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Home Bancshares, Inc. (Conway, AR)

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Special Call

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Presentation

Operator

Good day, and welcome to the Home BancShares, Inc.-CCFG Fireside Chat. [Operator Instructions] Please note, this event is being recorded.

I would now like to turn the conference over to Donna Townsell, Director of Investor Relations. Please go ahead.

Donna J. Townsell
Senior EVP, Director of Investor Relations, Executive Officer & Director

Thank you, Carl. Hello. I am Donna Townsell, Director of Investor Relations at Home BancShares, and I would like to welcome all the participants to our fireside chat series. During this current environment of social distancing and uncertain economic times, Home wanted to offer a venue to stay connected to our investment community. Today's discussion will focus on our Commercial Finance Group out of New York. We published some slides on our Home BancShares website that you might want to reference during the call, and I will draw your attention to our forward-looking statement on Page 2.

At this time, I will turn the call over to our Chairman, John Allison.

John W. Allison
Co-Founder, Chairman, President, CEO & Executive Officer

Thanks, Donna, and welcome, everyone. I hope this is beneficial. We did it last week, week before last. Kevin, was it the week before last? 2 weeks ago with our hotel book at about $1.3 billion in hotels, about $906 million in finished hotels and the balance in construction. And I think we even learned something new. It was kind of a deep dive into our -- that asset class and I think we learned a lot from the dive ourselves into that class. We've kind of learned that we separate them from extended stay, low-cost hotels to interstate hotels to water hotels that are all booming, by the way, and then downtown hotels. And all of them have different circumstances. And we actually had 4 of those -- of our owners/operators on the phone. Someone said that John had probably put his friends on there. And the truth is that's correct, except they're all our friends, every one of those hoteliers are our friends, and everyone has a different story.

So as they laid that out, what's happening in the hotel industry, I think you're seeing what they said happened come to fruition. So even the interstate hotels are picking up. And interestingly enough, our low-cost, extended stay hotels, which we have about 40 of those, are almost 99% full. So those hotels, surprisingly, are doing very well. But there were some requests by some groups. We're probably going to walk through all asset classes eventually. We might come back with building -- I mean office at some point in time, maybe retail, and then maybe single-purpose, and just continue it rolling forward because this team, Home BancShares team is working very hard to look into these asset classes and see if we see a problem. As of now, we have found one restaurant out of the group that might be a problem, and it's $400,000. So we probably have bigger problems than that at some point in time, but so far so good.

Today with us is our New York operation group, Chris Poulton and his team. They -- we joined in about March, I think it was, of 2015. They're great underwriters. They've done a great job. They have -- that team has never had a past due. They've never had a charge-off. And they've generated hundreds of millions of dollars in pretax income for Home BancShares. So it really spun out the Doral sale, and we were invited to New York on the -- with the FDIC. After that, we went over to visit with Chris and his team. We didn't know each other. And I actually intended to spend 30 minutes and just [smoot]. And that turned into a 3-hour conversation. And when we left, I asked our people to do due diligence on their entire book. And one thing led to another, and their team joined us, and it's been a great experience for us and them. We help each other.

And after saying nice things about you, Chris and your team, I think I've probably said enough nice things about you. I'm going to turn it over to you and let you have it.

Have we lost you, Chris?

[Technical Difficulty]

It appears that we have a technical difficulty.

Donna J. Townsell
Senior EVP, Director of Investor Relations, Executive Officer & Director

Chris, are you possibly on mute?

John W. Allison
Co-Founder, Chairman, President, CEO & Executive Officer

Are you on mute?

Well, Chris is in New York, and we're in Conway, Arkansas. So his line is open on my end, that's cool.

David, can you hear us?

David Seleski
Director

Yes, I can. Yes, I can hear you, I'm just texting Chris, something on his line. He has, as you say, gone dead. He's just trying to get in. So I think if we give him a minute, maybe he can redial and get through.

John W. Allison
Co-Founder, Chairman, President, CEO & Executive Officer

Actually, it's really a good story. I'll tell a little more of the story. What I told Chris, I said if we can hit $1.3 billion in his portfolio when we were meeting with them before we did the acquisition, and we try -- we bid on the $1.3 billion in the failed bank transaction, and we were not successful. JC Flowers bought a $289 million piece of it. We had already done due diligence on it, so we knew the loan. And Chris was -- and his team were continuing to service.

So what we did was we just bought the $289 million piece from JC Flowers. It was already being serviced by Chris and his team. And from there, we started. And I think it was $15 million pretax the first year they -- I think it's $15 million after-tax the first year they made. And then the next year was $45 million, $50 million and then $60 million and then $70 million. So it's been a pretty good run the whole way since we started.

Home -- I mean CCFG runs about 10% to 15% of our assets. I think we capped it at 15%. We've capped CCFG at about $2.1 billion. They haven't gotten there. They're running at about $1.6 billion. 88 right now, I think, according to the charts, as you can see. They've originated over $5 billion in loans. And I'm kind of reading his charts here while we're waiting on him, collected over $4 billion in payoffs and paydowns and generated $275 million in pretax pre-provision income.

So for a company that we paid -- we paid $0.99 for the JC Flowers trade and bought the $289 million piece and that worked very well for us. And interestingly enough, we -- in that pool, I like the way they underwrite. I like what they've done. I like how they structure their credits. They're about as good a structure of credit as anyone I've ever seen.

So we had a credit in Houston, Texas, where the parent filed bankruptcy. We had interest coverage on it. And this was out of that $289 million piece. And I thought, "Well, we're going to have to see how well that works, if that's going to work or not going to work." So the parent filed bankruptcy, which spew the sub in the bankruptcy. And I thought, "Well, here we go. We'll see what happens." And we were senior in the deal at about $60 million, I think. David, if you remember that trade, about $60 million?

David Seleski
Director

That is about right. And maybe $1 or $2 less. Your memory is good, Johnny.

John W. Allison
Co-Founder, Chairman, President, CEO & Executive Officer

And we -- when it went into bankruptcy court, I think we had -- you can help me with this, David, I think we had about 5 bidders, and the low bidder was $110 million. Is that in the range?

David Seleski
Director

Yes. That's also in the range. So we -- that one worked out pretty well.

Christopher C. Poulton
President of Centennial Commercial Finance Group

Johnny, it's Chris. I apologize for that. Our phone system went down right as you were talking.

John W. Allison
Co-Founder, Chairman, President, CEO & Executive Officer

That's not a problem. I was just asking if there are any other questions. If there weren't any more questions, we'd adjourn.

Christopher C. Poulton
President of Centennial Commercial Finance Group

Well, I heard really nice things about me. So...

John W. Allison
Co-Founder, Chairman, President, CEO & Executive Officer

I was -- I just started in your -- a little bit in your slides, so just take over. It's your show.

Christopher C. Poulton
President of Centennial Commercial Finance Group

There you go. I appreciate that. I appreciate that. Sorry about that, everybody. But as many of you know, I do like to remind Tracy and Johnny what the traditional anniversary gifts are each year, so they know what to get me. Last year, it was a fruit basket. This year is our fifth year anniversary this year, and the traditional gift is wood. Instead, I got a pandemic and global economic crisis. So that's not anything new for us actually, though, because we started this platform in 2008 and we were sort of born amidst the chaos of a financial crisis then. Our platform and our approach and our processes and team all came together during that time of significant stress and uncertainty, and that period of time impacted how we think about our business and how we approach our business.

Donna did mention that there's a short presentation available as a companion document for today. And while I won't walk through each slide, I will refer to data that's contained in there. And it does provide a good rough outline for our remarks. Also, as Johnny mentioned, we have a number of our team members with us today, and they'll be available to assist in Q&A as well.

When we joined Centennial back in 2015, we brought with us a high-touch, national-focused specialty commercial lending platform. And when we joined, Johnny and Tracy and I and the Home team agreed to sort of 2 things. One is we wouldn't have volume targets, and the second is that we'd set parameters to limit the overall size of the portfolio to no more than 15% of assets. Since that time, we've held to those principles. And today, we're about 10% of total assets.

As Johnny mentioned, we brought over an initial portfolio of about $289 million, which was a small portion of our CRE loans. We grew that steadily in the first couple of years as we brought back old friends and clients and added new ones. Over the past 2 years, though, we've seen balances moderate. And I know that for many, over the past few quarters, you've noted the slower growth rate over that time and I responded at that time that we'd stayed focused on being able to add loans that we felt met our criteria and that since we don't have volume targets, we also felt no pressure to bend on lending criteria in order to drive that volume of balances. It's my hope and expectation that this discipline is going to serve us well in the coming months and years as we deal with this crisis.

One feature of our portfolio is that it's generally shorter in nature -- shorter-duration assets. And while we've originated over $5 billion of loans since we've joined, we've also seen consistent payoffs, about $4 billion over that same period of time. This allows for constant refreshing of the portfolio, and we frequently test our underwriting and our loan structures against that portfolio. So the nice thing is, as we see more loans come in and pay off, we can sort of test how those structures work. It allows us to move into and out of product and asset classes as we perceive as the markets changing, which we, again, perceive them changing.

We do manage 2 platforms at CCFG. We'll talk about both of them. One is in what we call Centennial Commercial Asset Management, and that's our C&I book; and then Centennial Property Finance, which is our more traditional CRE operation. Historically, pre-Centennial, we operate at about a 50-50 split between C&I and CRE. Since joining Centennial, we've kept that split really more like 80-20 or 70-30 between CRE and C&I. And today, C&I represents about 1/4 of our loans, right about 70 -- right about 24% or so of the -- 26% of the loans.

We have a pretty high-touch nature to our approach, and that allows us to stay focused on individual credits. And we stay very focused on which credits we allow into and which credits we take out of our portfolios. As a result of that, we tend towards a low-volume approach. And right now, we have less than 100 total loans across the 2 portfolios. But this allows us to manage our exposures at both the portfolio level, which we'll talk a little bit about today, where we have specific limits and targets on the types of loans and the collateral regions and industries, et cetera, but also at an individual asset level. And so while we think about these as portfolios, we also are able to sort of look at these at a one-at-a-time basis as well.

Centennial Commercial Asset Management, or what we call CCAM, manages between $400 million and $500 million of C&I credits. We're just over $400 million today across 45 positions. At CCAM, we don't directly originate our loans. That eliminates the need to invest in a direct sales originations team. Instead, we -- our credits are structured as participations in larger loans or lending facilities. That allows us to focus and organize our team around underwriting credit portfolio and asset management.

We participate in really 3 product types in C&I. We have a book of structured facilities. We have a book of broadly syndicated leverage loans, and we have a book of middle-market bank loans. Historically, our focus had been in the larger, more liquid, broadly syndicated leveraged loan market, where we had previously managed about $1 billion, $1.5 billion of those credits when we were at Doral across a number of investment vehicles. But when we joined Centennial, we focused on building a much more modest initial portfolio of about $100 million across 10 to 15 names in the broadly syndicated space.

However, during the past couple of years, the broadly syndicated market saw leverage increase and pricing decrease, and we began to deemphasize that product in favor of participations in what we consider to be more bank-led, middle-market credits, which the companies there are generally a little smaller in size, but they generally represent significant names in their respective markets. And those credits typically hold both stronger covenants and slightly lower leverage points than we were seeing in the broadly syndicated market.

In each of those 2 products, broadly syndicated and middle market, we tend to favor exposures in the $3 million to $10 million range. And I think you'll see in the presentation, we talked about $7 million as really the average hold position in those markets.

Over the past year or so, though, we've really focused most of our growth and, in fact, all the growth in our commercial business over the last year or 2 has really been in the structured products, what we call senior-secured, multi-asset, super-priority facilities, but it's easier just to say structured facilities. These structures are geared towards providing downside protection, and that's one of the things that we started to focus towards over the last couple of years was as pricing declined and leverage increased, we started looking for opportunities to stay participating in C&I but to start to look towards some downside protection, in case we would need that. So generally, these have lower leverage, higher diversification and more covenants. Plus they generally also have institutional sponsor support within the facility as well. They're generally asset-backed, and they allow us to spread our risk over significantly more individual credits.

The presentation we provided shows sort of 2 examples, and we thought it might be interesting just to kind of walk you through a little bit about what do we mean by structured facilities. That is really the largest area for us in terms of outstandings as well as commitments. And we give 2 examples. One is a multi-asset warehouse facility that we have through an experienced asset manager. We have a $50 million participation piece of a larger $350 million facility. That's spread across the portfolio of 50 senior-secured loans. And the way that works is loan covenants result in an advance rate generally of about 60% against the underlying loans. And the overall structure provides additional structural support, which really provides for really a AA-type protection. In this particular case, it's a rated facility. Sometimes, these aren't rated. But generally, they're all geared toward trying to provide additional credit support that gets you towards a AA-type protection.

The second example we give is from the energy space. Traditionally, we allocate about 10% or so of our C&I portfolio to energy credits. That's not unusual. It's generally about 10% to 15% of overall C&I portfolios. We keep it around that 10%, 15% range. But when you have a $500 million or smaller portfolio, getting sufficient diversification across the energy types is a little bit difficult. So if you want to get diversification across upstream, midstream, gas, oil, sustainable, et cetera, it becomes pretty difficult with a smaller portfolio.

So in 2018, we took the decision to exit any individual names in energy and instead chose to participate in a borrowing base facility that was co-managed by some experienced managers that we knew. That facility has a mark-to-market feature, and it allows us to spread our credit risk across 40-plus names and also provides sufficient or additional credit support. So for example, today, it has an underlying loan to current mark-to-market value of less than 50%. So we have sufficient or pretty significant support in that structure.

On C&I, for now, we kind of believe that the current level of exposure to C&I credits is sufficient. We're content to manage the existing portfolio while we evaluate whether or not there'll be changes in the future that allow us to look at some near or midterm opportunities. But again, for right now, we're really focused on managing that portfolio.

Our larger portfolio and our second platform is Centennial property finance. That represents the larger and more commonly discussed portion of CCFG at about $1.2 billion, a little more than that in outstandings today. Unlike CCAM, our Property Finance Group does directly originate its own loans. And in fact, we originate, we underwrite, we service and we asset-manage all of our credits with dedicated in-house teams. We've originated 100% of the loans in our portfolio, and we do not participate out with other banks.

Similar to CCAM, we have 3 primary products or product solutions. The first, again, is a structured facility. The second product type is a single asset. So a structured facility is generally multiple assets to the same borrower. A single asset bridge loan is generally going to be a, as it says, a single asset, and it's a bridge loan, which means that it has something that's going to occur to the property in a short period of time.

And then we have an active construction product as well. Historically, we would run about 1/3, 1/3, 1/3 across those products, with the variation really being in how much of the construction loans have been drawn at any given time, which is generally just how far you are into the projects, and then how much of the guidance facility on these structured facilities has been drawn at any given time. So generally, it's 1/3, 1/3, 1/3. Sometimes it will go 25%, 25%, 50%. But generally, we try to keep the portfolio sort of roughly even, again, depending on where we are in the cycle.

All of our loans are distinguished by a combination of lower leverage. We have about 42% loan-to-value for the entire book today, and shorter duration, generally in that 2-year range. And each have loan structure designed to provide credit enhancements, which we'll talk about a little bit more as well. We target initially a loan-to-value in the 40% to 50% range, and none of our loans today have over 60% LTV.

Structured facilities were our first product, and it was what launched our national lending business. We've continued that throughout. We have 8 facilities today, about $300-or-so million in outstandings. We have -- the total facility sizes are about $500 million. But it's important to note that in our facilities, we underwrite each individual assets, and none of the availability is actually committed, rather, we have sole discretion as to whether or not we advance any availability on a new asset. Facilities tend to be longer term in nature, typically about 5 years is the facility length, but the assets themselves generally come in and out a little bit more frequently. The facilities are really set up to allow and really encourage repeat borrowing. So you borrow, repay and borrow again under the same facility.

Under the single asset bridge lending, those are single-point collateral exposures to assets in transition. So that could be predevelopment land, building lease-up and asset repositioning. Our average exposure is about $25 million, and the payoff on these is generally in and around 24 months. We have an initial term of about 24 months, and I think an even number payoff before that and an even number payoff just after that, but they're generally shorter duration.

And then finally, our last product in CRE is for active construction projects. We're generally targeting projects in the $25 million to $75 million range. We will go higher for the right mix of collateral, sponsor and leverage. But today, our average commitment is about $51 million, and we kind of stay in and around that number. We're managing today 21 active projects. So we monitor these projects at a fairly detailed level. We focus on a few projects in key markets. So you'll see in the presentation, we say 75% of our construction projects are in 4 primary markets: New York, California, Miami and Texas.

And the construction side, we're low leverage, nonrecourse structured lenders. What does that mean? Well, it means about 70% of our committed construction balances have a capital structure that includes some form of subordinated financing. So that's preferred equity, mezzanine or back leveraging in a loan-on-loan structure. That allows us to maintain a really low loan-to-cost. So we're 51% loan-to-cost in our construction portfolio, which means that in the capital stack, we're about half of it. And the other half of the dollars come from another source that's junior to us. And we have a low loan-to-value, about 45% in the construction portfolio, which ensures that there are multiple sources of financial support for each project.

We do focus primarily on residential and mixed-use properties. We are open to other product types when we feel the projects warrant consideration. But again, the vast majority of our loans are in the residential and mixed-use space.

Our loans overall in CRE are originated through 4 offices: New York, which was our first and is our primary office. Through this office, we originate, underwrite, service and asset manage the portfolio. New York metropolitan area is a significant market for us and generally represents 40% to 50% of our loans. In 2017, we expanded by opening a loan production office in Los Angeles to service our existing West Coast clients. We've always had a West Coast presence in our loan book, but we opened up the LPO there in order to better serve our existing customers and also to expand our presence in certain key Western markets, primarily Los Angeles, San Francisco, Denver and Utah. We've steadily grown that portfolio. And the West Coast region now rivals New York, both accounting for about 40% of outstanding loan balances.

We also operate 2 other offices. We have an office in Dallas, Texas, that was initially focused on expanding our capabilities in underwriting and asset management. And then we added an originations capacity there. We've seen new opportunities arise in the Texas and Southeastern markets, which is what we -- which is where we focus out of Dallas. And that pipeline, especially in the past year, I think, has been growing. And we see some pretty interesting opportunities there today as well.

And then, finally, we opened a Miami office this year. Miami is what I refer to as New York Sixth Borough. That was -- we opened that office to better accommodate the flow of our New York clients that have expanded or relocated from their traditional New York offices to South Florida. Several loans that we list as managed from this office were previously originated and managed out of our New York office and represent a number of our structured facilities where they have assets across the U.S. Nick Santoro, who's on the call with us today, he also runs our -- he's Head of our Property Finance Group overall, but he also moved to Miami to set up and oversee that office.

I guess, in closing, a couple of thoughts, and then we'll turn it over to Q&A. Past few months have been unprecedented in the severity and speed, which what was probably the best economy we've had in generations just abruptly came to a halt. Our platforms were born of financial crisis, and they were built for volatility. But like the Spanish inquisition, nobody expected a global pandemic. And everyone underestimated the havoc this has brought to all aspects of our lives and economies. We were, however, prepared for a downturn. Our business is built on the idea, and it has always been built on the idea that at any time and for any reason, bad things might happen, though in fairness, perhaps not to everyone all at once.

We've continued to manage and monitor our portfolios while also keeping a keen and cautious eye towards emerging opportunities. The past few years, while good for the overall economy, have made it tough to be disciplined on the credit side. It's said that your worst loans are made in the best of times, and our approach has always been that bad times are just around the corner. It's best to prepare for the worst and be surprised every day when it doesn't happen.

As David Hughes, our Chief Credit Officer, likes to remind me, it doesn't always make me very popular or fun at parties, and it certainly didn't help us win much business over the past couple of years. But I am optimistic that it will serve us well in the coming months and has prepared us to look confidently towards the coming months and years. As I reminded our team recently on a call, we were literally built for this.
Thank you again for joining today. Apologies for the interruption earlier, and we're happy to entertain any questions you might have.

Question and Answer

Operator

[Operator Instructions]

John W. Allison
Co-Founder, Chairman, President, CEO & Executive Officer

When we first met Chris, Chris said he -- he said, "I run a 2% ROA." And I said after tax? And he said, "No." He said, "It's 2% pretax." And I said, "I believe we can help you with that, get you up a little bit." And I think he's run -- I think Chris has run in the 4s pretax pre-provision several times and always running in the 3s. Is that about right, Chris?

Christopher C. Poulton
President of Centennial Commercial Finance Group

Yes, sir. Yes, sir. That's -- you were right about that. You got our cost down and helped us a little bit with funding.

John W. Allison
Co-Founder, Chairman, President, CEO & Executive Officer

We still don't charge them enough.

Christopher C. Poulton
President of Centennial Commercial Finance Group

Yes. I think that what that clearly means is the transfer pricing is just wrong.

Operator

And our first question today will come from Michael Rose with Raymond James.

Michael Edward Rose
Raymond James & Associates, Inc., Research Division

Just wanted to start with how we should think about this business going forward. I know you guys have kind of limited to about 15% of assets as being a cap. But just given what's happened, what's kind of the nearer-term outlook for the business? And then how do you think about the prospects as we go forward? Clearly, things like deurbanization, potentially less use of office space as we move forward are all going to be headwinds. Can you just discuss kind of the outlook and what you see as the headwinds and maybe what you see as the opportunities?

Christopher C. Poulton
President of Centennial Commercial Finance Group

Yes, Michael. It's Chris. Thanks. I think in terms of outlook for the business, the good news is capital markets have remained open. So we've actually been continuing to see quite a bit of activity going on in the market. So that includes payoffs, et cetera. While they slowed down a bit, we've seen, really, in the second quarter, that's continued. That's what we first look towards, right? It's hard to make new loans if you don't know what's going to happen after you make the loan. And so first thing we looked at when we looked at our portfolio is are our loans going to be trapped for longer. And while we think some durations might continue, we actually saw a pretty active and robust markets in the second quarter, which gives us a little bit of confidence around at least knowing what we'll need to replace and how we should approach that.

In terms of outlook, I think what starts to change a little bit is just how you look at certain credit. Somebody comes up with an office building today, you're going to look at it a lot differently than you probably would have looked at it. We were never really all that active in office. It's not a primary thing that we do. We generally, in some mixed-use, have some office components. And for us, it's always about finding multiple ways out of a transaction. And so that's one of the reasons why we like mixed-use. It's one of the reasons why I like residential, et cetera, is there's generally more than one way out of that. In an office building, you've got office and then people coming to an office and paying rent and that's your way out or you can repurpose it into something else.

So I think right now, what we're seeing in the market is, first couple of months on the real estate side, first couple of months of this, it was really about understanding what's happening in the existing book, where we think loans are going to go, how many will stay longer, those types of things. And then it was talking to our borrowers. And most of what you saw in the first couple of months was deals that had been abandoned or busted that needed to be relooked at, and that takes some time. And so you saw some retreads in the first 30, 60 days of this where people were just trying to see if you'll step into what the old deal was. And the answer to that is generally no. We would not step into what the old deal was. And then what's had to happen now is borrowers have had to go back and change their capital stack. That generally means they're bringing more equity into the deal, and it generally means that the subordinated financing players are taking bigger stakes as well.

So you bring the leverage down, and then you start to look at where our opportunities would be. It's tough to do a city center hotel today. I think that may not be financeable, but there are other asset classes that seem to make a lot of sense. We still believe in cities, even though we think that the next year is going to be tough for cities. So I like New York. We think New York will bounce back, but Midtown's tough right now. Our office is in Midtown, and there's almost nobody in Midtown. So you just have to look at where you think people are going to be. Brooklyn will fare a lot better. Queens will fare a lot better than Midtown Manhattan.

But we're seeing a little bit of movement now where borrowers are, I think, a little more realistic, and projects that are moving forward or moving forward in a post-COVID world. And it takes some time for that to happen. I think it will still take some more time for that to happen.

In general, though, life was tough for us over the last 2 years. Leverage was -- it's tough to be a low-leverage lender when nobody sees any risk. And so while we like the credits that we did, I think we felt like we lost more than we won probably during that period of time. I think today, we have the opportunity to look at some interesting deals that we probably wouldn't have gotten a chance to see before.

Michael Edward Rose
Raymond James & Associates, Inc., Research Division

So just as a follow-up to that. When we went through the Great Recession, I know that was before your time at Home. But in your prior life, I mean, what we saw then was a lot of the bigger competitors in the space pulled back because of need to raise capital and conserve capital. That doesn't necessarily appear to be the case this time. So as you think about the competitive landscape moving forward, do you expect much shift in that?

Christopher C. Poulton
President of Centennial Commercial Finance Group

Yes. People will pull back. Two things will happen. One is you have nonbank lenders who were very active in the space in the last 2 years. They were really the folks that were driving a lot down. And those were through structured vehicles, particularly warehouse lending and CLOs. That part of the market has dried up for the most part, and so we're not seeing that type of competition. We think they'll pull back a little bit. We're already seeing that.

And look, banks will pull back. We'll pull back a little bit. So I think you will see everybody take a step back and decide where they are and what they want to do. We're seeing that. I think we'll continue to see that.

One of the things that we learned in our prior life in the last downturn was that it's good to be cautious early on. We made some loans in late '08 and into '09 -- or certainly mid-'08 into '09 that we felt were really good, low-leverage, well-structured loans. And we did well on all of those. But I just went back not too long ago and looked at the list of those loans, and one of the things that struck me was the number of those loans that hit -- still hit a hiccup. Even when you were structuring, even when you thought the world was ending because by '09, everybody thought the world was ending, and they still ran into some problems because during a crisis, odd things happen. And so I think the lesson for us, when I looked at that, was cautious is good, really cautious is even better. It's sort of like a Fight Club, right? First rule, Fight Club don't talk about Fight Club. But first rule of a panic is panic first. And from our standpoint, we're open for business and our pipeline is strong and we're looking at things, but we're seeing a lot drop out as we go along because as we start to dig further into it, those are just not risks that we think we want to take or we can't get to the structure that we want.

We're focused a lot on duration right now. So if we're going to look at a credit today, we think the world will get back to some baseline normal, but at the same time, it may take longer. And so rather than saying, "I bet this thing gets done and taken out in 2 years because everything gets better." Now you got to build for longer duration, 3-, 4-, 5-year duration because you're going to have to build in structures that are durable.

Operator

And our next question comes from Christopher Marinac with Janney Montgomery Scott.

Christopher William Marinac
Janney Montgomery Scott LLC, Research Division

I'm pinch-hitting for my colleague, Brian Martin, today. And just wanted to ask about forbearance and what you're seeing today. And Chris, what do you think is going to happen with some of the special servicing issues related to forbearance? And how does that cloud sort of lost content in the future?

Christopher C. Poulton
President of Centennial Commercial Finance Group

Yes. That's interesting. I'm going to ask probably Tim maybe or David to talk about this as well. I'll give you my first thoughts.

For us, right now in our portfolio around forbearance and others, it's been very limited, a few discussions with folks. We have almost nothing, I think. In fact, nothing on deferral right now. Although I expect that kind of moves in onesies and twosies, in and out. We had one that moved out, and then -- but we will see some forbearance in terms of covenants and duration, in particular, allowing people to extend a little bit further. It's all about what conditions, right? Will there be a paydown, what fees, what other structures will we get as part of that. But that's certainly a discussion we've been having with our borrowers and trying to get out ahead of that, especially where maturities are upcoming.

I think the interesting question is what will happen on special servicing for loans that are in CMBSs and other things. And one of the things that we learned in the last downturn, and this was true in residential, it was true in commercial, et cetera, is special service -- the servicers and special servicers simply don't get paid enough to actively work out their loans. And so it tends to bog down. A loan that's in CMBS that goes into special servicing gets bogged down. That special servicer doesn't treat it like their money. They can't. They're not getting paid enough to do that. And so you just see it sort of grind to a halt. What you saw early on, and I think, so far, is that there've just been deferrals, right? Pretty much everybody, if you're in CBS or other, you ask for deferral, you probably get it. But that will change, and then there'll be this process of folks trying to figure out where -- is there a loss content, what happens, who's my lender, it's always the fun part if you're in a CMBS, who's really making the decisions. And that's something that we watch quite a bit.

That's an area that we probably see some opportunity in that a number of our facility clients look to that space a lot as the source of some of their opportunities and deals. And so when we were doing this in '08, '09, '10 on the facility side, it was folks going in and buying distressed CMBS-type product and buying that, or back levering them, et cetera. So it'll be interesting to see what happens on that. But what first happens is it gets bogged down.

Tim, I don't know if you might want to add to that. I know that you look at this space quite a bit.

Timothy Zietara;Chief Investment Officer, Centennial Property Finance

Yes. Thank you, Chris. I think one of the things you mentioned earlier about term on these -- on our facilities and on our individual loans is that we have already underwritten the existing book, and we are certainly doing it to a greater degree on our new loans that we're considering to give additional terms than even the borrower and the folks that are doing the projections from the development teams that we lend to have put on their spreadsheet. So we've always kind of said, "Well, we think it will take a little longer. We think it will need more time, and we want to build in a lot of flexibility for you." So although our loans do tend to pay off rather quickly, we do anticipate and we have anticipated ahead of time to put those types of structures in, so that we don't have that issue.

So the request that we've had so far have been fairly minimal, not so much for deferral but just for questions like, "Well, my cash flow has gone down a little bit. Could I stop paying the amortization on the loan for a few months?" It hasn't really been to defer the interest actual payments. So things like that, we've been doing around the edges, and that's what we've been seeing in just a couple of credits. So that's been good.

And then another thing that we spend a lot of time with in the things that we do in our loans is a lot of them contain institutional, very strong, either pref equity partners or mezzanine lenders in our transactions. And anything that goes a little bit sideways or things starting to lighten up on cash flows, they're really the first protocol that the borrower needs to go to and say, "Hey, I've got a bit of an issue." They are obligated to or they need to keep us current, the mezz lenders, to keep things where we need to go. We don't even have one of those situations right now. But I think because we have this additional credit support behind us, that's usually the first place that people need to have some discussions. And then they keep us current and they keep us in a position that we like to be.

Christopher William Marinac
Janney Montgomery Scott LLC, Research Division

Okay. Great. That's all really helpful. And then just a quick follow-up. I mean given your point you just made on the mezz lenders, I mean, is it still early in that we'll see some of the issues that come up when the mezz lenders have to intervene? Would we expect that in another 90, 180 days?

Timothy Zietara;Chief Investment Officer, Centennial Property Finance

We tend to joke about that internally, but we're sort of serious when we say some of our mezz lenders are -- might be better borrowers than our original borrowers because we do deal with a lot of very high institutional-quality mezzanine partners on our transaction. So there has been a couple of situations where we have done loan-on-loan business facilities with other lenders and those underlying loans that are not our collateral is -- our borrower is the actual lender to the underlying borrowers. So we're sort of one step removed at a very low leverage point.

I think a couple of those we might see. Some of them have to step in and actually take possession on some assets. And we actually build that into our structures to allow that to happen. So we have sort of foreclosure options, as we call them, that we give to our borrowers, so that in the event that they have to go and step in and take care of an underlying loan collateral, they have to do certain things like rebalance the loan, deleverage us. The rate may go up. So we build that flexibility in to allow that to happen because some of these higher leverage lenders are making loans that are a little bit up the risk scale than where we would ever want to be, and we're much lower than that. But our position is they have to kind of take care of their problems and we'll allow them time as long as they keep us current and they keep us where we want to be from a collateral standpoint and allow them to do it. So I think that's where we're starting to see a little bit of the cracks happen.

Christopher C. Poulton
President of Centennial Commercial Finance Group

But I think -- this is Chris. Chris, I think your question is it's still a little early for that. For the most part, right now, I think everybody would like to keep the borrowers in their property as long as they're still the right owner. And right now, they generally probably are, right? And so that's one of the things we look at all the time when we're looking at a situation is, is the borrower or is the underlying borrower, if it's loan-on-loan, are they still the right owner of the asset, right? Are they the ones that are going to be able to get the most value out of the asset? Or are they no longer able to support the asset?

Given that this was -- that this particular situation was global and broad and hit everybody, for the most part, borrowers right now are probably -- if you were the right owner of the asset before, you're probably still the right owner of the asset and mezz and everybody is going to try to work with you for a little while. As it goes on, if you don't have the financials wherewithal to do that, would they start to step in at that point? Yes, my guess is they would, but generally only once they've determined that you're not the right owner of the asset.

Operator

And our next question comes from Joe Fenzi (sic) [Joe Fenech] with Hovde Group.

Joseph Anthony Fenech
Hovde Group, LLC, Research Division

This is Joe Fenech. Chris, just curious, just more of a broad-based question for you, not necessarily for your type of business you do specifically, but for the New York metro area in general, you get the migration to classified and nonperforming coming off forbearance in the third quarter, most likely. Is this sort of like how Taxi Medallion lending played out? Maybe not to that degree, obviously, in terms of severity, but in the sense that the asset pricing decline sort of gets dragged out here. You get the write-down slowly over time, and a liquid market for the transaction activity really takes a while to form and sort of start to clear that inventory. And maybe we don't see the bottom of this for a while. Is that sort of the genesis for your comment and in your experience with PACE to maybe just kind of play more of a wait-and-see approach in the early stages of this? Or is that off base?

Christopher C. Poulton
President of Centennial Commercial Finance Group

No. I think that's probably -- I think that's right in terms of it's a wait-and-see in the early. You mentioned the Medallion thing. We were previously involved in that market, and that was slow and then all at once, right? Kind of a bottom falling out. But that was a, I think, a unique thing.

What we -- what you really learned about New York in the last downturn, and we'll see how it kind of goes this time is yes, it sort of -- it glides down a little bit, and then it kind of pops back up and what have you. But if you were a property owner in '08, and the downturn came in New York, and you decided to walk away from your property, right, or had to or what have you, within really about a year or so, it was back, right? New York snapped back very quickly. And what I think everybody learned in the downturn in large metropolitan areas, New York, L.A., certainly being 2; Miami, a little bit, but -- was that if you can build for duration and make that work, the value comes back. And so I think that's what you'll see here. There's a lot of money sitting on the sidelines looking to snap up assets, and I just don't know that they're going to get the opportunity to do that, to be honest with you. Some of it is just going to be how fast some things come back. But I think we're already seeing it now. I've seen a couple of transactions recently, where there's a note that's a nonbank lender note that it's for sale, and they're going at prices that are not indicating stress, right, either people buying these notes back out at par or fairly close to par. That's not something you saw in the last downturn.

And I think some of that has to do with the fact that -- what's different today about lending than it was in '08 is that in '08, it was a problem of no equity in deals. You could get 110% financing for construction loans in '06, right, and you bet on things getting better. There's equity in the deals today, not just our deals. I mean I think across the board, there's equity in deals. And so I think people will want to hold on longer as well. But yes, look, I think this will drag out a little bit and then you see what gets better.

Multifamily, I think, is going to do just fine. People are going to stay living in New York, not as many, but people will. And I think office will see some stress. We'll see what happens on the retail side there, too. But in general, as long as people are living somewhere, retail works in that immediate area. I think large office buildings will be interesting to see what happens as people come back, et cetera. But we had a multifamily project over in Jersey City that was transit-oriented that finished right at the start of the pandemic, and we thought we'd have to hold on to this thing a little bit longer. They just got taken out in a permanent financing I thought at a value that was probably higher than I would have expected to go even in February because they were leasing up. And I think we're continuing to see that.

Joseph Anthony Fenech
Hovde Group, LLC, Research Division

You don't think it's a little different than the '08 because in '08, obviously, New York wasn't the same as Florida or Arizona wasn't hit nearly as hard. It just seems like this time, New York had more headwinds going into this with the rent control rules changing. The political climate, obviously, has done a 180 even since 20 -- 2008 in New York City especially. You don't think there's more headwinds this time for New York relative to '08? You just -- it sounds like you're pretty optimistic of what you're seeing in that New York bounces back, as it has in the past.

Christopher C. Poulton
President of Centennial Commercial Finance Group

Yes. I think there's headwinds, right? All the ones you mentioned, I think, are right. But I think those headwinds were there anyway, right? And I think the market had been adapting to those already. And so that's what I would say, right, is if you were lending in New York over the last 2 or 3 years and you didn't understand that rent controls were coming and they were going to be tighter and that the laws and regulations in the city were likely to make it more difficult to be a landlord and a lender, then, yes, you might be in trouble now. But I don't know any lender that didn't understand that. And you're seeing it in the secondary market.

You saw that -- what you saw in the secondary markets over the last couple of years was a little bit of a pullback. Everybody was pulling down leverage a little bit. And you stopped assuming that you were going to get large increases in rent rolls and those types of things. So yes, there's some headwinds, I think, but I think those headwinds existed. And

I think whether you had this crisis or not, you were going to have to address those headwinds. And so as a result, I think, yes, a little bit. But New York is still New York. And even when a couple of percentage of points worth of people leave, which they will, right, the SALT deduction certainly has impacted that as well or the elimination of that.

And so yes, you'll see people leave the city. And maybe for a period of time, you won't see as many people coming back in, right? What was happening over the last year was people were leaving, but just as many people were coming. I think you're going to see fewer people coming for a little while. But it wasn't -- there wasn't a huge building boom. Supply was fine. I think it will certainly slow down now. I don't think you're going to see a bunch of new things go up right now during this. And so I think supply will moderate. And again, it's about your time line and time horizon.

If you're talking about the next year, I mean, yes, I think you maybe see some headwinds. But if you're built to last couple of years, which I think most of these structures are, not just ours but others as well, I think they're mostly built to be able to hang on as well.

Nick, I don't know if -- you're pretty active with thinking on this, and you're one of the people who left. So maybe you want to talk a little bit about what you're seeing on New York.

Nicholas Santoro;Senior Managing Director, Centennial Property Finance

Well, New York is going to always be a place where the young gravitate towards. When you're starting a career, building a career, New York is one of the great places to be. And so I think New York will endure as a mecca for younger people, which might suggest will do its best with smaller, more affordable type of apartments.

To the extent New York has experienced headwinds, this is just -- this is a repeat of the past. So perhaps another repeat of the past will be the outcome, which will be it'll recover. The pendulum will swing back.

In terms of people leaving New York, I think that that's going to result from older people, people who have matured in their careers and are seeking different experiences and opportunities in their lives.

Operator

And our next question comes from Matt Olney with Stephens.

Matthew Covington Olney
Stephens Inc., Research Division

I'm curious how Chris' team at CCFG, how it works with the rest of the team at Centennial Bank? And specifically, I'm curious about the credit approval process for Chris' loans. And then once the loan is approved, what's the process for managing the loan in the portfolio? And how often is that reviewed? And who reviews it? And then secondly, around deposits, how does Chris fund his loan growth?

Christopher C. Poulton
President of Centennial Commercial Finance Group

Johnny, do you want to talk about the approval process? Or I can.

John W. Allison
Co-Founder, Chairman, President, CEO & Executive Officer

Go ahead.

Christopher C. Poulton
President of Centennial Commercial Finance Group

Okay. Yes. So we have a -- the way our loan process works is there is a management credit team here at CCFG. It's -- the members who are actually on the call here today with me, that's -- we review all of our loans through a pipeline process. We meet once a week. We go through that. Once we get a -- we approve term sheets, et cetera, that go out. Once that process starts on underwriting, et cetera, then we start an approval process at Executive Loan Committee, which is going to be Johnny, Tracy, Kevin plus some external Board members as well that meet weekly. And we take our credits there for approval. And it certainly, I know, requires, if not unanimous approval, it's pretty darn close. It always feels like it requires unanimous approval but -- for those credits. And then we close the credits and service the credits in-house here at our CCFG team.

But there's a couple of other things. Kevin Hester, I'm not sure if he's on or not, but Kevin and -- receives our monthly and quarterly reports. He actually sits through our pipelines as well to go through that. Loan review is centralized. And so the loan review process, the audit process and all that is exactly the same as it is for the rest of the bank. It goes through those same processes and gets reviewed exactly the same as it does, goes up to the Board the exact same way as well. We just go through a slightly different loan approval process because our loans, all of -- 100% of our loans must be approved by the Executive Loan Committee before we put it on.

I have no credit authority. It's one of the things when we started Johnny and Tracy and talked, he said, "What do you feel about credit approval process, et cetera?" I said, "I've never had any credit approval. I don't want any credit approval." The kinds of lending we do, I don't want to put anything on the books if you're not comfortable with it. So we'll just bring 100% of what we do. We'll talk to you about it. And if you agree with us about the credit, we'll do it. And if you don't agree with us about the credit, we won't do it.

Tracy M. French
Executive Officer & Director

I think that's -- I think it's well put. And it's a good process. Chris and his team do an outstanding job of underwriting. They look for ways out for us in the event that there's a hiccup in the credit, and they usually try to have at least 2. A lot of times, they have 3 ways out of the credit. So it gives you some comfort. It gives you some comfort. Chris, you may...

Christopher C. Poulton
President of Centennial Commercial Finance Group

Yes, I'd say -- yes, sorry, Tracy.

Tracy M. French
Executive Officer & Director

I'm just going to say, you may also share with them what happens after you make the credit and how your organization's structured there to service the product.

Christopher C. Poulton
President of Centennial Commercial Finance Group

Yes. I'd say 2 things. One is, I mentioned the sort of the management credit team, which is David and -- the real estate side is David, Nick and Tim and myself. That does require unanimous approval, and each person gets a veto, and we've certainly used our vetoes before as we've gone through some things and we get through underwriting, et cetera. If we're not all 100% in alignment, we don't bother taking it up either. And so that's an important part of what we do and how we've always done that. That's -- since we started, that was the way we've done it. We said if anybody is not comfortable, we just won't do it.

Once the loan is booked -- so 100% of our loans are closed, they're attorney-closed loans, right? So we have an underwriting team, so they do the underwriting. We have credit, which is separate from that. That's what David is responsible for. Underwriting is really structuring and underwriting. Tim's responsible for that. We have a closing department. And then at handoff, which is closing, you're going to have underwriting, closing, asset management and servicing all together for a handoff. And then we have a servicing group and an asset management group. They're separate. They're under one person. Mike Walsh runs that for us, reports up to Tim. Mike's been with us forever. Mike was a workout person actually for me for Puerto Rico loans a number of years ago. But -- so Mike's been running asset management and servicing.

So we have a servicing department that is the face to the customer in terms of your traditional servicing, taking payments and such. And then we have an asset management group as well that's separate from that, that has a number of asset managers. And they're monitoring the loans on a monthly and quarterly basis. And then they're rolling that up through a monthly asset management review meeting that we do, where we review 100% of our credits on a monthly basis at a senior level. And then we're sending those reports on up as well.

If there's an issue in any of those, then an asset manager is reviewing that. And then they were doing that with David, Tim, myself. That actually goes back to the pipeline. And we talk about any credits there and anything that needs to happen. That's everything from a risk rating change to a modification, et cetera.

But -- so we have all of that in-house. We have a couple of people doing that in the field right now. So as we've expanded a little bit West, we have some folks in Dallas that do some asset management for us there. We have a person on the ground also in California that can do that for us to go see the properties. But we're out visiting properties. We're meeting with the clients. That's sort of a normal asset management approach for us.

Matthew Covington Olney
Stephens Inc., Research Division

That's great color. And then second part of that question was on deposits. Did you collect any deposits at CCFG? And if not, how do you fund the growth?

John W. Allison
Co-Founder, Chairman, President, CEO & Executive Officer

Do you want me to answer that? Chris, do you want me to answer that?

Christopher C. Poulton
President of Centennial Commercial Finance Group

Yes. Yes. Well, why don't you answer that?

John W. Allison
Co-Founder, Chairman, President, CEO & Executive Officer

Well, they don't know what deposits are. I spelled it for him. I spelled it for him and send it up there one day. And -- but I think they're learning a little bit. I don't -- how many dollars you got now? $100 million?

Christopher C. Poulton
President of Centennial Commercial Finance Group

We have $100 million. See, I was going to answer it a little nicer and say, we do take deposits. We have $100 million worth of deposits. And I think that makes us, I don't know, one of the top 20 branches. But generally, we are dependent on the rest of the bank for our funding. That is how it was set up by -- I always describe, I'm really more of a left-hand side of the balance sheet kind of guy.

Operator

And this will conclude our question-and-answer session. I'd like to turn the conference back over to Mr. Allison for any closing remarks.

John W. Allison
Co-Founder, Chairman, President, CEO & Executive Officer

Thank you. I hope you enjoyed this. We're trying to be as transparent as we can. We have a reputation of telling it like it is. We've always done that, and we continue to do that. If it's good, we tell it. If it's bad, we tell it.

So I want to comment on one thing that Chris said that continues to -- people talk about construction loans and how dangerous they are. And we've had really very, very good experience with our construction loans. But it's truly a matter of underwriting and equity -- I mean low leverage and equity. And Chris said it, in '04, '05 and '06, when we set up for the -- in '07 we set up for '08, '09 and '10, there was not any money in any deals. And that's why the banks got killed during those times. People just threw the keys to the banks and walked out the door.

It is a different world. One of the best things the regulators ever did, in my opinion, was HBCRE. I think that has served us well, and we suddenly were forced to get 15% of the completed appraised equity in the deal. That really helped. Well, banks -- I think bankers got smarter during that time. And we started seeing 20%, 25%, 30%, 35% and 40% equity in deals. And that's why I feel so good about Home BancShares' book today, not only CCFG, which has the lowest leverage in the entire group, but also the rest of our books and our hotel books. And we have lots of leverage. When somebody has got $20 million in a hotel somewhere, or $20 million in a project and you got mezz funds behind that of another $20 million or $30 million, it's not likely that somebody is going to walk -- they're going to fight for that asset as long as they can fight for the asset.

So as Chris pulled back, you've seen Chris pull -- said he pulled back some and didn't generate as many loans recently because he didn't like the leverage. That's what we were seeing in the legacy footprint. We were being forced -- trying to be forced to go up to 75%, 80%, 85% on loans at fixed rate, low-rate terms, and we didn't do that. We're not going to do it and we pass. And those that experienced that could have some problems in this cycle.

So we're glad we did what we did. Sometimes it makes you feel like you're fighting a battle by yourself and you look up and you did the right thing, and it pays dividends for your shareholders. We'll be releasing our quarterly earnings coming up, what -- Donna, when is that? 18?

Donna J. Townsell
Senior EVP, Director of Investor Relations, Executive Officer & Director

16, I believe.

John W. Allison
Co-Founder, Chairman, President, CEO & Executive Officer

16. We'll have -- I hope you all can join. It should be a good call. It's actually been a good quarter. We've had a -- we really had a nice quarter. The second quarter has been very good, even better than I anticipated. So I think that's good news.

We'll be looking at the deferrals. Kevin will be looking into deferrals. And Kevin, you got any comments on deferrals, what you're looking at or what you're thinking about?

Kevin D. Hester
Chief Lending Officer & Executive Officer

Yes. I think we've seen good -- the first group reaching the end of their first 90 days. We're talking to everyone about the second 90 days. And I think we've found that absent hotels, I think, a large reduction in the amount of people that are going to take the second 90 days outside of the hospitality side.

John W. Allison
Co-Founder, Chairman, President, CEO & Executive Officer

Thank you. It looks like it's shaping up. If we don't have a second wave, I guess, Northeast U.S. and California had their first wave and I guess the south kind of having our little wave right now, so there seems to be more cases because there's more testing, but the amount of deaths are going down. So hopefully, keep our fingers crossed, and they get -- they understand how to handle this disease much better than what they did in the past.

We'll talk to you at the conference call. And if -- please send us your comments or suggestions as we continue to move forward in -- with other asset classes. We didn't specifically pick any asset class. We just had more questions about hotels because if they're shut down, they can't generate any revenue. And so we opened with hotels. And as you can see, our hotel book is pretty damn strong. So anyway, thank you again, Chris, you and your team. I appreciate what you're all doing there. I appreciate everyone asking the questions and others listening on the phone. Thank you very much. And we'll talk to you in a few days, 16, 17 days.

Operator
The conference has now concluded. Thank you for attending today's presentation. You may now disconnect your lines at this time.