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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Simmons First National Corporation Second Quarter Earnings Call and Webcast. (Operator Instructions)

Please be advised that today's conference is being recorded. (Operator Instructions)

I would now like to hand the conference over to your speaker today, Steve Massanelli. Thank you. Please go ahead, sir.

Stephen Christopher Massanelli - *Simmons First National Corporation - Executive VP, Chief Administrative Officer & IR Officer*

Good morning, and thank you for joining our second quarter earnings call. My name is Steve Massanelli, and I serve as Chief Administrative Officer and Investor Relations Officer at Simmons First National Corporation. Joining me today are George Makris, Chairman and Chief Executive Officer; Bob Fehlman, Chief Financial Officer and Chief Operating Officer; David Garner, Executive Director of Finance and Accounting and Chief Accounting Officer; and Matt Reddin, Chief Banking Officer.

The purpose of this call is to discuss the information and data provided by the company in our quarterly earnings release issued this morning and to discuss the company's outlook for the future. We will begin with prepared comments followed by a Q&A session. We have invited institutional investors and analysts from the equity firms that provide research on our company to participate in the Q&A session.

All other guests in this conference call are in listen-only mode. A transcript of today's call, including our prepared remarks and the Q&A session, will be posted on our website, simmonsbank.com, under the Investor Relations page. During today's call, we will make forward-looking statements about our future plans, goals, expectations, estimates, projections and outlook. I remind you that actual results could differ materially from those projected in the forward-looking statements due to a variety of factors.

Additional information concerning some of these factors is contained in our SEC filings, including, without limitation, the description of certain risk factors contained in our most recent annual report on Form 10-K and the forward-looking information section of our earnings press release issued this morning. The company assumes no obligation to update or revise any forward-looking statements or other information.

Lastly, we will discuss certain non-GAAP financial metrics we believe provide useful information to direct investors. Please note that additional disclosures regarding non-GAAP metrics including the reconciliations of these non-GAAP metrics to GAAP are contained in our earnings press release which is included as an exhibit to our current report filed this morning with the SEC on Form 8-K and available on the Investor Relations page of our website, simmonsbank.com. I will now turn the call over to George Makris.

George A. Makris - *Simmons First National Corporation - Non Independent Chairman & CEO*

Thanks, Steve. I'd like to begin today's call by thanking the Simmons associates for their commitment and dedication during the past 3 months. A special debt of gratitude goes to our branch, call center and digital banking support staff who are here every day to fulfill the needs of our customers. We will continue to make operational adjustments to help meet the needs of our customers and communities in the coming months as we navigate these very uncertain times. I'm very proud of our team and their demonstration of our community banking values. My prepared comments today will be brief. We have posted an extensive presentation on our website at simmonsbank.com along with press release and financial data, which gives much more detail regarding our quarterly results and other important information about our company.

In our press release, we reported net income of $58.8 million for the second quarter of 2020, an increase of $3.2 million compared to the same quarter last year. Diluted earnings per share were $0.54 for the quarter.

Included in the second quarter earnings were $3 million in net after-tax merger-related, early retirement program and branch rightsizing costs as well as $1.6 million gain on the sale of branches. In May, we sold 3 branches in Colorado, and on June 27, we closed 11 additional branches. Excluding the impact of these items, the company's core earnings were $60.1 million for the second quarter of 2020 and core-diluted earnings per share were $0.55 for the quarter.

Our return on average assets was 1.1%. Our return on average common equity was 8.2%. Our return on tangible common equity was 14.6%, and our efficiency ratio was 49.1% for the second quarter. As of June 30, total assets were $21.9 billion. Our loan balance was $14.6 billion, and our deposit balance was $16.6 billion. Our loan pipeline of approved and ready-to-close loans was $72 million at the end of the quarter, signaling a major slowdown in new loan activity in the markets we serve. At June 30, our PPP loans totaled $964 million with an average loan balance of $123,000. We have also modified approximately 4,600 loans totaling $3.3 billion.

Our net interest margin for the quarter was 3.42% and our core net interest margin, which excludes accretion, was 3.18%. The allowance for credit losses on loans totaled $232 million or 1.6% of total loans on June 30. In addition, our reserve for unfunded commitments was $24 million at quarter end. Total deposits at June 30 were $16.6 billion, an increase of $1.1 billion since last quarter. The increase was primarily in the noninterest-bearing deposit category and was partially offset by a decrease in our brokered funds of $309 million during the quarter.

Our noninterest income for the second quarter was $50 million, an increase of approximately $10 million compared to the same period last year. The increase is mainly due to mortgage lending income driven by the current rate environment. Noninterest expense for the second quarter was $112.6 million. Core noninterest expense for the quarter was $108.6 million. On a linked-quarter basis, our noninterest expense decreased $13 million and core noninterest expense decreased $16 million. Our capital remains very strong at quarter end. Our total risk-based capital ratio was 15%.

Our common equity Tier 1 ratio was 12% and while our Tier 1 leverage ratio was 9%. The ratio of tangible common equity was 8.3% at June 30. Once again, please view additional information on our website, simmonsbank.com. Finally, I'd like to reiterate that we are operating under uncertain conditions. The direction of the economy is unclear. And unfortunately, we don't seem to be close to a consensus as to the severity or duration of the effect.

I expect that there will be substantial changes in our world as a result of the pandemic. As we have done to date, we will try as best we can to be prepared to adjust to those changes. I'm proud of the effort of our Simmons' team and look forward to working with them as we navigate through this crisis. I will now turn the line over to our operator and invite questions from our analysts and institutional investors.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Gary Tenner from D.A. Davidson.

Gary Peter Tenner - *D.A. Davidson & Co., Research Division - Senior VP & Senior Research Analyst*

Sorry, I have just a couple of questions. First, in terms of deferrals, I think you'd mentioned $3.3 billion. You guys had been fairly aggressive on the front end, I think, in terms of providing deferrals kind of for the asking, so to speak. And I'm just wondering, as you're getting maybe to the -- to the end of the initial period of deferral for some of those loans, what you're seeing in terms of requests for extensions and what your thoughts are on that program right now.

George A. Makris - *Simmons First National Corporation - Non Independent Chairman & CEO*

Gary, this is George. Let me, first of all, clarify modifications to make sure that we're all on the same page.

Modifications for us meant that we offered some payment modification not to exceed a 6-month period. We did that very early on in the process. In order to keep our customers from going deeper in-depth by drawing on unfunded line commitment. We have not changed any of the original loan terms. We have also put into place a 7-point scale. Each one of our lenders is going back to those customers in the last 3 weeks and have rated those 1 through 7. 1 through 4 tells us that they expect to be back on full principal and interest payments within 90 days. 7 tells us that we may need to make some modification to the loan or take any immediate action.

And I'm happy to report that we have a very small number in that Category 7. Not surprising to any of you would be that hotels and full-service restaurants appear to be the laggards in the group with regard to getting back on P&I. But so far, our analysis has not proven any problem loans at this point. But once again, we have to qualify that by saying we don't know how long the pandemic is going to play out. We don't know which states may close hospitality, as they did early on in the process.

So we're trying to remain as fluid as we can and work with our borrowers. I will say this, though, our borrowers have done an excellent job in mitigating any damage during this period of time, most of them have applied for PPP loans that got them through. And if I'm reading the press correctly, there may be another stimulus package actually designed for those hospitality areas that are hardest hit by the pandemic.

I think one thing that's very telling is I'm pretty sure you hadn't had a chance to look at our presentation. But if you look at Page 10, we list our unfunded commitments by category. And what you'll note is that from Q1 to Q2, there are only 2 categories that declined in unfunded commitments. That's construction and agri funding. And that shouldn't surprise anyone that construction is continuing on and that we're funding our agri loans. All the other categories increased in unfunded commitments. So we don't have loan growth shown because we forced our customers to draw on their lines of credit.

Gary Peter Tenner - *D.A. Davidson & Co., Research Division - Senior VP & Senior Research Analyst*

Great. And I just had a follow-up on terms of the energy portfolio, down around $200 million now. It looks like another $200 million of planned reductions back half of the year. I thought coming into the year, correct me if I'm wrong, I thought the target to get the energy portfolio down to was about $200 million, and it looks like now it's $100 million towards the end of the year. I'm wondering, are you moving closer to a full exit of that business? And I apologize if I missed you mentioning that previously.

George A. Makris - *Simmons First National Corporation - Non Independent Chairman & CEO*

We are moving toward a complete exit, except for those borrowers who have a diversified relationship with the company. And we have several of those and that's probably that residual $100 million. Energy is just a portion of our relationship with that particular borrower. We have specific individual energy-related credits, it is our intention to exit.

Operator

Our next question comes from the line of Brady Gailey from KBW.

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

Maybe one more on energy, while we're on the topic, but some of the energy shrinkage we've seen to date has been fairly costly. When you look at the continued shrinkage that you expect over the next couple of quarters to a year, do you expect to still see some noise and some elevated costs associated with that shrinkage like we've seen in the past?

George A. Makris - *Simmons First National Corporation - Non Independent Chairman & CEO*

Brady, I would tell you, I hope not. We monitor every energy credit, and we have an analysis that shows when we expect to exit any issues that we may have, what their hedging position is. The Southland was a bankruptcy that was not managed by Simmons. It was a national credit that we bought into. Unfortunate situation. We did sell one loan at a loss.

We have -- this quarter, identified one more problem loan in the midstream category that we have a specific reserve against. But other than that, assuming that oil prices stay where they are, and demand continues to rise proportionately, we think that the rest of our portfolio looks good. And there is an excellent chance for us to exit based on the schedule that we've put in our presentation today.

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

Okay. All right. That's helpful. And then so the 24 branches to be closed later this year. Any comment on -- is that all concentrated in one geography? Or is that kind of spread out throughout the Simmons franchise?

George A. Makris - *Simmons First National Corporation - Non Independent Chairman & CEO*

It's spread out throughout the entire Simmons franchise. I think the state with the highest number of branch closures is 6 in the state. And I'll tell you, we're not through evaluating our physical locations.

Let me give you an example. As we have acquired banks, we have acquired some very impressive physical facilities. There is one corridor of about 100 miles where we've acquired 2 banks and we have about 120,000 square feet of building housing about 160 associates. Those were back office locations for banks that we've consolidated. So in addition to branch reductions, we're also taking a look at the utilization of the square footage that we have in our entire footprint.

So earlier this year, we talked about this year being an adjustment period. And I think it's evident that, that's the case. We have hired a new director of real estate. We're in the real estate business, whether we like it or not. He has done a fantastic job of giving us an unbiased view of the viability of some of these locations. So I would say that by the end of the year, we'll be down to 200 branches across the footprint, whether 200 is the right number or not. We don't know, but that is a constant evaluation for us.

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

Okay. And then finally, on me is just with the net interest margin. I know there's a lot of moving parts with PPP and then the upcoming reinvestment into the bond book. But as you look at the margin in the back half of the year, how do you think that will trend?

George A. Makris - *Simmons First National Corporation - Non Independent Chairman & CEO*

Bob?

Robert A. Fehlman - *Simmons First National Corporation - Senior EVP, COO, CFO & Treasurer*

Well, I would tell you, first off, obviously, the biggest impact this quarter was the additional liquidity. Just like everybody else, we had $2.5 billion in cash. Invested basically at 10, 11 basis points. Our -- the PPP loans are great, but they are lower-yielding loans at about 2.33%. Going into Q3 and Q4, the biggest impact is going to be, first off, when do the PPP loans -- are they forgiven or paid off? If it goes like we expected on the front end, which would be a larger portion paid off in the third quarter, that yield would obviously go up quite a bit.

However, when Congress changed the rules, and it extended the submission period and all of that information. It could delay the PPP forgiveness and payoff period. So it could go into the fourth quarter and into the first quarter next year. So that will probably be a little lower. But I would say, definitely, it's going to cause some lumpiness in the numbers for the next quarter.

On the liquidity side, we're continuing to look at reinvesting that in the security portfolio. As you know, in the first quarter, we derisked some of our security portfolio and also built up liquidity before we knew that the government was going to provide liquidity to the market like they did. We are controlling our own destiny there. So when we're able to reinvest that, we are really reinvesting over a period of time and getting good rates and just working on it. It just takes a lot of time to be able to get in this rate environment, obviously. Our goal, and we're hopeful to have that reinvested $750 million to a $1 billion in the security portfolio by the end of the year.

So those 2 are going to drive the margin, whether it goes up back up to our target level of the 3.40% range, how long it takes to get there will depend on that timing difference. We do think there is some continued opportunity in our deposit and funding cost, a little bit in our transactions. You can see we did a lot of work in the end of the last quarter that really paid off this quarter. But there's still some timing on the time deposits and Federal Home Loan bank pricing that we think will have some opportunity over the coming quarters.

So as we've talked before, I think, if you normalize our margin, it's in that 3.40% range, but it's going to, I think, just like everybody, due to the circumstance. It's going to be a wild guess for the balance of the year, whether it bumps significantly higher back because of forgiveness and payoff or if it continues at the same lower level because of liquidity.

Operator

Our next question comes from the line of Matt Olney from Stephens.

Matthew Covington Olney - *Stephens Inc., Research Division - MD*

I wanted to follow-up on that last question around securities reinvestments. And Bob, you mentioned hope to reinvest, I think, between $750 million to $1 billion by the end of the year. I'm just trying to get a better idea if you're going to be opportunistic and see how it plays out if the spreads become more attractive? Or if you really expect that range to be reinvested in the back half of the year regardless of the shape of the curve? Just trying to understand the sensitivity behind that.

Robert A. Fehlman - *Simmons First National Corporation - Senior EVP, COO, CFO & Treasurer*

We are -- you hit it right on the first one. We're going to be very opportunistic in our reinvestment. We're not going to be forced. So our goal is to have it by the end of the year.

If we can't get the opportunities that we're looking for, it may take a little longer. But we're not going to force it to go in. And that's what we did this quarter as we selectively, there was a lot of payoffs that we reinvested. We're investing in select market in munis. We get a good tax equivalent yield there. And some other investments in corporate bonds and such like sub debt securities. So we do a little bit in there, but mostly in the munis and then the agencies on a shorter-term basis. But it will definitely be opportunistic.

Matthew Covington Olney - *Stephens Inc., Research Division - MD*

Okay. Got it. And then on the deposit cost, the bank did a really nice job this quarter, bringing down the overall deposit cost. I think the interest bearings are now at about 59 basis points. If we go back 4, 5 years, those costs were down in the 30 basis point range. So I'm trying to weigh that against the outlook that calls for stability for the remainder of the year versus where it was 4 or 5 years ago, last time we were at this 0 rate environment. Any color you can give on that?

Robert A. Fehlman - *Simmons First National Corporation - Senior EVP, COO, CFO & Treasurer*

Well, I'll say a couple and George may want to say his on repricing. But as you saw -- like you said, interest-bearing deposits reprice really nicely. And we also, on Page 22 of the presentation, kind of showed the last time in the Great Recession, what happened with rates. And it took a lot longer for rates to drop to the lowest levels that it took from '07 to '12 before it actually dropped to those 34 basis points. So we think there's a little bit of opportunity in the interest-bearing accounts still.

Again, the time deposits has only been a small portion of that, that's repriced. So we think there's opportunities there. Again, we're -- I think the market has gotten closer to the bottom this time than they did in the Great Recession, where it took a couple of years to get near the bottom.

George A. Makris - *Simmons First National Corporation - Non Independent Chairman & CEO*

Well, yes. And I would say this, we -- through our acquisitions, we have some longer-term CD commitments that we will certainly have the opportunity to reprice over the next 12 to 18 months.

So you can see on Page 22 of our presentation that our time deposits still have an average rate of 1.42% that's certainly higher than anything that's in the marketplace today. So we would continue to see that bucket decline. Our transaction and savings rate decreased to 32 basis points. There is some room for continued reduction there. But at 32 basis points, not a whole heck of a lot. So I would say that time deposits give us the best opportunity for repricing over the next 12 to 18 months.

Matthew Covington Olney - *Stephens Inc., Research Division - MD*

Okay. And then switching gears on to service charges. These were down sequentially. I assume because of fee waivers, are you still waiving fees as of today? Just trying to get a better idea of when this will rebound?

George A. Makris - *Simmons First National Corporation - Non Independent Chairman & CEO*

Matt, we are still waiving fees, and we were very specific about any account that received the stimulus payment. We made sure that there were no overdraft charges associated with any of that revenue. And Bob, I can't remember what that number was, but it was 6 digits in fee refunds or waivers. It's just when you take a look at Moody's projections and you take a look at retail sales and other consumer expenditures, they're down. And therefore, there's more money in those accounts than there would be otherwise.

And I think it's just a reflection of less spending in the marketplace. How well the stimulus package propped up, some folks really needed it. And I'm going to make this statement. I would hate for us to hang our hat on overdraft fees for our customers. But -- so I think that's a good sign in the economy that there aren't spending money they don't have. Bob, you might have a couple of comments.

Robert A. Fehlman - *Simmons First National Corporation - Senior EVP, COO, CFO & Treasurer*

Yes. Good comments there. And I would say, too, is on the service charges, we had a commercial customer that we collect fees in the $300,000 to $350,000 a year. Their business was shut down for a period of time. So during that period of time, we collected no fees because it's based on a number of transactions. So that's just one example. And then as George said, we had significant amount of waivers that just trying to help out the customers on waivers on fees. So we did some of that early on in the quarter. One little bit of good news that we did see is the June numbers were better than the May and April numbers in that bucket, still was below our budget for the year, for the month of June.

But it did show improvement over the prior May and April. So that's one that I do believe long term, and when the economy gets back and everybody is back in business, that's more of a temporary. It just went -- how long does it take to get to those level -- back up to the normalized levels, and it will probably take quite a bit of time to -- on the other side of this problem.

Matthew Covington Olney - *Stephens Inc., Research Division - MD*

Okay. Great. And then I guess I want to go back to the loan growth commentary. George, you mentioned a few things in your remarks earlier. I think the outlook calls for loan balances of flat to down 5%. Can you add some more color on this? And does that include or exclude PPP? And I think I appreciate the energy's loan contraction. What else will be contracting the back half of the year at Simmons?

George A. Makris - *Simmons First National Corporation - Non Independent Chairman & CEO*

Well, Matt probably has more detail. I'll remind everyone, back half of the year, our agri portfolio is certainly going to pay down and it's probably $250 million, $300 million at the time. So $100 million or $150 million will probably pay down before the end of the year. But Matt, you may want to talk a little bit about the loan growth or lack of outlook.

Matthew Steven Reddin - *Simmons First National Corporation - Executive VP & Chief Banking Officer*

Yes, sure, George. Matt, great question. At a high level, there's outside of energy. There's no specific category where we're going to see accelerated payoffs. But we are -- as we noted in our release, for the second quarter, we saw substantial paydowns in CRE, I think we'll continue to see that. But there's no acceleration in any other product type. As far as the loan growth goes now, what we're seeing today is where we have long time customers that may be in a position to take advantage of an opportunity or have a good project, that's where we'll continue to see opportunities.

But as you can see with the approved rate of close at $72 million, that's dramatically down. So I think just the continued decline will just be natural just paydowns and amortization.

Operator

(Operator Instructions) Our next question comes from the line of David Feaster from Raymond James.

David Pipkin Feaster - *Raymond James & Associates, Inc., Research Division - Research Analyst*

I just wanted to start on the reserve. Obviously, it's a challenging operating environment. There's a lot of opinions, as you noted in your prepared remarks, but given the pretty significant deterioration in Moody's economic forecast when comparing the June to March figures, I was kind of surprised to only see a 1 basis point increase in the reserve ratio at PPP. I'm just curious how you think about the reserve ratio? And the conversations that it went into that? Was there any change to the weighting of the scenarios, the baseline scenarios and I guess, do you think the bulk of the reserve build is over? Or would you maybe expect to see more in the second half of the year?

George A. Makris - *Simmons First National Corporation - Non Independent Chairman & CEO*

So David, here's how we weighted the Moody's forecast. So 68% weighting to the baseline scenario, 22% to the adverse scenario and 10% to the severely adverse scenario. But let me just qualify that by saying these are not geographic specific, okay?

And when we take a look at the DFAST methodology, and we take national projections and then we have to boil them down to what we work with in our footprint. Let me give you some data here on unemployment numbers. So you know what Moody's unemployment says, 14% in Q2 and over 10% at the end of the year. Well, here's what they actually are in the markets where we do business. And this is as of June 30, Oklahoma is 6.6%, Kansas is 7.5%, Missouri is 7.9%, Arkansas's 8.0%, Texas is 8.6%, Tennessee is 9.7%.

So the way we're looking at Moody's is we have a, in my opinion, very conservative view of the economy based on the statistics in the markets we do business. All these scenarios are applied to our different categories, and they come up with a very static number. And then we apply qualitative factors to that. And quite honestly, they're fairly conservative too. So we add to our reserve fairly substantially. We believe that 1.7% of our loan portfolio is a very conservative number based on the risk as we understand it today.

And once again, this Moody's forecast is over the next 12-month period. Assuming that we continue to improve, as Moody's believes we will during that 4-quarter period, we ought to be just fine. And our additional allowance will be based on Moody's forecast. So if they change and it becomes more severe, then you would expect us to try to reserve more on that basis. If we have charge-offs that are not accounted for specifically, that could have an impact. And then loan growth would have an impact.

But those are the elements that we'll take a look at as we continue to evaluate the appropriateness of our provision and, therefore, the allowance. So I would tell you, we're very comfortable with where that is today based on some pretty significant analytics.

David Pipkin Feaster - *Raymond James & Associates, Inc., Research Division - Research Analyst*

Okay. That's helpful. And then just following up on Matt's question on loan growth. You -- Matt had mentioned that originations are down. I'm just curious, how much of this payoffs and paydowns are obviously elevated.

But I'm just curious as to how much is this strategic where you tightened the credit box and are passing on more loans? Or is this -- you losing deals to like competitors that are being more irrational or are customers just simply paying down debt using excess cash and just paying down debt. Just curious -- and then maybe how your pipeline is looking headed into the third quarter.

George A. Makris - *Simmons First National Corporation - Non Independent Chairman & CEO*

Matt, would you mind addressing that question?

Matthew Steven Reddin - *Simmons First National Corporation - Executive VP & Chief Banking Officer*

Yes, absolutely, George. It's really a combination of all 3 of your scenarios. We definitely tightened down the screws as we should. We're -- we have a COVID overlay to ensure new originations, they had the highest quality underwriting. And then also, absolutely, our customers are paying down faster. There are -- and then finally, there are fewer opportunities in the marketplace.

And we are -- with fewer opportunities in the marketplace, you will see what we would call a faster gun with looser terms or lower yields that just don't fit our box right now. So it's really a combination of all 3. As far as the pipeline going into the third quarter, each quarter, we've shown a decline in our approved rate of close, and I think you'll continue to see that until there's some more certainty with economic conditions.

David Pipkin Feaster - *Raymond James & Associates, Inc., Research Division - Research Analyst*

Okay. And then last one for me. George, just -- I've been curious it's -- this is more of a strategic question. Obviously, you talked about the branch rationalization, but with the pandemic, this increased remote working and increased digital adoption and changing consumer behaviors. Has there been any change in your strategy? Is there any -- both on the cost saving front and opportunities to invest in and maybe grow in new markets or maybe make some opportunistic new hires or anything like that? Just curious on how your strategy and focus may be changing in this new world?

George A. Makris - *Simmons First National Corporation - Non Independent Chairman & CEO*

Well, certainly, we have to take a look at those opportunities based on the changes that have happened as a result of this. And I believe some of them are going to be permanent. I will say this, we have had excellent results from our investment in our digital channels. And we have a road map over the next 18 months where we will continue to expand and enhance our digital offerings to include credit cards to include investments in other products and services that we offer.

So I expect that the trend of self-service will continue and therefore, put even more pressure on our physical locations. It's also going to require us to be more consultative with our customers instead of reactive. So I think you're going to see quite a shift in skill sets with our customer facing, particularly our branch staff. Who are going to be more universal bankers, if you will, than tellers. We're going to have to be able to meet our customers' expectations with regard to their questions across the spectrum of our products and services. We have been very lucky.

We have recently hired 2 excellent executives within the company that I'll mention now. One is Kent Eastman. Kent is our new division chairman for Texas. Kent came to us with a very storied background in the banking business and certainly well respected in the Dallas-Fort Worth market. So we're glad to have Kent here. And then Jimmy Crocker has recently joined us as the head of our wealth group. Jimmy has extensive experience, is an attorney. As you may recall, Philip Tappan retired earlier this year, Joe Clement, who has run our trust department for years and years, is retiring at the end of this month. So Jimmy coming on board was very timely hire for us.

And I would say that one of our real opportunities for growth is going to be in Jimmy's area because while we have great wealth products, they're not widely dispersed across our footprint. So that's a real opportunity that we see going forward.

With regard to work from home and those kinds of new work methods. We're still evaluating whether or not that's a good idea for our company or not.

Certainly, it is reasonable to consider that some positions may adapt to that fairly well, but we are still a people business. And that person-to-person contact, not only with our customers, but internally is invaluable. So how do we balance that? We're not real sure yet, but we're trying to figure that out. From a digital standpoint, I've already mentioned that, but we continue to invest in technology. And I think our investments have really paid dividends in our organization. So efficiency through technology is still an opportunity for us. You probably saw our efficiency ratio and our expense reduction in the second quarter, we're very proud of that and we expect that to continue going forward. So if I didn't answer a specific question, David, I apologize, but you're welcome to follow-up.

David Pipkin Feaster - *Raymond James & Associates, Inc., Research Division - Research Analyst*

No, that was terrific.

Operator

Our next question comes from the line of Garrett Holland from Baird.

Garrett Anthony Holland - *Robert W. Baird & Co. Incorporated, Research Division - Analyst*

It's a great position to be in with your very strong CET1 ratio in this downturn. But where do you expect kind of to run from a near-term standpoint with CET 1? And how are you able to use that strong capital position and profitability to be a bit more opportunistic and drive organic and PPNR growth, albeit in a challenging operating environment.

George A. Makris - *Simmons First National Corporation - Non Independent Chairman & CEO*

Well, Bob, do you want to talk about the outlook for capital? And then maybe I can touch a little bit on maybe some utilization of that capital.

Robert A. Fehlman - *Simmons First National Corporation - Senior EVP, COO, CFO & Treasurer*

Yes, George, our -- Garrett, our capital, like you said, is -- we're in pretty good shape right now, especially taking the fact when you back out the PPP impact of $1 billion of loans. Now it doesn't negatively impact some of the ratios, but it does our tangible common equity and so forth. But right now, where we are in this given circumstances due to the uncertainties, it's kind of really just build the capital you can and be ready and loaded when you can take advantage of it. So then that's what we continue to do right here is continue to operate, continue to build profits that we can and build the capital levels.

And again, be ready for when the opportunity comes, whether -- and George said he'll go through some of those opportunities. But that's what we plan to do in this process, is continue to build the capital and continue to pay dividends at our current levels as we have in the past.

George A. Makris - *Simmons First National Corporation - Non Independent Chairman & CEO*

Garrett, yes, and Bob touched on something that's very important to us is our dividend history, and that's certainly important to our investors and certainly something that we intend to protect at all costs. I'm very disappointed that we aren't able to buy our stock back right now. I think it's a heck of a buy. We have some insiders that are taking advantage of that. But we don't have 30-days a month or a quarter that we can do that. I expect that you'll see some more buying when the wind opens up for us this time. And of course, we had some really good discussions going on with some merger partners when all this hit. So we expect that if they survive like we expect to, that we'll have those discussions again, and we'll have some more M&A opportunities. But right now, it's just all hands on deck, every man for himself, and we're just trying to navigate through. We will continue to build not only our capital, but our cash position at the holding company as well, certainly, over the next 1.5 years. And we will be ready for those opportunities as they present themselves in the marketplace.

Robert A. Fehlman - *Simmons First National Corporation - Senior EVP, COO, CFO & Treasurer*

And Garrett, I'd have one other comment because I think you hit right on it with the CET1 ratio. I think in an environment like this, the 2 most important capital ratios are the CET1 and the total risk-based capital because that really risk weights your balance sheet. As investors, we tend to look more at TCE, but that doesn't tell the story when you're in an environment like we are today, and you really want to risk weight the assets. And those 2 ratios do it. So I think a good idea pointing that out.

Operator

At this time, I'm showing no further questions. I would like to turn the call back over to George Makris for closing remarks.

George A. Makris - *Simmons First National Corporation - Non Independent Chairman & CEO*

Well, thanks to each of you for joining us again this quarter. We're very proud of our results and I wish I could tell you that we were very clear about what's going to happen in the third quarter.

You all know that we're dealing with some uncertainty with regard to schools and reopening, that's going to have a big impact on the economy. And certainly, it's going to have a big impact on our ability to get all of our associates back to work. So we're just going to continue to do what we're doing and hope for the best. We appreciate your support, and hope you have a great day.

Operator

Ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect.