that core deposit growth unfolds and you're able to maybe run off some higher cost sources of funds?

Thomas L. Travis
President, CEO & Director

It would be really nice, but I don't think anybody in the room is predicting margin expansion. I don't know J.T. or Kelly or...

John T. Phillips
Vice Chairman, Senior Executive VP, Secretary & COO

No.

Thomas L. Travis
President, CEO & Director

Yes.

Nathan James Race
Piper Sandler & Co., Research Division

Sorry, just to clarify, not in the second quarter, but perhaps later on in the year.

Jason E. Estes
Executive VP & Chief Credit Officer

No. I think when things become more normalized, I think you could see the other side of the coin, and that would be people pushing and saying can I get our rate lowered.

Nathan James Race
Piper Sandler & Co., Research Division

Okay. Got you. And again, really appreciate all the disclosures in the deck. Super helpful. But just to clarify on the hospitality and hotel book, you may have alluded to this, but what was the most recent occupancy rate on average across the portfolio as you have it today?

Jason E. Estes
Executive VP & Chief Credit Officer

Yes. So what we have is -- of the 34 that we're operating over the last 10 days, I didn't average it. I went through and did different breaks of. There were 10 that were above 50%. And then 2/3, so 2/3 is 34, whatever that math works out to be, I can't remember what it was, but I just have my notes with me. 2/3, so call it, roughly 20 or a little more were operating above 30%. So between 30 and 50 -- or between more than 30 and then 10 of those were above 50%.

Nathan James Race
Piper Sandler & Co., Research Division

Okay. And that's all the 43 total hotels in the portfolio.

Jason E. Estes
Executive VP & Chief Credit Officer

34. The 43 total, that includes under construction, nonoperational. And so when I'm talking about operating properties, that's the 34 property set.

Nathan James Race
Piper Sandler & Co., Research Division

Understood. Okay. I appreciate the clarification.

Jason E. Estes
Executive VP & Chief Credit Officer

Certainly. Thank you.

Operator

Thank you. And the next question comes from Tim Abbott with Two Lions Management (sic) [Twin Lions Management].

Timothy Abbott

Congrats on the strong results, and thanks for all the disclosure. So I guess first question, you mentioned that most of your hotel sponsors only need 45% to 55% occupancy to amortize their loans. I guess my question is what ADR is embedded in that assumption? Is it based on 2019 ADR?

Thomas L. Travis
President, CEO & Director

We -- it's historical, and we tend to gravitate towards RevPAR and so -- and I don't have a RevPAR number either. Just to say that under normal typical environments, the -- we spend a lot of time when we make a loan. We do a stress test before we make a loan, and we make these assumptions. But when this pandemic hit, we went out to the top 5 that we have, and these gentlemen have been in this business for between 20 and 40 years and second generation and some of them own 50 properties. Some of them have 20. And we specifically said, where do you need to be, just give us a number to reach debt service. And the answer was, it depends on if it's a limited -- super limited service, call it a Motel 6-type property or Quality Inn. It was 45%. And then if you get up to, call it, a Hampton inn or a Marriott Courtyard, it was 55%, and it was consistent across the board. And so in there -- what they're basically saying is in a typical environment, even if they only have 50% of the hotel occupied, they can drive enough of a room rate and create enough of a RevPAR to make debt service.

Timothy Abbott

Got it. Okay.

Thomas L. Travis
President, CEO & Director

And that's one of the reasons it's a very interesting parallel. It's very similar to Bank7. In our slide deck, we had pointed out on Page 3, the -- one of the great strengths of Bank7 is our margin, fat margins compared -- or wide margins, I should say, compared to other banks. And that's data that's just irrefutable data. Well, our customer base is very similar. These are not people that are highly leveraged or people that are in properties with a lot of staff. They have very wide margins. And so there is much less pressure on them to run at 70% or 80% occupancy. There are similarities there.

Timothy Abbott

Got it. And then my other question is on rate floors. So I think you said that 92% of your book is now at a rate floor after the 150 basis points of reductions. Do you know what that number was, what percentage of the book was already at a rate floor prior -- immediately prior to the most recent round of rate cuts, I guess, like kind of end of February?

Jason E. Estes
Executive VP & Chief Credit Officer

Kelly has that number?

Kelly J. Harris
Senior VP & CFO

Yes. It was 83% prior to the rate cut.

Timothy Abbott

Prior to the 50 basis point rate cut. And that was already 83. Okay. Got it.

Operator

[Operator Instructions] All right. As there is nothing more at the present moment, I would like to return the floor to management for any closing comments.

Thomas L. Travis
President, CEO & Director

No, we appreciate the involvement today. We're excited to move forward and cautiously optimistic that we're going to all get past this terrible condition that we're in and work together, and we appreciate anyone that's along for the ride with us, and we're keeping all of our money in this -- not all of our money, but we're substantially invested in this company, and we haven't sold any. So we're excited to move forward. Brad, do you have any comments?

William Bradford Haines
Executive Chairman of the Board

I'm good. You all did a great job.

Thomas L. Travis
President, CEO & Director

Okay. Great. Thank you.

Operator
Thank you. And this concludes today's conference call. Thank you for attending today's presentation. You may now disconnect your lines.