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Regions Financial Corp. (RF)

Morgan Stanley Virtual Financials, Payments and CRE Conference

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CORPORATE PARTICIPANTS

John M. Turner
President, Chief Executive Officer & Director, Regions Financial Corp.

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

OTHER PARTICIPANTS

Betsy L. Graseck
Analyst, Morgan Stanley & Co. LLC

MANAGEMENT DISCUSSION SECTION

Betsy L. Graseck
Analyst, Morgan Stanley & Co. LLC

Thanks, everybody, for joining us this morning. I have a disclosure to read and then we'll jump right into it. For important disclosures, please see Morgan Stanley Research Disclosure website at www.morganstanley.com/researchdisclosures. If you've any questions, please reach out to your Morgan Stanley sales representative.

With that out of the way, I am delighted to have with us today John Turner, President and CEO of Regions Financial; David Turner, CFO; and we also have Dana Nolan, Head of IR.

Thanks so much for joining me.

John M. Turner
President, Chief Executive Officer & Director, Regions Financial Corp.

Our pleasure. Thanks for having us.

Betsy L. Graseck
Analyst, Morgan Stanley & Co. LLC

So you just announced the acquisition of EnerBank, a $3 billion in assets, bank focused on consumer finance. It feels like in home improvement activities like pools and HVAC, right? Maybe we could start by digging into a few questions on that.

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

Okay.

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QUESTION AND ANSWER SECTION

Betsy L. Graseck
Analyst, Morgan Stanley & Co. LLC

Q

So, first off, could you give us some color on the business and what it was about the business that was attractive to you in adding it to your portfolio?

John M. Turner
President, Chief Executive Officer & Director, Regions Financial Corp.

A

Sure. Sure. So, we've talked to often about our desire to make investments in non-deposit – non-bank, non-depositories-type investments and we think this is consistent with that. We've been active in the home improvement lending space primarily through an indirect relationship.

Now for six or seven or eight years when we entered the space, we were clear that we were seeking to learn and to see if we couldn't develop banking relationships. You might remember that we had won – at some point decided then to exit that indirect relationship because we determined we were not developing any banking relationships. But at the same time, we saw the business as an attractive business to be in.

And so, this acquisition gives us an opportunity to participate in an aspect of consumer lending that we think is going to continue to grow. It's very well aligned with our desire to lend to homeowners. So, we've been investing in the mortgage business. We're making some improvements in our home equity products.

And sort of the third leg of the stool is that unsecured point-of-sale lending to the consumer who wants to make a home improvement. This happens to be largely built around pools, HVAC, but also there's a solar component, which we're really excited about, and we think has great potential to grow and also adds to the things that we're doing to support climate change and to support our ESG activities. And so, we're excited about the growth potential there.

Really good company. Very conservatively run. Having been part of a larger publicly traded company, we think they'll transition really well into the regulated banking environment because they have, in fact, been regulated bank operating as an ILC. So, we're really excited about what we think is the potential to grow the consumer lending business through this platform.

Betsy L. Graseck
Analyst, Morgan Stanley & Co. LLC

Q

Can you give us a sense of the loan growth that you are buying here, and what you could do with it going forward, and how it impacts the overall profitability at Regions?

John M. Turner
President, Chief Executive Officer & Director, Regions Financial Corp.

A

Yeah. I would say the business has been limited, if you will, or constrained by the parent's desire to grow and by the way that they chose to fund the business. They've been growing at about 7% a year. We believe we can grow the business sort of low-double digits based on the fact that we have plenty of funding to support the business. We think that there are aspects of what they do like, solar as an example, that our markets that are continuing to

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expand and grow. And so, we believe that we can support good growth in the business and are excited – again excited about what it might be. David, do you want to...

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

A

Yeah. So what's interesting about this segment, it's about $174 billion segment, very fragmented. The top five players in the industry account for 8% of the production. EnerBank is about 1% of that. And as John mentioned, they were constrained in terms of how they grew the balance sheet. They – and a lot of their originations they sold would sell off. That's partly how they funded their originations. And of course, they used expensive deposits to fund the rest.

So, we think we're going to really be able to take this, and as John mentioned, grow it low-double digits. We should be able to double the size in less than five years. We don't have to change the credit profile. They're prime – super-prime borrower, 763 FICO Score. So, very interesting opportunity here.

We do a lot of pools and a lot of HVACs in the Southeast, 55% of their production is where we live and operate today. But we have some opportunities to diversify our profile, our credit profile by going outside of the existing footprint in this manner. So we're looking forward to it.

Betsy L. Graseck
Analyst, Morgan Stanley & Co. LLC

Q

Okay. We've got a couple of investor questions on this. The first one just has to do with the capital impact, because I think you mentioned that you were going to put buybacks on hold. And the question is, how much and for how long? So, could you give us a sense of what the impact is to near-term capital deployment with EnerBank?

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

A

Sure. As we've told our investors, our common equity Tier 1 operating range of was – is 9.25% to 9.75% with an expectation operating right at the middle at 9.50%. That doesn't change. This transaction has no bearing on that at all. Even on a stress basis, the stress losses on this were negligible. And so, that's not changing anything that we have either.

So, our expectation was get to 9.50% by the end of the year. That's still the case. We just – we'll do it a different way. We'll do it by deploying the capital into the business. So, it's a $960 million purchase price, so we'll use capital for that. And we won't do the buybacks of that amount, but we're still going to operate getting to that 9.50%.

So, we'll round out whatever anybody wants to forecast our earnings from where we are today, back out our dividend. You know what we're deploying now. And so, you can solve for what you think the remaining buybacks would be here in the near term. Of course, you've got to have the [ph] start point (06:57), which is a 10.3% common equity Tier 1 that we have at the end of the first quarter.

So, we're continuing to generate capital over and above what we can deploy. Our loan growth hasn't been as robust as we would all want in the industry. And so, this gives us an opportunity to deploy that capital, including the follow-on growth once we get it into Regions which will be probably in the fourth quarter.

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Betsy L. Graseck
Analyst, Morgan Stanley & Co. LLC

Q

Okay. And some people have suggested that 3 times book was a hefty price to pay. I mean, John, David, how do you respond to that?

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

A

Well, the first part of this is it was important for us to get this platform. We've been in this space, as John mentioned, through relationships that didn't give us the full customer opportunity. And so, we had the [ph] natural ability (07:47) to build something or to go buy it and to build something, the technology we could've done would have taken terribly long. But to go sign up 10,000-plus vendors, contractors would have been taken too long. So, we felt like it was important to get access to the platform because this is where we see the market going. This is what customers want. They want something that can be fast and easy for them at the point-of-sale.

So, it was competitive. This is what it took. We gave you some information in the deck that shows you really what the multiple of fair value was because there's a piece of this equity that gets written up and that's a component of the yield. So, as the dealer component, the dealer fee that they essentially pay, that's recorded as a discount on a loan that you have to mark to fair value. So, when you look at that, the multiple of fair value was a little over 2 times. 2.2, I think, was the number. And that to me is how you have to look at it, if you want to look at it just financially. But it's just really important to look at the facts as to the platform as being a key driver.

Betsy L. Graseck
Analyst, Morgan Stanley & Co. LLC

Q

Right, because there's a bit of subvention there in the model from the dealer perspective, right?

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

A

Yeah. So, let me talk about that just because this is really important as you model in the early years. So, the 9% yield, there's really two things. It's the customer rate of about 6.5%, and then the dealer essentially is paying the other 2.5% via a discount on whatever product is that they sold. So, you take that discount, you accrete that into yield over time. But through purchase accounting, you got to take that 2.5% per year and you got to mark that to fair value. So, you're writing the loans up. So, you carry on the existing portfolio, which is about – going to be about $3 billion when we get to closing, will have a yield of 6.5% until it rolls off.

But every new dollar that comes on will have a yield of closer to 9%. This is backwards from what normal purchase accounting will be for a bank where you actually have an unusual net interest margin in the early years and then it runs off. This has a low yield in early years and it actually grows over time because of the nuance of purchase accounting. So, that's really, really important. That's why we gave you the return on assets and return on tangible common equity on an economic value because ultimately that's what we're going to get to after we run through the portfolio that's on the books which is about a two to three-year duration.

Betsy L. Graseck
Analyst, Morgan Stanley & Co. LLC

Q

So, I'm hearing fast loan growth and positive accretable yield. Why wasn't there even more competition for this asset? Was this a competitive transaction?

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

It's pretty competitive. You know we've – that what's important for us. And John kind of mentioned this. But we've had a number of these non-bank acquisitions going all the way back to First Sterling, which was our tax credit syndicator business for low-income housing. We had BlackArch Partners, which was in our M&A advisory business. We had Ascentium Capital we just did last April. Now we have EnerBank. So, this is a lot of non-bank additions that we think gives us capabilities to serve our customers.

And as we see the market move and what our customers want and demand, that's where we want to go and get after. And we think this is going to be a wonderful, wonderful acquisition. And we're really excited about the people as well. There's 450 people who would be coming over to the company and we're excited with them as well.

Betsy L. Graseck
Analyst, Morgan Stanley & Co. LLC
Q

Okay. I mean as you just indicated, David, you've had a series of interesting acquisitions that you've done. And especially given the fact that deposits are plentiful and lendings hard to find, are there other opportunities out there that exist or is this just a couple of key EnerBank, for example, and Ascentium really needles in a haystack? I ask the question with the basic underpinning of how should we be anticipating your strategy from here on out? Are there more of these that you can do?

John M. Turner
President, Chief Executive Officer & Director, Regions Financial Corp.
A

Well, we hope so. I mean, if you go back and look at, David mentioned the history of acquisitions really started first with the acquisition of a Fannie designated underwriting and servicing license back in 2014, as we began to add to our capabilities to meet customer needs and grow and/or diversify revenue. And over time, we've made a series of acquisitions that we think have allowed us to remix our business to create better balance and diversity to meet more customer needs.

And we're going to continue to look for ways to do that. And so, we hope there will be other acquisition opportunities whether it'd be around lending to small businesses or lending to consumers related to home finance. David talked about the fragmentation in this space that EnerBank operates in, whether there are any future acquisitions yet to be seen, but we certainly want to understand the landscape better. We'll be looking to continue to try to grow this business and other businesses both organically and inorganically.

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

And Betsy...

Betsy L. Graseck
Analyst, Morgan Stanley & Co. LLC
Q

And how do you think about – oh, go ahead.

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

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Let me add one quick because this is important that, that all investors understand. We've talked about this numerous times in terms of our capital allocation strategy. Clearly, we want to use our capital to grow our business organically, loan growth – responsible loan growth where we get paid for the risk we take; paying a dividend that's fair, 35% to 45% of our earnings in the form of a dividend to shareholders; and then the third is to use this for non-bank acquisitions, which we've done through the items that John and I both mentioned.

And then the last thing we do is buy our stock back, and we'll do that to optimize our capital. But we don't want to do that if we don't have to. We'd much rather use it to grow. We think that's what shareholders have given us the capital to do. We have grown, and we want to utilize what we generated to go acquire things that give us capabilities and asset generation because we do have a lot of good core funding. It's going to be around for a long time. If we can get things that generate responsible assets for our customer base, that's the kind of thing that we'll be looking out for going forward.

Betsy L. Graseck
Analyst, Morgan Stanley & Co. LLC

Q

Now, one of the comments that you just made in your statement, David, was non-bank M&A. And I know in the past you've suggested that, look, bank M&A is not at the top of the list because of the multiple and other reasons. But your multiple has improved significantly over the last 12 months. So why is bank M&A off the table? Or maybe I have that wrong. Maybe that's changed.

John M. Turner
President, Chief Executive Officer & Director, Regions Financial Corp.

A

No, it's not changed. I think you have it right. Our multiple has improved. We still think our currency could be stronger. And so, we're going to continue to work on executing our plan. We believe if we do that, we can deliver really nice returns for our shareholders, and we'll continue to benefit from an improving currency. I've said oftentimes, M&A is challenging, it's disruptive. You got to work hard first to get the economics right. And then, you have all the issues associated with integration.

We think that just executing the plan that we have today will deliver really nice returns for our shareholders. We think we have size and scale that allows us to compete the markets that we operate in. And so, we don't have a strong need to do a bank M&A transaction. And as a consequence, we're focused on non-bank M&A and just the execution of our strategy today.

Betsy L. Graseck
Analyst, Morgan Stanley & Co. LLC

Q

And what about the footprint? You've got some businesses that are – extend beyond the branch network. Is there an interest in expanding your footprint organically or not?

John M. Turner
President, Chief Executive Officer & Director, Regions Financial Corp.

A

I think the – I would say the physical footprint that we have today is very attractive with some of the fastest-growing markets in the country. Just look at population growth, job growth over the last five to seven years, Florida, Georgia, Tennessee, Texas, to a lesser extent, North Carolina to pick, four markets, South Carolina that have been growing rapidly. So, we're in good places. And in most of those markets, we have really nice market shares. We have good positions to grow from. Some of our businesses are national businesses. We typically are going outside of our footprint where we have expertise. So, as an example, our specialized industries businesses,

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our asset-based lending platform, those businesses are – we do have some customers outside our footprint, but that's because we think we have really solid expertise and understand the industry.

Now, Ascentium Capital and EnerBank both are originating credit in all 50 states. But again, we think those are unique platforms where the businesses are built around an understanding – unique technology in the case of Ascentium and a real understanding of small business and lending on business essential equipment. The same would be true here where there's a unique aspect of it, we think lending to homeowners. It gives us some confidence to go outside our footprint which we've not done a lot of, but to do it in a way that where we're taking a reasonable amount of risk, it's balanced. So, our – we don't get too much exposure in any one particular asset class, product, or geography. And so, we think the diversity actually adds to a greater balance and is a nice risk management too.

Betsy L. Graseck Q
Analyst, Morgan Stanley & Co. LLC

Got it. And it's not like you need the deposits from a branch network outside your current footprint.

John M. Turner A
President, Chief Executive Officer & Director, Regions Financial Corp.

We don't. We don't.

Betsy L. Graseck Q
Analyst, Morgan Stanley & Co. LLC

Okay. Before we get into some of the drivers here of growth, maybe we can get from you any updates for the quarter that you want to share?

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

Well, let's see, we're right on the cusp of a blackout. We gave you our kind of guidance that we had for the remainder of the year at the earnings call. I would say, just generally speaking, we're seeing the economy's reopened a bit which is favorable. We think it's favorable from a production standpoint, favorable from a credit risk perspective. On a CECL basis, we adjusted the reserve to what we thought was appropriate at the time, with the caveat that as the economy changes, good or bad, we'd adjust the CECL accordingly.

Things have gotten better. So, we think reserves over this period of time. We'll see what happens when we get to the end of the month. But you would expect the CECL to come down some, given just the strength of the economy.

From talking to our customers, our customers continue to have their number one problem is labor. It was labor before the pandemic and it's labor now, and that is that they can't find it. And they – and it's not just skilled laborer which was the pre-pandemic. It's any laborer, especially lower end labor. And we think over time that that will solve itself as stimulus continues to wind down a bit.

So, we still have a lot of liquidity to put to work. And there's not a lot of demand for credit in at least outstandings. We're having pretty good success with commitments. But drawing down our line utilization is still low. And we think you've got to work through the deposits. You've got to get the economy fully open before you'll start seeing growth, which we said might be at the end of the year but it could fall into 2022, which is another reason why

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EnerBank was important to us for asset generation. So, all that – all those comments that we said at the earnings call kind of where we are right now. No real change there.

Betsy L. Graseck
Analyst, Morgan Stanley & Co. LLC
Q

Okay. What about on NII, just you have the hedge and I believe the hedge is protecting you against the lower long end rate move. The long end of the curve has moved down obviously. And I think your hedge is protecting you against that. But we've also seen some pressure on the front-end. So, maybe if you could just give us a reminder as to how the hedge is working for you, not only for this quarter, but for the next year or so? I think you took the hedge out in 2023 and beyond. So, give us some sense as to what benefit you have at this stage from the hedge still?

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

Yeah. So, when we met last time we talked about the contribution, the NII being in that $100 million range, that's still true. And we're kind of for the most part neutralized on in terms of range both in the short and long end. The growth or not will be driven by what happens on the balance sheet both the growth in the balance sheet and the mix of that. And so, I think that's really where we are right now from a rate standpoint.

If you look at expectations, we just got some news this morning, I guess, inflation may be picking up a little bit. We still believe the fed is going to wait and see – I guess they meet this week. So, we'll see what they have to say. But their last conversation was we're going to wait, let it run a bit high. And so, we thought and do believe that rates will be low for the rest of this year especially on the short end. I will say personally I was a little surprised that the long end debt where it had gone 1.40%-something last week. And so, we were expecting that and still do believe that that can get to 2% by the end of the year perhaps, which gives us a better opportunity to deploy some of the excess cash and I'll come back to that in a minute.

But as we thought about the economy where rates were going, we expected rates to be low all through 2021 and probably most of 2022 with the expectation that maybe we start seeing some movement in the back end of 2022 and into 2023. Hence, while we took some of our derivatives off, so we terminated some of the swaps that we're providing protection out to 2023 and 2024, so that we could participate as rates went up. And we thought the risk of rates going the other way were pretty low at that time. So that was our thinking.

We never put these five-year derivatives on the books with the expectation of going to term – we were going to tear them up at some point. But we wanted to make sure we had maximum protection because it didn't cost us much to enter into when we did. And now the question is how do you take them off and at what pace? And we're going to have to look at the economy. We're going to have to try to forecast future rates just like everybody else. And we did a pretty good job on rates going down. We'll see what happens on rates coming up.

Betsy L. Graseck
Analyst, Morgan Stanley & Co. LLC
Q

And then...

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

Go ahead.

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Betsy L. Graseck
Analyst, Morgan Stanley & Co. LLC
Q

...the hedge protection, you took that off. From what yield level on the 10-year roughly, do you start to benefit when the hedge goes away?

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

Well, it's really on the short rate that we start this. So, these are all tied to one-month LIBOR right now. So, when you expect LIBOR to start going up, that's when we would benefit. If we don't, right now we're going to receive fixed swap. So, if we don't take that off and LIBOR goes up from where we are today, we wouldn't benefit from that. If we take the – receive fixed swap, then will – our balance sheet will continue to earn.

John M. Turner
President, Chief Executive Officer & Director, Regions Financial Corp.
A

Correct.

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

The delta between our funding and whatever rate that is.

Betsy L. Graseck
Analyst, Morgan Stanley & Co. LLC
Q

Okay.

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

So our asset sensitivity comes back in that case. So, it's a...

Betsy L. Graseck
Analyst, Morgan Stanley & Co. LLC
Q

Got it.

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

...short rate driver.

Betsy L. Graseck
Analyst, Morgan Stanley & Co. LLC
Q

Okay.

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

As part of the deployment of cash was we have probably $3 billion, $4 billion worth of cash sitting at the fed that we think can be deployable in the securities book. But we don't want to do it at these rates. We were looking close

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to 2%. So, we know we're giving up a little carry to do that, earning 10 points at the fed. But we just don't want to deploy that 1.45, 1.50-ish and be upside down pretty quickly. So, we're being patient there.

Betsy L. Graseck
Analyst, Morgan Stanley & Co. LLC
Q

And so, if the fed does not start to taper, does that matter to you? I mean you'll just wait for the 2% to come your way.

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

Well, I think, there's the fed obviously can control that through their balance sheet. But you do have market dynamics going the other way too. So, I think we need to see what the rest of the world looks like. As things start to recover and you start seeing inflation and economies opening up, I think you're likely to see a much higher – somewhat higher [ph] tend (25:33) than where we are today. Notwithstanding the fact that the fed wants to stay lower for longer, I suspect, as they finance their balance sheet.

Betsy L. Graseck
Analyst, Morgan Stanley & Co. LLC
Q

Okay.

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

And [ph] thanks to (25:43) the stimulus.

Betsy L. Graseck
Analyst, Morgan Stanley & Co. LLC
Q

Right. Got it. Okay. Could we talk a little bit about fees? So, first, dealing with some pressure points and then dealing with some growth opportunities. On the fee side, it's been in the news recently, the overdraft question and an overdraft as a percentage of your total revenues is running at around 5%. So, wanted to understand from your perspective how you think about that product, how your customers utilize it and what your expectations are as you move forward here?

John M. Turner
President, Chief Executive Officer & Director, Regions Financial Corp.
A

Well, clearly, we have a lot of customers who do use the product largely as an accommodation to make short-term liquidity needs. We began thinking about roughly two years ago how we could begin to make some changes internally to help customers better understand their financial situation, to gain better education and to manage frankly their finances better. We call that project internally customer transparency. It has a couple components. The first is we're changing posting order and that project will be complete within a few weeks where customers will experience near real-time posting. But posting order changes will allow all credits to post first, debits to post second, which we believe will have a significant positive impact on customers.

We've made significant changes in our alerts to customers. So, now, you can get low balance, zero balance, different items posted every kind of alert you can imagine. We've lowered caps all in an effort to help customers again better manage their money and to avoid overdrafts in NSFs. And so, we've been anticipating that revenue declining as a result of that activity over time.

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Frankly, the pandemic accelerated that as customers' balances increased and we saw less overdraft and NSF activity. Part of the reason we've been signaling we don't expect those fee – levels of fees to come back up is because of the changes we are making internally to benefit customers. We will introduce our Bank On product which is, as you know, a no-overdraft account sometime in the third quarter.

Customers today can still elect effectively a no-overdraft, no-posting account as we don't have a specific Bank On product, but we have the option for a customer to elect no-posting and overdrafts and about 16% of our customers do that today. So, we view that as a source of fee income that will continue to decline over time. Our desire is to make more information available to customers so that they can better manage their finances.

Now, the next question is, well, as that fee income declines, how do you overcome that? And we do it in a number of ways. First is we're seeing more good consumer fee activity because we're growing consumer accounts at a nice rate. And so, as a result of that, debit card activation picks up. Debit card uses picks up. We see more debit card income. Beyond that, we've made investments in the mortgage business. We've made investments in capital markets. And we continue to make investments in wealth management. Other sources of fee income, along with treasury management, I should say, that we think will grow and overcome what will, for sure, be a, I think, some reduction in NSF/OD fees.

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

A

Well – and this didn't come up in the EnerBank discussion because we didn't model this. But there are a lot of customers out there we want to make that the EnerBank has one product. They make a point-of-sale loan. They don't have deposits. They don't have credit cards. They don't have a lot of things that we have to offer. We're going to take those customers and over time be able to offer certain products and services to them.

Not to mention the 10,000-plus contractors that we're going to be able to take our small business offerings too, including Ascentium. So we have other things that we're going to be able to do to generate revenue for us. But we've expected this to decline as John mentioned over time. And we'll adapt and overcome just like we did on the debit, on the debit interchange change.

Betsy L. Graseck
Analyst, Morgan Stanley & Co. LLC

Q

Can you give us a sense as to how much of a decline we should be thinking about going forward? Some institutions have suggested that as consumers understand their low balances with alerts and things that the usage rate goes down by order of magnitude like 30% to 50% or something like that. Is that...

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

A

Well, a couple of things. One, so we're – we said our service charge would be down somewhere in that 10% to 15% range. It is versus pre-pandemic and it's probably not going to come back. So, that's a bit of a proxy. We're running some pilots to see how much we can confirm that number. And we will come back to you at a later date and give you better information as we learn better information.

John M. Turner
President, Chief Executive Officer & Director, Regions Financial Corp.

A

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We're trying to understand the impact to customers. As you can imagine, when you change posting order you have certain segment of customers that learn how to manage their finances given the way that you post certain things, post items. And so, when that changes different customers get affected in different ways. And so, as David said, we're piloting trying to follow the outcome so we can have an idea of what we think may happen. But we want to ensure that the data does reflect what our expectations are before we communicate it.

Betsy L. Graseck
Analyst, Morgan Stanley & Co. LLC

Q

Okay. Great.

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

A

And [indiscernible] (31:42) so you've heard us talk about just an analogy in terms of usage in an ATM where people that go to try and take cash out and get a message. If you proceed, you're going to be subject to a fee. And that number used to be about 70%. Now, it's up to 90%. So, there's – and you go, why would people do that? There's a service there that people need that liquidity and are willing to pay for it. So, even with all the alerts and all the things that they're going to have access to, it's choice and it's customer choice. And that's what we're trying to do through customer transparency is if you choose to operate this way, it's going to cost you X. If you want not to ever have that, then you can choose a different way. And so that's what we think is our job to do for our customer base.

Betsy L. Graseck
Analyst, Morgan Stanley & Co. LLC

Q

So, we have just one, a couple of minutes left here. And there's a question on the webcast regarding how you expect the competitive environment is likely to change in your core retail markets now that you've got a little more competition from folks like PNC moving into the BBVA footprint. And you've also got some other folks that have been consolidating in your own region. Maybe if you could give us a sense as to how you think about answering that question. And help us understand where EnerBank comes in and are you going to rebrand it as Regions? Thanks.

John M. Turner
President, Chief Executive Officer & Director, Regions Financial Corp.

A

EnerBank will be rebranded as Regions.

Betsy L. Graseck
Analyst, Morgan Stanley & Co. LLC

Q

Okay.

John M. Turner
President, Chief Executive Officer & Director, Regions Financial Corp.

A

And merge into the bank. And all their deposit customers are broker deposits. So, those deposits ultimately go away. And to David's point, we market to those loan customers ultimately to be Regions' depository customers over time. But back to your original question, we have lots of really good competition, really good bank competition, and increasingly, we have non-bank competition.

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And so – and we recognize we've got to continue to invest in our business, to invest in talent, to invest in technology, to ensure that we have the best bankers and they're enabled with really great technology so they can provide unique ideas and solutions to customers. We think we're doing that. A proxy for that is growth in consumer checking accounts which we continue to experience really nice growth, growth in debit card activation and usage.

Again, we think a proxy for how attractive we are to customers, data we get back says the under 40-year-old crowd likes the Regions platform and likes our technology. And so, we'll continue to watch and monitor those things recognizing we have really great competition from a variety of sources, and we've got to ensure that we're continuing to grow and to win in order to deliver the kind of results we want for our shareholders.

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

And competition is a great thing because it makes us all better. And we've been making a lot of investments in digital to John's point to make sure we stay ahead of the game because customer demands are not going to go away. They're going to demand more and more. We've got to be there. Part – big part of this is table stakes, and so we feel very confident with our ability to make the investments we need to stay very relevant because we listen to our customers and understand what their needs are.

Betsy L. Graseck
Analyst, Morgan Stanley & Co. LLC
Q

You've done a great job with the tech platform transformation that you've been doing over time. And I do have to say the acquisition of EnerBank was really interesting. Hats off to you for securing that asset for yourself because it's a nice growth rate.

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

Thank you.

John M. Turner
President, Chief Executive Officer & Director, Regions Financial Corp.
A

Yeah, good. Thank you.

Betsy L. Graseck
Analyst, Morgan Stanley & Co. LLC

Okay. Well, with that, thank you so much, David and John, for joining us. Dana, thanks for pitching in and look forward to our next time in-person. In the meantime, have a good day and we'll move on to the next session now.

John M. Turner
President, Chief Executive Officer & Director, Regions Financial Corp.

Thank you.

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

Thank you, Betsy.

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John M. Turner

President, Chief Executive Officer & Director, Regions Financial Corp.

Thanks very much, Betsy.

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