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PRESENTATION

Gerry Benson

First Republic is a commercial bank based in San Francisco, California, that provides private banking, private business banking, and wealth management services in California, New York, Massachusetts, Oregon and Florida.

Presenting today for First Republic is Mike Selfridge, Chief Banking Officer. He joined First Republic in 2012. And prior to that, he was Head of U.S. Regional Banking for Silicon Valley Bank, and actually that's when I first met Mike back in 1994, when I was first hired as a Credit Analyst. Mike was, I think, VP of International Business Banking there, and we overlapped for 8 years. So Mike's an old friend, and we're happy to have him back at [BAAB].

And joining Mike today is Olga Tsokova, Chief Accounting Officer. She joined in 2015 from City Nat.

With that, please join me in welcoming Mike.

Michael D. Selfridge - *First Republic Bank - Senior Executive Vice President, Chief Banking Officer*

Great. Thank you, Gerry. It's good to be here. And let's see I want to make sure, as it's a technology conference, that we get this right. So how do I proceed? Should have got this figured out. Bear with me. Can we -- yes, we'll figure that out.

So it's a pleasure to be here. I wanted to also introduce. We've got 2 of our senior folks here in the audience. Scott Dufresne, who started the Boston region in 2006. And Scott is the Regional Managing Director, has been with First Republic for a number of years. And we're delighted to have him. Also our Senior Managing Director, Amie Stevens, who is with our Preferred Banking.

So I realize that the theme of the conference is the relevance of data and technology with banking. We're going to go through our prepared remarks and we'll weave in some of those thoughts that we have on tech and the First Republic model. And then certainly welcome any questions you may have at the end of the presentation.

So we'll cover the model of First Republic and the opportunities ahead. And we believe they are strong. So the model unlike other institutions is a little bit different. We don't think of the world as silos or segments. We think of it as clients, and it's one client at a time. And it's a single point of contact. And what we find is that clients appreciate that. And so, for example, Scott Dufresne, who actually moved out from Los Angeles to start the region here, still maintains clients in Los Angeles, and that's perfectly fine. Because what you get is longevity of clients over time, and what they want is execution. And they want to be able to get a hold of Scott when they need something, and they need a quick decision. Our philosophy is a quick yes or a quick no, but it's decisiveness. It's empowering Scott to make decisions, and Amie, and that's the difference. And so while that might seem inefficient from a typical banking model, it's very efficient from our perspective. And it delivers, again, longevity of client over time.

Single point-of-contact, a culture completely centered around extraordinary service. We have a simple model, sustainable, consistent, everything we do it has the client at the center. And everything -- everyway we act is putting the client in mind, whether that's the wire room or those doing the business on the line.

The -- I'll talk about where the growth comes from, and then -- just some unique aspects of our model. It's a meritocracy. Sky is the limit in terms of what a Relationship Manager can do, but there is a credit claw back. Credit is one of the main pillars of First Republic. And if someone like Scott originates a loan that unfortunately doesn't work out, he is the workout group - that takes him out of the market. And if the loan gets charged off, Scott is going to have a claw back in the realm of 4 to 6x the amount he earned on compensation.

Mike can you help me again with this. Okay. Okay. good.

Strong geographies. We're only in a few markets around the U.S., mainly urban, coastal, very rich, deep markets. And if you look at the performance of those markets, we measure with consulting firm out in San Francisco, the regional GDP of our markets, compare that to the broader U.S. economy, and take that back to the pre-great recession, consistent regional GDP performance over time. The other thing to note is if you look at the highest-performing markets, the Bay Area, New York, Los Angeles and then add Boston, it is about 86% of the bank. So you take all of our markets, and they have outperformed the broader U.S. economy by about 39%.

The opportunity: One proxy, not the only proxy, but one proxy for the opportunity is market penetration. Many of you seen the update on our slide, we do a every-other-year study based on the Capgemini, world wealth study. And we look at high net worth individuals in our market. $1 million in investable assets or greater, and how are we doing? The point of it is, we're slowly gaining market share, but that's not the most important thing. The most important thing is the opportunity ahead. So we've been able to slightly increase market share of high-net worth households in our markets up to 87,000, 4.21% market share. Over a period of time going back to 2003 when we started this study, about a compounded annual growth rate in high-net worth household that we brought into First Republic in the range of about 11%, 12%. What's exciting to us is that, that 87,000 within the market has about 2.1 million high-net worth households, and this is less than 50% of our consumer households. We'll talk a little bit about our next-generation strategy and the future clients of First Republic. But, again, a great proxy.

The other thing is just little bit of the theme of urbanization into our urban coastal markets. If you looked at high-net worth households that resided in First Republic markets back in 2003, it will be about 46%, and that has increased to 59% at the time of our last study.

High touch, extraordinary service, high tech. High touch, high tech is the strategy. As I mentioned with the theme of this conference being tech and data, how are we using it to support the First Republic strategy? The report card of everything we do around extraordinary service comes through a Net Promoter Score, a loyalty score. How great do clients feel about their bank, a brand, a product, and it's the percentage of clients that are passionate and willing to refer other clients unsolicited. So the banking industry as a total in the United States has about 35% of their clients that are pretty passionate about their institution and willing to refer friends or colleagues unsolicited. First Republic is about 2x that.

So if we are the lead bank, the lead wealth management firm, the lead business bank, so this is the 3 main areas that we're in, our Net Promoter Score is one of the highest in the United States, if not the highest, with 83%. That's the extraordinary service model and the report card of all that we are doing. Our model as it relates to technology is still high touch. And again, relationships with Scott Dufresne and Amie matter. But what we're centered around is technology that can either free up their time and resources or make them smarter about the clients and prospects in their markets.

It also is going to enhance the client experience from a digital perspective. But, again, to complement the high touch model that makes First Republic what it is.

Forward. Growth, the left bar here represents deposits, again, another proxy for where the growth comes from. When you have a promoting client, and they refer their friend and colleagues, they do 1 of 2 things. They bring more of their business to First Republic and then they refer. So for us, there are 3 key concepts: The first is attrition. Our attrition rate is about 2%. The industry average is about 8% to 10%. Now, imagine if you're losing 10% of your clients, and you want to grow at 15%, you have to grow at 25%. That's a lot of churn and stress and lack of scale in an organization. If 2% are leaving it makes it much easier to retain the existing clients. And clients leave for whatever reason, they might move out of geography. The unfortunately pass away, divorce et cetera. So that is natural rate of attrition for us, that's about 2%. About 52% of our growth comes from that current client just getting trial and then getting delighted through the extraordinary service model and bringing us more of their business over time.

So if you think about a organization that grows household at 15%, 16%, if you don't bring another household in, current clients bring you 1/2 of your business, you're effectively intrinsically growing at 7%, 8%. Then the word-of-mouth sets in, and that's the 25% -- next 25% of our growth. So essentially 75% of our growth rate being organic, intrinsic, word-of-mouth centered around net promoting clients.

Consistency. I mentioned, I'll talk about consistency of geography, consistency of lending, consistency of deposits and type of clients. This just shows our geographies over time, going back to 2002. Essentially the same San Francisco, L.A., New York, representing 78% of our loan portfolio today. If you go back to 2002, that was 82%, not a lot of variation. Increases in areas like Boston, that went from 1% to 8% today. Again, we opened up in Boston, fully with staff and Scott in about 2006.

On the ground, great opportunities in areas like Boston, still great opportunities in New York, San Francisco, L.A. in the markets we reside.

And then lastly, what we're doing, again, isn't dramatically different from what we were doing in 2002. Some increases in areas like business banking, again, the strategy of business banking was really following our consumer households to the businesses they own or influence.

And as we realized in certain verticals, we can do it extremely well with very capable bankers, we grew that over time. But single-family mortgages, HELOC, still being about 54% of the loan portfolio today and going back to 2002, again, about 60%. So goes back to that, what's the opportunity ahead, and that's where we feel confident that we have many opportunities to keep a simple, consistent model and just keep going after 1 client at a time in our markets.

Stability. I mentioned earlier, I used Scott as an example, Amie as an example. The stability of relationship is a key differentiator. And so a metric is loan originations. We've originated since inception about $221 billion in loans, 90% of those loans were originated by bankers still with First Republic today. We have relationship managers that have been with us 2 years, 5 years, 34 years. And again, I go back to that single point-of-contact. And then credit quality, I did mention the importance of credit quality. We had charge-offs last quarter about $185,000 on the $72 billion portfolio. Over time, that's been more in the range of 7 basis points.

Deposits. About 86% of our funding coming from deposits. And just a brief comment on our deposit strategy. We have, in our opinion, a diversified source of deposits and diversified channels. So there are 3 primary channels where we got the deposits; Our branches, of which we have only about 70, which is not many for a bank of our size at $96 billion in total assets. Our Preferred Banking and business banking and then our relationship managers.

So the mix has been very nice consistently over time, about 56% business and the remainder being consumer, and then wealth management continues to play a good role in diversifying the deposits franchise. By type, 60% checking. And that's been, again, a consistent story over time. And then if you look at the average deposit balances on the consumer side, less than $100,000 and on the business side, less than $400,000.

One comment on the note here about -- approximately 1/6 the size smaller number of deposit relationships. I think that's more of a core philosophy of who we are. Goes back to the comment I made. Thinking small, being small, being nimble, executing, make being decisive for client. We can do that in many ways: One, I think, the cultural foundation of who we are drives that. Again, the client at the center, extraordinary service. But two of the numbers, again, aren't that significant. If we're about 1/6 the size of a bank that's in the $50 billion to $200 billion range, it gives us a lot of opportunity. And that goes for the technology strategy as well.

Business banking. A great contributor, again, to the deposit franchise. About 14% of our loan portfolio and again about 56% of our total deposits. We've grown this quite consistently since about 1999, 2000, I'd say in the last 10 years, we've had great traction of business banking, and we're optimistic about the opportunities ahead in business banking. Again, it ties into the working together with the individuals as well as the businesses that the owner influences. The important note here is that the deposits that we get through business banking, if we put $1 out, we get about $4.1 in deposits back. And then these, this is just the 8 specific verticals that we tend to focus on as it relates to business bankers. We have business bankers in each region. They work side-by-side with our relationships managers and our wealth managers.

And I'm going to hand it over to Olga. She'll talk about a few metrics as well as the next-generation strategy. Thank you.

Olga Tsokova - *First Republic Bank - Senior Vice President, Chief Accounting Officer*

Thank you, Mike, and good morning. So Mike talked about our exceptional client service, which you can see in our Net Promoter Score. And how our satisfied clients drive the growth of our franchise. And he also talked about the consistency and stability of our business model. And I will talk about the opportunity to attract the next generation of clients. I will talk about our wealth management business, as well as our credit and some other financial metrics.

Let's start with the next generation of clients. If you go back when the bank was founded, our clients and our lead products were home loan, jumbo home loan mortgage. And at the time the clients and people were buying the home loan -- homes in their early 30s. So nowadays, with the student loan debt being massive in the U.S. we had about $1.5 trillion of student debt in U.S. So first decisions to buy a home loans get postponed and people don't by their first homes until they're in their 40s. So we're thinking how we can help our clients? And we can help them with student loan debt as well as make the buying of their first home early in their life. And with that, we came up with 2 programs. We have our student loan refinance program and professional loan program.

So I'll start with student loan refinance. So we started this program about 4 years ago. And really trying to help our clients to refinance their very expensive student debt, at very attractive rates. And again, this will help them to buy their first home sooner.

And if you look at the credit metrics for the clients, they have very strong FICO scores. And they are typically employed, at least 2 years, and they're highly educated. About 90% of those clients have a graduate degree in their early 30s.

So the second program we have, we had for a little longer on the professional loan program side. Again, it's helping our clients or new partners, new managing directors in the law firms, in the private equity firms, to invest in their firms. And if we help them with that, and the goal for us is to have those clients with us for life. We help them refinance their student debt, we help them invest in their firms. Next thing, they're going to be buying homes, then they're going to expand into wealth management. And it's about our exceptional client service that keeps those clients with us. And in addition to developing and investing in the next generation of clients, we're also investing in developing the next generation of our relationship manager.

So we have people who already graduated. And these are the individuals who have been with the bank for a few years, who know our culture, who know our credit standards. And importantly, they're about the same ages of our clients and next generation of clients, so they can speak their language. So it helps our clients and helps to grow our bankers within the bank.

And if we look at the numbers, those 2 programs combined have about 20,000 households. And which is roughly close to 30% of the total borrowing households we have at First Republic. And importantly, if you look year-over-year growth in the households in those 2 programs was about 60% of the total growth of households in borrowing households of First Republic.

And then turning to Gradifi. This was a Boston-based company, which we acquired a couple of years ago. And again, it's a nice compliment to our next-generation strategy. So this company provides the technology platform that allows employers to provide benefits to the employees and to solve the student debt challenges. Basically, the employers contribute a certain dollar amounts to the repayment of student loan debt to their employees. And if you think about this, it's very important benefit that the companies can provide, that helps to attract and retain talent in such a very competitive environment we have.

And Gradifi expanded its offerings. Now we have college save up plan that allows the employers to contribute to the employee accounts for their college -- for their children's education. And also we expanded it to Gradifi Refi that allows, again, employers, at no cost to provide the benefits that the employees can refinance their existing student debts, whether through First Republic or through other providers.

So turning now to wealth management. Again, we have an open architecture platform. And it provides an unbiased perspective. And we don't have any proprietary products that First Republic is selling to its clients. And actually our clients who appreciate that, and so do our wealth advisers. And as you see here, we have a pretty nice growth and this chart shows last 5 years' worth of growth in the wealth management, both from the asset side as well as the revenue side, around 30% each. And if you think about the source of growth, it comes from our existing clients as well as our new clients. And new clients also include those that the teams we've been hiring over the last few years from different firms bringing with them. Again, it a strong franchise and demonstrates very strong growth.

And importantly, becomes larger portion of the banks revenue. If you look at the last 5 years, the contribution of the wealth management revenue to the bank's revenue almost doubled. We had just under 7% in 2012, and we're about 14% in the current year.

And now we'll talk about the efficiency ratio in a minute, but if you think about wealth management business, it has higher efficiency rate and wealth management growing faster than the growth of the bank, it contributes to the efficiency ratio and actually, has an upward impact on the efficiency ratio.

Speaking of which, our efficiency ratio really is a reflection of our high touch and exceptional service model. And as I said earlier, we continue to invest in our franchise. We invest in our strategy to attract the next generation of clients, we invest in our wealth management business, and we invest in the technology. And we feel pretty comfortable with our range of 63% to 64%. And again, I think, it's reasonable, if you think about that opportunity that we have ahead of us. And we'd like to take advantage of those opportunities.

And now, we'll turn to net interest margin. So Mike talked about the consistency and stability. And this chart really shows that as it relates to the margin. Over the last 15 years, through different rate cycles, if you look at the margin, it has been consistently up until 2018, was in 3% to 3.30%-ish range. And again through various rate cycles. In 2018, the range changed because now we have with the tax reform reduction of our corporate tax rate, there was impact -- downward impact on the calculation of the margin. Again, it doesn't impact the net interest income we make, but it's really impact the calculations. So the range now is 2.85% to 2.95%. Again, we're comfortable with this range, given the environment that we're in.

An important metric for First Republic is our exceptional credit quality. So this is something we are very proud of. And if you look at the slide, we have about 15-plus years of history. And it shows how First Republic credit losses compared to those of top 50 U.S. banks. Over the last 15 years, our losses were 6x less than those of the top 50 U.S. banks. And if you look at the worst year for our losses, which was 2009, we lost only 48 basis points, which is 3x less than the group.

And this shows our credit history since our inception since our founding. Since 1985, we had originated over $220 billion of loans. And our credit losses, cumulatively, since inception were only 15 basis points. And if you look at just our home lending, which is more than 1/2 of our lending, those losses were just 6 basis points. Again, it's a cumulative number since 1985.

And we've been conservative lender and our underwriting standards, they are conservative. And again, this shows the history, look at 2010, and now, 2018, we have LTVs at originations of under 60%. They have been consistent through the cycles. And actually, in the recent couple of years we further tightened our credit standards.

So in summary, when we think about credit, what are the contributors to the strong credit for First Republic over time. It's a combination of 4 factors: Mike talked about the stability of our -- Mike talked about stability of our lending portfolio, longevity and stability of our bankers, and conservative and consistent underwriting.

In summary, we have exceptional client service that delivers organic growth for First Republic. And we have a lot of opportunities ahead of us in the markets that we're in. Credit underwriting, very important to us, so is capital, and we're delivering stable results.

So with that, we'll open up to questions.

QUESTIONS AND ANSWERS

Unidentified Analyst

(inaudible)

Michael D. Selfridge - *First Republic Bank - Senior Executive Vice President, Chief Banking Officer*

Correct.

Unidentified Analyst

(inaudible)

Michael D. Selfridge - *First Republic Bank - Senior Executive Vice President, Chief Banking Officer*

So the question -- thank you, John -- is really how do we feel about the credit side. We've had a great track record, and -- but going forward, just law of large numbers, bigger loan portfolio, is there a little more risk in the portfolio, that's fair to say? The answer is, we're not -- we're very diligent about our credit underwriting. And it's been very consistent over time. So we are not concerned about the credit quality in our portfolio. We have been very consistent in terms of -- and your specific question on areas like multifamily and commercial, very consistent in terms of underwriting, debt service coverage, recourse to borrowers. And so if you look at, say the origination of loan-to-value over time, it's consistently been in the 50% to 52% for income property. We have and we've said this before, been a little bit more cautious over the past few years as it relates to certain segments, multifamily and commercial being the specific segments. And so what we've done is ratcheted back LTV at origination in some categories. So for example, if you look at multifamily, we're originated at a -- average loan-to-value about 61% back in 2010. Today, that's more in the range of 51%. But I would say going forward, it's sticking to our knitting and more of the same. And I think you can expect credit performance to be very consistent from the historic perspective going forward.

Olga Tsokova - *First Republic Bank - Senior Vice President, Chief Accounting Officer*

And also just to add of that. We can compete on rates but we never compete on credit in such a competitive environment.

Michael D. Selfridge - *First Republic Bank - Senior Executive Vice President, Chief Banking Officer*

That is a very good point. So the A+ client as we say doesn't get B- pricing, that's a fool's errand. So very competitive for our clients and most often the conversations is more about relationship and pricing. Yes, Matthew.

Unidentified Analyst

(inaudible)

Michael D. Selfridge - *First Republic Bank - Senior Executive Vice President, Chief Banking Officer*

Now that's a great -- so the question is, how we're marrying high touch and high tech. And I think this -- I saw the comments earlier from one of the larger banks and just the sheer numbers that they can devote to a technology budget. As a smaller institution, we certainly can't. But what our advantage is, I think, goes back to empowerment and flexibility. So I'll give you a few examples. I can turn to my colleagues, Scott and Amie here who are actually using this. First of all, being very flat, we can get input from Amie and Scott and our bankers as to what the needs are, and communicate and execute very rapidly. So that makes it difference. Two, I think our proximity in areas like Boston, New York, Silicon Valley, banking a lot of innovators and venture capital firms gives us a front-row seat to what's going on in areas like FinTech. And then it allows us to take little experimental shots on goals with regards to some of our digital capabilities, and we've been able to prove that in areas like the front-end mortgage app that we can integrate into our back-end loan origination system. The data side, I'll give you an example. Cyber is a hot topic. How do you differentiate yourself in cyber from the tools and people that are actually watching the risk of the organization? We've taken it to the First Republic model, which is how do we better serve our clients in areas like cyber? So while we use artificial intelligence machine learning for the back-end of something like cyber, we can get out and educate and do health checks, for example, for you, Matt, or your business. Send our cyber experts out there, having them completely scrub your systems and give you a check list as to the things you ought to be doing. A lot of education, a lot of training. We can -- we've developed technology to look at fraudulent URLs and go to our clients, and say you might want to know these 13 fraudulent URLs are out there. So block them because what happens is people send spoof emails, ask CFOs to execute on wire transfers and sometimes the money goes and that's unfortunate. Data, and this is where I'll turn to Amie and Scott, but getting more information about clients and prospects in the hands of bankers to first of all, free-up their time, because if there is high touch, Scott and Amie's highest value is to be with clients and prospects. So we can use technology to further empower them, but also take some of the burden off them for more of the mundane tasks of day-to-day. And also dashboards that give you a view into your client insights. And Amie, I don't -- you're a user of that. Maybe you want to talk a little bit about some of that technology, and Scott as well.

Amie Stevens - *First Republic Bank - Senior Managing Director, Preferred Banking*

Sure. So the dashboard is something we -- we rolled out a couple of years ago, internal. And what it does, it allows the front line to efficiently reach-out to our clients. More of them, right. So in regards to all the technology, high-tech, high touch, we give our clients the tools, both on the private banking side and the commercial side to run their business. They're not calling us every day. However, the biggest difference is we still have the people behind there when something goes wrong or they need us. So I run the private bank group, if they can't log in, they're not calling an 800 number. They are calling someone right here on Federal Street or in New York or California. And that's powerful. And these dashboards have been life-changing for us. We're able to reach out to clients that maybe weren't on our radar before, and it is all AI backed technology, I'll go back today and probably reach out to about 20 clients right away, and it's amazing, amazing to see.

Michael D. Selfridge - *First Republic Bank - Senior Executive Vice President, Chief Banking Officer*

Scott, anything you want to...

Scott J. Dufresne - *First Republic Bank - Regional Managing Director, Relationship Management*

Yes. I would just add in the last 3 years we've had artificial intelligence here at the bank, something that we did not have prior to 3 years ago. And this is a group that's ready and able to respond to whatever our local request is. I just reached out to them yesterday, asked them to slice something for me. And I would expect in the next day or 2, I will have a report back with exact -- the exact data that I was looking for. Prior to 3 years ago, this didn't exist. We would do this manually as a one-off, but we now have a team that's waiting to help in anyway, it's a big addition.

Olga Tsokova - *First Republic Bank - Senior Vice President, Chief Accounting Officer*

And maybe just a quick add on Mike's earlier point on the technology and availability, and how it impacts our next generation of clients. Another example of the technology tools which we've made available to our clients is our Eagle Invest, which is online investment platform, which we have started to rollout last year, and it's going to continue to rollout going forward, which allows our younger clients to invest in our (inaudible) advisor. So this would be another example of technology.

Michael D. Selfridge - *First Republic Bank - Senior Executive Vice President, Chief Banking Officer*

Gerry, do you want to...

Gerry Benson

Yes. go ahead, Ken.

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

(inaudible)

Michael D. Selfridge - *First Republic Bank - Senior Executive Vice President, Chief Banking Officer*

In terms of the mix of the loan portfolio, in aggregate?

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

(inaudible)

Michael D. Selfridge - *First Republic Bank - Senior Executive Vice President, Chief Banking Officer*

I don't, I don't -- the answer is I don't know. The question is really are the student loan refinance and the professional loan program is going to just by virtue of the larger numbers and number of household borrowers. It certainly become a bigger percentage of the mix. But I don't think we're concerned that it becomes so large that it's hard to outrun the machine. And then the other thing is the credit quality, even if it does grow and become a larger mix, the credit quality of these student loan refinance households as well as the professional loan program have been extraordinary. So we've had out of our 16,600 student loan refinance households, 3 charge-offs. And so we feel good about the credit quality, even if it becomes a larger part of the portfolio.

Olga Tsokova - *First Republic Bank - Senior Vice President, Chief Accounting Officer*

And just to add on that, what we will see over time is going to be a transition from the student loan refinancing to home loan. So this is what we're going to see in terms of the strategy going forward.

Michael D. Selfridge - *First Republic Bank - Senior Executive Vice President, Chief Banking Officer*

We're not going to drop our credit standards by any stretch of the imagination for what we're doing. And so even if there are 44 million households with student loan debt outstanding, of which a percentage is in our markets, we're really cleaning the cream in terms of the opportunities. As Olga mentioned, 90% of graduate degrees, been employed for several years within our core markets and are a very good credit risk from our perspective.

Gerry Benson

Go on, Geoff.

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

(inaudible)

Michael D. Selfridge - *First Republic Bank - Senior Executive Vice President, Chief Banking Officer*

The question is, the FDIC assessment and the announcement that we made that we will be migrating to a new core banking system. It's too soon to tell in terms of the size of the project, but we're working on it. And as we get more information, we'll certainly make that available. What we've said is the benefit that we will get from the FDIC assessment, which is probably expected sometime early next year, will essentially offset the cost of the core banking system. So from a analyst and investor perspective, it should be about neutral. And actually, we're very excited about it. It gives us a chance to really upgrade the core system. And if you look at step back on the strategy of technology, the real strategy, whether it's the new consumer online platform that we launched last year or the core banking system, it's all about flexibility. And so one of the things we don't know is what's the latest and greatest payment mechanism or bill pay in 5 years from now. But if we build the architecture allow for more of a plug-and-play that puts us in the advantage, coupled with our ability to execute.

Unidentified Analyst

(inaudible)

Michael D. Selfridge - *First Republic Bank - Senior Executive Vice President, Chief Banking Officer*

Yes. It's -- do you want to take that one?

Olga Tsokova - *First Republic Bank - Senior Vice President, Chief Accounting Officer*

Sure. We think about average age of the wealth management, again take it back to when we were founded. So they were in their early 30s. Now 30-plus years, and they're 60, so they're expanding -- they already have more -- many of them have the wealth management relationship with us. But it's going to continue to grow as they get older. What's interesting we see was the next generation of clients we're bringing in. We will be providing them some tools, they can invest them through Eagle Invest, but also if you think about comparability of our clients and their credit and educational background, as we said, more than 90% of them have the graduate degree. And if you compare to our lending, the borrowing clients and overall, there are about 50% hold a graduate degree. So those younger clients, they're already more highly employable, and we're going to see the trajectory of wealth generation going probably faster than the generation before that. So we'll see the mix of overall on the overall age of our client base on the wealth management side, it's going to be trending downwards, because the younger clients makes their wealth sooner, and we have some great examples from Silicon Valley, where very young people take a lot of money.

Michael D. Selfridge - *First Republic Bank - Senior Executive Vice President, Chief Banking Officer*

And that's true for the company as a whole. So if you go back to 2014, I would say, maybe a quarter of our borrowers were under the age of 40, average age of a First Republic client may be 58, 60 years old. Today, those averages have come down, as we've launched the next generation strategy. And today, about 38%, I think, is the number Jim may have quoted at the conference earlier this week, of our borrowing households are under the age of 40. And really the strategy here is almost a bank growing within a bank. So what we really want here, we're capturing a segment of clients historically that we get through mortgage lending, but if people are just deferring things in life to be a little bit later, if you're buying a house later, we don't want to give our competitors a 10-year jump start on our First Republic clients. So that's where areas like professional loan program and student loan refinance have been so important to us, because what we're really doing is marrying them again with the high-tech, high-touch strategy. And then we want to be there for those inflection points in life: Married, children, buying first home, whatever that may be, we've matched them up with relationship managers.

Unidentified Analyst

(inaudible)

Michael D. Selfridge - *First Republic Bank - Senior Executive Vice President, Chief Banking Officer*

Sure. The first question is the dovetails on the credit quality of student loan refinance and professional loan. But more so, how profitable is that business to us? And then second, new geographies. Which one do you want to take?

Olga Tsokova - *First Republic Bank - Senior Vice President, Chief Accounting Officer*

I'll take next generation.

Michael D. Selfridge - *First Republic Bank - Senior Executive Vice President, Chief Banking Officer*

All right. go ahead.

Olga Tsokova - *First Republic Bank - Senior Vice President, Chief Accounting Officer*

So when we think about the profitability, again, the student loan refinance program it's a relatively new program. And the first 2 years, to really heavily invest into the products and the service. Also building and developing the next generation of relationship managers. So when we think about the period when we start seeing the returns about 18 months. But as we build this portfolio, let's say, to start with 5,000 households in the first year or 2. And in 18 months, you're going to start paying off. And then you continue to build and add another 5,000 to 8,000 households every year or so. So the expense on the larger base will be less. So you're going to have the faster returns as you grow the base. And this was how we think about this. But also if you think about those clients, they are already -- if they only have the student loan refinance product with us, they already have about 4 additional products with us as well. So there's going to be their deposits, their checking account for building this base, that we can build off with them going forward.

Michael D. Selfridge - *First Republic Bank - Senior Executive Vice President, Chief Banking Officer*

I would take 2 perspectives, one is the short-term and the other is the long-term. The short-term, if probably if you look at the marketing cost, cost of acquisition, probably takes maybe to somewhere between 2 and 3 years to call it profitable. We also require relationship. So these are not one-off student loan refinance or professional loans that we're making, this is relationship. We want checking. We want your banking. But more importantly, on the long view and what we've learned over time is that how do you measure ROE on 20, 25, 30-year relationship? What we see is that this cohort of student loan refinance and this cohort of professional loan households are going to be the future, running their firms or executives or leaders in their community. And so what we're there -- what we're getting for them is with relationships their financial needs over time, which leads first -- probably to single-family mortgage then to areas like wealth management and financial planning.

The second question on geography, the latest geography announcement we made was a opening in Jackson, Wyoming. And the couple of thoughts there. One, just things going on with tax laws, make it attractive, we had the strategy in Palm Beach with regard to Boston clients as well as New York clients. Two, so significant overlap on coastal clients in our core geographies, that's the second piece of that. So I would say, it's a tax-efficient opportunity in terms of the state. A lot of overlap, and we will look to open, we're trying to staff that now, but we'll look to open that late this year, early next year. No other plans in terms of new geographies, that's the one exception.

Gerry Benson

Okay. That's -- we're actually a little bit over here. So I appreciate Mike, Olga, rest of the team.