05-Nov-2020

Regions Financial Corp. (RF)

BancAnalysts Association of Boston Conference

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MANAGEMENT DISCUSSION SECTION

Jonathan Charles Ashe
Analyst, Wellington Management Co. LLP

Good morning, everyone. Thank you for joining us this morning. I am Jon Ashe from Wellington Management and I'm fortunate to host this session today with Regions Financial.

I was going to open with a riff on a song by the musician, Pink, where the refrain was going to be just give me a region full of bank stocks again. But I found the lyrics to be too depressing to share following yesterday's bank stock massacre. Instead, I would like to highlight a misevaluation of Regions and most banks for that matter with a price-to-TP ratio; TP standing for taxes paid.

Price divided by trailing four and three quarter years' earnings of taxes paid by Regions, Fiserv and PayPal are the following: 6.4 times, 48.5 times and 110.5 times. So Regions and PayPal have paid almost the same amount of taxes over this period, yet Regions' market cap is $13 billion versus $228 billion for PayPal.

On to the important matters here. Regions Financial is a $145 billion in asset bank, which ranks it amongst the 20th largest banks in the country. The bank's physical footprint encompasses the South, Midwest and Texas.

Joining us today are CFO, David Turner, and other team members. And we'd also want to wish Barb Godin very well in retirement after a great career in banking.

David, if you'd like to open up with some remarks and then we could go into Q&A.

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David Jackson Turner
Chief Financial Officer & Senior Executive Vice President, Regions Financial Corp.

Sure. Jon, thank you for hosting us. And welcome, everybody. And I'm not sure of that opening. Now, we didn't rehearse that, so I'm not sure if we're overpaying taxes or the others are underpaying. But we'll leave that for the other analyst.

Listen, a lot of uncertainty continues in the economy and in our markets. And here from a strategic standpoint, we tell our people to stay focus on things you can control. And so, we have our 20,000 associates really doing everything they can to take care of our customers and continue to help us improve how we deliver products and services to our customer base in the most efficient way. And I think we've done a pretty good job of that. We've gotten a lot of positive feedback from third-parties in terms of the customer service.

From a financial standpoint, we continue to do well. We had a good solid third quarter, year-to-date, and we'll talk about all the details there. But in the broader context of the economy, the economies where we operate are moving along just fine. Not a lot of growth but growth. And we think that we wish there was more demand for credit than we're seeing right now. We'll talk a little bit about that later. But I feel good about where we're positioned, where our balance sheet is, where our capital and liquidity are, and our hedge profile which we believe is a big differentiator for us, and we'll talk more about the details there. And then our credit quality continued to improve this past quarter. And, hopefully, we expect that to continue.

So, with that, Jon, we'll now turn it over to you and let you get into the specific questions.

QUESTION AND ANSWER SECTION

Jonathan Charles Ashe
Analyst, Wellington Management Co. LLP

Q

All right. Great. I guess if we could just start off, if you could just talk generally speaking about the macroeconomic expectations and performance across the different markets that you operate in.

David Jackson Turner
Chief Financial Officer & Senior Executive Vice President, Regions Financial Corp.

A

Yeah. So, from that standpoint, as mentioned, the economies where we operate are doing okay. While there is some risk of a second wave shutdown, we have not seen that in our markets even though our cases are up in certain of the areas where we operate. From our standpoint, we don't expect to have some of the closures that you're seeing in the major metros. And I guess that's a little bit of the beauty of where we operate and our geographies are spread out a little bit more. We don't quite have the concentrations in many of our markets that you see in the major metros. We do have the Nashvilles and the Dallas and Houstons and Atlantas as of the world where you have more of a concentration of people. But for the most part, we haven't seen that shutdown. It could happen, but we haven't seen it yet.

So, I think the expectation is just kind of a slow continued growth trajectory for the remainder of this year and into 2021. We'll see what stimulus may come out of the whatever administration ultimately wins. I think we should expect some, and maybe that'll help get us on a little bit faster growth trajectory. We do know the Fed's there to really support the economic rebound which is a good thing. And I think that was evident in the broader market yesterday, financials not so much with the flattening of the yield curve, but among other things.

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Jonathan Charles Ashe
Analyst, Wellington Management Co. LLP

Q

Are there any geographic pockets of strength in particular or weakness?

David Jackson Turner
Chief Financial Officer & Senior Executive Vice President, Regions Financial Corp.

A

I think broadly speaking, our markets seem to be doing okay. There's really nothing that's carrying the day and there's not one particular market that's waiting us down. I would say broadly that the demand – and, Ronnie, you can maybe want to weigh in on this too. The demand for credit is just not where we would like it to be, but we've seen cash pile up on the balance sheets of our customers. That's manifesting itself in deposit inflows on our balance sheet. And so, they're just not taking they're earning well, but they're just not taking those earnings and putting it back and reinvesting it back into their business, which we would hope will happen over time. And, I think, we just need a little bit more clarity with regards, get the election behind us and maybe we can see a little better window later on in this quarter and into 2021. But, Ronnie, why don't you add what you're hearing from the corporate customer base.

Ronald G. Smith
Senior Executive Vice President & Head of Corporate Banking Group, Regions Financial Corp.

A

Yeah. I will, David. Just, Jon, reiterating what David said, we're seeing really strong liquidity management that's been put in place by our clients. And a lot of focus on the turn of the current assets, because many of them, like many of us, were sheltering in place and so there is this really strong desire to connect from a digital standpoint and to address the efficiencies that can be picked up there. We're seeing good lift from a treasury management standpoint on the wholesale side of the bank and doing everything that they can to turn inventory and receivables in a more efficient way so that's creating even more liquidity.

And the other thing is just the idea that having cash on the balance sheet will help bridge the gap from where they are today to the other side. David's right, geographically, we don't have any standouts, but I would say by industry, those industries that are focused on supplying what we consider to be essential goods, either manufacturing those or transporting essential goods. And so, we do have a couple of geographies that are strong in transportation, strong in manufacturing, but it's really not by state, it's by locale and it's really dependent on where they sit in the supply chain.

The only other thing I might mention is just the supply chain line for all construction materials has been really a strong area. And the good news for us is that we do sit in the middle of the lot of natural resources, whether that's timber or aggregate that we're continuing to see really strong results in at this point. So, David, I hope that helps, maybe not as much geographically, but some of the industries where we're are seeing really good strength right now.

Jonathan Charles Ashe
Analyst, Wellington Management Co. LLP

Q

So, the mega banks have received a lot of (08:42) over the incredible growth they've had in deposits year-to-date. But when you look at the super regional banks like yourselves and then the growth has been equally as impressive, up about 21% through the first nine months of the year. Can you just share with us your views, both on deposit growth over the next 12 months, and also can you just talk about what – any expectation for the deposits on balance sheet, what, either the customers or Regions will do with these funds? We're seeing some banks encourage customers to move some of their cash off of the banks' balance sheets.

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David Jackson Turner
Chief Financial Officer & Senior Executive Vice President, Regions Financial Corp.

A

Yeah. So, I would tell you, our deposit growth has been higher than we had anticipated. That's part of why we outperformed in terms of NII this past quarter. We're seeing growth in both consumer, wealth – I mean, consumer, wealth and corporate deposits, the bigger driver with corporate deposits. And that's being driven by the fact that our customer base is continuing to generate income and they're just not investing it, they're not taking that and putting it in fixed capital expenditures and things of that nature to grow their business. And so that cash is just piling up on our balance sheet. In a lot of cases, non-interest bearing deposits there's really no place to put cash. Some of this was cash from our existing customers that were seeking higher yields and they moved those to particular money funds, perhaps, and the money funds aren't paying what they were. And so, those deposits had come back to us.

On the consumer and wealth side, it's stimulus money that's coming in and that we believe our customer base is really being careful in terms of how they spend. They're spending the money they have. They're not going out and extending credit. So, we can see that through our debit card spend, and we'll talk about that when we get to NIR in a bit.

So, we've really outperformed. The question is how much stimulus is going to come into the system? The Congress putting together another package. PPP would be another one. And then, what's the Federal Reserve going to do from a liquidity management and balance sheet standpoint?

I think when the Fed moves in that context, the money center guys happen to receive that benefit a little quicker than we do, it manifests itself in our deposits, too, but it just takes a while to get through to our customer base.

So, what does 2021 look like? I think we're going to continue to see deposit growth there because of the stimulus and people being careful. I don't know that we're going to get quite the deposit growth we just saw this year. But we – if you would have asked us at the beginning of the year, would we have 21% growth year-to-date in September, we would have told you absolutely no way. So, it just is going to be dependent on kind of where the economy is really going. Deron, do you want to add anything to that?

Deron Smithy
Executive Vice President & Treasurer, Regions Financial Corp.

A

No. I think that's well said in terms of – from a growth standpoint. I think one of the things that we'll talk about a little bit when we talk about the outlook for NII and the margin is all of the liquidity in the system, I think, and you certainly see it across the industry, it offers an opportunity to continue working down deposit rates even though balances stayed pretty strong. And I think that's a place that's hard to believe. You have a whole lot of rate leverage left, given how low rates really are. But I do think there is some additional levers for us, as well as the industry. So, I think the strength of deposits will manifest in keeping overall funding levels down, wholesale funding levels down, but it also help us again work on getting the cost of funds down as well to come back overall in the rate.

David Jackson Turner
Chief Financial Officer & Senior Executive Vice President, Regions Financial Corp.

A

Let me add – yeah, let me one other thing. And so, we have a disproportionate amount of money sitting at the Federal Reserve. At the end of the quarter, I think we've forgotten, exactly $10 billion or so. And we really started to put a little bit of that to work this past quarter. We were a little slow to do that because we thought those deposits could turn around and move out quicker. We're of the mindset that maybe those deposits stay with us a

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little longer and even grow again through more stimulus coming in. So, you'll see us put that to work a bit more aggressively than we have thus far.

Jonathan Charles Ashe
Analyst, Wellington Management Co. LLP
Q

And when you say aggressively, there also, I guess, could be a temptation to be aggressive in what you purchase to try to get some yield. But what exactly do you find out there that's interesting to deploy that cash?

David Jackson Turner
Chief Financial Officer & Senior Executive Vice President, Regions Financial Corp.
A

Yeah. The word aggressive probably wasn't the best word I could have used. I would say incremental. Deron's probably – sure can add on that word aggressive. I just think it's incremental and putting it to work...

Deron Smithy
Executive Vice President & Treasurer, Regions Financial Corp.
A

I'm glad you cleaned that up.

David Jackson Turner
Chief Financial Officer & Senior Executive Vice President, Regions Financial Corp.
A

But I think that – so, the reason we haven't done is because there's really no place to hide in this environment. We're putting money in mortgage-backed securities. 15 year we're earning right at a point on it, maybe a tad over. There's just no place really to go. We don't want to take a lot of duration risk to – and we certainly don't want to take credit or a disproportionate amount of credit risk in the investment portfolio to chase yield either. So, we're being careful. But, Deron, why don't you weigh in a little bit.

Deron Smithy
Executive Vice President & Treasurer, Regions Financial Corp.
A

Yeah. Sure. So, certainly, we have seen some opportunities to put some of that cash to work. And I think we're thinking about it longer term as well. And I do think some of the deposit growth that we've seen, some of it is going to find a better use at some point. But I do think we're going to have some of it persistently with us as well. So, we did see an opportunity to put some of that to work.

As we look from here, the steepening yield curve was getting more interesting. Our hopes were that we would start to see the long end of the curve move for the 10 year as a reference point closer to 1% before we started to think about incremental investing. Obviously, we were seeing that pre-election, and it's moving away from those levels today. So I would say there's nothing that I see today that's particularly interesting or compelling. But if we did see the yield curve begin to steepen out, we may think a little more about doing a little more.

Jonathan Charles Ashe
Analyst, Wellington Management Co. LLP
Q

I guess, it's a good time then to transition to question keeping with the theme of the conference, and that will be combating the structural challenge of low interest rates. For the foreseeable future, I guess, can you just talk a little bit about your outlook on margin? We've gotten – solicited a lot of questions and many of them regarding the margin for Regions.

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David Jackson Turner
Chief Financial Officer & Senior Executive Vice President, Regions Financial Corp.

A

Yeah. Let me start Deron, and you weigh in to the – yeah, I want you to do the tails of it. But I just want to kind of lay the framework. We anticipated rates being low for an extended period of time. And that's why we entered in our hedging program that we did, those hedges from the date they have become active are five years. So, by the end of the year, we'll have, call it, 4.5 years left on them. So, we don't have rates moving much. Short rates were kind of protected. Long rates we had for 10 year in that 1% range. And so, we think that's what we're seeing. We started to see it steepening earlier like backed off as you saw just yesterday. And so, we think we're as well positioned to protect ourselves there. But we do have the reinvestment risk that we have to deal with. And Deron's going to walk you through what that really means to us.

Deron Smithy
Executive Vice President & Treasurer, Regions Financial Corp.

A

Sure. So, we've added a slide in our deck for this conference. I believe it's page 12 in the deck, which really tries to throw a waterfall layout, because there's a lot of moving pieces in the margin right now. Some are really just weighing on the calculation like cash and not having much of an impact on net interest income. And then others such as PPP, again, with the uneven way we record income on that very low yields until the forgiveness phase begins. But once the forgiveness phase does begin, obviously, you're going to get a surge in recognition of the fees associated with that. So, we've tried to declutter that, if you will.

And so, if you think about the quarter we just came through, we think we were in the low-340s once you take out the effect of cash and PPP. And we think that – so that had a little bit of benefit in it from some unusual items. And if you were to negate the impact of those unusual items, what we've guided is that we think the margin would be down modestly over the next couple quarters from that heightened level, still in the upper-330s to mid-330s.

And then from a net interest income standpoint, one of the things that was benefiting this quarter from the continued headwinds from rates is the fact that our hedge notional did increase in Q3 by $3 billion. There's some modest increases further in Q4 and into Q1. But for the most part, all the hedges are in place today. So, we've got the ongoing impact from reinvestment, as David mentioned. That's $12 billion to $14 billion over an annual period of loans and securities that are coming on the books at roughly 100 basis points lower than what's rolling off. And so that's a headwind that will be with us over time. We've been able to overcome that here over the last couple quarters really with an increase to the size of the investment portfolio, as well as an increase in the notional hedges.

We do think if all of that translates to fairly stable to modestly lower net interest income in the fourth quarter again, we think we've got the short end of the curve pretty much protected. There's the ongoing repricing headwind, but we also have some – the outlook for loans is pretty tepid here in the short run. And so, we'll see some continued balance sheet reductions associated with that, which would be the majority of why we would expect net interest income to be potentially down modestly in the quarter.

But I think relatively stable to modestly down. And then as we look into next year, assuming that balance sheet trends normalize a bit that we've been going through the headwind from reinvestment is still with us. But I think we can – to the extent we can see some growth in loans over the balance of the year, we can help to offset that. But, again, a steeper curve would be modestly beneficial to the extent we chose to put more liquidity to work in the securities portfolio that would help us to offset that. But our trends are more stable to modestly down over time.

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Jonathan Charles Ashe
Analyst, Wellington Management Co. LLP

Q

In terms of capital, I would imagine that the forward outlook is challenging to figure out, maybe the most friendly – I'm not asking you to make a – predict future behavior by politicians and regulators, but there was some anti-share repurchase language earlier in campaigning, I don't know if that comes back into fray, but when you look out over the next 12 months, can you just talk a little bit about allocation of capital especially in light of the strong performance of your stock and now that you have a better multiple to consider acquisitions if that's also more likely you think?

David Jackson Turner
Chief Financial Officer & Senior Executive Vice President, Regions Financial Corp.

A

Well, from a capital standpoint, we improved our common equity Tier 1 about 40 basis points this quarter as we think about how much cap. We still have uncertain times. We have a very robust loan loss reserve capital accreting. And, of course, we can't buy our stock back right now with the regime, we can't sustain our dividend even under the new regime that we have, and, of course, [ph] running with (00:22:00) our fourth quarter stress. So, we will find out what that looks like by the end of the year and maybe we'll have a little bit more clarity as to where we go from here.

But it's incumbent upon us to manage capital. Forget the fact that we're regulated, how much capital should we have considering the environment risk profile. And for that, our number has been in that 9.5% to 10% range. We're creating up to that. We'll see how much we'd love to use that primarily to put in to grow our loan book. That's what it's there for. We want to make sure we can make investments on bolt-on acquisitions like we did Ascentium Capital in the second quarter. We want to continue to pay our dividend like we're doing and we have a payout ratio that, we think, is reasonable in the circumstances. And so, the last thing you do is really buy your stock back. We can't do that yet. But I don't – you know, at some point, we get through this, we get a vaccine, we get a little more clarity and, hopefully, that opens up and we're not continuing to accrete capital at levels that really start weighing on our returns.

So, those are the things we want to do and stay focused on our business and execute our business plan by serving our customers. And if we do all of that and we manage the balance sheet, liquidity, and capital right, then our share price should do well and we can leverage what, we think, is a competitive advantage with our hedge profile.

We aren't in the business right now of bank M&A. We do look at, we have targets, we've been talking about that for a long time. And we'll see what might happen in 2021 or so or beyond if things settle out and we have a little bit more clarity again with the virus.

Could there be increased M&A activity somewhere in our industry? I think you could see that most likely with the smaller banks getting together would be my guess. But that's not our focus. Our focus is on executing the plan. And if we could do that and get ourselves in a position later, and there's an opportunity, then maybe we would talk, but that's not where we're spending our time.

Jonathan Charles Ashe
Analyst, Wellington Management Co. LLP

Q

Okay. All right. Speaking of the regulators and the stress test, any predictions for how criticized assets will trend, I guess, in the coming quarters? Do you think we could see some sort of leveling off here in the fourth quarter or first?

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Barbara I. Godin
Senior Executive Vice President, Deputy Chief Risk Officer and Chief Credit Officer, Regions Financial Corp.

Yeah. It's Barb.

David Jackson Turner
Chief Financial Officer & Senior Executive Vice President, Regions Financial Corp.

Barb.

Barbara I. Godin
Senior Executive Vice President, Deputy Chief Risk Officer and Chief Credit Officer, Regions Financial Corp.

I think what you're going to see relative to criticized assets is they're going to be a little bit volatile, obviously, particularly if we do get a second wave. People are talking even about a third wave in some places as well. So that could impact. We're also being very conservative, I would call it, on any bad news that we get. We automatically downgrade our asset into a criticized category. If you looked at our third quarter, our criticized loans were down. They were down very nicely. We do expect that to move around a little bit. And I would say that you're going to start seeing a lot of the metrics start to flatten sometime after the middle of next year. But between now and then, there is going to be some ups and downs.

Jonathan Charles Ashe
Analyst, Wellington Management Co. LLP

Okay. Let's see. I guess, are you seeing any signs of fatigue for many of the stressed borrowers? I mean, I guess, one of the significant differences today versus back then, obviously, underwriting but also back in 2006 and 2007, 2008 where banks were getting thrown keys to property. And we're not seeing that yet, but do you see any evidence that some of your customers are waving the white flag and just fatigue has set in?

Barbara I. Godin
Senior Executive Vice President, Deputy Chief Risk Officer and Chief Credit Officer, Regions Financial Corp.

Now, I'll start and I'll ask Ronnie if he wants to jump in on anything that's happening on the corporate commercial side. But the answer is not really. What we've, in fact, seen, and I've been surprised by this, is I thought given where we were in this pandemic that I look at for example our consumer book, we would have had more credit card draws to take that into cash or home equity line draws or mortgage cash at refis. We're actually seeing the opposite not using their cash. So, there's a buildup of cash that the customers have and attribute that to things like they're not taking vacations as an example, not spending $10,000 on a vacation but instead putting that money in a bank. And so, given all of that, they do seem to have a little more cash on hand at this point.

There are some industries clearly that are under some pressure. That would be the hotel, leisure, CRE. We're seeing a little bit there. Of course, energy and restaurant for us is where we're seeing probably the most pressure in our footprint, although we think energy right now, yes, there's going to be handful of credits that still have to play out, but we feel pretty good about where that book is going. And restaurant just has to work itself out. Still –

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unless you can change and stop your dining in and move to takeout, et cetera, there's still in the middle of changing concepts.

Ronnie, anything I missed that you want to add?

Ronald G. Smith
Senior Executive Vice President & Head of Corporate Banking Group, Regions Financial Corp.
A

No, Barb, I think you hit it all. Jon, for you, and the participants, slide 35 does a really good job of pulling out those really stressed industries. But we've not reached the stage that you described that where keys are being thrown back to us. We find our self in the middle of a lot of workout in those particular areas and continuing conversations around what you would imagine hotel, restaurant, energy. Those were the areas that we have most of the conversations.

There is a sense of optimism even in those industries, though, with some of the adjustments and expense base that they've moved down. But we do have to see, for instance, in energy, we need to see some stabilization of commodity prices and not the ups and downs that we've seen even over the past week because hedges are in place, but we need to see more of a long run stability with that price.

On hotel, it's interesting. The hotels that are in downtown business-type areas, we are seeing more stress in those. We don't have much exposure in that particular sector, but we're seeing strength in what, I would say, are limited service hotels where the majority of our exposure sits today. And, interesting, they're seeing more weekend leisure travel than maybe they've ever seen before where they may have been capturing the business travel throughout the week.

So, there are those that all have different nuances that they're dealing with. But, no, we're not seeing the panic that we saw in the Great Recession. We're seeing just being resilient is the best word that I would use to describe our commercial customers who are responding.

Martha Raber
Executive Vice President and Head-Financial Risk, Regions Financial Corp.
A

Hey. This is Martha and I'd like to add to what Ronnie just said and Barb just said. I think we've been pleasantly surprised, and it really goes back to, one, our footprint that we went into this COVID-19 pandemic and shutdown later than other areas, and we opened back up sooner.

And that, coupled with some of the stimulus and actions that were put in place, certainly the PPP loans and the deferrals, and to Barb's comment earlier, as clients came to us with issues, we worked with them, but we were very quick to risk rate them as we saw the risk in the book.

But what's been really interesting is that timeframe and that stimulus gave our clients the time that they needed and the flexibility to really look at their capital stacks, to look at their cash flows, to start to reset and pivot.

And so, to Ronnie's point, we're not seeing what we saw in the last Great Recession, where they're throwing the keys at us, rather they are coming up with a sustainable plan, we are working with them, and it's moving forward.

When we think about the deferrals, the clients have come off those deferrals for the greatest part and they're back into contractual payments or they're working with us as we work to restructure their facilities. So, it's been a very positive combination of things coming together.

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David Jackson Turner
Chief Financial Officer & Senior Executive Vice President, Regions Financial Corp.
A

Do you agree with that Ronnie?

Ronald G. Smith
Senior Executive Vice President & Head of Corporate Banking Group, Regions Financial Corp.
A

Yeah. Jon, not just to exhaust this point, but we started early on with our risk partners Barb and Martha and Matt and team of doing what we call a bottom's up scrub and basically identifying all outstanding balances $5 million and greater. We do this on a monthly basis. We're asking RMs along with our credit partners to take a critical look at those relationships, creating more connectivity with our clients than we've ever had before, because we think it's critical to understand what the challenges are in front of them, and we repeat that every 30 days looking for opportunities to help, to also understand the risk that they're facing. And Barb's point earlier calling it like we see it, not just looking at the trailing 12, but if we're finding new information that clients are providing about the challenges that are right ahead, we're making that call at that time.

Jonathan Charles Ashe
Analyst, Wellington Management Co. LLP
Q

Regarding expenses you guys have done a really good job on the expense line. If we feel a little bit worse maybe about second or third waves and where rates are headed, going forward where are the additional opportunities on expenses?

David Jackson Turner
Chief Financial Officer & Senior Executive Vice President, Regions Financial Corp.
A

Yeah. So, I think we have to continue to challenge ourselves on expenses under just about any scenario. And we think the revenue, obviously, is going to be challenged across the industry. So, for us, we're going to leverage – continue to leverage our continuous improvement program, where we have, call it, 80-some-odd identified areas, where we can streamline, where we've gone through about half of those, we still have half of them left. And we'll put new ones on there to address.

And more specifically, if revenue is going to be challenged, we've been trying to keep our expenses reasonably flat year-over-year. I think we've done a pretty good job of that. We did just add Ascentium Capital. Of course, they bring revenue and – with that, but they'll be – if you're just looking at expenses, that can be a little bit misleading.

We have to control our head count if we're going to control expenses. And in order to control head count and manifest itself in our branch world where half of our head count is located, so continuing branch consolidations are in order, especially as we leverage the – this move to digital, where we're seeing a lot of digital traction and we've started – and we've been spending money to invest in our digital programs, mobile in particular.

So, I think, the branch count is one that we'll challenge ourselves on and we continue to get head count out of there. Our back office areas, too, we're asking everybody to look at their spans and layers again. We're looking at people, asking people to look at their processes and how we can continue to improve those and leverage technology. So that's the people. That's 55% of our expense base in round numbers.

Occupancy is the second biggest one and occupancy really manifests itself in the branch footprint, too. So, consolidations there should help us from an occupancy standpoint. Our back office, we're continuing to tighten up as best we can. And, I think, we're going to be able to over time, to leverage this work being remotely and hoteling

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and things of that nature. And that's yet to be determined because we're trying to figure out what this return to new normal looks like. We have not returned to the office yet. It's probably going to be end of 2021 before that happens with some exceptions. We'll have a few that we're going to try and see if we can move people in. But I do think that we can get our occupancy costs down and just square footage.

Furniture, fixtures, and equipment is our number three, and that's tied to the number of people we have, the number of branches we have, the number of offices we have. And so, as we address those through the things I just mentioned, we should be able to get that cost down. Our head of procurement is all over third-party spend and really making sure that when we have big contracts coming up way in advance, a year in advance of our contract coming up that we're negotiating the best deal we can get.

Travel and entertainment, I think – we're not traveling and we're not entertaining near as much as we were. So that cost is way down for, I'm sure, everybody in the industry. And I don't think you get back to the 2019 run rate in 2021. I think that's going to be some savings it will continue from 2020 into 2021. So, there's just every expense line item we're looking at because we think that we've got to become more efficient, our industry leveraging the digital wave that's coming through and – but those will be the four, five areas, I think, we'll spend.

Jonathan Charles Ashe
Analyst, Wellington Management Co. LLP

Q

I guess just shifting, finally, here to the election, bank stocks were really weak yesterday because of the lack of, I guess, a blue sweep and the value trade was kind of shelled for the growth factor back on. But can you just talk a little bit about high-level thoughts of the election on the banking industry and Regions? I mean, any kind of high-level thoughts of what is on the margin better or worse for you under whatever regime comes in?

David Jackson Turner
Chief Financial Officer & Senior Executive Vice President, Regions Financial Corp.

A

Yeah. So, I would say, one, I think most people are just glad this is almost over. I think we're all sick of just going spending our time bandwidth thinking about who in the world is going to win. I think we have some clarity. I know there's still uncertainty with regards to who ultimately wins. But I think what the market was saying yesterday is that there's not going to be as much infrastructure spending, but there'll be some that the rate environment's probably in the hands of the Fed for an extended period of time. And I think market likes free money and – to be able to leverage. And that's how I'd describe it.

I think we're going to get some form of stimulus package, maybe not as much as we were, but we're going to get something. I think we'll get some infrastructure spending, and I don't think tax rates will be going up at the level that once was thought, because I think most people are probably saying, at worst, you have a split government in terms of balance of power, which means you're not going to undo the tax regime to any significant degree.

I didn't see that really manifest itself in the financials yesterday. I saw the – obviously, the 10-year coming down quite a bit weighing on us some. But at the end of the day, we can't – now that we've voted, there's nothing we can do. The results are what they're going to be. And for us, it's to just get on with our business and take care of our customers, execute our business plan, and all things would take care of themselves. But I'll back off there. Deron, Ronnie, Barb, if you want to weigh in on that.

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Barbara I. Godin
Senior Executive Vice President, Deputy Chief Risk Officer and Chief Credit Officer, Regions Financial Corp.

I think you said it well.

Jonathan Charles Ashe
Analyst, Wellington Management Co. LLP

Q

And I guess based on the reaction of the bank stocks yesterday, clearly, there is some thought that 2020 – something has changed in 2022 earnings for banks because of what occurred during the election. And I guess I'm still trying to find the big needle mover. Maybe optimism on higher short-term rates has kind of been taken off the table. But other than that I don't see the big material hit.

David Jackson Turner
Chief Financial Officer & Senior Executive Vice President, Regions Financial Corp.

A

Yeah. I was a little – I still am perplexed as to why it was such a huge move down. Obviously, the curve flattening out a bit was a piece of it. I don't see where we got the benefit of tax relief. So, if you believed if the market priced in a blue wave, therefore, you should have priced in tax rates going up quite a bit which would have been a negative for us. I think that move at least is off the table.

Do we get some incremental taxes to pay for all the stimulus? Maybe so, but nothing to where it would have been. So, I don't think that that was taken into account yesterday. But who knows? Sometimes the algorithms get going one way and it's just hard to stop it. So, I don't – Deron, you'd probably have a feel for that, too. You want to weigh in on that?

Deron Smithy
Executive Vice President & Treasurer, Regions Financial Corp.

A

Well, I would just say that today there's quite a recovery across the industry. So, I might just chalk it up to a reaction, but things seem to be settling out today. So, I don't really know that I could offer much more.

Jonathan Charles Ashe
Analyst, Wellington Management Co. LLP

Q

Fair enough. Well, the day's not over. So, it's hard to be an optimist being a Wellington analyst.

Deron Smithy
Executive Vice President & Treasurer, Regions Financial Corp.

A

That's true.

David Jackson Turner
Chief Financial Officer & Senior Executive Vice President, Regions Financial Corp.

A

Come on, Jon. Work with us.

Jonathan Charles Ashe
Analyst, Wellington Management Co. LLP

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Yeah. So, I guess our time's up and we greatly appreciate Regions for attending the conference again and hope to do so next year in person. Just kind of housekeeping. We now have an hour break. And at 1 o'clock Citizens Financial will be presenting. And, again, to Regions Financial, thank you very much. We greatly appreciate it.

Barbara I. Godin

Senior Executive Vice President, Deputy Chief Risk Officer and Chief Credit Officer, Regions Financial Corp.

Thank you.

David Jackson Turner

Chief Financial Officer & Senior Executive Vice President, Regions Financial Corp.

Thank you, Jon. Appreciate it.

Jonathan Charles Ashe

Analyst, Wellington Management Co. LLP

Thank you.

David Jackson Turner

Chief Financial Officer & Senior Executive Vice President, Regions Financial Corp.

Everybody have a good day.

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