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PRESENTATION

Operator

Greetings, and welcome to First Republic Bank's Third Quarter 2018 Earnings Conference Call. (Operator Instructions)

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 - *First Republic Bank - Senior VP, Chief Marketing and Communications Officer*

Thank you, and welcome to the First Republic Bank's Third Quarter 2018 Conference Call.

Speaking today will be Jim Herbert, Chairman and Chief Executive Officer; 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 available on the bank's website.

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

James H. Herbert - *First Republic Bank - Founder, Chairman & CEO*

Thank you, Shannon. It was another very good quarter for the bank by virtually every measure. First Republic's ability to deliver truly differentiated client service is continuing to result in safe, strong, organic growth as well as very robust new household acquisition.

Let me touch on a few of the highlights for the quarter. Year-over-year through the quarter, total loans have grown 21.6%; total deposits have grown 14.2%; and wealth management assets have grown 29.2%. This growth across the entire franchise continues to lead to very good overall financial performance.

For the quarter ended year-over-year, total revenue grew 15%. Importantly, net interest income grew 15%. And tangible book value per share has increased 13%. Really strong credit quality has always been and continues to be a color of First Republic. Our nonperforming assets were less than 5 basis points at quarter-end. Net charge-offs for the quarter were only $185,000, less than a single basis point of average loans.

As we get further into this economic cycle, strong credit quality will become an even more important -- will become even more important and will be a key differentiator for First Republic. We reflect on this for just an extra moment. Over the past 5 years, First Republic's cumulative net charge-offs have totaled only $8 million. Over the same period, we have added to our bad debt reserves fully $278 million. This is a 35x coverage in the reserve addition. Our capital levels also remain quite strong. This is consistent with our historical philosophy of staying well-capitalized at every point in the economic cycle.

Let me turn for a moment to the condition of our markets. Our urban customer markets overall remain quite strong, actually. San Francisco, Southern California and Boston all continued to perform quite well. As we noted last quarter, although New York is performing very well, its real estate market has moderated somewhat, particularly in the high end of the luxury home market, which we don't have much business in, but certainly ripples, and in commercial real estate.

Let me shift briefly to our millennial strategy. We continue to be quite pleased with the progress we're making in attracting our next generation of clients through the student loan refinance and professional loan programs. The number of millennial households acquired through these programs in the first 9 months of this year is 60% higher than the same period last year. Such millennial households have an average age of 33 years at the time of acquisition. These younger households now represent over 28% of First Republic's borrowing households. Needless to say, we're quite pleased with this progress.

In short, it was a very successful third quarter and 2018 thus far.

Now let me turn the call over to Gaye Erkan, President.

Hafize Gaye Erkan - *First Republic Bank - President*

Thank you, Jim.

As Jim mentioned, it was a very good quarter. Loan origination volume during the quarter was strong at $7 billion. Single-family residential volume was $2.6 billion during the quarter. Although this was down slightly from a year ago, we're quite pleased that new purchase volume remains strong and now represents 55% of total volume. Single-family refinance was down, of course, due to rising rates. Importantly, a shift towards the purchase market gives us a competitive advantage by allowing us to demonstrate our differentiated client service.

Multifamily and commercial real estate lending also had a good quarter. This combined origination is up slightly from last year. Importantly, our weighted average loan-to-value ratios remain quite conservative. Average loan-to-value ratios on new originations during the quarter were at 59% for single-family and 51% for multifamily and commercial real estate. Across all of our lending, we continue to be competitive with our relationship pricing, but we will not lower our underwriting standards to win new business.

Business banking had yet another terrific quarter. Business loans outstanding grew nearly $800 million during the quarter, driven by increased commitment as well as a higher line of credit utilization rate of 38% compared to 35% in the second quarter.

Turning to deposits. It was another good quarter. Deposits were up $9.3 billion or 14% from a year ago. We are very pleased with the diversification of our deposit base in terms of sources, type and product mix. In terms of sources, we gather deposits through private banking, business banking, private wealth management referrals, sweeps and our Preferred Banking Offices. In terms of type, we have a healthy mix between business and consumer deposits. Business deposits represented 56% of our total deposits at quarter-end, consistent with last year. In terms of product mix, checking deposits represented 60% of total deposits at quarter-end, also consistent with last year.

Let me take a moment to talk about our retail branch system, or as we call them, our Preferred Banking Offices. We have 70 retail offices with an average deposit size of more than $350 million, representing approximately 1/3 of our $75 billion in total deposits. Our Preferred Banking Offices have been instrumental in sourcing deposits, including CDs. I would note that deposits in our retail offices grew over 14% year-over-year. With the rise in interest rates, CDs are once again proving to be an attractive deposit gathering vehicle and an effective way to attract new client relationships and deepen existing ones. In fact, more than half of our retail CD clients use additional services. In addition to their success in deposit gathering, our Preferred Banking Offices also play an important role in delivering an in-dated and exceptional service experience to our clients.

Turning to private wealth management. The business continues to perform very well. Year-over-year, wealth management assets were up a strong 29% and now total $131 billion. Wealth management fee revenues were up 24% compared to a year ago. So far this year, approximately 80% of the growth in assets under management has come from our existing wealth managers growing their business, along with the selective hiring of new teams.

Overall, we are very pleased with the continued, safe and consistent growth across lending, deposits and wealth management, reflecting the compounding effect of our extraordinary service and client satisfaction.

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

Michael J. Roffler - *First Republic Bank - Executive VP & CFO*

Thank you, Gaye.

Let me cover some of the key metrics for the quarter. Our capital position remains strong. In September, we completed a common stock offering of 2 million shares, raising just over $200 million in additional equity and further strengthening our capital base. As a result of the offering, we estimate our diluted shares for the upcoming fourth quarter to be 167.2 million shares. Separately, as noted on our last call, we currently expect to redeem $200 million and 7% preferred stock at the end of December, subject to all applicable regulatory approvals.

Our liquidity also remains strong. At September 30, HQLA as a percentage of average quarterly assets was 16.2%. This now reflects a portion of our municipal bonds, which are qualified as HQLA under the recently published FDIC rules.

Turning to our net interest margin, we are very pleased with our NIM of 2.94% during the third quarter. For the fourth quarter, we expect NIM to be in the middle of our targeted range of 2.85% to 2.95%.

Our efficiency ratio for the third quarter was 63%. We're pleased to maintain this efficiency ratio, while delivering strong revenue growth and investing meaningfully in the franchise. We continue to expect the efficiency ratio to be in the range of 63% to 64% for the full year 2018.

Our effective tax rate was 19.8% for the third quarter and 18.6% on a year-to-date basis. We continue to expect the 2018 full year tax rate to be approximately 19%.

Overall, it was a strong quarter.

Now I'll turn the call back over to Jim.

James H. Herbert - *First Republic Bank - Founder, Chairman & CEO*

Thank you, Mike and Gaye.

First Republic's client-centric business model continues to deliver exceptional service as reflected by our very high Net Promoter Scores. These, in turn, are powering our continuous growth of the entire franchise.

As we get further along this economic cycle, we're placing ever-greater emphasis on credit quality and on being well capitalized. This long-term prudent approach will allow us to continue to meet our clients' needs and deliver consistent performance throughout this advanced stage of the economic cycle.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question is coming from the line of Steven Alexopoulos with JPMorgan.

Steven A. Alexopoulos - *JP Morgan Chase & Co, Research Division - MD and Head of Mid-Cap and Small-Cap Banks*

I wanted to start on the deposit side. We saw a cost increase of 9 bps quarter-over-quarter, which is the largest increase we've seen this cycle. First, can you talk about the migration trends you saw in the quarter, either one out of the bank or from checking to interest bearing?

Hafize Gaye Erkan - *First Republic Bank - President*

Sure, we'll be happy to. Just to comment on the deposit rates, so as we'd indicated in the second quarter, our spot rate was in mid-40s, and we are pleased that we ended at mid-40s, just spot on. The deposit rate increase was 9 basis points in the quarter, but really it had the impact of two fed hikes because the June fed hike played into the third quarter, and the September was almost sort of unexpected. So it's really less than 20% beta quarter-over-quarter, if you think that way and year-over-year. And I would note that the cost of -- especially in a rising rate environment, we tend to look at the cost of total liabilities, cost of total funding, and we are very pleased that our total cost of -- cost of total funds is 69 basis points, relatively advantages compared to other banks who have disclosed so far, representing about 20% beta year-over-year as well. So in terms of migration and the growth, the growth in deposits came about $900 million from checking quarter-over-quarter, and $1.1 billion, CDs. And 75% of the CD growth is actually new money, whether existing relationships deepening and bringing their dollars from other institutions to us or new households coming in. So we're very pleased. Over 50% of our CD relationships have other deposit products with us. So to give you an example on average, the CD balance for our consumer is about $250,000. And then cross service, half of the time it's the case. When cross service dollar deposit product, they have another $250,000 in non-CD balances, bringing the blended rate to close to 1%.

James H. Herbert - *First Republic Bank - Founder, Chairman & CEO*

Steve, it's interesting to have a little perspective. There have been 4 banks this morning that have reported. And the cost of deposits for Wells Fargo was 47, JPMorgan is 44, PNC 50, Citicorp 91, First Republic was 45. And the cost of total liabilities for those 4: Wells Fargo 93; JPM 109; PNC 92; Citicorp 153; we are 69. So the difference is being made up. The net interest margins are a little higher for them. It's 100% being made up by higher yield on loans, which sometimes is related to risk.

Steven A. Alexopoulos - *JP Morgan Chase & Co, Research Division - MD and Head of Mid-Cap and Small-Cap Banks*

So Jim, if I follow-up on that, it sounds like Mike Roffler was guiding the NIM down 4 basis points. Just looking at the midpoint of that range, could you walk us through the expected decline in 4Q NIM?

Michael J. Roffler - *First Republic Bank - Executive VP & CFO*

Yes. Steve, I think the environment is just really competitive. And so, while the -- Gaye talked about the fed funds rate and rates are moving higher and obviously, this last 10 days, the Treasury curve has moved up, that doesn't necessarily make its way through to mortgage lending. And so you're seeing the increase in deposit rates, as you mentioned, is a little higher. And you're not getting as much on lending in terms of relief. We're really pleased that we've gotten as much as we've gotten. But it is very competitive out there and so that causes us to be a little cautious as we think forward to the future. But importantly, NII is still growing at a mid-teens rate, even with maybe a little pressure on the margin.

Steven A. Alexopoulos - *JP Morgan Chase & Co, Research Division - MD and Head of Mid-Cap and Small-Cap Banks*

And Mike, as those rates move up, I think you said refi were a 45% of originations. How much of an impact do you guys expect on refi volumes as rates move higher here?

Michael J. Roffler - *First Republic Bank - Executive VP & CFO*

I think this -- as we expected, refi has started to slow up. And a good portion of our refi, just as a reminder, is new clients coming to us from other bank, so it's not just our clients refinancing. But I think as you go through this cycle and rates move higher, refi volumes will be a lesser of a percentage of the total. But the purchase market has stayed pretty steady.

Hafize Gaye Erkan - *First Republic Bank - President*

And just to add to Mike's comments, as rates rise, the prepayments also slow down on the lending side, so we feel comfortable with the mid-teens guidance on the loan growth.

Steven A. Alexopoulos - *JP Morgan Chase & Co, Research Division - MD and Head of Mid-Cap and Small-Cap Banks*

And then just one last one, all the growth numbers are clearly very strong. I guess the one that's lacking is earnings growth, only 4% year-over-year. Can you talk about your ability to accelerate earnings growth as we move forward?

Michael J. Roffler - *First Republic Bank - Executive VP & CFO*

Sure. This quarter is a bit of an anomaly, Steve, in terms of earnings growth. I mean you're right, it was about 4.5%. Two things I'd remind on is last year in the third quarter, we had a gain on an investment, that was about $5.5 million that is obviously not recurring. And the tax rate was materially lower last year because of stock activity, both from a vesting of awards and option exercise. So if you sort of put all that together, we're back towards a low-double digits earnings growth. And then the last item, the provision, obviously, as you see on credit, is significantly tied to our growth rate. And so, in any given quarter, that could bounce around a bit, given the growth and especially the draws on lines of credit, which could happen late in the quarter. And you don't really get the earnings benefit of that. So we feel like we're in the low-double digits, hopefully getting a little bit better. But this quarter was a bit of an anomaly.

Operator

Our next question is from the line of Ken Zerbe with Morgan Stanley.

Kenneth Allen Zerbe - *Morgan Stanley, Research Division - Executive Director*

Mike, I actually just wanted to kind of go back to one of the comments that you made that the higher 10 years not having or not working its way into your loan yields. I think that was kind of one of the positive or a potential positive catalyst of a higher 10-year rate is that you guys could make a higher yielding loans going forward. Is that -- are you referring just to the fourth quarter -- has a little impact on the fourth quarter? Or is this potentially more of a broader issue? Or are you just seeing spread compression in a more -- in a larger way?

Michael J. Roffler - *First Republic Bank - Executive VP & CFO*

No. Ken. Look, we're really pleased that we're -- loan yields are up 6 basis points from June 30 quarter. A bit of that is the fed funds hike that occurred in June, we got the benefit of that in the full quarter essentially on our prime and LIBOR-based loans. We are getting a little bit incrementally better compared to the portfolio on new business. It's -- you're probably just not moved as much as you would think with the treasury curve. The mortgage yield curve is really what we're going to look at. And while it is incrementally better, it may not be the same, the spreads aren't getting any better. So that's why I think we're in a highly competitive environment from a lending standpoint. And when you're doing A-quality business, you're not going to get that by pricing up. And now could this be a temporary thing? In 90 days from now, it gets better? Quite possibly and that would give a little bit more optimism.

Kenneth Allen Zerbe - *Morgan Stanley, Research Division - Executive Director*

Got you. Okay, that helps. And then, Jim, I think you'd mentioned ripples in commercial real estate, especially in New York. Can you just elaborate on that? Is that something that could meaningfully limit the commercial real estate growth you guys have? So you can shift growth into other areas? Or -- I'd love to hear your thoughts on share regrowth.

James H. Herbert - *First Republic Bank - Founder, Chairman & CEO*

That's a good question, Ken. I think the -- first of all, the cap rates are beginning to adjust a little bit for the rising rates. And that is slowing down the velocity of turnover. And that's really what I was getting at. Commercial real estate per se, from a cash flow point of view, is still quite strong, pretty much everywhere. It's a little less strong than it was, but not really almost even measurably. But turnover is down. And so yes, it might slow down our volume in that area a little bit. Although, actually we had a very good quarter. And our backlog going into this fourth quarter, which I think Gaye commented on, is actually quite strong. So it's looking good so far. But the luxury real estate markets in most of our markets are off their top a bit almost everywhere. New York is the more extreme example of that and the reason is the amount of new inventory coming online.

Operator

Our next question is coming from the line of Casey Haire with Jefferies.

Casey Haire - *Jefferies LLC, Research Division - VP and Equity Analyst*

A question, I guess, first for Mike or Gaye. On the HQLA at 16% of assets, is that an opportunity for -- to play some NIM defense, potentially remixing some of the lower yielding HQLA or just -- - or is the opportunity just that you guys are let that run at 16% and then grow into it and let it naturally fall to 12%?

Hafize Gaye Erkan - *First Republic Bank - President*

It's more the latter. We're going to grow into it. So let me take a step back. So first, we did a restructuring recently and optimized it not only from a credit perspective on certain munis but also from a yield preservation perspective. So we feel comfortable with the mix we have as well as from a credit perspective, they're very highly rated securities built on the muni side and obviously, on HQLA side. That's number one. Number two, our loan growth year-over-year, 21.6%, so with a robust pipeline. So we'd still continue our guidance at the mid-teens. And when you look at the lending growth that comes with the opportunities, it's a good time to have that additional liquidity to give way for that. It also alleviates the pressures on funding as well. So given the mid-teens growth rate, it won't take too long for us to grow into it, but that's what we are planning.

Casey Haire - *Jefferies LLC, Research Division - VP and Equity Analyst*

Okay, great. And just following up on the liquidity front, I know it's not a driver of how you guys run the business. But can you just -- I mean is there -- does that mean that you guys would feel comfortable taking the loan-to-deposit ratio above 100?

Hafize Gaye Erkan - *First Republic Bank - President*

So we have, in general -- the loan-to-deposit ratio has been fluctuating in 2012 through '15. We have been above 100%, most importantly, we don't take a bet on rates, we always run it asset liable to met with slightly asset sensitive. And we take care of our clients with their lending needs in a safe and sound way. So far, it has been nicely below 100% but the mid-teens guidance, 2.85%, 2.95%, most of the mid -- given the flattening of the curve, midrange, we feel comfortable with the -- with where it is right now. But if it happens to be above 100% given some strong -- it's just seasonal from quarter-over-quarter.

Casey Haire - *Jefferies LLC, Research Division - VP and Equity Analyst*

Okay, great. And just last one on the expense front. A nice improvement on the efficiency ratio, even with a strong loan growth quarter and wealth management momentum continuing. Was there anything that surprised you? Did it gratify profitability, make some outsize improvements? Just trying to get some color on what was a nice improvement in the efficiency ratio.

Michael J. Roffler - *First Republic Bank - Executive VP & CFO*

Yes. Nothing surprising now. We're continuing to invest meaningfully in the franchise. As Gaye mentioned earlier, we hired a couple for wealth management teams and the prior teams are doing a great job of bringing over their clients and building their book of business. I think we are very focused on continuing to invest in the franchise, but also sort of be very disciplined and methodical about it. As you know, the first quarter does tend to blip up, but we feel like this is a pretty good operating range for us.

Operator

Our next question is coming from the line of Jared Shaw with Wells Fargo.

Jared David Wesley Shaw - *Wells Fargo Securities, LLC, Research Division - MD & Senior Analyst*

Looking at the secondary loan sales, definitely seems like you -- that dried up a little bit this quarter. Can you share with us any trends you're seeing in the secondary market? Or is that more you're just comfortable portfolio more of the production this quarter?

Michael J. Roffler - *First Republic Bank - Executive VP & CFO*

Yes. Thanks, Jared. I mean, as the rate market continues to sort of go up and investors have new sort of views of what the rate should be on and what they're going to purchase, it gives us the flexibility to either be in the market a lot or not. And you saw this quarter was very little modest loan sales, essentially the longer duration loan sales. You also see that in our impact, I think, last quarter we had a $4 million gain, and this quarter, it was pretty nominal. So there is an earnings impact immediate to that. Now the benefit is, we will get the net interest income on those loans over time versus sort of the one-time gain when you sell them. But it could be a little more modest for a while. I would comment that we do have held for sale, that's a bit higher at the end of the third quarter. So you should see a little bit of an uptick in fourth quarter sales compared to today.

James H. Herbert - *First Republic Bank - Founder, Chairman & CEO*

Let me just piggyback on that for a second, Jared. If you put that together with the question earlier about municipals and HQLA, since we can be steady-state in our HQLA and municipal level for a while, we might go up a little bit. But we can be steady-state if we go into 12% position, that opens up more room for loan growth.

Jared David Wesley Shaw - *Wells Fargo Securities, LLC, Research Division - MD & Senior Analyst*

Great, thanks. And then, you're in a unique position, I think, with your geographies and your customer base to see some of the trends in tax migration. What have you -- have you noticed that happening yet? Have you seen customers actually starting to move from higher tax geographies to lower tax geographies? And I guess what's your view on how that could be playing out over the next year or so?

James H. Herbert - *First Republic Bank - Founder, Chairman & CEO*

The answer is, generally speaking, very modest actual action, a great deal of discussion. But our opinion is that it won't be at the end of the day that big a deal, but it's not going to be zero. There have been some instances already in both Palm Beach and Jackson Hole, where people have picked up and moved and have decided to operate out of there versus other places. I think, personally, that this will come to life around tax time in '19, when they pay their '18 taxes. And Jackson Hole, obviously, is -- we've -- this is not the reason but one of the reasons that we've -- that we're opening at Jackson.

Jared David Wesley Shaw - *Wells Fargo Securities, LLC, Research Division - MD & Senior Analyst*

Are there any opportunities or expectations of maybe potentially new markets or market expansion in other areas as a result of this?

James H. Herbert - *First Republic Bank - Founder, Chairman & CEO*

Not at this time, no. I will say, I should add to that we have -- we've opened one new branch in the Palm Beach area, and we're opening another one in about 3 months. So we've tripled the exposure to the Palm Beach area over a 12-month period.

Operator

Our next question is coming from the line of Arren Cyganovich with Citi.

Arren Saul Cyganovich - *Citigroup Inc, Research Division - VP & Senior Analyst*

With respect to the millennial households, just thinking about how long it might take for those to convert into your next kind of phase of mortgage origination growth? I imagine it will take a while for them to pay down their loans. Do you have any expectations around how long it will take them to kind of migrate into the next phase of their lives?

James H. Herbert - *First Republic Bank - Founder, Chairman & CEO*

It's a very good question. We're watching it very carefully. We've been at this for about 4 years. And we have about 18,000, 19,000 households of this nature now in the bank. Remember, the size of our total borrowing household base in the bank is around 70,000 or so. So the -- about 20% of that cohort currently already owns a home. The other 80% do not yet. And of course, our number one objective is to be their home lender. They're doing on the average about 4.7 products with us right out of the chute. And our pricing on the loans is matrix pricing as always to attract them over. But one of the things that happens is, on the average when we refinance them, we bring their interest rate down by about half. And so that shortens the life of their loan by probably 20%, 30%, if they keep the same monthly payment. And so, it's very, very helpful. We don't have any prepayment penalties, in fact, we give a rebate if they prepay. And so, it's working very well so far. The Net Promoter Score that we're achieving in that cohort is higher than the bank overall. So, so far it's working very well. We do have about 4,000 to 5,000 of that total, is what we call the professional loan program. Those will turn out 38% to 40%. And so they're converting rather rapidly the full client base -- basis. And they are more than self-funding entirely on checking.

Arren Saul Cyganovich - *Citigroup Inc, Research Division - VP & Senior Analyst*

Okay. And then with respect to the noninterest-bearing deposits, can you talk about how those are trending throughout the year? And are you seeing some pressure moving those to interest bearing?

Hafize Gaye Erkan - *First Republic Bank - President*

So checking, we're quite pleased. Checking deposits are -- which is by and large -- it has a 5 basis points on it, which has been steady at 5 basis points. So I would answer that the checking at 60% of total deposits, pretty much consistent with what we've seen last year. We have models in our NII simulations all the way down -- this scenario all the way down to 50% -- to 55%. So as long as it's mid-50s to 60s type of range, we feel very comfortable. Actually quarter-over-quarter, it has been half-and-half, half in checking, roughly speaking. $900 million checking growth and CDs $1.1 billion, which half of the time come in with checking anyway. So if you think about it, it's more of a barbell. When done the right way, CDs with checking, it's kind of a good barbell strategy that deepens relationships as opposed to some other banks chasing hot money with yields on money market accounts.

Operator

The next question comes from the line of Chris McGratty with KBW.

Christopher Edward McGratty - *Keefe, Bruyette, & Woods, Inc., Research Division - MD*

Mike or Jim, for you. I think ahead of the quarter, there was some concern about a change in either the efficiency or the margin guide and I think fortunately, those both came in better than what we were all thinking. Looking beyond the quarter, could you offer some color or some context on what would be the primary factor to either take the 63%, 64% up or 63% to 64% down? That'd be great.

Michael J. Roffler - *First Republic Bank - Executive VP & CFO*

Sure. We talked about, obviously, net interest margin and how that will then flow through to net interest income growth. So competition for lending, and what happens there obviously could be an impact. And that, frankly, that could be a positive or to go over as you said. The other thing I would talk about is wealth management continues to be a very good source of growth for the bank. And that does come both from existing people doing a lot more business with their clients and also, the selective hiring when we've added teams. And so periodically, that can put a little pressure. And obviously, if the percentage of revenue contribution grows from the 14% today, just mathematically the efficiency ratio would go a little bit higher because of that business running higher. And obviously, you have the seasonality that we've talked about with the first quarter generally being higher. All that said, we feel like we're in a pretty good place on operating in this range, which allows us to continue to invest in the franchise to support all the future growth and the growth that's been going on in the bank, frankly.

James H. Herbert - *First Republic Bank - Founder, Chairman & CEO*

Let me just add, Chris, if I might -- kind of come up maybe 5,000 feet for a second. The economy is strong still, 2 days in the market notwithstanding. Our backlog is strong. We are -- we have growth room in the loan portfolio. As Gaye said, the loan -- the refinance on loans is slowing down on single-family home loans. But the repayment rates on the whole portfolio were slowing down as well, which of course is what happens when rates go up. You have a slowdown of mortgage lending by large competitors. And in fact, they're cutting back people. We're actually doing the opposite, which is often what we do. Because we're really not driven by the macro -- not the macro, by that I mean the magnitude of the mortgage market up or down 10% in terms of volume because most of our business we take from somebody else. And we only have 3% or 4% market share. So there's plenty to be taken. So it's really a case of thinking a little longer term. Sitting with my experience where we are now, the next 12 months are going to be very good because others are pulling back and that inevitably leads to less quality service. So our service differentiator, I would predict in the next 12 months, is going to be greater than the last 12 months. The only real issue is one of timing and that's when, I forget who asked, I think maybe Ken, but the question of when does the treasury rise ripple through to the mortgage market pricing? And that's a matter of time. This quarter, next quarter, the quarter after, it actually doesn't matter very much. What does matter is that our ability to take share is about to improve. And so I would say that sitting where we are without rose-colored glasses on at all, but simply speaking competitively on the street, the next 12 months can be a very good time.

Christopher Edward McGratty - *Keefe, Bruyette, & Woods, Inc., Research Division - MD*

That's great color. If I could speak one more on the private equity capital call business. Looking at your slide deck, it looks like another very, very strong quarter. I may have missed it in the prepared remarks, but did you provide any color on utilization rates? And also just any high-level comments on the business would be great.

Hafize Gaye Erkan - *First Republic Bank - President*

Sure. The utilization rates went up quarter-over-quarter. So in the second quarter, we had on the business line commitments, 35% utilization rate, which went up to 38%. And a year ago, it was about 33%, 34%. It's mostly -- those are capital calls to private equity and venture capital funds. There's high pace of investment activity as well as higher valuations that's driving them.

Christopher Edward McGratty - *Keefe, Bruyette, & Woods, Inc., Research Division - MD*

Okay. And if I could, Gaye, on the -- did you provide the spot rate on the deposits as of September 30?

Hafize Gaye Erkan - *First Republic Bank - President*

It'll be low-50s.

Christopher Edward McGratty - *Keefe, Bruyette, & Woods, Inc., Research Division - MD*

Low-50 basis points as of 9/30. Great.

Hafize Gaye Erkan - *First Republic Bank - President*

Yes.

Operator

The next question comes from the line of Dave Rochester with Deutsche Bank.

David Patrick Rochester - *Deutsche Bank AG, Research Division - Equity Research Analyst*

I know you're all set on your mid-teens loan growth this year. I was just curious, how you think about that pace over the next year in 2019, where longer-term interest rates to move even higher? Any concerns that real estate markets slow enough that this pace could be impacted? Or maybe said another way, how much would interest rates need to increase for you to be more concerned about that pace? Was just curious what your sensitivity analysis shows you on that?

James H. Herbert - *First Republic Bank - Founder, Chairman & CEO*

That's a little bit of what I was getting at in the last comments. I don't think so. I don't think there's a slowdown for us coming. Quarter-to-quarter, it will move around, of course, it always does. But -- and we do suffer a little bit in volume these days from the volatility of the utilization rates of the lines of credit which Gaye was just speaking to. But putting that aside, in terms of mortgage origination, I'm not very concerned about it. I think that there will be more than adequate business for us to be able to do the volume that we want to do.

David Patrick Rochester - *Deutsche Bank AG, Research Division - Equity Research Analyst*

Got you. So in terms of taking share, your comments before, you think that taking share can offset any kind of slowdown?

James H. Herbert - *First Republic Bank - Founder, Chairman & CEO*

Very easily.

David Patrick Rochester - *Deutsche Bank AG, Research Division - Equity Research Analyst*

Okay. And then just bigger picture on the NIM, more of a quarterly type of question. You guys only had 1 basis point of pressure this quarter. But I was just wondering, if you could talk about why you're thinking NIM should compress decently more next quarter? Is it just a function of deposit betas increasing, the mix shift of CDs? Maybe just bumped up money market rates? I know you mentioned that the low-50s basis point level there at the end of the quarter, maybe just some extra color on that would be great.

Michael J. Roffler - *First Republic Bank - Executive VP & CFO*

Yes. No, I think -- look, as you said, we're really pleased with how stable it's been during the year as our earning asset yields have largely kept up with the increase in our total funding costs. And I think, as we talked about earlier, it's a little bit of a reflection of how the market and how competitive it is that can you continue to match those as well as we have. We will get a benefit a little bit in the fourth quarter from the fed move in September. The question is, will your funding costs have to accelerate just a little bit more because you are supporting that mid-teens loan growth, which is different when you're just trying to sort of keep it steady. And so that's why we're just a little cautious on that as we head into the fourth quarter.

David Patrick Rochester - *Deutsche Bank AG, Research Division - Equity Research Analyst*

Okay. And then just one last one on expenses. I know you guys talked about this last quarter benefiting from the surcharge roll off, pretty meaningfully. So I was just curious if maybe you could just update us on how you think the expenses from the core systems enhancement and whatnot get layered in? And what that trajectory sort of looks like as you go into the first part of next year?

Michael J. Roffler - *First Republic Bank - Executive VP & CFO*

Yes. Similar to what we talked about last quarter, the FDIC assessment surcharge at this point looks to be first quarter of '19, at least how we think about it. We're just beginning the project as we talked about on the core conversion. So the current expense is pretty modest, but it will start to accelerate next year as we get further into the project, which the FDIC assessment going away provides a nice offset in terms of sort of reinvestment into the franchise with the core system.

Operator

The next question comes from the line of Aaron Deer with Sandler O'Neill.

Aaron James Deer - *Sandler O'Neill + Partners, L.P., Research Division - MD, Equity Research and Equity Research Analyst*

A couple of questions, I guess, related to the fee income. One is, the wealth management fees haven't quite kept pace with the very impressive inflows of AUM. Is that just reflective of kind of systemic pricing pressure within that business? Or is there any sort of mix shift going on within the different business lines? And then, relatedly should we still expect a pickup in the fourth quarter of wealth management fees related to the insurance business?

Michael J. Roffler - *First Republic Bank - Executive VP & CFO*

Aaron, those are two good points. On the overall, there's a couple of part of wealth management that is more transactional driven, which is going to be the brokerage and investment and also FX. I think the fees are growing on investment advisory pretty commensurately with the assets. And then also there's obviously a lag. So this quarter's benefit, you don't really see till Q4. And then FX and brokerage are going to be dependent upon client activities and how much trading or how much business they're doing. So I think that we don't feel like there's systemic pressure or big pressure on the fee as a percentage of assets we advise on.

Hafize Gaye Erkan - *First Republic Bank - President*

And just to add, the mix is important. Year-over-year, if you look at it, investment management, which is by and large where the fees are coming from. First of all, look, investment management assets grew 24% year-over-year. And yet, the investment management fees actually outpaced the growth and the investment management assets at 25% year-over-year. So with that, we're very pleased. The fees have grown in the investment management higher -- faster than the investment management assets. As Mike mentioned, then you layer on the foreign exchange and so on, which had a good quarter as well. So it fluctuates when you look at the overall.

Michael J. Roffler - *First Republic Bank - Executive VP & CFO*

And then you had a comment about insurance, that -- this is typically a seasonal business in the fourth quarter, it does usually pick up. And we have no reason to believe otherwise, it wouldn't be the case because it's really tied to tax planning and sort of financial planning as you come to the end of the year.

Aaron James Deer - *Sandler O'Neill + Partners, L.P., Research Division - MD, Equity Research and Equity Research Analyst*

Okay, that's good color. And then just quickly, I noticed the -- there was an uptick in the BOLI. Was that a nonrecurring gain that benefited that? Or is this a step-up in the run rate?

Michael J. Roffler - *First Republic Bank - Executive VP & CFO*

It is not a step-up in the run rate. One of our policies has an annual accrediting process, so it's going to be in the third quarter that it happens sort of each year.

Operator

Our next question comes from the line of Matthew Keating with Barclays.

Matthew John Keating - *Barclays Bank PLC, Research Division - Director & Senior Analyst*

I just wanted to follow up on the comment earlier that in a higher interest rate environment, residential mortgage loans, originations can sometimes slow, but repayment rates also slow. So it's interesting that even though, I think year-over-year, single-family loan originations are down 12% this past quarter, but single-family loans are obviously up over 21%, and had obviously very strong linked quarter growth as well. And so, is it the case that single-family loan originations may not be the best metric to look at? Or do you think, as to your point earlier that the bank is taking share that those will go up even if overall residential mortgage activity levels decline?

James H. Herbert - *First Republic Bank - Founder, Chairman & CEO*

It's a very good question and very perceptive. The volume in a steady-state environment which we had for many years, a steady-state interest rate, steady-state good economy and markets, a volume is a pretty good indicator. When you get an inflection point like we're now in the middle of, it's not necessarily the best indicator. The best indicator falls back to -- well, leading -- there's really not so much an indicator. The results are repayment rates become much more important all of a sudden, and they do change. We've dropped from 10 or 12 down to kind of 12 or 13 down to about 10 in a short period of time. Loan sales, remember, most of our loan sales are single-family. And this quarter we had very low. Last quarter, we had a pretty decent amount. And then origination volume. And then, to some extent, the mix of the origination volume is very much driven by interest rates on the refi side and less driven by that on the purchase side. The purchase side in our markets is driven more by supply, availability, still. There is still pretty much a buyer for every home that's available-for-sale, there are maybe several buyers. The supply is still quite constrained. The only exception is sort of $5 million and $8 million and above. That market's a little weaker. But they are selling. They just have to drop their price. And so what's happening is that the growth of the balance sheet will be driven a little more by repayment rates than it was previously, and by loan sale rates -- the loan sale levels.

Operator

Our next question comes from the line of Geoffrey Elliott with Autonomous Research.

Geoffrey Elliott - *Autonomous Research LLP - Partner, Regional and Trust Banks*

Maybe focusing on CDs, the growth rate there say is very strong, kind of high 50s year-on-year percentage growth rate. Do you expect to keep running at that sort of growth? Is there a kind of composition that you'd be targeting in, in terms of mix of deposits that are CDs versus checking and savings?

Hafize Gaye Erkan - *First Republic Bank - President*

Sure. So yes, the CD growth has been strong. Quarter-over-quarter, it's almost similar to checking, $900 million, CD's $1.1 billion. And then year-over-year, is actually -- we've increased checking $5.3 billion, and CDs $4.1 billion. I would like to note, we don't look at -- CDs have been an important and long-standing part of our deposit strategy. Maybe just to take a moment on that, similar to mortgage lending, similar to student loan refinancing, CDs are a great way to deepen existing relationships. By the way, close to -- over 60% of the CD growth comes from existing clients keeping their money with us and bringing other institutions' money to us into CDs, deepening and expanding the relationship, as well as an effective way to get trial from new clients. And as the new clients experience our differentiated service model, the relationships expand from there. That's why we have -- when you look at our CD clients, over half have additional deposit products and services with us, predominantly consumer, which is great. And when cross sold, which is half of the time, average consumer CD client maintains equal amount non-CD balances compared to the CD balance. So you actually almost half the rate or 60% lower on the CD rate, when you look at the blended rate. So we're very pleased with the growth. And at the same time, we're very pleased that checking came in at 60% of the total deposit mix, which translates to the nicest of net interest margin that we displayed here. So the blended rate on the CDs, to give you an example, is just over 1%, so 1.05% when you take into account the other deposit products.

Geoffrey Elliott - *Autonomous Research LLP - Partner, Regional and Trust Banks*

Understood. And on checking, what would it take for you to raise rates there? I think there are around 5 basis points and been at that kind of level for a while.

Hafize Gaye Erkan - *First Republic Bank - President*

Yes. So we don't intend to raise -- the checking to us is like noninterest-bearing, the 5 basis points have been steadied out, so I answered the other question with checking, when you ask about noninterest-bearing. It's really more of an operational nature, both business and consumer play a big role in that checking, especially on the business side. So it's the service that the client is there for, they're not chasing yield.

James H. Herbert - *First Republic Bank - Founder, Chairman & CEO*

Let me make a point on that. The average preferred banking checking account balance for us is $70,000 or $80,000. And the -- or $96,000, I'm sorry. The average business checking account is about $380,000. Although those are simultaneously much larger than average numbers, but relative to the clients, which those balances represent, they are working capital needs for those clients.

Hafize Gaye Erkan - *First Republic Bank - President*

And if I may add -- yes, sorry, and if I may add to the earlier one, I forgot to mention that on the CD side that you had asked on the earlier question, their average original term is 18 months, so which is in a rising rate environment, it's also a good risk management.

James H. Herbert - *First Republic Bank - Founder, Chairman & CEO*

It gives you a -- provides a nice lag.

Operator

Your next question comes from the line of Matthew Clark with Piper Jaffray.

Matthew Timothy Clark - *Piper Jaffray Companies, Research Division - Principal & Senior Research Analyst*

Can you give us the weighted average rate on new production this quarter on a blended basis?

Michael J. Roffler - *First Republic Bank - Executive VP & CFO*

Yes. Thanks, Matthew. So it's also a little bit on new volume, we're quite pleased with that. On the real estate lending, which is the bulk of what we do, it's about [3.93], which is up about 15 bps from last quarter.

Matthew Timothy Clark - *Piper Jaffray Companies, Research Division - Principal & Senior Research Analyst*

Okay. And then just on the NIM outlook, is there any reason to believe that, that pace of pressure coming in the fourth quarter may continue so long as the fed's raising rates? Or do you feel like, it can -- there should be some stabilization from some repricing on the asset side?

Michael J. Roffler - *First Republic Bank - Executive VP & CFO*

Yes. So maybe a little bit lower from sort of that down 4. But not a lot, we feel like we're in a pretty good range. Obviously, we've been at the top end of our guidance. And we're probably migrating more towards the middle to slightly below middle as I look out over a longer period of time, but the range feels good to us, still.

Matthew Timothy Clark - *Piper Jaffray Companies, Research Division - Principal & Senior Research Analyst*

Okay, great. And then how should we think about the securities portfolio growth, relatively stable? More recently, how should we think about that relative to the HQLA and recent regulatory relief?

Hafize Gaye Erkan - *First Republic Bank - President*

Sure. Given the municipal bonds that now qualify as HQLA, it will be muted over time in terms of investment portfolio purchases. So we'll grow into the 16%. And if you tag along to the prior answer that -- the prior question that Mike answered on the yield. From a yield to duration perspective, loans and securities are roughly at the same place. Loans come with relationships and opportunities to expand those relationships. So it's actually a good time to shift the focus from the investment portfolio purchases while we have the extra liquidity towards more lending opportunities where we have further opportunities to expand those relationships.

Matthew Timothy Clark - *Piper Jaffray Companies, Research Division - Principal & Senior Research Analyst*

Great. And then last one. I'm just curious what your thoughts are on Prop 10, if it were to pass and the potential impact on your multifamily commercial real estate platform?

James H. Herbert - *First Republic Bank - Founder, Chairman & CEO*

Well, obviously, we're watching it fairly carefully, and we'd strongly prefer it doesn't pass. I don't think it'll have much impact on the existing portfolio because we're such conservative underwriters that it wouldn't matter much. But going forward, it might -- it will reduce the value of multifamily properties in areas that then adopt a more stringent or even a new rent control measure. I would point out that San Francisco itself already has a rent control measure, and it's had it for a very long time. So the loan-to-value ratio on our multifamilies overall is right in the 50% range. So we're not portfolio at-risk. But it would hurt the -- it could hurt the growth of revenues of various properties. Depending on what -- the Prop 10, for those of you who don't know is a -- is the -- there's a state law prohibition against rent control -- new rent controls measures in California, there is a proposition to eliminate that prohibition, and delegate it to individual municipal units. So there is a wide range of what those municipal units might do on rent control. Probably, there would be more rent control ordinances in different cities and some of the markets we're in. If Prop 10 -- if it passes as presently. And the polls are indicating that it has a potential for passing. So I think it's a risk factor. But I don't think it's -- I'm not worried about it. More it could slow down our business than put us at risk in any way for credit.

Operator

The next question is from the line of Brock Vandervliet with UBS.

Brocker Clinton Vandervliet - *UBS Investment Bank, Research Division - Executive Director & Senior Banks Analyst of Mid Cap*

On the capital call lines, I remember in the second quarter transcript, Gaye called out that second quarter was unusually strong and unexpected to continue, that's what's occurred. Could you talk about that and kind of the volatility that you see in that business? What's driving that?

Hafize Gaye Erkan - *First Republic Bank - President*

That is a very good observation. Thank you. Yes, we thought it was unusual. And I mean, it's couple of factors that is driving it. There's really a high pace of investment activity into underlying portfolio companies when it comes to private equity or venture capital that drives the utilization higher. And there's also higher valuations at the same time, which it continues that way. So that's actually good news. We are very conservative when it comes to advanced rates and these are all against uncalled capital from very strong LPs. So while we feel good about credit despite the rise in rates, given our conservatism, it's actually great news in terms of the activity in the markets right now. But it is compared to -- I mean if you look at it specific to the capital call commitments, which is by and large the larger portion of the lines outstanding, it went from 32% to 38.5% year-over-year.

James H. Herbert - *First Republic Bank - Founder, Chairman & CEO*

Actually, it's the good news. It increases our outstanding on good credits. And it obviously -- more importantly, it means that they are quite active, the funds and are finding investments that they deem to be good ones. We're surprised by the continuing strength, but pleasantly so.

Hafize Gaye Erkan - *First Republic Bank - President*

Yes. And historically, it was low- to mid-30s to just to give a range.

Brocker Clinton Vandervliet - *UBS Investment Bank, Research Division - Executive Director & Senior Banks Analyst of Mid Cap*

Okay. And just a follow-up for Mike, it seems like this is kind of the central question in terms of -- you've talked about mid-teens loan growth. You're doing well above that and sort of low-teens deposit growth, it feels like you're either headed over 100% loan-to-deposit ratio or loan growth is going to slow materially more toward that longer-term mid-teens guide. Easier to fund, maybe that's a little bit better for the margin if it does. But can you kind of square that up for us?

James H. Herbert - *First Republic Bank - Founder, Chairman & CEO*

Let me take that, it's Jim. We've managed over a long period of time this loan-to-deposit growth ratio, a long period of time being decades. And it's just the nature of our capability that we can produce more loans than we -- good loans than we can easily fund. And so, we're scrambled to keep up with that. On the other hand, our deposit growth, recently, particularly powered by wealth management and new sources that are beginning to become increasingly important, business banking, which brings in $4 of deposits for every $1 of outstanding have really turned this around a little bit for us, favorably so. If you look back over the last 5 years, we used a significant part of our funding to build the HQLA portfolio. That now has landed at a point where we don't need to build it net for a while. So that is another source of funding, if you will, by virtue of lack of need of funding of alternative to lending. And so, I think, our ability to fund the loan growth in the mid-to-upper teens is fine for now. And it's really a case of controlling our loan growth by type. We have added to this mix one very favorable, but a little bit unpredictable component, which is what we just talked about, which is the outstanding draw levels of lines of credit to funds. I would point out that those are all variable rate draws and so, needless to say, when they're drawn, they intend -- they tend to knock up your current yield relative to market and that's favorable. So actually, the guidance of mid-teens is what we really expect to happen. It does continue to come in a little higher than that. But the real swing in the last few quarters has been a slowdown of repayments. If you took the last few quarters and put the historical repayment rate on the loans, the growth rate in the portfolio would have been a couple basis points lower.

Operator

The next question comes from the line of Jon Arfstrom with RBC.

Jon Glenn Arfstrom - *RBC Capital Markets, LLC, Research Division - Analyst*

A question maybe for you, Mike. Just back on the margin, some clarification on that. I know this isn't the easiest rate environment for your company, but you feel like that 2.85% level could be the longer-term floor on your margin? Or is there something about the environment or changes in your business model that just points to a lower longer-term margin outlook?

James H. Herbert - *First Republic Bank - Founder, Chairman & CEO*

Could I add just at the beginning then we'll go to Mike -- don't forget that we had a one-time adjustment because of the tax rate change. We just operated in the 3.30% or so and the tax rate changed, as it impacted the TEY on our municipals brought our margin down. That's in a way -- it's not artificial, it's real. But it is a -- not business reason change for margin.

Michael J. Roffler - *First Republic Bank - Executive VP & CFO*

Yes. I mean as we look out and again, you can obviously look so far, but it feels like that's a good bottom end of the range. Obviously, it's a curve flattened from even here, our competition picked up. Either deposit or lending side, you could see the pressure. But as far as we can see, it seems like a pretty good place where the floor is right now.

Hafize Gaye Erkan - *First Republic Bank - President*

And I'd -- just to add for a second. So when it comes to NIM, 1/3 of our earning -- almost 1/3 of our earning assets are actual floating rates. On top of it, 60% of the deposits are checking, and that's almost noninterest bearing, it's 5 basis points, and it hasn't moved. Plus, our FHLB, our other wholesale funding, which actually came down quarter-over-quarter because of the strength in the deposit growth is longer-term than the peers'. So we have -- and most importantly, we actually given that we're a growth company and when other banks are growing year-over-year in the 1% to 3% range, we've grown in the mid-teens and beyond. So when you take a rising rate environment and couple with the growth in the earning assets, which is multiples of the banking sector and safe and sound, 75% comes from existing clients and their referrals, we have a lot of levers when it comes to a rising rate environment that doesn't reflect itself in NIM. But given it's a growth institution, NIM times earning assets, the NII growth is really what we care about.

Jon Glenn Arfstrom - *RBC Capital Markets, LLC, Research Division - Analyst*

Okay, good. That's all helpful. And then one of the accounting changes that's coming up is CECL, and it seems like it's almost unfair to your company because your losses are low but you have a little bit longer duration on some of your assets. And I'm just curious how you want us all to think about that? And if you have some early projections on the impact?

Michael J. Roffler - *First Republic Bank - Executive VP & CFO*

Thanks for the question, Jon. To answer directly, it is too early to say what the ultimate impact will be. We're working through the different portfolios. One thing to remember is historical performance does matter. And strength of underwriting and strength of LTV and the low losses that we've had will matter. Yes, it changes and it's a forward-looking life of loan versus what today is more of a backward-looking. And obviously, people are starting to write about it in the marketplace. But one of the sort of things that I would say is, yes, we're going to forecast an economic environment, but you're not going to do that for the life of the loan. So it's not expected under the standard to do that. You'll do it for a few years and then you will use your history. And our history is very low as you can see from all the losses that we've published in putting our decks over the life of the bank, which also goes through many economic cycles. You bring up the one point that we do have to work through, which is the duration of the portfolio and could it be increased or could it extend. So that's the one thing that we do have to look at. The other thing that I'd say is while prepayments have slowed, they don't necessarily slow to a place you'd think they would because our borrowers do prepay for reasons other than rate. And obviously, prepayments are going to have a pretty big impact on how you look forward because that directly impacts the life of the loan. And then obviously, we have the newer portfolio with the student loan and refinance that we have to look carefully at, which is different than what we've had in the past. But obviously, there'll be more to say sort of in terms of numbers probably in the future, next year at some point, if I had to guess.

Operator

The next question is coming from the line of David Chiaverini with Wedbush.

David John Chiaverini - *Wedbush Securities Inc., Research Division - Analyst of Equity Research*

A follow-up on deposits. It looks like overall deposit growth did slow year-over-year for the fifth quarter in a row. Now 14% is still excellent and well above industry average. But curious, do you view this 5-quarter trend as an anomaly? How should we read into that, if anything?

Hafize Gaye Erkan - *First Republic Bank - President*

No. So the second half of the year is always stronger than the first half of the year when it comes to deposits. Especially the fourth quarter is when we see the average account balances to be higher, especially -- both for consumer and business. And I would note that -- and Steven and couple of other analysts also look at the average growth -- average loans quarter-over-quarter were up $3.2 billion. Average deposits quarter-over-quarter were up $3 billion. So we're very pleased that they -- on an average basis, we've funded the loan growth in the quarter. And year-to-date, when you look at the growth of deposits year-to-date this year versus last year, it was roughly around 10% to 11% for both years, so pretty much in line.

David John Chiaverini - *Wedbush Securities Inc., Research Division - Analyst of Equity Research*

And also as a follow-up, can you provide an update on Gradifi, how things are going there?

Hafize Gaye Erkan - *First Republic Bank - President*

Sure. We have, in terms of number of employers signed or committed, we are over 500 employers on the platform. Just to put it into perspective, it was at or less than 30, 3-0, employers, when we had acquired Gradifi at the end of 2016. So we're very pleased with the increase. In addition to that, the product offerings went from a paydown of student loans to multiple offerings now into more holistic educational benefits platform that includes Gradifi refinancing platform which is a marketplace for refinancing of student loans, us plus a couple of other very good service quality lenders that cover nationwide as well as 529 SaveUp Plans, which allows the employees to use the financial wellness benefit to save up for their kids or grandkids, which covers now with the tax code change K-12. So we're really pleased with the progress, but it won't play into any profitable to numbers until 2020.

Operator

At this time, I will turn the floor back to Jim Herbert for closing remarks.

James H. Herbert - *First Republic Bank - Founder, Chairman & CEO*

Thank you all very much for being on the call today. We appreciate it. Bye-bye.

Operator

This concludes today's conference. You may disconnect your lines at this time. Thank you for your participation.