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Call Participants

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Senior EVP & CFO

John M. Turner
President, CEO & Director

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Treasurer

Ronald G. Smith
Senior EVP & Head of Corporate Banking Group

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Saul Martinez
UBS Investment Bank, Research Division

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Presentation

Saul Martinez
UBS Investment Bank, Research Division

Hi, everybody. Saul Martinez, the UBS large-cap banks analyst. Really thrilled to have John Turner, President and Chief Executive Officer; and David Turner, Chief Financial Officer, of Regions Financial with us. And we have a number of other folks as well on the line from Regions who are more than capable of adding a lot of -- to the content. So a lot of intellectual horsepower on this meeting. We have Ronnie Smith, the Head of Corporate Banking; Barb Godin, Chief Credit Officer; Martha Raber, Head of Financial Risk; Anil Chadha, Head of Risk Shared Services, or as I know him, the CECL guy; and Deron Smith, the Treasurer.

So this is going to be sort of a fireside chat format, but we do want your questions. [Operator Instructions]
So let's get started. Thanks, everybody, for joining us. Really, really appreciate your participation in our conference.

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Question and Answer

Saul Martinez
UBS Investment Bank, Research Division

So I want to kick this off by asking more of a big picture question that maybe is a little bit open-ended in terms of how you want to answer it, but needless to say, we're dealing with a pretty unprecedented situation in a lot of ways. And for the banking system, I think it's manifested -- one of the ways it's manifested itself is just in the sheer enormous amount of liquidity that is -- that banks are having problems -- trouble deploying in a profitable way. And I think one of the more striking statistics for the banks that I cover is that in the first half of the year, deposits grew a collective $1.2 trillion. And if I x out PPP loans, loans are actually down on an end-of-period basis. And short-term investments, mainly deposits, [et cetera], are up collectively almost $750 billion. So a lot of -- a ton of risk aversion. So I want to just get maybe your perspective on how you manage the bank in this type of environment. And I guess more specifically, what are the handful of things, the 3, 4 things you feel like, John, you absolutely need to do in managing the bank to maintain shareholder value while managing risk and meeting the concerns of all of your other OEMs going forward?

John M. Turner
President, CEO & Director

Yes. It's a great question. It is a extraordinarily uncertain time. To your point, in the middle of March, we saw borrowings under lines of credit spike to probably unprecedented levels within regions. And then by the end of the quarter, those lines of credit draws had been repaid, and we were enjoying an abundance of deposit balances as we saw the trend go the other way. Our focus has been, and we consistently talk about focus on the things that we can control, first and foremost, the health and safety of our associates and our customers. Our bankers are key to our business and the way that we operate. And so we want to make sure that we take care of our teams, that we retain our teams. We want to make sure that we stay in touch with our customers and that we have a good understanding of the challenges and opportunities that they both face and enjoy. And it is a bit of a mixed bag. We're focused on risk management. And while that is something that we take a lot of pride in doing every day, certainly, there's a heightened expectation for how we manage risk, particularly credit risk, although there are other operational risk that we have to be concerned about during this period of great uncertainty with so many people working remotely and doing things differently. And then we want to, again, want to take care of our customers to ensure that we retain the customer base that we have and take advantage of what opportunities present themselves to grow customers.

So in summary, I'd say it's about employee retention, safety and health. It's about risk management. And it's about customer retention for us, first and foremost.

Saul Martinez
UBS Investment Bank, Research Division

Yes. Yes. That's helpful. I want to -- we have a limited time, so I want to touch on a handful of things that I think were very topical and -- on the back of the quarterly results and, I think, topical for everybody, but especially for you guys. But first, if we can talk a little bit about net interest income and how to think about all of the moving cards there. Now you guided -- you gave your guidance of down 1.5% to 2.5%. And that includes some incremental benefits from your hedges. So if I would exclude that, it's down more like mid-single digits. How -- and you outlined why and some of it's pretty obvious corporate lines being repaid. You have a higher premium and lower reinvestment rates. But can you talk to how to think about the drivers of NII more broadly as we pull out of the third quarter and how to think about potential glide paths for net interest income as we head into next year? And what's the outlook? And what are some of the things that are both inside and outside of your control that can really drive that going forward?

David Jackson Turner
Senior EVP & CFO

Yes. So I'll start. This is David, and then let Deron kind of weigh in. So there are a lot of moving parts. I'll go back and just reiterate our guide being down 1.5% to 2.5% driven by declines in the balance sheet both from repayments of the defensive draws, if you will, as John mentioned, some of the deposits being utilized, a quarter late to pay taxes that aren't in the first quarter. We don't see a lot of loan demand. So we're continuing to have payoffs and paydowns on credit both on the commercial and the consumer side.

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From a rate standpoint, we have the short end hedged pretty well. We said we had a contribution of $60 million in NII in the second quarter and expected to be in the mid-90s in the third and going forward. So we're happy with that.

Some of the drivers or headwinds that we have is some $13 billion worth of reinvestment risk for fixed rate and loans and securities that we have to put to work each year and what appears to be a much lower rate environment that's going to persist for some time, we don't have that hedged out. So that's a bit of a negative.

The question we have is what will loan demand really look like in '21 or even the latter part of this year with uncertainty with regards to the virus and the vaccine that we might be getting. Those -- that inability, if you will, to grow earning assets because we don't have loan demand in our deposits are at all-time highs right now will be a big driver of what NII can be for next year. We're very fortunate that we have the protection on the short end. Not many of our peers have quite the protection we have for as long as we have. So we think that's a competitive advantage for us, but it doesn't make us completely immune to some of the risks that I just mentioned.

We have the PPP program that -- the timing of that settlement is a little uncertain. We don't think we're going to have anything more than just net carry this third quarter. We'll see what the forgiveness regime might look like. So that could help us pick up deferred fees quicker in the fourth quarter and probably spill over into next year, the first quarter, I suspect. But the carry on those are pretty low right now. So it works against us from a margin standpoint, which is why we carved that out to show you that our margin can be in kind of that mid to upper 3 30s if we didn't have all the excess cash and PPP. But Deron, is -- anything you want to add to that?

M. Deron Smithy
Treasurer

Yes. No. No. I think, David, you covered it pretty well. I think just the key here is the short rates really aren't having much of an impact. There's the ongoing reinvestment risk, which we will face as long as rates remain at these levels. But really, the driver of whether or not we're able to overcome that and then -- and try to grow net interest income will be the balance sheet. It'll be whether as the recovery continues, loan demand recovers and we can translate that to growing the balance sheet. That'll be the way we would overcome those headwinds.

David Jackson Turner
Senior EVP & CFO

Saul, I guess I should have asked -- I should have added a little bit that a little bit of liability management, we've done some of that. We have some opportunities there. And we can continue to work on our deposit costs. While they're one of the lowest, we still think we have opportunities. We're not at the low watermark where we hit last cycle yet. So we have a few more ticks on basis points to go before we do that. So I think we can continue to work on that.

You mentioned the headwind on premium amortization. So I won't go into the detail there, but we're experiencing a lot of refinance activity, which is wonderful for mortgage. But that does put pressure on premium amortization moving up, which we went from the mid-20s to the low 30s, and that's going to go up a bit perhaps to the high 30s this next quarter.

Saul Martinez
UBS Investment Bank, Research Division

Yes. So it sounds like there's obviously the loan growth dynamic. There's how you manage your liquidity, and there's still some room, I guess, on deposit costs as well. It seems like the biggest driver, which isn't a surprise, is the outlook for loan growth. And some of that, I guess, is outside of your control, especially borrowers remain risk averse, and it seems like you -- you're taking a very conservative view of credit risk here. But can you talk a little bit to what the outlook is? And I guess, more specifically, what you need to see in terms of either the macro dynamic or the financial situations of your borrowers to maybe feel more comfortable taking credit risk? And I guess, how optimistic are you that, that we do start to see some of your major lending segments start to grow in terms of balanced growth?

John M. Turner
President, CEO & Director

I think growth is going to be slow to come by, at least through the end of the year. There's a lot of uncertainty obviously related to the health crisis and the resulting recession. But there are also some headwinds resulting from election uncertainty and what could happen as a result of the election, depending upon who wins the White House, who wins the

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Senate. And so I think businesses, particularly larger businesses, are, I think, looking at the prospects of investment fairly cautiously.

I do think that there are some companies that are well positioned that are thinking about M&A activity now within their industry. We've seen some of that recently on the upper end of the scale, pretty large transactions. And I think that'll begin to trickle down as people gain a little more confidence about the future. There's certainly some companies that have very strong balance sheets, that have accumulated a lot of liquidity and will become more active to take advantage of this opportunity when there's just a little more certainty. But all in all, I'd say I think we expect fairly modest economic growth for the next 6 to 7 quarters, David.

David Jackson Turner
Senior EVP & CFO

That's right.

John M. Turner
President, CEO & Director

And as a result, we don't anticipate a lot of loan growth.

Saul Martinez
UBS Investment Bank, Research Division

Yes. Yes. On the deposit side, how much more room do you have? I think your deposits are about 24 bps this quarter. Historically, they've gotten down to, I think, 10 to 15 bps. I guess how much more room is there on the deposit side to maybe offset some of the pressures you're talking about?

David Jackson Turner
Senior EVP & CFO

Yes. I think we bottomed that last time at 11 basis points. Deron, correct me if I'm wrong. But I think it was 11 basis points. And so all in, deposit costs have a few more basis points to go from where we finished the quarter, which was at 14. That, and then, of course, liability management, there's some pieces of debt that are getting inside of our 2-year liquidity window that we have a tendency to take those out and call them with all the excess cash we have, we have the ability to do that. So we're looking at every place we can to reduce the funding side, the funding equation to counter the low rate environment.

M. Deron Smithy
Treasurer

Yes. So we...

Saul Martinez
UBS Investment Bank, Research Division

Go ahead. Sorry.

M. Deron Smithy
Treasurer

So I was just going to add to that, that we do see deposit costs continuing to drift down. I do think there's an opportunity to perhaps outperform our terminal levels a bit last time around because we have seen really solid deposit growth in noninterest bearing. And so that obviously helps to bring the overall total deposit cost down. And we're at a higher concentration of noninterest bearing than we were the last time we went through this low rate cycle. So I think we can, over time, outperform that previous low modestly.

Saul Martinez
UBS Investment Bank, Research Division

Yes. And I think in recent conversation I had with you guys, you've -- we've talked a little bit about the outlook for deposit balances and whether there could be some normalization in deposit balances after you have pretty substantial growth. Are you still seeing deposit growth? Or do you think there could be some normalization? Because that obviously does --

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should impact from an asset/liability standpoint how proactive you are in terms of deployments and some of the excess liquidity. And I'm curious if you -- how you're thinking about the deposit side or deposit growth and deposit balances from here.

David Jackson Turner
Senior EVP & CFO

There are a couple of stories there. We've seen deposit balances actually hold steadier than we had anticipated. We expected some declines in this quarter due to the taxes. We saw that. But we saw customers bring deposits back to us, too. In particular, on the commercial side, these would be deposits that represent our customers' excess cash that were in pick your favorite money fund, and they came back to the bank. So we saw that -- or are seeing that continue. The question is what's the new stimulus on the consumer side look like and could that drive increases again in the consumer deposits. The behavior that we're seeing from the consumer side of the house is one where they're spending only the money they have. So we see debit card spend actually back maybe a little ahead of where it was a year ago. Not as much on credit spend. So consumers are being cautious with their money, and spend levels are still down a bit, but net-net. So we are having more deposits from them.

So you pull all that together, I think our deposit balances are steady right now to an opportunity to maybe even grow a bit. The question is, what do you do with the cash? Why don't you get it? And there's not a lot of places to hide today. And so putting it to work as effectively as we could in a steeper yield environment is pretty tough.

Saul Martinez
UBS Investment Bank, Research Division

Yes. So I did get a question from the audience that's related to NII. And I think one of the positives of -- I think you guys have been -- had great foresight on this is the hedging. And a specific question is, what does the glide path of the hedge roll-offs look like? How does Regions overcome the NII headwinds as hedges become -- begin to come off? So if you can just maybe remind us of the hedging strategy and the durations on those for the time frame.

David Jackson Turner
Senior EVP & CFO

We have a good story on that. So I'll let Deron actually tell that story.

M. Deron Smithy
Treasurer

Sure. There's a slide in the -- on the deck that we posted for this meeting. But in short, our hedges are 5 years in duration from their start point. And so most of those started late -- or early this year. There's a step-up in notional this quarter and then a small step-up at the beginning of next year. But in general, it will cover a 5-year period from when those hedges start. So obviously, that's something we would have to worry about out on the horizon. That's quite a long ways away, but we'll be looking at strategies throughout that time frame to think about how we build that bridge to the period after hedges. Hopefully, rates are more helpful at that point, and the economy is on solid footing. But that's quite a ways out.

David Jackson Turner
Senior EVP & CFO

Yes. Let me add to that. So if you -- if the audience pulls up our deck and that's on Page 15, we show what the derivatives look like. And the fair value of those are about $1.9 billion. And we get a lot of questions on why we wouldn't just terminate all of them and bring all that into income, and the point is they're there for protection for low rates. And while we believe rates are pretty doggone low, they can theoretically go lower. And so it's -- if we're wrong and rates go higher, then our balance sheet will earn that much more money, and the hedges won't. And so that's why it's a hedge. It's a protection mechanism. And at some point when we get more clarity that rates may go up, we would choose to terminate some at that time. But when the Fed Governor says we aren't thinking about raising rates, that tells us that time is nowhere in the near term.

Saul Martinez
UBS Investment Bank, Research Division

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Yes. Yes. So we can probably spend the entire 40 minutes talking about the NII and outlook and all its various puts and takes and features, but we should probably move on and cover a few other topics here. I want to talk a little bit about the credit quality outlook. And I guess the first thing I do want to ask you about is just how you're thinking about the glide path for net charge-offs. It does seem like maybe you took a little bit more of a proactive stance in terms of net charge-offs, and they're a little higher than your peers, and your guidance is again 80 bps. But still, they haven't kept up for you and anybody else, but -- with the reserve build you made under CECL. So how do we think about that glide path in the coming quarters, both in terms of the timing around when they emerge and how much charge-offs could increase, in which portfolios do you think maybe have the highest risk of increasing losses? So a lot there, I know, but if you can just give us your perspective on those questions.

Barbara Godin
Deputy Chief Risk Officer & Chief Credit Officer

Yes. It's Barb. So I'll go ahead and I'll start on that. So as we think about losses and what we had last quarter, I think we communicated to everyone is that we anticipate that this coming quarter and the quarter after will likely have the same level of charge-offs, give or take. And what you're going to see is you're going to see some volatility. So you may see a quarter where it dips down, and then the next quarter, it goes back up. Wish it could be smoother, but it is what it is.

We are trying to be as thoughtful, and I'll say, skeptical as we can be in conversations with our customers. That is we are having conversations and have had with 95% of our customers, and we're talking to them on a regular basis. It's not a one and done. But we're not just taking the answer at face value. We are doing some pushing back. We're saying, tell me what your business looks like at the end of this COVID crisis, et cetera, and having, as I said, deep and thoughtful conversations there.

So with that, what does that mean as we think into next year? I think you're going to continue to see some volatility, and I think it really comes down to it's all tied to how quickly does COVID go away. On top of that, with all of the stimulus that we have out there, particularly I'm thinking of the consumer side, in particular, what you're going to see with consumers is some of those losses that are in portfolios may -- will get delayed somewhat because of the deferral periods, forbearance periods, et cetera, that are available to customers. Those are available to our customers to help bridge them to a better time in the economy.

So again, if COVID does not start moving in the other direction, going down substantially, people opening up, in particular, I'm going to point to our portfolios of energy and restaurant, you're likely to see some additional charge-offs coming from those sectors as well as continued pressure on things like retail and things like hotels. So it all hinges on the economy relative to COVID.

Saul Martinez
UBS Investment Bank, Research Division

Yes. Barb, that skepticism you're talking about does seem to come through and maybe being more conservative in various things, maybe showing up in your reserving and how quickly you're charging off loans. But if I just look at your reserve true-ups and your reserve level, I think your ACL ratio is touching 270 bps, and it's higher than most peers. I guess maybe just what's -- just to get your perspective on how much of that comparatively higher reserve ratios is due to an underlying higher risk profile versus peers? And how much do you think is just conservatism and how you're reserving for expected losses going forward?

Barbara Godin
Deputy Chief Risk Officer & Chief Credit Officer

Yes. As we looked at our build for the last quarter, we did an awful lot of work, both our own internal economists, we used all of that data, plus we looked at other benchmark data, including Moody's, et cetera, et cetera, to give us a good feel as to what we thought was going to happen. And it's hard to completely separate what happened in the economy and what's happened from just, I'll call them, risk rating changes because the risk rating changes based on the way we viewed our customers and their accounts and our conversations with them, if they said, I'm going to have a problem because of COVID, I don't see my business going back to what it was, did we mark that in the box that said that's a COVID-related for the economy or that's a change in the risk profile? And the answer is it's both. So you kind of have to look at them together. But that's the way we approach the overall allowance. And again, as I said, we use 4 or 5 different methods to make us feel good that the number that we ultimately came up with is something that we feel is appropriate for our

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portfolio. So coming in at 2.68. It's at the high end of our peers, we understand that. But again, as we look at what we think could be embedded because of where we are in the economy, we think that's an appropriate number.

David Jackson Turner
Senior EVP & CFO

And I'll add, again, if you look at Page 35 of the deck, it breaks out a lot of what Barb was saying. One thing I wanted to add to that is we did have our Ascentium acquisition in the quarter that added $136 million to the reserve. So that was a piece of why our total was a little higher. But our job is to figure out what life of loan losses are at each reporting date, and we do the best we can looking at our models and looking at all the data points that we can look at, and we list out the economic drivers. Those are in our 10-Q that you've seen. And we could have a different expectation of outlook, and that's what CECL -- the comparability of CECL is very hard to come by because we all have different assessment of the future. And -- but -- and you should be able to pull all those together for everybody and kind of see who's a little more pessimistic, who's a little more optimistic perhaps.

John M. Turner
President, CEO & Director

The only thing I'd add is we spent the better part of the last 10 years creating more balance and diversity, de-risking certain portfolios, exiting businesses. We didn't think -- provided an appropriate return given the risk we've taken. But we have to recognize we operate in the Southeastern United States and Texas where markets we enjoy really good growth dynamics, but with that comes a little more volatility. The economies in our markets are in some measures centered around travel, tourism and energy. And it so happens that in this recession, energy, restaurant, hospitality and, of course, retail are being primarily impacted. While we think that we have managed the level of risk that we have in each of those portfolios, the fact is that we do have energy exposure because energy is an important part of the Texas and South Louisiana economies. We do have restaurant and hotel exposure because of our presence in Texas, Florida, Georgia as an example.

So I don't know that we would have an insight into anyone else's portfolio to say we have more risk or not, but the reality is that there is risk in our portfolio that we acknowledge and are managing, and we think we've appropriately reserved for that.

Saul Martinez
UBS Investment Bank, Research Division

Yes. Yes. No, that's great. I wanted to talk -- I wanted to ask you about deferral trends. And I think in your Q, you gave some updated figures for the number of deferrals and balances, and the numbers still making -- the percent is still making payments. But a lot of these deferrals are kind of at the point where they're exiting the initial deferral period and -- or have exited the initial deferral period. And I'm curious to get your -- an update as to how that's trending and what proportion or upping, exiting, renewing deferral periods, it's just what are you seeing? Are there any sort of broader trends you can point to that can kind of speak to repayment capacity of some of your borrowers?

Barbara Godin
Deputy Chief Risk Officer & Chief Credit Officer

Sure. Probably you see us -- if I just point you to Slide 6 and what we posted, which does provide our customer loan modifications and deferrals. And what you'll see is our deferral rate is down to 2% as a company. The one that has not fallen as much as the others, which is mortgage, which is 7% deferral rate, it previously was a 9% deferral rate when we reported at the end of June. The difference being between mortgage and all of the other products. The other products are relatively easy. If a customer wants a second deferral or needs additional help or something, we can capture that really quickly. With the mortgage, what you need to do is the customer needs to fill out a series of forms, we need to re-underwrite that information, et cetera. And particularly where customer says on a mortgage, yes, I got a deferral for 3 months, a forbearance for 3 months, and I'd like to spread that over the next 6 months. Well, again, that's a lot of paperwork that we have to review and then process, et cetera, and get back to the customer. And that typically takes 30 to 45 days. So that's the reason that number will look a little bit higher than the other portfolios. But you can see in the other portfolios home equity, second deferrals or deferrals that we have as of July 31, [31]% indirect vehicles; the highest on consumer at 3%; business services, 1%. And so at this point in time, conversations with the customers don't indicate a lot of necessity for a second deferral. But as I said, we're continuing to have those conversations, and that could change

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a little. But again, we are at least several weeks now into the new quarter. So it suggests that those numbers will be a lot lower than they were even as at the end of June.

Ronald G. Smith
Senior EVP & Head of Corporate Banking Group

Yes, Barb. This is Ronnie. I might add that the majority of the deferrals and the conversations that we're having really show a defensive posture that was taken initially. And so while the clients have started building their liquidity in a lot of different ways, this was certainly part 1 of those drivers as well.

Barbara Godin
Deputy Chief Risk Officer & Chief Credit Officer

Exactly right. And plus in the business portfolio, we also have the Ascentium captured in the business portfolio, and that makes up the majority of those deferrals that we still have on the books as at July 31.

Saul Martinez
UBS Investment Bank, Research Division

Yes. Yes. So on -- maybe going back to how this all ties into your reserving and reserve builds from here, how are you thinking about your reserve level of 268 basis points and whether you feel like that's, one, sufficient given what you're seeing in the overall economic backdrop by -- are there -- is there a risk of incremental reserve builds? But also conversely, under CECL, there is -- once things sort of normalize and the outlook normalizes, even as credit losses move up, I think we're all maybe underestimating the extent to which reserve releases will happen and how sizable they'll be. So I guess do you have -- can you just give us some perspective on what you would need to see to start to feel comfortable enough to release reserves? And if you could just talk to that as well.

Barbara Godin
Deputy Chief Risk Officer & Chief Credit Officer

Yes. As we run through our process, and we do it on a monthly basis, what we're looking for is changes in our view of unemployment, in particular, and GDP. We also look at home price indexes. So as we start to see those move in the opposite direction, that would suggest to us there's a signal out there that we can go ahead and we can input those into our models, have the conversations on them, but that in and of itself, would allow us to do some kind of a release. At this point, I feel, we feel very comfortable that our 2.68 at the build that we did up to the second quarter of 700 is appropriate for where we sit. So I don't see again, at this point, as of today, that we would need to build further for the rest of the year.

Saul Martinez
UBS Investment Bank, Research Division

Got it. Maybe we can transition to expenses and how to think about some of the opportunities to maybe optimize efficiency. And I think the quarterly expense run rate is now about 8 60 to 8 70 on a core basis with Ascentium. But maybe if you can talk to some of the details around where you think the expense save opportunities exist. And as part of that, I guess, where do you stand on some of the initiatives that -- in the past, we spoke about with Simplify and Grow. But where are we with that? And what are -- if you can just kind of talk to and give us a sense of what you think the opportunities are.

David Jackson Turner
Senior EVP & CFO

Yes. So we do have a continuous improvement program that we have is just kind of baked into the fabric of who we are. We -- at any point in time, right now, we're, call it, halfway through. I don't know whatever get done because we're going to -- when you get done with one project, you're supposed to go find another one, and that's what continuous improvement is. It's getting better every day. And it should be a mechanism for process improvement, how we leverage technology in the back office and in the front office.

And I think that when you look at the expense levers in terms of the actual key drivers, first and foremost, it's people-driven. And people drive 55% of our expense load. So if you're going to control expenses, you have to control your headcount. And you control your headcount by making sure that you have the right number of people doing what you need done and leveraging technology when you can. And attrition takes care of some of that.

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I'll tell you, our attrition level is way down, as I suspect it is for our peers. We have people in our branches, some 10,000 people. Half of our people are in our branch network. And so we've consolidated quite a bit of branches relative to our peers. We acknowledge we still have more than our peers on a relative basis. So we're taking a hard look at that constantly. But we made investments in people, and it's paid off. So an example of that would be mortgage loan originators where we -- about a little over a year ago, we decided we were going to grow that and thank God we did because mortgage is doing a fabulous job of growing noninterest revenue for us. But continue to look at people.

The second one would be occupancy. So square footage is important, both again branches are in that as well as our back office base. And so we've learned to work remotely quite effectively, frankly. And that may give us some opportunities to move the square footage meter down faster than we otherwise would have done, had we not gone through this pandemic. Too early to call, but we are seeing potential opportunities that could be quite encouraging to keep our costs down.

With the reduction in terms of people and branches is furniture, fixtures and equipment, which is computer cost and things of that nature. And I think that's -- that'll move with the actions I just spoke about.

Third-party spend with our -- with vendors, not a lot of vendors are coming to Regions right now. That's okay, and that's good from a cost standpoint. Some of that's already baked into the 8 60 to 8 70 I mentioned, but there's still ample opportunities to continue to work on vendor cost going forward.

So there's no magic bullet anywhere, Saul. I think that what's important -- and John asked us to figure it out, how do you get better every day. And if we get better every day, we'll become a more efficient operating enterprise over time. We understand revenues challenge. And as a result of that, our expense initiatives and our pace of expense savings must pick up and will pick up as we seek to become more efficient over time.

Saul Martinez
UBS Investment Bank, Research Division

Yes. So look, we're running up against the 40 minutes, but a couple of maybe rapid fire questions. One -- maybe it's hard to be rapid with some of these questions. But one from the audience, can you discuss your current views on M&A? Would you do a depository deal?

John M. Turner
President, CEO & Director

Yes. We've been pretty consistent in our position that we're focused on continuing to execute our plans. We think that if we do that, we're going to generate really nice returns for our shareholders. We have made some nonbank acquisitions. We want to continue to develop those opportunities to the extent we think that they'll add to our capabilities, noninterest revenue. Otherwise, that's been our focus. So we are not interested in depository M&A today. And our view about that really hadn't changed.

Saul Martinez
UBS Investment Bank, Research Division

Okay. Capital. Still comfortable with the 15.5% quarterly dividend given -- assuming that the Fed renews the dividend cap, we can all do the math on the net income that's needed, which is -- it seems feasible, but I'm curious, any updated thoughts there and your level of comfort on the dividend?

David Jackson Turner
Senior EVP & CFO

Yes. As we mentioned in the call, we believe the dividend based on our projections are safe. Even if the third quarter dividend regime lasts into the fourth quarter and the first quarter. We suspect at least it's going to be there for the fourth quarter. It may be longer. And we think the dividend is -- we're going to earn enough to be able to pay the current dividend.

Saul Martinez
UBS Investment Bank, Research Division

Got it. And final one for me. We didn't get into fees, but you're in a lot of geographies where the resurgence in COVID case counts in June and July were pretty pronounced. Any thoughts on what you're seeing in terms of card spend, and

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you're tilted towards debit, but what are you seeing in terms of just economic indicators? And specifically, card spend? Is it sort of plateaued? Or any sort of color on how that -- what the interplay there is with the broader economic as well?

David Jackson Turner
Senior EVP & CFO

Yes. Sure. So real quick on spend levels. Debit card spend, as I mentioned earlier, is up slightly ahead of where we were a year ago. We are a heavy debit card user. That's just the nature of our customer base. They spend money that they have, not as much on credit. We haven't seen credit quite rebound. It's slightly behind, which puts a little bit of pressure on NIR to get back to that pre-March level.

The biggest challenge for us on fees, so as in service charges, and with customers having more cash in their account, they don't have a service charge or they don't have an NSF fee. And we think if we get another round of stimulus, in particular, that, that's probably going to put that pressure, call it, $10 million to $15 million per month. Most of that is going to be service charge-driven versus spend.

Saul Martinez
UBS Investment Bank, Research Division

Got it. But I mean can you argue that -- I mean, we're sort of level setting here, you think, on service charges. At the very least, it doesn't get worse from here. It's just sort of a gradual -- it's just going to take a while to normalize back to whatever that more normalized level prepandemic [indiscernible].

David Jackson Turner
Senior EVP & CFO

I think you're right with one caveat, and that is we could get a new level of stimulus, which put more pressure on it because the ones that have used a piece or much of their stimulus already, maybe they have an incident of an NSF fee or maybe they don't meet the level that we need to have an account to not have a service charge, that would be the risk if the stimulus covers that up again.

John M. Turner
President, CEO & Director

I know this is obvious, but the trade-off is an increase in deposit balances, which we enjoy. And it may be that for some extended period of time, customers maintain more liquidity than they have. And so it may be a condition that persists. And again, as long as we enjoy the increased deposit balances, I think it's a fair trade.

Saul Martinez
UBS Investment Bank, Research Division

Yes. I mean at the end of the day, as long as you have a good customer, that's the most important thing for economic value, but...

John M. Turner
President, CEO & Director

That's right.

Saul Martinez
UBS Investment Bank, Research Division

Yes. Yes. All right. Well, great. That's -- I think we're up against the time limit. But thanks so much, everybody. Really helpful. Thanks, everybody, for joining us. And if you have any follow-ups, please feel free to reach out to me or to any member of my team. Have a great afternoon.

David Jackson Turner
Senior EVP & CFO

Thank you.

John M. Turner

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President, CEO & Director
Thank you.

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