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GreenSky, Inc. (GSKY)

Q4 2019 Earnings Call

CORPORATE PARTICIPANTS

Rebecca Gardy
Senior Vice President, Investor Relations, GreenSky, Inc.

David Zalik
Chairman & Chief Executive Officer, GreenSky, Inc.

Gerald R. Benjamin
Chief Administrative Officer & Vice Chairman, GreenSky, Inc.

Robert G. Partlow
Chief Financial Officer & Executive Vice President, GreenSky, Inc.

OTHER PARTICIPANTS

John Davis
Analyst, Raymond James & Associates, Inc.

Steven M. Wald
Analyst, Morgan Stanley & Co. LLC

Andrew W. Jeffrey
Analyst, SunTrust Robinson Humphrey, Inc.

Christopher Donat
Analyst, Piper Sandler & Co.

Ashwin Vassant Shirvaikar
Analyst, Citigroup Global Markets, Inc.

Tien-Tsin Huang
Analyst, JPMorgan Securities LLC

William Ryan
Analyst, Compass Point Research & Trading LLC

Robert Wildhack
Analyst, Autonomous Research LLP

Mihir Bhatia
Analyst, Bank of America Merrill Lynch

MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, thank you and welcome to the GreenSky Fiscal 2019 Earnings Conference Call. At this time, all participants are in a listen-only mode. A brief question-and-answer session will follow the prepared remarks. As a reminder, this event is streaming live on the GreenSky Investor Relations website, and a replay will be available on the same site approximately two hours after the completion of the call.

It is my pleasure to introduce your host, Ms. Rebecca Gardy, Senior Vice President of Investor Relations at GreenSky. Please go ahead.

Rebecca Gardy

Senior Vice President, Investor Relations, GreenSky, Inc.

Thank you, Shannon, and thank you to all our listeners for joining us today. GreenSky issued a press release announcing results for its fourth quarter ended December 31, 2019 after the close of market trading hours yesterday, March 2, 2020. You can access this press release on the Investor Relations section of the GreenSky website. In addition, we've also posted our fourth quarter fiscal 2019 investor presentation, which we will refer to during today's call. On today's call, we have David Zalik, Chairman and Chief Executive Officer; Gerry Benjamin, Vice Chairman and Chief Administrative Officer; and Robert Partlow, Chief Financial Officer.

Before we get started, let me remind you that our presentation and discussions will include forward-looking statements. These are statements that are based on current assumptions and are subject to risks and uncertainties that could cause actual results to differ materially from those projected. We disclaim any obligation to update any forward-looking statements except as required by law. Information about these risks and uncertainties is included in our press release issued yesterday as well as in our filings with regulators.

We'll also be discussing certain non-GAAP financial measures on today's call. These non-GAAP measures are not intended to be considered in isolation from a substitute for or superior to the GAAP results, and we encourage you to consider all measures when analyzing GreenSky's performance. These non-GAAP measures are described and reconciled to their GAAP counterparts in the presentation materials, the press release dated March 2, 2020, and on the Investor Relations page of our website.

And with that, I would now like to turn it over to David. David?

David Zalik

Chairman & Chief Executive Officer, GreenSky, Inc.

Thanks, Rebecca. Good morning, everyone, and thank you for joining us. It's good to be with you today to review our fourth quarter and fiscal 2019 results. Our fiscal 2019 revenue grew 28%, driven by transaction volume growth of 18% and increased servicing fee revenue. Through our expanding ecosystem of over 17,000 merchants and elective healthcare providers, we reported a record $1.5 billion of loans originated on our technology platform in the fourth quarter, bringing total fiscal 2000 (sic) [2019] (00:02:38) transaction volume to nearly $6 billion.

Over the last five years, transaction volume has grown at an average annual compound rate of nearly 33%, a testament to the power of our expanding base of quality merchants and the range of competitive financing products we enable on our platform. As a leading point-of-sale technology platform enabling merchants and elective healthcare providers to offer instantaneous financing, GreenSky operates in two vast markets. Providing our merchants and providers with compelling innovative products and solutions for their customers continues to be paramount for our sustained growth.

To that end, our robust innovation pipeline, including enhanced feature functionality such as the GreenSky Universal Credit Application, is allowing us to become more deeply entrenched with our merchant network and widening the technology gap between GreenSky and our competitors. In combination with the rapid market shares gains we've made in the elective healthcare space in only four years, GreenSky is well positioned to again achieve double-digit growth in volume in 2020.

This year we placed an increasing importance on the quality, productivity and profitability of the merchants and providers that comprise our network. Merchants with over $2 million in annual sales revenue represented two-thirds of the volume at our home improvement vertical. Our focus on merchant productivity is evident by the strong transaction volume originated by each cohort as seen on slide 13 of the presentation we posted on the Investor Relations section of our website last evening.

We worked side-by-side with many merchants to help them grow their business and have also parted ways with merchants that don't fit. We expect to see additional momentum in the current year from these efforts. In a moment, Rob will walk you through the financial statements, but first I want to touch on two key business initiatives: evolving and expanding our funding model; and our board's strategic alternative review process.

First, funding. As of the end of the fourth quarter, we had aggregate bank funding commitments of $9 billion, of which $2.2 billion was unused. As a reminder, Bank Partner commitments are revolving in nature and as much as they replenish as outstanding loans paid down. Given our expectations for originations and portfolio runoff, we anticipate having approximately $2.7 billion in additional capacity become available during 2020. Importantly, this is without any new Bank Partners joining the GreenSky consortium or expansion from existing partners.

In addition, as we announced in December, we reached an agreement in principle for a $6 billion forward flow arrangement with a leading institutional asset manager to complement our Bank Partner funding group. The $6 billion commitment provides capacity of up to $2 billion per year over a three-year term. We expect funding persuade to this agreement to likely commence during the second quarter of 2020.

The forward flow arrangement has three important characteristics. Number one, no escrow, no FCR, no CECL; number two, no tail liability or volatility, no performance bonus; number three, approximately equivalent to our historic bank cost of funds, same profit, none of the volatility or complex accounting, all recognize at time of origination. And secondly, as announced in August 2019, the company's Board of Directors working together with our senior management team and outside legal and financial advisers, has commenced a process to explore review and evaluate a range of potential strategic alternatives focused on maximizing stockholder value.

The board's review is ongoing and the company does not intend to make further public comment regarding these matters unless and until the board has approved a specific transaction or alternative or otherwise concludes its review. We expect to make an announcement in this regard no later than the second quarter of fiscal 2020.

I'll now turn it over to Gerry.

Gerald R. Benjamin

Chief Administrative Officer & Vice Chairman, GreenSky, Inc.

Thank you, David, and good morning. From the company's inception through the end of fiscal 2019, GreenSky has enabled over $22 billion of transactions with over 3 million consumers. As David referenced in his comments, the markets in which GreenSky competes are immense.

As noted by the Harvard University Joint Center for Housing Studies, Americans spend more than $400 billion a year on residential renovations and repairs, while IBIS Worldwide and the applicable professional accreditation and societies and associations estimates that Americans spend more than $300 billion annually on those subsectors of elective healthcare that GreenSky actively pursues namely: dentistry, vision correction, veterinary medicine, dermatology and non-invasive cosmetics, and reproductive medicine.

While we believe that GreenSky holds the number one market position in the home improvement vertical and the number three market position in elective healthcare after just four years from launch, our share of both of these markets remains modest, allowing lots of room for continued material growth for years to come. While other market participants are attempting to emulate us, we continue to successfully launch new products, services and capabilities that further separate us from the competition.

In addition to our existing technology, service and support, we're extremely excited to see the response from home improvement merchants to our newly released product like the Universal Credit Application and our pre-approval marketing capabilities that continue to make us unique in the market. In elective healthcare, we're continuing to innovate to expand the range of promotional payment options that have traditionally been made available by providers. The healthcare team is continuing to iterate on these products and services that are needed by providers, while at the same time ensuring that the credit profile of approved program borrowers continues to meet our funding partners' underwriting standards.

The feedback has been overwhelmingly positive and the pace at which elective healthcare providers are joining the GreenSky ecosystem, shows we're making exciting progress. Accordingly, we enter fiscal 2020 with an intense focus on enhancing our home improvement and elective healthcare product offerings, adding larger merchants and elective healthcare providers that meet both our quality and productivity targets, while continuing to invest in advancing the effectiveness of our risk management processes and procedures.

As depicted on slide 19 of the fiscal 2019 investor presentation posted, we have never relaxed the GreenSky Program underwriting standards to stimulate transaction volume growth. In fact, the dollar credit weighted average FICO score of consumers at origination was exceptionally strong at 771 for the fourth quarter and 770 for the full year. As highlighted in yesterday's earnings press release, the credit quality of the company's loan servicing portfolio remains truly exceptional with 85% and 37% of the company's December 31 loan servicing portfolio composed of borrowers with weighted average FICO scores at origination in excess of 700 and 780, respectively.

30-day delinquencies reached the three-year, fourth quarter-end low point of 1.38% which is impressive given the continued growth of healthcare originations which depict slightly lower average FICO scores and predictably display higher delinquency rates relative to home improvement. Both our home improvement and healthcare originations each had better FICO distributions over the prior year and better performance within FICO ranges.

We continue to make investments to enhance our proprietary credit and merchant management tools and systems which we believe will deliver additional improvements throughout 2020. Early indicators show the 2019 home improvement vintage of originations has the highest weighted average FICO distribution and lowest early delinquencies of any loan vintage we've facilitated. And the same is true for the 2019 vintage of elective healthcare originations. As of December 31, we had over 17,000 active merchants and providers on our platform. Our 15% greatest rate in total active merchants over December 31, 2018, reflects the substantial addition of high-quality merchants net of our intentional and ongoing roll-off of prior merchants and providers that didn't meet our performance or productivity targets.

The fourth quarter Origination Productivity Index or OPI was 20.8%, down modestly from 21.1% in the third quarter and 22.2% in the fourth quarter of 2018, mostly due to the lagging nature of the 11th District monthly weighted average cost of funds index or COFI. Given that, effective January 1, 2020, the Federal Home Loan Bank has discontinued publishing the COFI index. Management is reviewing alternative represented indices to benchmark the directional movement of bank cost of funds [ph] for derivatives that's (00:11:06) computing OPI on a go-forward basis.

And with that, I'll turn it over to Rob, to review the company's financial performance for both the fourth quarter and the fiscal year. Rob?

Robert G. Partlow

Chief Financial Officer & Executive Vice President, GreenSky, Inc.

Thank you, Gerry. As I review the results for the fourth quarter and fiscal 2019 during my remarks, note that all comparisons will be relative to the fourth quarter of 2018 and the fiscal year 2018, respectively, unless otherwise stated. Transaction volume in the fourth quarter of fiscal 2019 was approximately $1.5 billion compared to $1.3 billion last year or a year-over-year increase of 16%. The transaction volume for the fiscal year grew by nearly $1 billion or 18% for a record $5.95 billion. The company's transaction fee rate in the fourth quarter was 6.76%, down 10 basis points sequentially from the third quarter.

For the fiscal year, the average transaction fee was relatively stable at 6.82%, down 12 basis points compared to 2018. The predominant driver of the year-over-year decline was product mix shifts, as we had lower solar originations coupled with marginal shift of originations from zero interest rate promotional loans to deferred rate loans.

As discussed on prior calls, the variability of the promotional products which our merchants and providers offer to their consumer causes our transaction fee, as a percentage of transaction volume, to fluctuate throughout the year based on the promotional products our merchants choose are used to drive sales activity. Total revenue in the fourth quarter grew 22% to $133.8 million, with transaction fees up 11%. Servicing and other revenues increased 77% compared to last year, driven by continued portfolio growth and the recognition of $5.1 million servicing asset associated with the increase of the contractual fixed servicing fee for certain Bank Partner agreements.

For fiscal year 2019, total revenue grew 28% to $529.6 million, with transaction fees up 16% to $405.9 million, in line with our transaction volume growth. Servicing and other fees increased 88%, driven by the 30% growth in our average loan servicing portfolio as well as the recognition of a $30.5 million servicing asset in connection with the modification of certain agreements – servicing agreements with certain Bank Partners, whereby the servicing fees which are senior cash flows in the waterfall were increased above the market servicing rate.

Cost of revenue totaled $69.4 million or 3.1% of assets under management in the fourth quarter and $248.6 million or 3% of assets under management for fiscal 2019. We break out on slide 29 the components of cost of revenue into three distinct components: servicing costs, origination costs, and the fair value change in the FCR liability. For the fourth quarter, origination-related expenses totaled $8.3 million or 0.55% of originations, down from 0.59% in the third quarter and 0.66% in the fourth quarter of 2018.

For the fiscal year, origination-related expenses totaled $33.6 million or 0.56% of originations, consistent with 2018's 0.56% of originations. Servicing-related expenses were $11.9 million or 0.53% of the average loan servicing portfolio for the fourth quarter, consistent with the fourth quarter of 2018's 0.53%. For the full year, servicing-related expenses totaled $44.6 million or 0.54% and represents a marginal improvement over 2018's expense rate of 0.56%.

On slide 30, we have provided the detailed components of the fair value change in the FCR liability. I will focus on the Q4-over-Q4 comparison, as this will help isolate the noise created by the seasonal nature of consumer credit behavior. The fair value change in the FCR liability for the fourth quarter was $49.2 million or 2.19% of the average loan servicing portfolio, up from Q4 2018's $37.3 million or 2.09% of the average loan servicing portfolio. The increase of $11.9 million largely reflects the growth of the balance of deferred interest loans within our portfolio.

In addition, the impact of the 20 basis point increase in the servicing fee paid to GreenSky by Bank Partners which reduces incentive payments paid to GreenSky and thereby increases its fair value change in FCR liability expense line item. This higher servicing fee paid results in a higher net servicing revenue to GreenSky. Absent the shift to servicing fees from receipts to servicing revenue, the fair value change in the FCR liability rate would have decreased from Q4 2018 to Q4 2019, reflecting the improving metrics in our portfolio of stable to improving credit along with declining bank margins.

On slide 31, we also break out the fair value change in the FCR liability by the drivers of this expense line. I'll begin with the expense for future finance charge reversals, which is the expense related to building up the liability on our balance sheet for future finance charge reversals. This expense in the fourth quarter was $94.4 million and

4.21% of the loan servicing portfolio, up from 2018's $66.1 million or 3.71%. The increase in this expense is indicative of a larger balance of deferred interest loans in our portfolio.

As previously noted, the FCR rate has increased due to the impact of higher APRs on newer transaction volume and the higher mix of deferred interest loans in our elective healthcare vertical. Receipts from our servicing portfolio reduced the expense for future finance charge reversals and totaled $45.2 million or 2.01% of the average loan servicing portfolio in the fourth quarter and were up materially from Q4 2018's $28.8 million or 1.62% of the average loan servicing portfolio.

Incentive payments are the principal components of receipts. Fourth quarter receipts totaled $37.2 million or 1.66% of the average loan servicing portfolio compared to Q4 2018's $20.6 million or 1.16% of the average loan servicing portfolio. The 50 basis point improvement in the rate, despite the aforementioned 20 basis point impact of the higher servicing fees, was driven primarily by the 73 basis point increase in finance charges and fees from both deferred interest loans as well as reduced interest loans, coupled with a lower mix of zero interest loans being originated.

The other components of incentive payments from Bank Partners were relatively unchanged. Agreed-upon Bank Partner yields increased 2 basis points, as the impact of last year's higher rate environment has been offset by the lower cost of this year's originations. The net charge-off rate was effectively flat in Q4 2019 versus Q4 2018, as the benefit from the improvements we have made in risk and operations have offset the impact of higher proportion of elective healthcare loans in the portfolio.

Proceeds from the recoveries on previously charged-off loans and proceeds from charged-off receivables transfers totaled 36 basis points during Q4 2019, down from Q4 2018's 46 basis points, as we reduced the transfer of charged-off receivables during the quarter. Operating expenses increased year-over-year as we continue to build and invest in our team as well as incurring certain expenses we do not expect to be recurring over the long term. Compensation expenses increased $21.7 million or 35% for the year to $84 million, reflecting a $7.8 million increase in share-based compensation and continued investment in our IT, credit and sales infrastructure.

Property, office and technology expenditures increased $3.9 million or 30% for the fiscal year to $17.1 million due to higher technology contractor and consulting expense, as well as higher software and operating lease costs. General and administrative expenses increased $10.7 million or 77% for the year, largely driven by legal, advisory, and professional fees. As we have previously discussed, one of our Bank Partners did not renew their origination agreement at the end of November. As a result, we realized approximately $60 million financial guarantee expense related to our expected usage of large proportion of the existing $90 million escrow.

Note that, historically, we've had a small financial guarantee expense related to smaller legacy portfolios and the expenses previously included in G&A expenses, but are now broken out separately on the face of our income statement. Other expense, net of other income, increased $12.8 million to $32.1 million for the year due primarily to the $9.8 million expense related to the remeasuring of our tax receivable agreement liability. During 2019, we remeasured our deferred tax assets resulting in $11.6 million tax benefit due to state tax law changes and an obligation to file in certain states for the first time.

Since most of our deferred tax assets attributable to amortizable tax goodwill and subject to the tax receivable agreement, a corresponding increase in the TRA liability was recorded with an increase in other expense. Income tax benefit recorded during 2019 reflected the expected income tax expense of $8.2 million on the net earnings for the entire year related to GreenSky, Inc.'s economic interest into GreenSky Holdings. The expected income tax expense for 2019 was offset by $15.3 million of tax benefits, which primarily included the remeasurement of our deferred tax assets of $11.6 million and warrant and stock-based compensation deduction of $3.3 million.

GAAP net income for the fourth quarter and full year was $5.3 million and $96 million, respectively. Because of our Up-C corporate structure, GAAP net income reflects only the tax expense or tax benefit on the proportion of GreenSky owned by the C-corporation. We believe adjusted pro forma net income is a more useful measure of our entire enterprise's operating results, as this measure reflects C-corp income tax on all GreenSky earnings inclusive of the amount owned by the non-controlling interest as well as adjustments for certain other items as noted in our press release.

Adjusted pro forma net income was $20.5 million in the fourth quarter, down 5% from the fourth quarter of 2018 and $101.6 million for the full year, down from $109.1 million in 2018. The effective tax rate was 14.8% and 19.7% for 2019 and 2018, respectively. As we have indicated on prior earnings calls, we believe that adjusted EBITDA is one of our key financial indicators of our business performance over the long term and provide useful information regarding whether cash provided by operating activities is sufficient to maintain and grow our business.

Adjusted EBITDA for the fourth quarter was $35.3 million compared to $32.6 million in the fourth quarter of 2018. For the full year, adjusted EBITDA decreased 3% to $164.1 million from $170 million in 2018. In our 10-K, we will also report comprehensive income which accounts for the fair value change in the $350 million interest rate swap as designated as the hedge of our interest rate risk on our term loan debt. The fluctuations and the market expectations about the path of future federal reserve rate cuts resulted in a mark-to-market gain in the swap of $1.9 million during the fourth quarter and a loss of $2.5 million for 2019. Actual cash settlements are reclassified into interest expense as they occur during the hedges four-year term.

Turning to our balance sheet. We finished the year with $195.8 million of unrestricted cash. Free cash flow for 2019 was $43 million as detailed on slide 36 of our fiscal 2019 investor presentation. We ended 2019 with approximately $51.9 million of loan receivables held for sale, as we continue to periodically acquire and sell Bank Partner origination. Subsequent to December 31, 2019, the company executed a par sale of $24.1 million of loan receivables held for sale within the company's Bank Partner network. Looking ahead to our first quarter, the company's adoption of the new current expected credit loss or CECL accounting standard will change the requirements for estimating credit loss to our Bank Partners escrow accounts, which are a component of restricted cash.

We account for the risk of loss of the escrow funds as an off-balance sheet credit exposure under financial guarantee arrangement. And as we noted in our prior 10-Q, this type of guarantee is within the scope of CECL. Importantly, CECL does not allow the inclusion of future loan originations by our Bank Partners. Thus the modeling of loan losses for any consumer loan portfolio is assumed to go into runoff, with no new originations in the portfolio. The adoption impact is expected to represent a significant portion of our $150.4 million escrow on our $9.2 billion loan servicing portfolio as of December 31, 2019.

Historically, our actual cash payments required under the financial guarantee arrangements have been immaterial for our ongoing bank partners, and we anticipate this continue to be the case. As for many companies, the adoption of CECL will meaningfully impact non-cash – have a meaningful impact on our non-cash earnings for GAAP and balance sheet. And we are working through the refinements of the appropriate non-GAAP measure to be better aligned with our financial measures – better align our financial measures with our actual economic performance.

Finally, before I end the call, I want to let you know Rebecca Gardy will be leaving GreenSky next week, as she's accepted in a new role relocating to the Northeast. We want to thank Rebecca for many contributions since joining GreenSky before our IPO. We also want to wish her well on her exciting new opportunity. Thank you, Rebecca.

And with that, I'd like to turn the call over to Rebecca to set up Q&A.

Rebecca Gardy

Senior Vice President, Investor Relations, GreenSky, Inc.

Thanks, Rob. Operator, we'll take our first question.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Our first question comes from John Davis with Raymond James. Your line is open.

John Davis Q

Analyst, Raymond James & Associates, Inc.

Hey. Good morning, guys. Maybe just wanted to touch on, first off, why this decision not to guide for 2020? And I think in the release you talked to double-digit origination growth, but maybe also just help us with directionally the pieces, take rate margin, and how we should think about the outlook for the full year?

David Zalik A

Chairman & Chief Executive Officer, GreenSky, Inc.

Hey, John. It's David. Can you hear me okay?

John Davis Q

Analyst, Raymond James & Associates, Inc.

I can.

David Zalik A

Chairman & Chief Executive Officer, GreenSky, Inc.

Okay. Terrific. So, I'll take it in reverse order. From our perspective, take rate was very stable and that's always been a function of mix. So, we think that's a good thing. I think your other question was around the – I think it was around guidance. And as I mentioned, we are completing the strategic alternative review; and when that's completed then we'll be ready.

John Davis Q

Analyst, Raymond James & Associates, Inc.

Okay. But just directionally, how should we think about take rate this year or margins, I think double-digit origination growth, but just trying to think about what the profitability of this business model looks like going forward? So just any sort of directional color would be helpful.

Gerald R. Benjamin
Chief Administrative Officer & Vice Chairman, GreenSky, Inc.

A

Yeah. Let me jump in here.

David Zalik
Chairman & Chief Executive Officer, GreenSky, Inc.

A

Gerry, do you want to add some color to that?

Gerald R. Benjamin
Chief Administrative Officer & Vice Chairman, GreenSky, Inc.

A

Yeah. Let me jump in here. I think you'll note that our EBITDA margin for the full year, if we take away the impact of our FCR growth, you would have about flat EBITDA margin. I think the adjusted EBITDA margin for the full year declined from roughly 41% to 31%. If we would have normalized the FCR, it would have been within 120 basis points of last year, I believe the math is.

Instructionally, because of our moderating cost, the bank funds and improved credit quality, you'll see in Q4 in the slides the EBITDA margin converges very, very closely this year Q4 versus last year Q4. We think that's telling and a pretty good precursor of what we expect in 2020. Some people say, do you have wind in your sail. You never want to speak too soon, but clearly from an interest rate environment, things are looking pretty benign. I think we'd all agree.

And from a credit point of view, we've been very, very clear; we indicate we're seeing improvements that are carrying over into 2020. So those two factors have a very, very material impact on our FCR, which as you know is a byproduct of our growing service portfolio. But as David said, stable take rate, improving EBITDA margin which only degraded for the prior year for 2019 based on the growth of the FCR.

John Davis
Analyst, Raymond James & Associates, Inc.

Q

Okay. That's helpful. And then maybe we can run through just high-level economics with the new forward flow agreement. David, I think you made some comments on the call that you're not going to get – you're going to get a similar cost of funds with this agreement, but you're taking in a lot less risk. So just trying to understand [ph] and put (00:27:39), the economics don't appear to be changing, but you're obviously taking on less risk and volatility, so maybe just kind of walk through how that works would be helpful.

Gerald R. Benjamin
Chief Administrative Officer & Vice Chairman, GreenSky, Inc.

A

Sure. I think we...

David Zalik
Chairman & Chief Executive Officer, GreenSky, Inc.

A

Yeah. I think of it as...

Gerald R. Benjamin
Chief Administrative Officer & Vice Chairman, GreenSky, Inc.

A

Go ahead, David.

David Zalik
Chairman & Chief Executive Officer, GreenSky, Inc.

A

No, please, Gerry.

Gerald R. Benjamin
Chief Administrative Officer & Vice Chairman, GreenSky, Inc.

A

We touched on this briefly on our last call. As you would expect, as we're selling basically loans that our banks originate into a forward flow arrangement, there's a true-up at the point of time of that movement. So you'll either have a gain or loss recognized on the movement, because those loans will be sold either up higher premium or a discount.

To David's point, there is no CECL implication because there's no ongoing economic in that loan that's held by the counterparty. There is no escrow for the same reason. And accordingly, you have what I call a closed transaction, so your point's well taken. There is less risk that comes with the cost. Some of those loans we'll sell at a discount. But as David pointed out, over the life of the loan arrangement, we would expect the economics to be approximately equivalent to what we've historically experienced.

John Davis
Analyst, Raymond James & Associates, Inc.

Q

Okay. And then last one for me. The OPI, I think it was down like 140 basis points; and apologies if I missed it. Maybe just what kind of drove that and how do we think about or how do you guys think about the OPI kind of going into next year. I know we're going to have an index change, but just high level commentary on the profitability of originations with all the new mix of the forward flow against the different funding agreements.

Gerald R. Benjamin
Chief Administrative Officer & Vice Chairman, GreenSky, Inc.

A

Sure. Sure. I think the computation of the idea to measure the productivity of originations in a given quarter, taking into account something that approximates our bank cost of funds or our treasury cost of funds based on where our funding is coming from, still has merit. The COFI index is being discontinued by the federal home loan, but it does have a lagging nature.

So right now, as we report COFI in Q4, it didn't show the benefit of the moderating interest rates. And sort of a real time, it's a lagging indicator. If it would have, it would have been much closer or perhaps higher to Q4 a year ago. So I wouldn't make too much out of that. We're searching and my guess is, as opposed to the COFI, we'll be using something that maybe swap-based as a surrogate for cost of funds. It's probably a closer estimate of what our bank cost of funds or treasury cost of funds will be. If there's a mix funding model, that makes sense.

John Davis
Analyst, Raymond James & Associates, Inc.

Q

Yeah. Okay. Thanks, guys.

Gerald R. Benjamin
Chief Administrative Officer & Vice Chairman, GreenSky, Inc.

A

Sure.

Operator: Thank you. Our next question comes from Steven Wald with Morgan Stanley. Your line is open.

Steven M. Wald
Analyst, Morgan Stanley & Co. LLC

Q

Hey. Good morning and congratulations, Rebecca.

Rebecca Gardy
Senior Vice President, Investor Relations, GreenSky, Inc.

A

Thank you.

Steven M. Wald
Analyst, Morgan Stanley & Co. LLC

Q

Maybe if we could just start with the strategic alternative. I know you guys can't really comment too specifically, but if we kind of rewind the tape back almost a year or a little more than half a year, it seemed like it was sort of a sense that the market was missing something and you guys wanted to make sure you could maximize shareholder value. Could you just talk us through anything you've seen since then that might have changed or maybe conceptually since you've gone into the review process, what you sort of seen in terms of whether – I think a lot of us have thought maybe you were talking about something like a deal or has anything changed there since you've announced that that we should be thinking of in terms of how you're thinking about this?

Gerald R. Benjamin
Chief Administrative Officer & Vice Chairman, GreenSky, Inc.

A

Well, I would tell you...

David Zalik
Chairman & Chief Executive Officer, GreenSky, Inc.

A

No, I don't think anything has changed. What we've seen is that the enhancements from the incremental $6 billion of funding and the implication that that has on our accounting we think is a real positive. You can imagine what our P&L and our balance sheet looks like if the vast majority of our funding has no escrow, no FCR, now no CECL, with similar lifetime economics to GreenSky and no tail liability or volatility. We've also seen that there are alternatives that is part of the valuation.

Gerry, I think you had something to add.

Gerald R. Benjamin
Chief Administrative Officer & Vice Chairman, GreenSky, Inc.

A

No. To your point, I think the board has been purposefully comprehensive in their review. These always take longer than you think they would. But to your point, the accounting implications of what may become a mixed model where we're supported by our historic bank program that we like and value, complement it with a forward flow arrangement. There are implications to us.

If someone's looking at a transaction, there are also implications to a counterparty. And this accounting provision is somewhat new and it's been fluid, the interpretation as to how to apply it, because our bank model with our waterfall is not typical in the marketplace. So there's been learning by the outside audit firms, ourselves, as well as I sense counterparties looking at the company. So it's taken some time, but I'm confident that the board has been comprehensive and thoughtful in their review.

Steven M. Wald
Analyst, Morgan Stanley & Co. LLC

Q

Got it. And maybe, David, I think you sort of – you alluded to this in the last point there. The shift with the new partner and the $6 billion forward flow. As you've kind of gone into the finalization of that and as you're looking at – it's quite a sizeable commitment, how does that change your view overall on where you guys should be pushing for the next leg of things? Should we expect this to be more of a nonbank-focused growth strategy in terms of new partners, or will you continue to be pushing on the bank front as well?

David Zalik
Chairman & Chief Executive Officer, GreenSky, Inc.

A

We love diversification. We love our Bank Partners. We love non-banks. I think what you should be looking for from us is a better accounting, a simpler accounting, a simpler way to understand the P&L of the business and that's one of the advantages of this structure; not to mention at least $6 billion of incremental liquidity. And so, our focus always has been diversification of funding. And certainly, as part of this strategic review is, how do we provide better information that allows an investor to understand the actual performance of the business because the gap, the way we have to do it today, is not particularly helpful.

Steven M. Wald
Analyst, Morgan Stanley & Co. LLC

Q

Got it. And if I could just maybe squeeze in a quick one at the end here. On the rate side of things, obviously rates have been moving around quite a bit, but I think we all recall how things kind of went moving sort of more of the economics out with some of the higher interest products over time. As things maybe come down the other way depending on where rates settle out, how are you guys thinking about that in terms of how that can impact take rate versus more sort of servicing or interest rate driven revenues?

David Zalik
Chairman & Chief Executive Officer, GreenSky, Inc.

A

Yeah. So on the way down, what we have not seen is a material change in take rates. As you can see, 10 basis points or less. So, we haven't seen a material change and rates have been backed down for a while now. So, the take rate hasn't changed. The interest rates have not materially changed.

Steven M. Wald
Analyst, Morgan Stanley & Co. LLC

Q

Got it. Okay. Thank you.

David Zalik
Chairman & Chief Executive Officer, GreenSky, Inc.

A

Thank you.

Operator: Thank you. Our next question comes from Andrew Jeffrey with SunTrust. Your line is open.

Andrew W. Jeffrey
Analyst, SunTrust Robinson Humphrey, Inc.

Q

Hi. Good morning. Thanks for taking the question; and congratulations, Rebecca.

Rebecca Gardy
Senior Vice President, Investor Relations, GreenSky, Inc.

A

Thank you.

Andrew W. Jeffrey
Analyst, SunTrust Robinson Humphrey, Inc.

Q

Hope you're ready for colder winters. So, it sounds like – David and Gerry, it sounds like you've undertaken a fairly comprehensive review of risks; those – mostly I would think sounds to me on the contractor side, the merchant side. Can you talk about sort of how far through that process you are? Whether there's been any trade-off between contractor quality overall and growth? And if maybe, since we're nearing the end of that process, do you feel like we could see some acceleration just sort of – maybe same-store sales, if I think about it that way?

David Zalik
Chairman & Chief Executive Officer, GreenSky, Inc.

A

Yes. So, I would expand what you've said. We've taken a comprehensive review of risk, but it's not just on the merchant side. We've certainly worked very hard on expanding and diversifying the funding quite substantially. In addition, that funding structure dramatically changes with lack of volatility on the tail.

And, yes, on the merchant side we have focused heavily on profit and profitability and risk and customer satisfaction. And so, we are now where we want to be. We're beginning to see the benefits of that. We do think that now that we have that behind us, the back book is where we wanted to be. And so, we do think that there's – those aspects of tailwind.

Andrew W. Jeffrey
Analyst, SunTrust Robinson Humphrey, Inc.

Q

Okay. And just with regard, Rob, it sounds like you alluded to in your comments perhaps an elevated level of investment and spend to support GreenSky's growth. Do you anticipate operating leverage; and I'm thinking about the sort of mostly fixed cost categories in OpEx, whether that'd be comp and benefits or G&A. Do we get leverage in 2020?

Robert G. Partlow
Chief Financial Officer & Executive Vice President, GreenSky, Inc.

A

Yes.

Andrew W. Jeffrey
Analyst, SunTrust Robinson Humphrey, Inc.

Q

Okay. Awesome. Thank you.

Operator: Thank you. Our next question comes from Chris Donat with Piper Sandler Your line is open.

Christopher Donat
Analyst, Piper Sandler & Co.

Q

Yeah. Good morning. Thanks for taking my questions; and congratulations, Rebecca.

Rebecca Gardy
Senior Vice President, Investor Relations, GreenSky, Inc.

A

Thank you.

Christopher Donat
Analyst, Piper Sandler & Co.

Q

Just one clarification on the timing of the strategic review. Do you mean that it will – are you expected to conclude by June 30 or March 31?

David Zalik
Chairman & Chief Executive Officer, GreenSky, Inc.

A

June – sorry, Q2; no later than the end of our second fiscal quarter.

Christopher Donat
Analyst, Piper Sandler & Co.

Q

Okay. Okay. And then looking at the – I think I'll throw this one to Rob. Just on the financial guarantee liability and the CECL impact, as we think about it going forward and I see the disclosure on slide 18 and in the 10-K. Can you give us on a high level sort of the puts and takes on what will cause that to move? Will that be a function of the size of escrow? Is that what's going to be driving it, or are there other factors that move it?

Robert G. Partlow
Chief Financial Officer & Executive Vice President, GreenSky, Inc.

A

Yeah. Let me just kind of highlight. CECL does kind of have this framework, where it's – let's say, it's an unnatural presumption that all – no new originations going to the Bank Partner portfolio. So, escrow ends up being utilized as they wind down in kind of draconian fashion. So first and foremost, all things being equal, [ph] if you (00:37:42) had no growth in your servicing portfolio or growth in the Bank Partner portfolios and no growth in escrow, you would actually expect to see no real change in that CECL expense quarter-over-quarter, because there'll be no real cash usage out of that.

So in larger terms, when you look forward, one of the things David highlighted with the new forward flow structure, there's no escrow associated with that. So with that, you'll see a portion of our originations and a portion of our growth in our servicing portfolio; not go into Bank Partner structures with escrow, but into these other structures. So while you would expect of as the escrow grows, you'd expect there to be CECL charge associated with that escrow growth. You should also expect a diminished growth in that escrow balances, because we'll have more originations in these non-escrow Bank Partner structures.

Does that make sense?

Christopher Donat
Analyst, Piper Sandler & Co.

Q

I think so. But if you were to have say another situation where you have a Bank Partner and/or decrease that that causes the hit like you had in the fourth quarter, right, it was mostly the end of regions or was it also the shrinkage of another relationship there?

Gerald R. Benjamin
Chief Administrative Officer & Vice Chairman, GreenSky, Inc.

A

That was driven by regions; and if you will, the kind of – I won't call it draconian, but the quick nature in which they kind of let their portfolio going to run up versus kind of more of a typical orderly run down of the portfolio which is what we've seen in the past with Bank Partners.

Christopher Donat
Analyst, Piper Sandler & Co.

Q

Okay. Got it on that one at least I think. And then, just thinking about the flow agreement and the gain on sale or potentially some discounts, can you also talk about where like the different impact from either loan types or other factors that will drive, whether or not it's a gain or loss on sale just so we can start to get our heads around this one?

[indiscernible] (00:39:38)

David Zalik
Chairman & Chief Executive Officer, GreenSky, Inc.

A

Yeah. So, it's a net. So for example, we originate $100, we might get a transaction fee of 7%. Depending on the investors' expected future cash flow, that $100 origination might be worth 1% premium, 1% discount. And so, we would net. If we got 7% transaction fee and a par sale, we'd net 7%. The net equivalent of those two pieces are the same as the net equivalent of what our bank cost of funds is today, except there's no FCR, there's no escrow, there's no CECL, there's no tail liability or volatility.

Christopher Donat
Analyst, Piper Sandler & Co.

Q

Right. And David, just to be clear, in terms of financial reporting, as long as you'll have the Bank Partner relationships, you will have some component of – I mean unless there's some change out there, but you'd still have the FCR liability and CECL impact for the Bank Partner side, right?

David Zalik
Chairman & Chief Executive Officer, GreenSky, Inc.

A

No question. My comments on no escrow and no FCR are only in the context of this forward flow...

Christopher Donat
Analyst, Piper Sandler & Co.

Q

Right.

David Zalik
Chairman & Chief Executive Officer, GreenSky, Inc.

A

...and would only apply to similar forward flow. Certainly, there are scenarios where GreenSky could provide non-GAAP reporting to translate it more simply for everybody. There's also the possibility of some of our banks moving to a different structure. But our objective, number one, is diversification of funding; and number two, providing a simpler P&L which gets us on the path too.

Christopher Donat
Analyst, Piper Sandler & Co.

Q

Got it. And so, the non-GAAP and the banks moving to different structure or whatever, they're in the realm of the possible.

David Zalik
Chairman & Chief Executive Officer, GreenSky, Inc.

A

Sure.

Christopher Donat
Analyst, Piper Sandler & Co.

Q

Okay. All right. Thanks very much.

David Zalik
Chairman & Chief Executive Officer, GreenSky, Inc.

A

Thanks, Chris.

Operator: Thank you. Our next question comes from Ashwin Shirvaikar with Citi. Your line is open. Ashwin, your line is open. Please check your mute button.

Ashwin Vassant Shirvaikar
Analyst, Citigroup Global Markets, Inc.

Q

Sorry about that. Hey. So I had a follow-up question on the forward flow piece of it. Does that have specific use cases applications that are different than what you've been doing? I'd like to understand that piece a little bit better, because as you might imagine anytime someone says same returns, less risk or higher returns, same risk, something like that, it does lead to a level of skepticism. So, if you could delve into that a little bit more I appreciate it.

David Zalik
Chairman & Chief Executive Officer, GreenSky, Inc.

A

Gerry, why don't you speak to that?

Gerald R. Benjamin
Chief Administrative Officer & Vice Chairman, GreenSky, Inc.

A

Sure. Sure. So in these arrangements, we expect the counterparty to price the specific types of loans that would reflect the underlying cash flows. So if they're buying a reduced rate loan, we expect that loan to be sold at a premium. If we're selling a deferred interest loan where the cash flows from the ultimate consumer are perhaps abated or deferred, obviously the counterparty values those cash flows less so it would sell at a discount.

When David says that the cost of funds will approximate our historic bank funding, we ran a pretty brief process, received multiple indications of interest and was pleasantly surprised by third-party view of the quality of these assets. And obviously, we will look to optimize our cost of funding based on what we sell into the forward flow arrangement. But I think generally speaking, David's assertion that it will approximate bank cost over the life of the loan, is an accurate statement.

Ashwin Vassant Shirvaikar
Analyst, Citigroup Global Markets, Inc.

Q

Got it. Okay. Now, that's helpful. A broader sort of macro question, obviously, as the word sort of grappling with the – potentially widening impact of the virus and so on and so forth. What do you think, there is a direct impact to you guys? But how are you guys thinking of potentially an indirect impact because of macro weakness or because of sort of a coordinated response part of which might involve lowering of interest rates, things like that. Any early thoughts on framework or how you guys are thinking about this, or any past history with regards to macro downs?

David Zalik
Chairman & Chief Executive Officer, GreenSky, Inc.

A

Yeah. So, we've been in touch with many of our key relationships, manufacturers, merchants. And our first question was around supply chain disruption. And generally, what's been reported to us is confidence that – particularly in windows, majority is manufactured here. There are no critical supply chain requirements from Asia and there are alternatives or ample inventory.

So from a supply standpoint, we haven't heard from any of our key relationships any particular concerns. Again, that speaks to the particular industries that we're in. And certainly, we have not seen anything from a demand standpoint thus far. We're certainly well positioned to adapt and adjust if anything changes, but we certainly haven't seen any lending indicators in the last few days or few weeks.

Ashwin Vassant Shirvaikar
Analyst, Citigroup Global Markets, Inc.

Q

Got it. Thank you, guys. And Rebecca, congratulations on the new opportunity.

Rebecca Gardy
Senior Vice President, Investor Relations, GreenSky, Inc.

A

Thank you, Ashwin.

Operator: Our next question comes from Tien-Tsin Huang with JPMorgan. Your line is open.

Tien-Tsin Huang
Analyst, JPMorgan Securities LLC

Q

Thank you; and thanks to Rebecca. Want to ask on the forward flow first like everyone else. Just trying to understand one last thing, just how is it going to fit the round-robin model? Again, trying to understand how you'll tap this funding source versus your legacy funding model?

David Zalik
Chairman & Chief Executive Officer, GreenSky, Inc.

A

Great question. This is just another member of the round-robin.

Tien-Tsin Huang
Analyst, JPMorgan Securities LLC

Q

Right.

David Zalik
Chairman & Chief Executive Officer, GreenSky, Inc.

A

So our existing bank network continues to want loans and this will be another series of pegs in the round-robin.

Tien-Tsin Huang
Analyst, JPMorgan Securities LLC

Q

Right. So, I know that you will obviously learn as you go with discovery, but with the accounting implications probably being a benefit, I'm just trying to think about the economics versus the optics and everything else and how that fits, but we should just think about it as one more piece of it.

David Zalik
Chairman & Chief Executive Officer, GreenSky, Inc.

A

Yeah. So look, our first objective is always ample and diverse funding, and we're really excited about that. The second objective is lifetime profit and cash. And then, the third objective is optics. We think that we can use this- clearly, it does a wonderful job of all three. We think we can use this and emulate this approach with other funding partnerships, or use this same data to present information that we think will be more helpful to the public audience.

Tien-Tsin Huang
Analyst, JPMorgan Securities LLC

Q

Understood. Got it. So then my second question, follow-up kind of question, let's say, is just on the volume. I heard the double-digit outlook, but I'm just curious if you are – how should we benchmark your potential for volume growth going forward? What level would be satisfactory? In your mind, you talked about still relatively mature or low penetrations, secular growth is still there. I know the funnel is somewhat changing both at the top and the bottom, but any outlook on how to benchmark it, originations?

David Zalik
Chairman & Chief Executive Officer, GreenSky, Inc.

A

Gerry, do you want to provide some additional clarity at this time?

Gerald R. Benjamin
Chief Administrative Officer & Vice Chairman, GreenSky, Inc.

A

Yeah, sure. To David's point, our market share in these very, very large amount of markets continues to be pretty modest, notwithstanding we've been growing $800 million, $900 million a year of originations. I think if you look at the growth in Q4 over the prior year where it was around high-teens -...

David Zalik
Chairman & Chief Executive Officer, GreenSky, Inc.

A

Mid-teens.

Gerald R. Benjamin
Chief Administrative Officer & Vice Chairman, GreenSky, Inc.

A

...mid-teens to high-teens, that feels like a reasonable place to start as we look into the coming year. We've sort of gotten a little bit back to basics focusing on credit quality, merchant quality; and to David's point, put a lot of investment in processes, systems, talent that's really paying dividends and will for years to come over the life of the servicing portfolio. With that, will come a little bit less volume, no doubt.

And as we point out and have consistently, we purposely have never relaxed underwriting standards to stimulate growth. Correspondingly, when you employ discipline and focus on merchant quality, credit quality and get back to basics, you'll have a little bit muted top line I would suspect. So I think Q4 kind of growth is probably a reasonable proxy for what to expect as we look forward. I hope that's helpful.

Tien-Tsin Huang
Analyst, JPMorgan Securities LLC
Q

It is. Thanks for the color.

Gerald R. Benjamin
Chief Administrative Officer & Vice Chairman, GreenSky, Inc.
A

Sure.

Operator: Thank you. [Operator Instructions] Our next question comes from Bill Ryan with Compass Point. Your line is open.

William Ryan
Analyst, Compass Point Research & Trading LLC
Q

Thank you and good morning. Just a couple of questions. First on the regions portfolio, obviously you've disclosed it for a couple of quarters, but in the possible category not probable. What moved it to probable in the fourth quarter? And I may have missed the explanation on the call, but you normally run these adjustments through the P&L not as an adjusting item. In this quarter you obviously put as an adjusting item, if you can give a little clarity on that.

And then just the second question on the funding side, you kind of add up the $2.2 billion bank funding liquidity, $2.7 billion run-off, $2 billion from the forward flow agreement. You get to about $6.9 billion in terms of the funding capacity for growth in 2020 – or originations in 2020. It seems like, I guess, the consensus number is about $7.1 billion in volume. So do you have to kind of add some partners during the course of the year; and more importantly, for the benefit of 2021 in terms of funding capacity? Thank you.

David Zalik
Chairman & Chief Executive Officer, GreenSky, Inc.
A

I'll take the funding and then I'll turn the regions question and accounting back to Gerry and Rob. On the funding side, we feel very good about the bank funding network, the existing open-to-buy, as well as the increase from the paydowns. And if we wanted that number to be bigger, we think that there's plenty of demand and that number is exactly where we want it to be. As it relates to 2021, we're going into next year already with what at that point would be $4 billion remaining on the forward flow. Again, based on the process we ran, there was plenty of demand. This was just one relationship that we're launching with on the forward flow side. So, we feel that we're in really good shape.

Robert G. Partlow
Chief Financial Officer & Executive Vice President, GreenSky, Inc.
A

I guess, I'll jump in; it's Rob, related to the question on the regions. As we noted in the 10-Qs in prior quarters, we certainly – we kind disclosed the risk in the fourth quarter. November is when they actually did not renew and that's kind of where we flipped the – from the impossible to the probable in terms of the risk.

And from a location standpoint, as we've talked about in the past, most of our bank – any of our smaller bank partners or bank partners who've ever left their program have always done it in kind of an orderly way in terms of allowing their portfolio to go into runoff [indiscernible] (00:51:06) doing in a mild manner, continuing to originate and allow their portfolio to kind of decline over time or selling their portfolios to do another transactions which didn't result in any escrow usage. And we look at this regions kind of path was just kind of different and something we'd expect kind of more unique in the nature, and this certainly is the non-cash item.

So, we looked at that as kind of not representative of kind of our core business and how we're operating in 2019 kind of more of an anomaly. So when we're thinking about kind of these measures, it's more about trying to represent kind of the earnings power of the company and what we're executing in 2019 versus kind of a one-off bank decision. And that was how we made the decision on showing it as an adjustment to our pro forma net income.

William Ryan
Analyst, Compass Point Research & Trading LLC

Q

Okay. Thank you.

Operator: Thank you. Our next question comes from Rob Wildhack with Autonomous Research. Your line is open.

Robert Wildhack
Analyst, Autonomous Research LLP

Q

Good morning, guys. Following up on the forward flow and round-robin, am I understanding it correctly that when the forward flow partner is up in the round-robin, they get a loan whether it's home improvement, elective healthcare or reduced rate deferred interest? And then what happens if you don't necessarily see eye-to-eye on the price? I mean, what if you think it's worth $101 and they priced it at $97? How does something like that resolve itself?

David Zalik
Chairman & Chief Executive Officer, GreenSky, Inc.

A

So, the first answer to your question is yes. And the second answer is, we have agreed on price and it is the equivalent of our bank cost of funding.

Robert Wildhack
Analyst, Autonomous Research LLP

Q

Got it. Okay. So...

[indiscernible] (00:52:34)

David Zalik
Chairman & Chief Executive Officer, GreenSky, Inc.

A

It's already been agreed to. It has an index, no different than – or similarly situated to our Bank Partners.

Robert Wildhack
Analyst, Autonomous Research LLP

Q

Is that something that can be amended annually, or is that set for the entire three-year agreement?

David Zalik
Chairman & Chief Executive Officer, GreenSky, Inc.

A

Gerry, do you want to speak to that?

Gerald R. Benjamin
Chief Administrative Officer & Vice Chairman, GreenSky, Inc. A

Sure. Sure. We have reached pricing agreement, as David had indicated. This is the first of what we suspect will be multiple forward flow arrangements. Parties kind of always go back to the table and seek to renegotiate; not our intent. As we have gone in the marketplace, we saw and would suspect that there'll be opportunities where select counterparties may price a product differently than other counterparty. So, we'll have the opportunity to optimize a bit and I don't think that would jettison anyone. But generally speaking, we are looking to optimize our overall cost of funds and we'll continue to as would any counterparty.

Robert Wildhack
Analyst, Autonomous Research LLP Q

Okay. Thank you.

Operator: Thank you. We will take our last question from Jason Kupferberg with Bank of America. Your line is open.

Mihir Bhatia
Analyst, Bank of America Merrill Lynch Q

Hi. This is Mihir on for Jason. Just real quick on the forward flow agreement. Just trying to make sure – I think just similar to the last question about, is there – so all the different types of loans, there's not a specific type of loan or any kind of restriction on the types of loans you've been put into that forward flow agreement?

Gerald R. Benjamin
Chief Administrative Officer & Vice Chairman, GreenSky, Inc. A

No, the agreement...

Mihir Bhatia
Analyst, Bank of America Merrill Lynch Q

The forward flow arrangement – sorry, Gerry.

David Zalik
Chairman & Chief Executive Officer, GreenSky, Inc. A

Go ahead, Gerry.

Gerald R. Benjamin
Chief Administrative Officer & Vice Chairman, GreenSky, Inc. A

The agreement contemplates us selling our traditional reduced rate loans as well as our deferred interest loans and our zero interest loans. There are partitions regarding amounts that reflect sort of our mix of origination. So, nothing terribly unusual there. But in response to the prior question, just to be clear, swap rates and changes in swap rates are the underlying index that impact pricing. So we're playing in a level playing field or a market that people respect. And as we look from counterparty A to counterparty B, those underlying swap rates will impact our cost of funds just like bank cost of funds impact us today and margin on swap rates. So, nothing changes in that regard.

Mihir Bhatia
Analyst, Bank of America Merrill Lynch

Q

Got it. And then, I wanted to go back to – I think you mentioned a couple of times there's potential for some of your bank partners to do a similar type of arrangement where it's like actually a whole loan to sale almost versus the current – which would obviously simplify your accounting and stuff. Is this something that's in, I guess – that you're in talks with and you're in discussions with your current partners and dealers? Or is this just a potential that you see? Does that make sense?

David Zalik
Chairman & Chief Executive Officer, GreenSky, Inc.

A

I would say, it's a little bit of both and I'll leave it at that.

Mihir Bhatia
Analyst, Bank of America Merrill Lynch

Q

Okay. And then maybe just switching over just real quick. I was curious if you could just provide a little bit of more color just in terms of what you're seeing in the market, both from a merchant perspective. I appreciate that you guys have tightened underwriting maybe a little bit and gone back to basics, as you said. But you still saw some – meaningful deceleration we've seen this year in the growth rates for this transaction volume, and I was just wondering if you could just talk a little bit more about that what you're seeing and how we should think about that trending next year? Thanks. That's all my questions.

David Zalik
Chairman & Chief Executive Officer, GreenSky, Inc.

A

Yeah. So, I think Gerry provided some good direction. You saw growth rate in Q4. And from our perspective, as we keep getting bigger, the percentages get harder, but we've seen good consumer demand, good merchant demand. We're having excellent early vintages from a size standpoint just as our denominator keeps getting bigger. It's harder to grow 50% when you're $6 billion, $7 billion. So we're seeing very good demand and we feel good about the market in 2020 so far.

Mihir Bhatia
Analyst, Bank of America Merrill Lynch

Q

Okay. Thank you.

Rebecca Gardy
Senior Vice President, Investor Relations, GreenSky, Inc.

A

Okay. I think that was our last question. Operator, is that correct?

Operator: Yes, ma'am.

Rebecca Gardy
Senior Vice President, Investor Relations, GreenSky, Inc.

Thank you. Thank you, everyone, for joining us. It's been a pleasure, and we hope everyone has a great day.

Operator: With that, ladies and gentlemen, this does conclude today's conference. Thank you for your participation. You may now disconnect.