REFINITIV STREETEVENTS

EDITED TRANSCRIPT

FBC.N - Q3 2020 Flagstar Bancorp Inc Earnings Call

EVENT DATE/TIME: OCTOBER 21, 2020 / 3:00PM GMT

CORPORATE PARTICIPANTS

Alessandro P. DiNello *Flagstar Bancorp, Inc. - President, CEO & Director*

James K. Ciroli *Flagstar Bancorp, Inc. - Executive VP & CFO*

Kenneth Schellenberg *Flagstar Bancorp, Inc. - VP of IR*

Lee Matthew Smith *Flagstar Bancorp, Inc. - President of Mortgage*

Reginald E. Davis *Flagstar Bancorp, Inc. - President of Community Banking*

CONFERENCE CALL PARTICIPANTS

Bose Thomas George *Keefe, Bruyette, & Woods, Inc., Research Division - MD*

Daniel Tamayo *Raymond James & Associates, Inc., Research Division - Senior Research Associate*

Henry Joseph Coffey *Wedbush Securities Inc., Research Division - MD of Equities Research*

Jamie Benjamin

Stephen M. Moss *B. Riley Securities, Inc., Research Division - Analyst*

PRESENTATION

Operator

Good day, and welcome to the Flagstar Bank Third Quarter 2020 Earnings Call. Today's conference is being recorded. At this time, I would now like to turn the call over to Mr. Ken Schellenberg. Please go ahead, sir.

Kenneth Schellenberg - *Flagstar Bancorp, Inc. - VP of IR*

Thank you, Carrie, and good morning. Welcome to the Flagstar Third Quarter 2020 Earnings Call. Before we begin, I would like to mention that our third quarter earnings release and presentation are available on our website at flagstar.com.

I would also like to remind you that any forward-looking statements made during today's call are subject to risks and uncertainty. Factors that could materially change our current forward-looking assumptions are described on Slide 2 of today's presentation, in our press release and in our 2019 Form 10-K and subsequent reports on file with the SEC. We are also discussing GAAP and non-GAAP financial measures, which are described in our earnings release and in the presentation we made available for this earnings call. You should refer to these documents as part of this call.

With that, I'd like to now turn the call over to Sandro DiNello, our President and Chief Executive Officer.

Alessandro P. DiNello - *Flagstar Bancorp, Inc. - President, CEO & Director*

Thanks, Ken, and good morning to everyone listening in. I hope all of you and your loved ones have been able to stay safe and healthy.

I'm joined this morning by Jim Ciroli, our Chief Financial Officer; Lee Smith, our President of Mortgage; and Reggie Davis, our new President of Banking. As you may know, we had a bit of a change in our leadership team during the quarter. Reggie joined us on August 3, and I'm thrilled to bring a person of his stature in the banking industry to Flagstar. He could have gone to a lot of banks, but he chose to join us.

Further, Kristy Fercho, our President of Mortgage, left Flagstar on that same day. While we hated to see Kristy go, fortunately, we had a great internal solution, Lee Smith, who's been with me from day 1 of Flagstar's turnaround, was already overseeing mortgage fulfillment as part of his COO responsibilities, plus he was also overseeing mortgage servicing. So it made all the sense in the world to place him in the role of President of Mortgage, allowing us to have origination, fulfillment and servicing under one highly respected leader.

Given these leadership changes, Jim will expand his remarks a bit today to cover some of Lee's former areas, Reggie will follow with an update on the community bank, and then Lee will handle the mortgage segment, including servicing. As usual, we'll then open the line for questions.

A few more comments about Reggie. He's a talented, versatile and seasoned banker with a proven track record of success. As many of you are aware, diversifying our earnings has been an ongoing key strategy, and growing our community bank is a pillar of that strategy. We've made a lot of progress on that strategy and, therefore, feel very fortunate to have Reggie on board to move us forward, not just in community banking, but in the company as a whole.

Also, during the quarter, we announced that David Hollis joined our team as the new Chief Human Resources Officer, replacing Cindy Myers who retired. While we all hated to see [Cindy] (corrected by the company after the call) leave, David is doing a great job of filling her shoes. His strong background in both financial services and other industries has demonstrated results in leveraging HR to improve organizational performance, and the depth and breadth of his experience in all aspects of HR, including diversity, equity and inclusion, will help ensure Flagstar stays in the forefront of this important field.

As for our performance in the third quarter, it was simply unprecedented, exceeding our second quarter performance, which at the time I said, was the best in Flagstar's history. Not that long ago, I would have been thrilled to earn $3.88 per share in an entire year, let alone in a quarter. This was an all-hands-on-deck performance, led by mortgage, followed by a phenomenal warehouse business and supported by a complementary servicing business. In fact, the first 9 months of this year were also unprecedented with tangible book value per share growing by $7.03, a stunning 25%.

There's a story here that we don't want overshadowed in our results, and that's how successful we were at growing net interest margin ex the impact of loans with government guarantees. We were pretty much alone among our peers in expanding NIM, and I think you can put that at the feet of our unique business model and the way we've managed it. We had the foresight to protect the yields in our warehouse portfolio with floor rates, and these were yields already enhanced by significant revenue from draw fees. The result was an overall increase in adjusted net interest margin from 2.88% to 2.94% quarter-over-quarter. And you'll recall that credit losses in the warehouse portfolio are de minimis, less than $5 million over the last 12 years.

The other important story from the quarter is the aggressive way we continued to manage deposit costs, with our average cost of deposits dropping again in the third quarter, the trend that has continued throughout 2020. And because we carry a large amount of wholesale funding where costs are tied to LIBOR, these costs have dropped in tandem with Fed actions. Importantly, we think our margin will remain resilient.

I'm also proud of the success that the retail team has achieved with respect to deposits. Average community banking deposits, which excludes custodial accounts and brokered deposits, increased $0.5 billion for the quarter.

On to mortgage. What can I say? $346 million in gain on sale revenue, $11 million [higher] (corrected by the company after the call) than all of last year, pretty amazing. And then quietly, the servicing business just keeps chugging supporting our mortgage business, providing efficient funding, adding fee income and even growing the number of subserviced loans in the face of historically high payoffs related to the current refinance boom.

Finally, let me address credit. So far, everything is holding up. In fact, our commercial loan deferrals now total only $47 million. We're encouraged by that, but cautious and staying close to borrowers, especially those who are now on tap to start making payments again. As always, our watchwords are to be careful and conservative. That's why we increased our coverage ratio again this quarter, not because we see any weakness in our book, in fact, just the opposite. But your guess is as good as mine as to what the future holds for the economy, so we choose to be conservative.

I don't know how I could feel much more satisfied with where we stand. We have moved into Q4 with a stable interest margin, outstanding power to generate noninterest income and a fortress balance sheet. All things considered, we're in the best possible position. As we hope for the best though, we are prepared for the worst.

Let me now turn it over to Jim.

James K. Ciroli - *Flagstar Bancorp, Inc. - Executive VP & CFO*

Thanks, Sandro. Turning to Slide 6. Net income this quarter was $222 million, or $3.88 per share. This performance compared to the $116 million or $2.03 per share last quarter. The increase on a linked-quarter basis was largely due to stronger mortgage results and a nice increase in net interest income, the result of higher warehouse lending and a lower credit provision this quarter.

Diving deeper into this quarter's performance, our pre-tax, pre-provision earnings were $327 million compared to $250 million last quarter. Net interest income increased $12 million or 7%. While average earning assets grew $2.0 billion and the reported net interest margin decreased by 8 basis points, these were impacted by loans with government guarantees that have not been repurchased and are only the result of an accounting gross up. Excluding these assets, the net interest margin actually increased 6 basis points. This performance was primarily driven by the strength of our warehouse business that has rate floors in place to protect from margin compression in our core deposits, which benefited from higher custodial balances and also from the maturity of higher-cost CDs and the expiration of promotional rates on savings accounts. We will review these numbers in a couple of slides.

Mortgage revenues were $358 million, an increase of $63 million compared to the very strong number we reported last quarter. During the quarter, we saw gain-on-sale margins increase.

Asset quality remains strong. Net charge-offs were only 5 basis points, and early stage delinquencies stayed low. Nonperforming loans ticked up slightly as we had one commercial credit of $10 million that we put on nonaccrual status. Despite all of this, we increased the allowance for credit losses to $280 million, up from $250 million at the end of the second quarter. This reflects our views on the continued uncertainties within the economy. As a reminder, the allowances for credit losses, or ACL, includes the reserve for unfunded loan commitments. We'll provide more details when we get to the asset quality slide and take a deeper dive into CECL.

Capital also remained solid. Total risk-based capital was 11.3% at September 30. Our CET1 ratio was 9.2%, and our Tier 1 leverage ratio was 8.0%. We allowed these capital ratios to come in at slightly lower levels than where they otherwise would be to support higher levels of warehouse loans. We don't expect any losses coming from these assets. So there is a lower need to support them with capital. We'll go into more details on our capital ratios later.

Finally, we continued to demonstrate significant capital generation, with growth in our tangible book value per share to $35.60 at quarter end, up $3.86 from June 30 and $7.98 from 1 year ago, a 29% increase.

So let's turn to Slide 7 and dive deeper into the income statement.

Net interest income increased $12 million to $180 million this quarter, up 7% from last quarter. Average earning assets grew 9%, led by warehouse lending and a full quarter's balance of loans with government guarantees that are reconsolidated due solely to forbearance. Deposit costs came down 15 basis points, while average deposit balances increased $2 billion. We'll dive deeper into net interest income and our interest rate risk position on the next slide.

Noninterest income increased $74 million to $452 million due to higher mortgage revenues and servicing-related fee revenue. Noninterest expense was $305 million, up $9 million from the prior quarter.

Finally, you'll notice that the tax rate ticked up this quarter. This is a function of a higher level of pretax income, which is much more than the tax benefits we have in our run rate earnings. With our higher level of earnings, we decided to delay certain tax planning strategies as we expect that they will provide more value should corporate tax rates be higher in the future. Considering this, it would be appropriate to use our year-to-date effective tax rate of 23% for future periods.

On Slide 8, beginning this quarter, we've combined our average balance sheet with details on our interest rate risk position at the end of the quarter.

Average earning assets increased $2 billion from last quarter. This resulted from a $1.9 billion increase in warehouse loans and a $1.3 billion increase in the loans with government guarantees that have not been repurchased. Declines in securities of $0.6 billion and in mortgage loans held for investment of $0.2 billion were due to faster prepayments and partially offset the balance sheet growth. C&I balances also declined by $0.4 billion with the sale of the PPP loan portfolio at the end of July.

We expect that loans with government guarantees peaked this quarter and we will start to see balances gradually decline through the rest of 2020 and through 2021. Where we own an MSR for Ginnie Mae loans, we have the option to repurchase these loans after the loans have gone 3 months without a payment due either to delinquency or forbearance. At September 30, we had $1.8 billion of such loans that we had not repurchased, which is consistent with what we indicated on the second quarter call, but which the accounting rules made us reconsolidate onto the balance sheet with an offset to other liabilities. We do not believe there is significant downside to holding the loans, either by buying them or through this accounting gross up. If we were to repurchase these loans, we can pledge the loans to the FHLB, and they are a 20% risk-weighted asset. Further, if we do repurchase the loans, we could resell those loans at a later date, which is attractive for us, and they remain government guaranteed.

Average deposits increased $1.8 billion from last quarter. Custodial deposits drove $1.1 billion of this increase. We also saw growth of $0.3 billion in noninterest-bearing retail deposits, a 16% increase from last quarter, and a $0.3 billion increase in government deposits due to seasonal tax payments. We managed deposit costs lower by 15 basis points from the impact of the pricing changes we've been making since March when the Fed dropped short-term rates. Additionally, as we observed last quarter, deposits continued to reprice into the new curve environment, which provided support for our net interest margin expansion.

While it's difficult to predict where rates might be in the future, we feel that our interest rate risk position is in a good place due to the actions we've taken in this lower interest rate environment. We feel that we can protect our net interest income and net interest margin and believe that our net interest margin should be relatively flat to where it's been in the last two quarters. The interest rate floors that we have in the commercial loan portfolio should protect us against further margin compression. We've completed a $2 billion program to lock in these lower rates on our funding costs for the long term using a combination of interest rate swaps and fixed cost purchased money, laddering that out for 3 to 7 years. While this will make us more asset sensitive in our banking business, our mortgage origination business is liability sensitive. We believe this program will set us up for future success regardless of where rates are.

We continue to have a strong liquidity position, driven by the strength of our deposit base and access to multiple sources of liquidity both on-balance sheet with our high-quality securities portfolio and off-balance sheet with our undrawn FHLB facilities. At September 30, we had ready liquidity of $5.6 billion, not including the ample access we have to borrow with the Fed discount window.

Let's now turn to Slide 9, which details our noninterest income and noninterest expenses.

Noninterest income rose $74 million from the prior quarter on the strength of mortgage revenue.

Our gain-on-sale revenue of $346 million represented an increase of $43 million. Fallout-adjusted locks increased 9% to $15 billion. And the gain-on-sale margin was 231 basis points. While channel margins did come down slightly from last quarter, the overall margin expanded slightly due largely to the gain we booked on our RMBS transaction this quarter and other execution improvements.

We also recognized a return of $12 million on our MSR. The current quarter represented a more normalized run rate as last quarter we made certain model changes that we believe are congruent with the economic forecast we use for CECL and for higher prepayments. These results were achieved even with the average value of the MSR falling 2 basis points to 85 basis points of UPB at the end of the third quarter. We would observe that the MSR market continues to show signs of improvement as demonstrated with the small MSR sale that we executed in August.

Loan admin income improved $5 million due to a decline in the LIBOR-based credit that we provide our subservicing customers for the custodial deposits that they control and from a higher level of fees for loans in forbearance.

Noninterest expense increased to $305 million for the third quarter, compared to $296 million last quarter, reflecting a $10 million increase in non-mortgage-related expenses. This increase was primarily due to the capitalization of origination costs in the second quarter for the PPP loans and the accelerated vesting of certain components of executive compensation that resulted from the recent secondary share offering. Despite increased volume, mortgage expenses were flat quarter-over-quarter as the ratio of mortgage noninterest expense to closings, our mortgage expense ratio, actually declined. This improvement was due to certain expenses in the second quarter that did not recur this quarter and are not expected to recur in the future, including certain performance-related incentives related to our Opes Advisors division.

So, let's turn to asset quality on Slide 10.

Credit quality in the loan portfolio remained strong. Early stage delinquencies continued to be relatively low. Only $14 million of total loans were over 30 days delinquent and still accruing as of September 30, relatively flat from $15 million at June 30.

Nonperforming loans ticked up slightly as we had 1 commercial credit of $10 million that we put on nonaccrual status. The OCC completed its review of shared national credits recently, which resulted in no rating changes for our loans.

Our allowances for credit losses covered 1.7% of total HFI loans. Excluding warehouse loans from the denominator, given their relatively clean credit loss history, and considering that substantially all of these loans are collateralized with agency or government-backed loans, our coverage ratio would stand at a very strong 3.1%.

On Slide 11, we can see that we ended the quarter with $280 million of allowance for credit losses, consisting of $255 million of allowance for loan losses and $25 million in the reserve for unfunded loan commitments. In total, our ACL at quarter end increased by 12% over what we reported at the end of the second quarter.

This quarter, we continued to use 3 different Moody's forecasts of the next 2 years to guide our allowance level; an S1 growth forecast weighted at 30%, a baseline forecast weighted at 40% and an S3 adverse forecast weighted at 30%. All of the forecasts used the September release. The resulting composite forecast for the third quarter was roughly equivalent to the scenario we used in the second quarter. Unemployment ends the year at 10% and recovers only slightly in 2021. GDP recovers only slightly by the end of the year from current levels and does not return to near pre-COVID levels until 2024. HPI drops about 2% from mid-2020 through 2021.

While there are signs that point to a possible V-shaped recovery, we're going to be cautious in our confidence about the recovery until we see more success on the medical side of combating this pandemic. Accordingly, we have qualitative reserves of $63 million, primarily in our CRE and C&I portfolios, guided by the CECL model output using Moody's adverse scenarios to provide coverage for industries and customers that we believe could be more exposed to the stressful conditions in our forecast. We've provided a portfolio by portfolio breakdown of the resulting ACL coverage ratios in our appendix.

On Slide 12, we've updated our exposure to those industries that we believe are more likely to be most impacted. In total, we have $1 billion of outstanding loans in this category, representing 5.7% of our total loan portfolio. It's interesting to note, we have almost no loans in deferral in these portfolios today, down even from September 30.

In our commercial and industrial loan portfolio, the COVID impacted loans totaled $0.3 billion. You can see that the exposure here is relatively low, especially as deferrals in these portfolios total only $2 million. We have no oil and gas exposure.

In our commercial real estate portfolio, we have $0.7 billion outstanding in the area that's most likely to be impacted by COVID, including commercial real estate loans secured with hotels, retail properties and senior housing. Of the loans in this category, our average pre-COVID LTV was 55% and our average pre-COVID debt service coverage ratio was 1.6x. We still don't have any loans in these portfolios that we believe will default. In our hotel portfolio, we're seeing occupancy levels of 53%. Now this is not quite to the point of covering debt service, but this level of occupancy [slows] (added by the company after the call) their cash burn considerably.

While we believe that we will have losses, we continue to see strong borrower support across the portfolio. We feel good about our credit risk in this portfolio as we're starting from a position of strength -- from our carefulness about who we lend to, to the disciplined underwriting of those credits, and the pre-COVID LTVs and debt service coverage ratios in the commercial real estate portfolio.

Turning to Slide 13, our capital ratios remained solid and nicely above our stress buffers. Total risk-based capital ratio was 11.3% at September 30, and our CET1 ratio was 9.2%, both relatively unchanged from the prior quarter despite $2 billion of asset growth. As expected, our Tier 1 leverage ratio of 8.0% increased 28 basis points this quarter.

If we just weighted our warehouse loans at 50%, they're weighted at 100% under current risk-based capital rules, you'd see that our capital ratios compare favorably to most other midsized banks. This makes sense as the loans are fully collateralized by 50% risk-weighted assets and those assets remain under our custody, while the loans are on our lines. Further, there is even an outstanding proposal to make this distinction in the risk-based capital rules, a proposal that we wholeheartedly support. So, adjusting the risk weighting on the warehouse loans to 50%, our total risk-based capital would be 13.4%, over 200 basis points higher, which would put that ratio above the average for all mid-sized banks. Our CET1 ratio would be 10.9%.

As we've pointed out, with our warehouse loan portfolio, loans held for sale and loans with government guarantees, we have more than half our balance sheet and 962 basis points of total risk-based capital dedicated to asset categories that have very little risk content. Loans held for sale turn over every 1 to 2 months, and this portfolio is carried at fair value. The portfolio of loans with government guarantees has no real downside and perhaps a modest upside. When you take all of this into consideration, we believe that we are operating at strong capital levels, given our low-risk balance sheet composition.

I'll now turn it over to Reggie to cover community banking.

Reginald E. Davis - *Flagstar Bancorp, Inc. - President of Community Banking*

Thank you, Jim, and good morning.

As this is my first opportunity to be in front of many of you, I'd like to comment on the potential I see in the community banking business at Flagstar. What excited me about coming to Flagstar was the tremendous potential of this franchise. Looking at this company from the outside, I've been impressed with the way that the company has been able to grow its loan book in a well-diversified manner with a focus on building advisory relationships with our clients. Now having been on the inside for nearly 90 days, I'm even more impressed with the energy and commitment of the Flagstar team. This team is on a very deliberate journey to build a best-in-class client-focused organization. The two deposit acquisitions meaningfully transformed the retail deposit base to where we can focus more on full relationships. This will continue to be our focus as we build out an omnichannel experience for our retail clients. In the near term, we want to focus on sustaining the strong performance we've seen from the warehouse lending team and take this opportunity to improve our productivity across all businesses in community banking.

Please turn to Slide 15. Quarterly operating highlights for the community banking segment include:

Average warehouse lending balances increased $1.9 billion or 51% to $7.6 billion in the quarter due to the low interest rate environment, driving strong [mortgage] (added by the company after the call) refinance volume. Our relationship-based approach and speed of execution also enabled us to add new [customers] (corrected by the company after the call) as well as increase lines for existing customers during the quarter. We continue to maintain our disciplined underwriting in this business.

Average commercial and industrial and commercial real estate loans decreased $450 million or 9% with the decrease being driven predominantly by the sale of PPP loans that we closed in July. We continue to be thoughtful in terms of new facilities and believe our strong credit policies and diversified portfolio will be a strength as the fallout from the pandemic becomes more apparent.

Average consumer loans held for investment decreased $219 million or 5%, a result of increased payoffs in our first-lien mortgage portfolio, partially offset by growth in other consumer loans, which is predominantly our indirect Marine RV loan portfolio, which has performed rather nicely in this environment.

I'm also proud of the success that the retail team has achieved. Average community banking deposits, which [exclude] (corrected by the company after the call) custodial accounts and brokered deposits, increased $0.5 billion or 5% over last quarter to $10.3 billion. We saw a nice growth in balances in governmental deposits due to seasonal tax collections, noninterest-bearing DDA and low-cost savings accounts. We also saw CD balances contract $0.3 billion. The overall cost of these deposits declined by 22 basis points to 42 basis points from 64 basis points last quarter. The retail team did a great job of retaining CDs that were maturing and redeploying these deposits into DDA and savings accounts.

Turning to commercial lending on the next slide. We continue to manage our well-diversified commercial loan book. In the warehouse lending book, we've been using our quarter-end balance sheet to accommodate the needs of our customers, despite this having a direct impact on our period end capital ratios. Through October 19, we've averaged $7.4 billion, demonstrating that these efforts to sustain the business growth are succeeding. In commercial real estate, we're in constant contact with our customer base. The homebuilder book has performed beyond our expectations, the result of strong management teams and the close working relationship that those teams have with our lenders here at Flagstar. The C&I book remains well diversified, and we're starting to see our customers get their business back on track. We're taking the steps now to build our relationships in markets so that we can be in a position to fully serve these customers when the opportunities present itself.

I'll now turn things over to Lee.

Lee Matthew Smith - *Flagstar Bancorp, Inc. - President of Mortgage*

Thanks, Reggie, and good morning, everyone.

We couldn't be more pleased with how our mortgage and servicing businesses are performing right now, providing significant and valuable noninterest fee income in this low interest rate environment. The $346 million of gain on sale revenue generated during the third quarter was a record at Flagstar as mortgage banking revenues increased an incredible $63 million or 21% quarter-over-quarter, as we continued to take advantage of the strong refinance market.

Furthermore, we ended the quarter servicing or subservicing just over 1.1 million loans, an increase of 6% from the previous quarter as we added over 100,000 non-Flagstar-originated loans to our best-in-class servicing platform.

Our unique one-stop shop mortgage business model allows us to originate mortgages across multiple TPO and retail channels, provides optionality in how we sell or distribute the loans and also enables us to sell the mortgage servicing rights created and retain the subservicing on those loans. This is complemented by our warehouse and mortgage lending capabilities, and the custodial and escrow deposits generated by the servicing business also help us fund our balance sheet. This model allows us to build deep partnerships, remain nimble and flexible, and maximize earnings throughout the mortgage life cycle.

I will now outline additional key operating metrics from our mortgage and servicing segments during the third quarter. Please turn to Slide 19.

Quarterly operating highlights for the mortgage origination business include:

Fallout-adjusted lock volume increased 8% to $15 billion quarter-over-quarter, while the net gain on loan sale margin increased 12 basis points to 231 basis points. As a result, gain on sale revenues increased a significant $43 million to $346 million in the quarter.

The majority of our lock volume growth was seen in our higher-margin retail broker and nondelegated correspondent channels. Refinance activity accounted for 67% of our lock volume during the quarter, and retail accounted for 31% of lock volume.

We continued to use margin as a lever to keep volume in check with capacity and ensure continued exceptional service for our customers.

Mortgage closings were $14.4 billion in the third quarter, a 19% increase from the previous quarter as we continued to add underwriting and fulfillment capacity, given the increased production volume as a result of the low interest rate environment.

Our mortgage operations team continues to operate effectively in this work-from-home environment. We haven't seen any degradation in productivity during the pandemic, and we've continued to hire and train new fulfillment staff, therefore, building capacity throughout.

We also maintained our disciplined approach to the types of products being originated as effectuated at the outset of the pandemic, where we moved to stop originating higher-risk products and tighten the credit box in certain areas to protect our position and minimize any future write-downs or losses.

At period end, we have approximately $2.5 billion in Ginnie Mae early buyouts on our balance sheet. Of this, approximately $1.8 billion were a result of borrowers opting in to forbearance as a result of the pandemic. The accounting consequence of owning the MSR is to show them as early buyouts whether you buy them out or not, and therefore, the biggest impact for Flagstar is against capital. These loans were all performing before the pandemic, and we believe a significant number will go back to making payments and get reinstated after the forbearance period expires, either on their own or through the partial claims process. Once a loan is reinstated, it's no longer categorized as an early buyout. We believe a small number will get modified outright or modified in conjunction with a partial claim at which point, we will buy them out and resecuritize the loan, realizing the gain-on-sale benefit of doing so. Given the increase in home prices over the last few years and equity most owners have in their homes, we don't anticipate many borrowers going into foreclosure following the end of the forbearance period. The overall impact to Flagstar of this asset class is somewhat neutral. It does create an operational need to work through these loans, and as I mentioned, it impacts capital, given the accounting rules and recognition. Loans will only be bought out if we can modify the loan and resecuritize, therefore, realizing the gain-on-sale benefit that would be generated.

Finally, we expect volume and margin to decline in the fourth quarter because of the usual seasonality impacting the number of business days and the winter months effecting the purchase market, in particular, and forecast gain-on-sale revenues to be approximately $200 million in Q4.

We're very pleased with the performance of our record-setting mortgage business in the third quarter, and believe it will continue to be a meaningful contributor to the bank's earnings in future periods.

Moving to servicing, quarterly operating highlights for the mortgage servicing segment on Slide 20 include:

We ended the quarter servicing or subservicing approximately 1.1 million loans, of which almost 894,000 or 81% are subservice for other MSR owners. Of the 1.1 million loans we service or subservice, 93% are backed by Fannie Mae, Freddie Mac or Ginnie Mae.

The number of loans serviced or subserviced increased slightly in the quarter as we added in excess of 100,000 non-Flagstar-originated loans, and despite the high levels of refinance activity, we're able to replace runoff with new loans from our mortgage origination business, another advantage of our business model.

Today, we have the capacity to service or subservice 2 million loans as well as provide ancillary offerings such as recapture services and financing solutions to MSR owners.

If you look at Slide 38, you will see that we are generating $5 million to $7 million of operating profit before tax for every 100,000 loans we add to the platform. This is an increase from our previously reported $4 million to $6 million as we continued to achieve economies of scale benefits in this business.

As it relates to forbearance, through September 30, 112,427 borrowers representing 10.6% of the first-lien mortgage portfolio that we either service or subservice have requested forbearance relief because of COVID-19. We've seen a significant decrease in new forbearance requests since the peak weeks at the outset of the COVID pandemic.

Interestingly, 28% of those borrowers who have requested forbearance have continued to make their monthly payments through September 30 and have not taken advantage of the forbearance option. This effectively means that right now, 7.6% of the loan book we service or subservice are actually using forbearance. As part of the forbearance period, we're also waiving certain fees, and there will be no negative reporting to the credit bureaus.

The peak number of loans in forbearance was 129,332, and as of September 30, that number has declined by approximately 17,000 or 13% as borrowers who had initially opted in have opted out, paid off their loan, reached out to say their hardship has been resolved and their loan is current or had their loan modified. During the third quarter, we have onboarded approximately 10,000 non-Flagstar-originated loans that were in forbearance. So, comparing period-over-period forbearance activity isn't as meaningful.

During the quarter, we sold $800 million in flow MSR deals. The market for MSRs is certainly coming back after it dried up at the outset of the pandemic and our MSR to CET1 ratio is currently 16%, significantly below the 25% threshold before it becomes capital punitive.

Finally, custodial deposits averaged $7.3 billion in the third quarter, an 18% increase compared to the prior quarter. Again, this is just another benefit we get from our subservicing business as it provides liquidity that helps fund our balance sheet.

Our subservicing business continues to flourish and be successful. When combined with our mortgage origination capabilities, we believe the scale and quality of both operations give us one of the most valuable mortgage business models in the industry.

This concludes our prepared remarks, and we will now open the call to questions from our listeners.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question is from Daniel Tamayo from Raymond James.

Daniel Tamayo - *Raymond James & Associates, Inc., Research Division - Senior Research Associate*

Congratulations on a great quarter. I just wanted to talk a little bit about first, the sustainability, I asked this last quarter, but clearly holding up the sustainability of the warehouse yields [considering] (added by the company after the call) the competition there. If you're still able to charge these higher rates for clients using the period-end balance sheet, or if there's some other factor going on there? And if you envision that changing at all going forward?

Alessandro P. DiNello - *Flagstar Bancorp, Inc. - President, CEO & Director*

I do not envision it changing. We have not had to accomplish these all on any of our -- any of the rates that we are charging. As you probably know, Danny, most, if not all, of these warehouse lines are at their floors. So, I think the sustainability of the yield is, the likelihood of that is pretty high. In terms of the balances, as Reggie noted, through yesterday or so, we're at $7.4 billion average balance thus far in October. So that's hanging in there as well. So I think -- I mean we do have a disciplined concentration policy. And so growth will be measured against our capital growth. But I think the opportunity there going forward is pretty strong.

Let me see if Reggie has anything he wants to add to that.

Reginald E. Davis - *Flagstar Bancorp, Inc. - President of Community Banking*

No, nothing to add. I mean we have a fairly disciplined approach. We like that business. We think we can get paid for it. And we're seeing more and more opportunities as our competitors struggle to execute.

Daniel Tamayo - *Raymond James & Associates, Inc., Research Division - Senior Research Associate*

All right. Terrific. And then maybe just stepping back a little bit, as the potential for a steeper yield curve comes into play here, if you could talk about what levers you have to pull kind of overall in order to mitigate that, how that might impact the business overall? And then you've talked a lot about capacity outstripping demand on the volume side on mortgage for the last several quarters. How much that -- maybe the delta that is there that if you do see -- if we do see a steepening yield curve and lower demand before you would see a significant reduction in volumes on the mortgage side?

Alessandro P. DiNello - *Flagstar Bancorp, Inc. - President, CEO & Director*

Yes. Well, it's hard to look out that far into the future, Danny. But I guess I'd say this, I think our view is that we've got some runway in the mortgage business, and we're going to continue to take advantage of that as long as we can. Should we see rates start going the other way and steepening the yield curve, I think there's other pieces of the business that kick in at that point that might mitigate, that could and probably would mitigate any reduction we'd see in the mortgage business. Now let me see if Lee or anybody else wants to add anything to that.

James K. Ciroli - *Flagstar Bancorp, Inc. - Executive VP & CFO*

I agree with those comments, Danny. You really have to look at the balanced model we have. And so while that could crimp the mortgage business a little bit, think about how well the servicing business would do in that kind of an arrangement and think about how the community banking business is going to perform in that scenario. And so we're not really able to predict where rates are going to be, obviously, but we've positioned the company to do well regardless of where they're going to be.

Lee Matthew Smith - *Flagstar Bancorp, Inc. - President of Mortgage*

Yes. And Danny, this is Lee. I also want to emphasize that. The diversified model, we've always said we can be successful whatever happens to interest rates, so I won't repeat anything Sandro and Jim have said. On the mortgage side, and we've said this before, 70% to 75% of our expenses are variable or semi-variable. And so as the volume goes down, you're going to have some natural flex in your expense base as well.

Daniel Tamayo - *Raymond James & Associates, Inc., Research Division - Senior Research Associate*

That's terrific. I appreciate all the color. Maybe just the last one on the expenses, as you mentioned, lower than what they've been running in the quarter related to mortgage. You mentioned the Opes Advisors incentives have come out. Is that just the driver there and you think that, that percentage is going to be lower than kind of what we've seen prior to this quarter going forward?

Lee Matthew Smith - *Flagstar Bancorp, Inc. - President of Mortgage*

Yes. The main driver for that, Danny, is the Opes earn-out coming to an end. And so that's come out. You won't see it going forward. I think in terms of where you're seeing the run rate on mortgages, and we've got a chart, I think it's Slide 42, I think that's the zip code, give or take, on where you can expect the expenses to be as a percentage of closings.

Operator

Our next question will be from Scott Seifers from Piper Sandler.

Jamie Benjamin

This is actually Jamie Benjamin on for Scott. First, gain-on-sale margins held up very well with some benefit from the securitization transaction quarter. I was wondering if you could clarify what that benefit was this quarter.

Alessandro P. DiNello - *Flagstar Bancorp, Inc. - President, CEO & Director*

How much the benefit was from the RMBS?

James K. Ciroli - *Flagstar Bancorp, Inc. - Executive VP & CFO*

We haven't disclosed that. No, but it was rather -- it was sizable, but it was only maybe half of that benefit. The other half was really just, what I'd call, other execution improvements that we made on the secondary side.

Lee Matthew Smith - *Flagstar Bancorp, Inc. - President of Mortgage*

Yes. I'll just jump in. And Jim's right. Half of it was RMBS. We got better execution around the hedge. And we did see an increase in our non-delegated correspondent channel quarter-over-quarter from a margin point of view. That's our biggest channel volume wise. So those were the 3 drivers.

Jamie Benjamin

Perfect. And then one follow-up. I appreciate the clarity around the decrease in deposit costs. I was wondering moreover, could you tell us a little bit about what additional levers you could flex on the net interest margin, whether that's balance sheet movements, more deposit cost leverage, et cetera?

Alessandro P. DiNello - *Flagstar Bancorp, Inc. - President, CEO & Director*

Well, so I think we feel pretty confident that the yields are going to hold because of the influence of the warehouse side. And I think on the deposit, there's still some runoff from higher rate CDs that are going to come into play and just stronger discipline. Let me let Reggie comment on that.

Reginald E. Davis - *Flagstar Bancorp, Inc. - President of Community Banking*

Yes. I think one of the things we've been pleased with this year is, as we've had the maturity happen with the CD portfolio, we've been able to move that into lower-cost products. We know because of the maturity schedule, we've got additional opportunities for the balance of the year. So, we would expect that trend to continue.

Operator

Our next question will be from Henry Coffey from Wedbush.

Henry Joseph Coffey - *Wedbush Securities Inc., Research Division - MD of Equities Research*

Two specific areas. One, you talked a little bit about the Ginnie Mae EBO opportunity. Exactly how does that work, especially both with the servicing you may own or with the servicing you may be subservicing? So what -- I mean I know it's a capital impact, et cetera, but I'm thinking about it more as an opportunity. And what is the governor behind converting that $1.8 billion of loans in forbearance into EBO and then EBO into re-securitization gains?

Lee Matthew Smith - *Flagstar Bancorp, Inc. - President of Mortgage*

Yes. So let me take this, Henry, and then Jim will probably want to comment. In terms of the $2.5 billion Ginnie EBOs we referenced and the $1.8 billion that are on the balance sheet because the borrowers are in forbearance, that is all Flagstar-owned Ginnie MSR. So they're Flagstar-owned EBOs. The accounting consequence, as I mentioned in the prepared remarks...

Henry Joseph Coffey - *Wedbush Securities Inc., Research Division - MD of Equities Research*

Do you own them? Or are you just putting them on your balance sheet?

Lee Matthew Smith - *Flagstar Bancorp, Inc. - President of Mortgage*

We're putting them on the balance sheet. We have not bought them out. And this is where -- this is what I'll explain. The accounting consequence of owning the MSR is to show them as an early buyout, whether you buy them out or not. And so the biggest impact for us is against capital. These loans were all performing prior to the pandemic, and we think a big portion will go back to making payments and get reinstated after the forbearance period expires, either on their own or through the partial claim process. Once they're reinstated, they're no longer categorized as an EBO. A small number will get modified outright or they'll get modified in conjunction with the partial claim. If that's the case, we will then buy them out and realize the gain-on-sale benefit of resecuritizing the modified loans.

Henry Joseph Coffey - *Wedbush Securities Inc., Research Division - MD of Equities Research*

What is the size of that number?

Lee Matthew Smith - *Flagstar Bancorp, Inc. - President of Mortgage*

We don't know yet. We're working -- you've got to remember that the first 6-month period per the CARES Act for forbearance is expiring now. And so borrowers have the option to extend for a second 6 months or they can opt out because they just continue to pay and they don't need forbearance. And we're sort of working through those loans that we don't want to extend, and we can either correct those through a partial claim process or a modification and a partial claim. So we're working through that, but it's -- we cannot say right now x marks the spot because there's so many moving parts.

Henry Joseph Coffey - *Wedbush Securities Inc., Research Division - MD of Equities Research*

If you look at the $1.8 billion in foreclosure in Ginnie Mae or...

Lee Matthew Smith - *Flagstar Bancorp, Inc. - President of Mortgage*

No, it's in forbearance. It's in forbearance.

Henry Joseph Coffey - *Wedbush Securities Inc., Research Division - MD of Equities Research*

Forbearance, I'm sorry, I misread my own notes. Okay. If you look at the $1.8 billion in forbearance in Ginnie Mae land, those are counted as delinquent, right? And so if they go 180 or longer delinquent, isn't there an opportunity to buy the loan out? Or -- I'm thinking about it from an opportunity point of view, not from a capital constraint point of view. You got $1.8 billion of loans that are fairly healthy, that are theoretically in delinquency status. When forbearance is over, then they have to -- don't they have to all go through some kind of modification to get current and restatement principle and all those sorts of things that we see in -- with Fannie and Freddie loans or...

Lee Matthew Smith - *Flagstar Bancorp, Inc. - President of Mortgage*

No, not all of them. Some of them have continued to pay. And so they remain current, and they will just opt out. Some of them will get corrected through a partial claim process only. And then those that need to be corrected through a partial claim and a modification or just a modification, then yes, we will buy those out. But there's a clear waterfall that you have to follow.

Alessandro P. DiNello - *Flagstar Bancorp, Inc. - President, CEO & Director*

But what we don't know is how much is each one of those buckets.

Henry Joseph Coffey - *Wedbush Securities Inc., Research Division - MD of Equities Research*

Right. No, no, this is helpful. I'm just...I'm thinking of it more as an opportunity than as a problem because you have lots of liquidity and you have lots of capital.

Alessandro P. DiNello - *Flagstar Bancorp, Inc. - President, CEO & Director*

Yes, and Jim noted this in his comments that it could have some upside. We just don't know what it is at this point.

James K. Ciroli - *Flagstar Bancorp, Inc. - Executive VP & CFO*

Right. And we haven't quantified that yet. But also keep in mind that a lot of our subservicing clients have a good relationship with us. And whatever that opportunity is, I'm sure we'll be able to partner with them to develop the opportunity as well within their own loans.

Henry Joseph Coffey - *Wedbush Securities Inc., Research Division - MD of Equities Research*

No, I agree. I'm just trying to figure out what the benefit ultimately could be. Gain on sale for the fourth quarter, the number was -- the revenue number you quoted, could you give that to me again, Lee?

Lee Matthew Smith - *Flagstar Bancorp, Inc. - President of Mortgage*

Yes. $200 million, 2-0-0, $200 million.

Henry Joseph Coffey - *Wedbush Securities Inc., Research Division - MD of Equities Research*

So that's obviously down from what we saw in the last 2 quarters. And is there going to be sort of a disconnect with locks being down because of the seasonality of the business, with originations, actual closings, still being fairly high and then you get some cost compression in there? Or how do you think that plays out?

Lee Matthew Smith - *Flagstar Bancorp, Inc. - President of Mortgage*

Yes, no doubt about it. I think you'll find the closings will remain strong because originations or fallout-adjusted locks were high in Q2, Q3. So we're going to continue to push those closings through into the fourth quarter. Fallout-adjusted locks, that there is going to be a reduction in volume and margin because of the seasonality that we usually see in Q4, fewer business days and the winter months affecting the purchase market in particular. And if you look at the agency and MBA forecast, they've got volume coming down in Q4 as well, consistent with what I just said.

Henry Joseph Coffey - *Wedbush Securities Inc., Research Division - MD of Equities Research*

No, no. How are all these IPOs affecting the competitive landscape for you all right now? I think we're at a number -- if you call -- if you include the SPACs, we're at 6 since August.

Lee Matthew Smith - *Flagstar Bancorp, Inc. - President of Mortgage*

Yes, it's not impacting us at all from a business point of view. What I would say, though, is I'm obviously thrilled to see a number of new investors looking at mortgage favorably. And I would hope and think that, that could bring more new investors into the Flagstar stock.

Operator

Our next question will be from Steve Moss with B. Riley Securities.

Stephen M. Moss - *B. Riley Securities, Inc., Research Division - Analyst*

Most of my questions have been asked, but just on credit here. I was kind of curious with regard to where are criticized and classified loans these days?

James K. Ciroli - *Flagstar Bancorp, Inc. - Executive VP & CFO*

Yes. We're wondering the same thing. We really don't see them in our portfolio. Honestly, I'm not trying to be facetious. I'm being honest with you. We said this last quarter on a precautionary basis when loans were in deferral, we took a stance in unless proven -- unless disproven that those loans should be pass-watch -- still pass. They're not criticized. But at this point in time, we're not seeing a significant amount of criticized loans in our own portfolio.

Alessandro P. DiNello - *Flagstar Bancorp, Inc. - President, CEO & Director*

Yes. I mean you don't want to get overconfident about that, and that's why my comments are cautious around what might happen going forward. And that's why we've taken the liberty to push our ACL as high as we think we can, given the economic scenarios that our model uses and the qualitative adjustments that we're permitted to make. I mean we're pushing it as much as we can because we're just going to be careful here. So we're with you. We wonder why -- we're surprised really. And -- but pleased that it is holding up as strong as it is. And I guess we'll wait and see as we get through the pandemic, how it all shakes out. I mean, right now, I don't believe that we're going to use this reserve. I think our sponsors are of high integrity and quality, and they're going to work through these difficult times, and we're going to be okay. But if we're not, as I said, we hope for the best, but we're prepared for the worst, should it happen.

James K. Ciroli - *Flagstar Bancorp, Inc. - Executive VP & CFO*

And go back to my comments in my prepared remarks about what our view on the economy is both in terms of CECL, and we're not yet convinced that we've got a V-shaped recovery.

Alessandro P. DiNello - *Flagstar Bancorp, Inc. - President, CEO & Director*

And remember, look at the balance sheet and identify what really are commercial loans in this organization. If you take away the loans, our residential loans that are available for sale and you take away the warehouse loans, where we've had only $5 million of losses over the last 12 years, including through the Great Recession, the part of that portfolio that's really exposed to losses is small compared to the size of the company and compared to a typical midsized bank with $29 billion in assets.

Stephen M. Moss - *B. Riley Securities, Inc., Research Division - Analyst*

Okay. That's helpful. And then on the return on the mortgage servicing asset, just kind of wondering how sustainable the level of income is here, what would the downside potentially be if, let's say, mortgage rates come down another 25 or 50 basis points?

Alessandro P. DiNello - *Flagstar Bancorp, Inc. - President, CEO & Director*

Let me comment and Jim might want to add here. Look, historically, we've been pretty satisfied if we can get a 4% to 6% return on our MSR asset, and we've consistently been able to do that or better. At times, because of particular market circumstances, we haven't achieved that in a particular quarter. But what you saw this past quarter was particularly phenomenal. And to think that, that can happen quarter-over-quarter, I think, is unlikely. But I think if in your model, you're looking at 4%, 5%, 6% return on the MSR asset, I think you're going to be in a pretty good place.

James K. Ciroli - *Flagstar Bancorp, Inc. - Executive VP & CFO*

Yes. I completely agree with that comment. Look, I mean, this quarter was just -- things bounced in the right direction for us. But part of it also is we've been very cautious in how we value that asset. We made some remarks last quarter that we took a very conservative pen to the fair value on that asset in second quarter. And taking that conservative pen is just going to set you up to be at the high end of the range that Sandro outlined there.

Alessandro P. DiNello - *Flagstar Bancorp, Inc. - President, CEO & Director*

And I might add, you got to have really good people, and we have some really, really good people that manage that asset.

Stephen M. Moss - *B. Riley Securities, Inc., Research Division - Analyst*

That's helpful. And then one last question. Just in terms of expenses dedicated to the bank, up $10 million quarter-over-quarter, kind of curious, is that the new level run rate, just thinking about that going forward?

James K. Ciroli - *Flagstar Bancorp, Inc. - Executive VP & CFO*

Yes. So in my prepared remarks, Steve, there was a comment that some of it was a credit that was in last quarter that isn't going to recur, and that's having to do with the capitalized origination costs on the PPP loans. We sold those in July. The other, there were some costs related to the MP secondary that happened last quarter that had triggered some payments under some executive compensation arrangements, those are not going to recur. So there's just some nonrecurring things that are inflating the level of Q3 expenses right now and deflated Q2 expenses.

Alessandro P. DiNello - *Flagstar Bancorp, Inc. - President, CEO & Director*

So to answer your question, it's not a new run rate.

Operator

Our next question will be from Bose George from KBW.

Bose Thomas George - *Keefe, Bruyette, & Woods, Inc., Research Division - MD*

Actually, most of mine have been asked as well, but a couple of little things. You and Lee spoke about the NIM a little bit, but can you just talk about how it looks next year if rates remain the same, but as mortgage banking slows at some point and what that does with the warehouse business and loans held for sale, just how that impacts the margin next year?

Alessandro P. DiNello - *Flagstar Bancorp, Inc. - President, CEO & Director*

Look, I think the -- if rates remain the same, I think that we're in a pretty good position to sustain our net interest margin. Now it's hard for me to look farther out than a quarter. And Jim, I think both Jim and I suggested for the next quarter, we feel pretty good. So going out farther than that, man, I'm going on a limb here, but I feel pretty good about what our position is there. I think even if the mortgage business declines in the numbers that the MBA, Fannie Mae, Freddie Mac think next year. I think that the warehouse balances can stay pretty strong because we're gaining market share in that area. And we could do more than we're doing right now. We're being pretty selective about who we're doing it with. And we're being pretty firm on our pricing. So I think that the prospects for warehouse being strong, even in a weaker mortgage market are pretty good. But hey, you know how things change from quarter-to-quarter. So it's pretty hard to go out and talk about next year.

James K. Ciroli - *Flagstar Bancorp, Inc. - Executive VP & CFO*

Yes. I will also add to that, Bose, that if you look a couple of quarters ago, warehouse balances were lower. Even in second quarter, they were lower, and we're still delivering pretty consistent levels of net interest margin, excluding those loans with government guarantees that we talked about. So I think there's room to have the warehouse balances rotate down, not that we think that's going to happen, as Sandro said, but I think there's room to have those rotate a little bit lower and still be able to sustain the net interest margin at the levels we've been reporting in the last couple of quarters.

Bose Thomas George - *Keefe, Bruyette, & Woods, Inc., Research Division - MD*

Okay. Great. That's helpful. And actually just 1 more on the Ginnie Mae buyouts. Some of your peer banks have purchased quite a bit of this ahead of sort of curing this -- I'm just curious what your thoughts are there. Is it -- are they sort of institutions with just liquidity to park somewhere? Just thoughts why there's been a fair amount of buyouts already?

Lee Matthew Smith - *Flagstar Bancorp, Inc. - President of Mortgage*

Yes. I mean, Bose, you know we don't comment on other institutions and what they're doing. I can only comment on our approach. And I think I've been over that. We will buy them out where we can modify either outright or as part of the partial claim and re-securitize.

James K. Ciroli - *Flagstar Bancorp, Inc. - Executive VP & CFO*

There's no benefit to buying them out quickly that we see there. Buying them out is also permanent. So you can't undo that. And so when we buy them out, Lee was talking through with Henry's earlier question, we're going to be sure that we want to buy out the loans that we're buying out.

Operator

I'm showing no further questions at this time. I'd like to turn the call back over to our speakers for closing remarks.

Alessandro P. DiNello - *Flagstar Bancorp, Inc. - President, CEO & Director*

Thanks, Carrie. In my closing for the second quarter, I talked about how the calls for social justice in the world around us had inspired a cultural change at Flagstar--how in the past, we had not communicated much with our employees about what was going on in the world; how we set out to change that; and how we're not turning back.

In the third quarter, we continued to engage employees on issues that are important to them and continued with our diversity, equity and inclusion initiatives. This is not a passing fad for us, it's the real deal, a fundamental cultural change. We are changing the composition of our leadership team, and we will change the composition of our Board of Directors to achieve more diversity. We're putting money behind support from minority small businesses and nonprofits that support the DE&I. We're taking a harder look at our hiring practices, and we're taking cues from our employees about how we can do better. And I'm doing my best to put the arm on fellow bankers and business leaders through organizations they belong to, to support the DE&I in their own companies. Why? Well, first, because it's the right thing to do, and second, because I firmly believe it makes for a better company.

These past 2 quarters also happened to be the best in Flagstar's history. Is it a coincidence or is there a connection with our cultural change? In my mind, there's no question about that. The seeds of the success that is playing out today were planted when we recruited top-notch executives to run our businesses; when we built a formidable risk management structure; when we carefully diversified into commercial lending; when we developed our fee and deposit generating subservicing businesses; and when we leveraged relationships we have nurtured from years to make warehouse lending a profitable, low-risk operation, now 1 of the top 5 warehouse businesses in the country. But I have to think that what would join on the DE&I front is not just underpinning, but is accelerating our success. We're a much better company today for it and expect to be even better in the future because of it.

Last but not least, thank you to our employees who own this success. I'm in awe of what you have accomplished in circumstances beyond the imagination; and thanks to everyone who has taken the time this morning to hear the story of our most successful quarter.

Talk to you in January. Please stay safe and healthy.

Operator

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