09-Nov-2021

Regions Financial Corp. (RF)

Bank of America Future of Financials Conference

Copyright © 2001-2021 FactSet CallStreet, LLC

CORPORATE PARTICIPANTS

Scott M. Peters
Senior Executive Vice President & Head-Consumer Banking Group, Regions Financial Corp.

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

Deron Smithy
Executive Vice President & Treasurer, Regions Bank

OTHER PARTICIPANTS

Ebrahim H. Poonawala
Analyst, Bank of America Merrill Lynch

MANAGEMENT DISCUSSION SECTION

Ebrahim H. Poonawala
Analyst, Bank of America Merrill Lynch

Good morning and thanks for joining us again. Welcome back for our very first Regional Bank session. I'm delighted to welcome the team from Regions Financial. We have the entire crews from Regions. We have Scott Peters, Head of Consumer Banking; Ronnie Smith, Head of Corporate Banking; and Deron Smithy, Treasurer at Regions. And so, thank you, gentlemen, for joining us, and thanks, Dana, for helping me put this together.

Copyright © 2001-2021 FactSet CallStreet, LLC

QUESTION AND ANSWER SECTION

Ebrahim H. Poonawala
Analyst, Bank of America Merrill Lynch

Q

I think maybe just to kick things off, it might be helpful, Scott, Ronnie, to get a little bit of overview in terms of your businesses, how that kind of fits into the bank, and then we hopefully can take it from there. So, maybe, Scott, if you want to kick it off?

Scott M. Peters
Senior Executive Vice President & Head-Consumer Banking Group, Regions Financial Corp.

A

Yeah, be glad to. So, I run the Consumer Banking Group. That would be the retail business, which includes all of our consumers on wealth management consumers as well as what we call branch small businesses, call it, 350,000 or so branch small businesses. Additionally, the mortgage business, indirect business, and the recent acquisition of EnerBank, so Regions point-of-sale home improvement opportunities as we go forward. We operate, call it, roughly 1,300 or so branches across 15 states.

Ebrahim H. Poonawala
Analyst, Bank of America Merrill Lynch

Q

Got it. Ronnie?

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

A

Yeah. Yeah. Ebrahim, good to see you again. So, I run the corporate bank. We define that business in three different segments basically commercial real estate, commercial middle market, and then large corporate and specialized. And those three businesses are supported by our capital markets group, treasury management. We have an asset-based lending arm as well, and then certainly our credit products area. Within credit products, we have placed Ascentium Capital, which is one of the more recent acquisitions that we made along with SBA and our franchise lending effort that I talked a little bit about last week as well.

Ebrahim H. Poonawala
Analyst, Bank of America Merrill Lynch

Q

Got it. So, I guess, let's talk about maybe as a follow-up, it would be interesting to get both of your perspectives around just investment dollars, where within your business you're spending technology, physical infrastructure, head count, if you could just spend some time talking about that.

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

A

I'll take that one first, and, Scott, I'll hand it to you. We're really focused around building platforms that support our client base and give us the opportunity to continue to dig into what is a very broad and loyal client base. So, when we bring on things like Ascentium that is an equipment finance firm, we're really looking at that from an acquisition, but also an investment opportunity for us as well to not only take the business that they have produced over the years, but to really dig deep into our own portfolio of business and provide cross-sell opportunities.

Copyright © 2001-2021 FactSet CallStreet, LLC

On the technology side, it really does go back, as we were talking earlier, around treasury management and staying very current with our product mix, everything from mobile applications for businesses that becomes more and more in demand each day, all the way to real-time payments requires infrastructure change for us a bit, working really closely with our outside vendors to stay on the cutting edge or as near the cutting edge as we are comfortable from a technology perspective with those investments.

On the people side, we're certainly in a market where we see a lot of disruption taking place. And I would put that more in the opportunistic area if we find those individuals with skill sets that really like the culture that we built here at Regions. We do want to continue to build out a high level of production and producers. And so, when I think about the [ph] MTE (00:04:26) question that you asked just a moment ago, it's not about growth for growth sake, but opportunistic growth where we can add value once again back to the platform that we have today. Scott?

Ebrahim H. Poonawala
Analyst, Bank of America Merrill Lynch

Scott?

Scott M. Peters
Senior Executive Vice President & Head-Consumer Banking Group, Regions Financial Corp.

A

Yeah. Thanks. Thanks, Ronnie. So, a couple things. I'll try to hit a couple big areas. One is really how we look at our retail network and how that interacts with our customer base, as well as our digital platforms and all those working together. So, we continue to invest in priority markets, which is essentially self-funded by our consolidation efforts. We've been at it for a number of years, so we're quite good at it. We've been able to grow through roughly 450 consolidations since 2014 and continue to grow our core checking customer base. And the way we do that is through our one banker job family.

So, we just still have a belief in skilled bankers on the ground. They have a path to upskill. And when we started the journey, we have now 20% more skilled certified bankers than we previously have by reducing our head count by about 30%, continuing to grow. That works with our digital properties and our digital capabilities because the simple transactions are getting handled in an easier fashion, and we have proactive bankers on the ground who can reach out to customers. And today they're growing core checking at about three times the industry average based on multiple benchmarks that we're looking at. So, the strategy really comes together nicely.

The second big part is being the premier lender to homeowners. We have made investments over the last couple of years in our mortgage business. So, we've grown that materially. Our mortgage loan originator is up over 20% over the last, call it, three years or so. We continue to invest in technology and enabling both those field retail mortgage loan originators, but also our home loan direct, which, since 2019, has more than doubled their production , which was an area frankly we lagged some of our peers. So, we're not only continuing to be great in the purchase market, which we've always been really strong on, we're a low-cost operator all the way through fulfillment and servicing where we're really building out and gaining even more momentum versus our pure benchmarks on the refinance side as well as the home loan direct side. So, premier lender to homeowner and then having the right size network with skilled bankers and great digital tools.

Ebrahim H. Poonawala
Analyst, Bank of America Merrill Lynch

Q

Copyright © 2001-2021 FactSet CallStreet, LLC

Got it. Great. Lots of follow-up questions came in my mind as you were speaking. But now maybe I guess first sticking with you Scott, about another EnerBank. Remind us I think, Regions hasn't been particularly acquisitive when you think about the last 10 years. Talk to us about just why – remind us why EnerBank made sense, the synergies it provides, not just immediately, but can you think about the next three to five years what it allows the bank to do?

Scott M. Peters
Senior Executive Vice President & Head-Consumer Banking Group, Regions Financial Corp.

A

Yeah. So, that's a great question. It's actually that sector, the point-of-sale home improvement sector has kind of been in our sights and our strategic plan for a few years now. We've kicked the tires on a couple of opportunities. We got some experience early on about, call it, four or five years ago with GreenSky and got used to the space and how it operates a lot of the compliance nuances, all of those things.

So, it has been in our sights for a while. And where it fits really is in that premier lender to homeowners. Obviously, it's also a strong asset generator. That industry has been growing at, call it, 5% per year. There's a, call it, $160 billion of addressable contractor spend and it's still somewhat fragmented, although EnerBank is a top five producer there, highly known for their high credit quality, which is important to us because we are a prime lender. So, it fits right in our box.

So, it's another asset-generating engine. And then, when you think about the synergies, 10,000-plus contractors get services through EnerBank and today produce loans for us. We have the opportunity to bank that. About 55% of the volume is actually in our branch footprint. So, we have proximity that's a little better profile than some of the other competitors from a standpoint of footprint overlap, which usually runs more in the, call it, 40% range. So, we have that opportunity.

They bring to us 275,000 loan customers who are now banking with us, where we have the opportunity to accelerate those relationships and really take care of all their home borrowing needs, whether it's tapping into their equity for purchases across the board, a refinance or a new purchase transaction as well. We've already seen, frankly, synergies between Ronnie's group and my group, where we've reached across, and it's given us the opportunity to get in with certain clients that are our home improvement partners or EnerBank partners want to get into and vice versa.

So, we're seeing early synergies, but we've got a stacked lineup of all the opportunities from a standpoint of product integration, as well as penetrating the customer bases that we're going to start ticking off and delivering against to deliver those synergies over the next couple of years.

Ebrahim H. Poonawala
Analyst, Bank of America Merrill Lynch

Q

That's helpful. And before I ask my question, for those on the line, if you have any questions for the team, feel free to submit them on your screen. There should be a box that should allow you to submit those questions, so let them come in.

But it's interesting you mentioned about some of the – I was going to ask if there had been any early successes in converting some of those EnerBank retail customers into doing more with the bank. And I think I guess still early days, but that clearly is an opportunity. You talked about the 55% overlap with your footprint. How do we think about the remaining 45%? Does that create an idiosyncratic opportunity as you think about doing more within that non-footprint customer base? Just talk to us a little bit about that.

Copyright © 2001-2021 FactSet CallStreet, LLC

Scott M. Peters
Senior Executive Vice President & Head-Consumer Banking Group, Regions Financial Corp.

A

Yeah. That's kind of exciting for us; one, just from a standpoint of being a good banker and thinking about concentrations in credit risk. It actually diversifies our portfolio to some degree there with different geographic content, which is just helpful to us. That being said, it's also spurred us to – one of the investments we will be making is continuing to improve our ability to bank customers across the country. That's not a national banking strategy. But when we have lots of customers across the country, we want to be a full-service provider to them when we can and when it makes sense for them. So, that is spurring some investment we'll make to broaden those capabilities to be able to bank those customers.

Clearly, we can be a depository to them. But the biggest I think short-term opportunities really leaning into them is homeowners. That's how they came to us. And when we think about homeowners, they carry about 75% higher deposit balances. Their revenue contribution to homeowner is about 60% higher than your average customer. So, a lot of really strong dynamics and their credit quality is quite strong for us across the board from lending, and they buy roughly three times more loans from us. So, you can see where there's tremendous opportunity for us to create that strong service quality that EnerBank's known for and we've been known for at Regions and bank those customers more fully.

Ebrahim H. Poonawala
Analyst, Bank of America Merrill Lynch

Q

That was great. That was helpful. Thank you. I guess maybe Ronnie, just talking about customer sentiment, right? We've been dreaming the dream here as investors waiting for loan growth to pick up at some point. But you mentioned the three client segments, CRE, commercial middle market, large corporate. Give us a pulse check of where the sentiment is across these segments, who's more actively investing today and borrowing today versus where you're still seeing some wait-and-watch approach?

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

A

Yeah. Sure. I would say, generally, sentiment is positive. In most of the conversations that I have participating with our coverage bankers, clients are upbeat. They see really nice opportunities. Most have had solid years, but they didn't have those solid years or solid year in the way that they planned at the beginning of 2021, the same things that each of you have heard continue to hamper across each of those business segments, whether that's labor issues or supply chain issues. And so, that continues to be of concern. And almost every conversation we hear that.

From a real estate standpoint, we are seeing some rebound on those particular areas that were hardest hit by the pandemic, some of the hospitality areas. We're seeing stabilization in some of the retail areas and also office, but its more suburban office than it is urban. And so, as I think through the tenants that would be associated there, smaller tenants really have been back in office for quite some time. And the demand in those particular areas continues to improve, I would caution, not at a rapid pace, but stabilization to improving versus where we were at the height of the pandemic.

On the commercial side, transportation, all of the logistics around moving supply chain and trying to unstick the bottleneck that has developed for most industries, there's terrific demand around that particular area. Healthcare has been very strong as well. And then, as I think about the technology vertical, too, we continue to see not as strong a growth as it was again at the height of the pandemic, but very consistent demand. And we see clients making investments in things to try to address the labor issues, trying to become more efficient with the team that

Copyright © 2001-2021 FactSet CallStreet, LLC

they have, and so the opportunities that we have whether that's just creating more efficiency or trying to unclog the bottleneck of the supply chain issues that's out there.

Homebuilder continues to be very strong. Multifamily continues or has come back very strong as well. And as you can imagine, all things related to last-mile delivery around transportation with industrial warehousing, logistics associated with that continues to show really good strength.

Ebrahim H. Poonawala
Analyst, Bank of America Merrill Lynch

Got it. And two follow-ups. One, apologize for going off script, but the infrastructure bill looks like it's going to pass, and the president is going to sign it over the next few weeks. How does that change anything about your customer base as that spending comes through? One, how impactful do you think it's going to be for your local economy in terms of how it could translate into revenue growth opportunity for Regions?

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

Yeah. We still have to unpack all of the things associated with the bill, so it's a little – a bit premature, but I'll give you early impressions...

Ebrahim H. Poonawala
Analyst, Bank of America Merrill Lynch

Sure.

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

...and those may change a little bit later. But the demand on raw material goods, especially in the construction areas, continues to have a lot of pressure whether that's through delivery or pricing. For instance, this last week met with one of our large general contractors just to test the waters on what components of building are under the most pressure. Oddly enough, it's windows. And so, what is happening at this point is when there's a shortage, clients will actually go buy in anticipation of what's going to build from available sources. So, that creates a shortage in that particular area. And as we talked about what caused that, it's just overbuying, trying to anticipate shortages that are coming down the road.

So, the competition that could potentially come out of the infrastructure bill is a bit of concern for those that are in the construction field whether that's homebuilder all the way through industrial and everything from aggregate to steel to any of those things that have been tougher supply chain issues raises a bit of concern.

Now, with that said, on the positive side, there's great opportunity as well because we believe that along with this infrastructure bill, there will be additional investments that will be made by a lot of our clients preparing for the opportunities that they have and very hopeful. I can't predict this, but very hopeful that because of the investments that are made, some of the supply chain issues could see a bit of resolution throughout the period of time that this gets rolled out.

Ebrahim H. Poonawala
Analyst, Bank of America Merrill Lynch

Copyright © 2001-2021 FactSet CallStreet, LLC

Got it. And just also on supply chains, do you think it's a six-month issue, is it a two-year issue in terms of as we get at least maybe 70%, 80% back to normal?

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

Ebrahim, I don't know. I wish I did. It's a tough call. I felt that supply chain would be flowing a bit smoother than it is today. We were with a client on the West Coast, most of you saw the port issues...

Ebrahim H. Poonawala Q
Analyst, Bank of America Merrill Lynch

Yeah.

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

...that went on in Port of LA. Actually saw more than 50 vessels sitting just outside the port waiting one at a time to unload, and some have been there as much as two to three weeks. And so, as I look around our footprint, whether it's Port of Houston or Port of South Louisiana or Tampa or Jacksonville, you don't see as much backlog but you see that backlog of trying to get in and really have logistics flow in a way to get either raw material or finished goods to distributors or to manufacturers.

So, I don't know that I could put a 6-month to 12-month window on it. What I would say is that I fully anticipate that it would be better during that period of time, but not fully resolved.

Ebrahim H. Poonawala Q
Analyst, Bank of America Merrill Lynch

Got it. And hopefully, there are more new cars on inventory lots at some point soon. I sold my used car as a genius in Carvana this summer...

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

Yeah.

Ebrahim H. Poonawala Q
Analyst, Bank of America Merrill Lynch

...without realizing I'll need it at some point. And now, there are no cars to buy out there. So, I felt smart for a second there. But, I guess, Deron has been awfully quiet, so maybe we'll ask some tough balance sheet questions to you.

Deron Smithy A
Executive Vice President & Treasurer, Regions Bank

All right.

Ebrahim H. Poonawala Q
Analyst, Bank of America Merrill Lynch

Maybe to start off with capital. I think when I look back pre-pandemic, I think you had a CET1 target, 8.5% to 9.5%. I think for the near term, you're shooting for a 9.5% CET1 by year-end. Is there anything structural that's

Copyright © 2001-2021 FactSet CallStreet, LLC

changed around your outlook around balance sheet that would warrant that the bank operate with a higher level of capital, or is it just more about getting better visibility and then we go back to that 8.5% to 9.5% range you've talked about?

Deron Smithy
Executive Vice President & Treasurer, Regions Bank
A

Yeah. So, the short answer is, no, there's nothing structural that has really changed that. Obviously, as we come through this period of uncertainty, we've wanted to obviously be a little more defensive with the capital position. But at the heart of that, how we size the capital needs is our stress testing framework, and that would tell us that we need somewhere in the 9% range.

Now, we've established an operating range for capital of 9.25% to 9.75%. And so, what we're trying to do there is give ourselves flexibility to lean into growth, lean into strategic opportunities as we see them. So, EnerBank, Ascentium are examples of that. And so, we want to maintain some excess capital above sort of what's just needed to satisfy the stress testing constraints to give us flexibility to grow where we see opportunities to do so.

Ebrahim H. Poonawala
Analyst, Bank of America Merrill Lynch
Q

Got it. And just in terms of – in that regard, when you think about bank stocks have, obviously, had a pretty good run over the last years. How do you think about just deploying capital towards buybacks? Is it kind of a way to get capital to the level you want to manage the bank or is it a valuation where buybacks become prohibitive, it just is unattractive for management to pursue that out?

Deron Smithy
Executive Vice President & Treasurer, Regions Bank
A

Yeah. So, at the end of the day, we would prioritize buybacks behind appropriate growth in dividend, as well as just continuing to grow the balance sheet and grow strategically and organically. So, as you mentioned, it is a tool to help us manage capital at our desired levels. But as you've seen over the last year, we've had a fair amount of excess capital that we're now deploying and growing the business.

And so, I would say we will first look for opportunities to continue to round out product sets, to find businesses that we think fit into our overall business strategy, that help us better serve customers, make banking easier and the product sets where we think we need to improve. And so, that's our top priority and we've been fairly active over the past year, obviously, putting our capital to work and growing the business.

We will engage in share repurchase to help manage to – we can't let capital just drift up...

Ebrahim H. Poonawala
Analyst, Bank of America Merrill Lynch
Q

Sure.

Deron Smithy
Executive Vice President & Treasurer, Regions Bank
A

...indefinitely, so we'll use share repurchase as we see fit to manage to that target area.

Copyright © 2001-2021 FactSet CallStreet, LLC

Ebrahim H. Poonawala
Analyst, Bank of America Merrill Lynch

Q

Got it. Talking about drifting up, like the cash liquidity has been drifting up on your balance sheet, across the industry. Just talk to us – we've seen some move higher in the three- to five-year part of the curve. As you think about deploying some of that excess cash, are – absolutely is high enough so far or are you still in, no, we can watch more?

Deron Smithy
Executive Vice President & Treasurer, Regions Bank

A

Yeah. So that, with the – that cash on the balance sheet gets a lot of attention and I always try to redirect folks to think about it. There's – it's hard to deploy cash and move the needle with respect to contribution to bottom line earnings without taking incremental risk, and the first one you would take is interest rate risk. And so, you have to think about that deployment in the context of how we want to position the balance sheet.

And so, what you've seen us do more recently is we've been well-served by our hedging program that has helped...

Ebrahim H. Poonawala
Analyst, Bank of America Merrill Lynch

Q

Sure.

Deron Smithy
Executive Vice President & Treasurer, Regions Bank

A

...protect us in that down rate environment. But now, as the economy continues to improve and the Fed begins to plot its course for normalization, we have to think about that transition to potentially higher rates in the future. And so, any decision to put cash to work has to be thought of in that context.

And so, we take a step back and think about it across really how the cash came to us. You've heard us say that we think as much as 30% of the deposit inflows, some $35 billion, $36 billion, 30% of that, we feel very confident because of how it came to us. It came to us through new account growth, new clients' growth in accounts that have historically been very stable, very sticky. There's a lot of very granular growth on the consumer side. And so, we see that, call it, $12 billion, $13 billion as very deployable, both from a liquidity and a rate perspective.

And you've seen us do some of that already in the securities portfolio. You've seen us restructure the liability side of the balance sheet to reduce higher cost debt. And then, there's a tranche at the top that I would say we truly see as just excess liquidity, mostly on corporate balance sheets, that will find a better home at some point. It'll either be put to work more productively or when rates normalize, it will seek a higher rate.

And so, we're being very thoughtful about keeping that in very short-term form, earning 15 basis points at the Fed, which risk-free is not so bad. And then there's the tranche in the middle that I think is a mixed bag of existing accounts that are holding excess liquidity, as well as just some growth in accounts that have historically been a bit more rate sensitive.

And so over time, we'll learn more about that. As rates normalize, we'll see perhaps some incremental opportunities to grow the securities portfolio. But that's not our primary objective for that incremental cash. We're hoping to put it to work growing the balance sheet. And so if you think about EnerBank, we brought over $3 billion onto the balance sheet which initially are funded with brokered CDs that will run off over time.

Copyright © 2001-2021 FactSet CallStreet, LLC

And so it's – that $3 billion will be funded with this cash over time, improving the profitability as well as the growth that we expect in that portfolio. And we do expect meaningful growth in that portfolio as well as just growth across all of our other businesses. And so we're being patient with putting that to work in a way that both fits our longer-term objectives to grow the balance sheet as well as how we're thinking about interest rate risk.

Ebrahim H. Poonawala
Analyst, Bank of America Merrill Lynch

Q

Got it. Got it. So, a lot of pressure. And, Scott and Ronnie, to get loan growth going, what – essentially, what Deron was saying, so...

Deron Smithy
Executive Vice President & Treasurer, Regions Bank

A

That's the takeaway...

Scott M. Peters
Senior Executive Vice President & Head-Consumer Banking Group, Regions Financial Corp.

A

Thank you for saying that.

Ebrahim H. Poonawala
Analyst, Bank of America Merrill Lynch

Q

...Scott, maybe, Scott, just on the consumer side, I think you mentioned earlier about investments in the mortgage business and, Ronnie, you mentioned about homebuilders being a big area on the commercial side. One, I think just talk to us about the consumer appetite for home buying coming out of this cycle. I think it's very different when I compare it to post-financial crisis where you saw the move to all been more renters as opposed to home buyers.

And so like my sense is we have a multiyear housing boom ahead of us. Just talk to us in terms of how you think about the housing market. And there's been some concern around just the price hike, price increase we've seen in the housing market over the last year. How worried are you about that?

Scott M. Peters
Senior Executive Vice President & Head-Consumer Banking Group, Regions Financial Corp.

A

Yeah. So on – you kind of hit a few of the big drivers. So, we decided invest to in the mortgage business about three years or four years ago. We were a great operator, but frankly, we needed to scale up and get larger, which we've been to the business with that. I think when strategy meets good fortune is what happened for us because we scaled up the business, interest rates went down, and we are now a material contributor to contribution and income from the mortgage business.

Now, the reason we invested in it were a couple of things. Demographics were on our side. Clearly, there was a feeling that millennials were going to get out of their parents' basement. They were going to get married. At some point, they're going to have children and you've got the largest generation who now, on the top end, is in their, pretty much 40, early 40s. We've seen demand go up for housing because of that.

You also had the baby boomers which were the next biggest generation who had all kinds of home needs, whether it was retirement homes or adding a second home that added to that. And then you threw a pandemic on top of it, frankly, which has increased the value for a lot of people to maybe exit the city a little bit to a more suburban-type area. So those things are drivers that I don't think are going to go away.

Copyright © 2001-2021 FactSet CallStreet, LLC

Year-over-year, sales of existing homes, up about 17%; new homes, up about 3%. There's projections for that to continue. Then just speak about the overall health of the market. The supply dynamic is, as you mentioned, very different than the last – the housing crisis that we had.

Ebrahim H. Poonawala
Analyst, Bank of America Merrill Lynch

Q

Yeah.

Scott M. Peters
Senior Executive Vice President & Head-Consumer Banking Group, Regions Financial Corp.

A

Right now, we've got about 2.5 months' supply. To be at a balanced supply, you'd be at six months, so we're quite a bit away from that. Most folks who look at it would suggest that we're probably, even with active homebuilding, which we have, and replenishment inventory, is at least a 2.5- to 3- or 4-year type of catch-up going on in that market.

So, we should continue to be – see, one, strong demand from consumers, but also not an oversupply that would put dramatic downward pricing pressures. So, in the foreseeable future, not overly concerned with the price increases, but we'll have to continue to keep an eye on that. It does, though, open up other opportunities.

So when you think about, as we go forward and interest rates start to rise a little bit or let's just say normalize, the amount of equity in people's homes today is up materially than where it was. And consumers, for banks like ourselves who are going to figure out how to deliver leveraging that equity in smart ways and convenient ways, there's going to be an opportunity again to be a premier lender to homeowners. So we feel pretty – it's a pretty constructive situation for us.

Ebrahim H. Poonawala
Analyst, Bank of America Merrill Lynch

Q

Got it. Got it. And I guess, Ronnie, for you, this means, like I think there needs to – there should be significant appetite among homebuilders to continue to borrow and build. I feel like that might – that has legs as well.

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

A

Yeah, it does. I would say there's a lot more discipline around our homebuilder clients than back during the 2008-2009 time period or – and just before that. We see a more paced approach, smaller developments versus the large tract developments, and a little bit more customization for clients. Trying to match the buyer is one of the advantages that homebuilders have today versus just the spec-type building.

It's a pretty quick turnaround given the demand that's in the marketplace today. So, most of the time, even though it starts off as some type of spec opportunity, it quickly turns into a bit more customization. There's better margin in that business as well. The one area that we see pressure is just on lot development, land development, and that continues to be an area where there's more demand and supply at this point. We have seen in certain markets a bit of a breakthrough there, but we'll have to continue to keep an eye on the land development piece.

Ebrahim H. Poonawala
Analyst, Bank of America Merrill Lynch

Q

Copyright © 2001-2021 FactSet CallStreet, LLC

Got it. And I meant to ask you, when you – so you talked about some of the verticals earlier. When you look at the markets, are there any particular geographies that are really standing out in terms of growth, both on the consumer side or in terms of where you think business investment go in?

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

A

Sure. I'll take that, and it might be a little bit different on the consumer side. So, it's pretty consistent across the board on the commercial side businesses that we bank, even in our slower growth states, are becoming more statewide and regional in their approach just due to the strength that's out there.

And our core markets like Alabama, Tennessee, Mississippi, Arkansas, Louisiana, Georgia have pockets of growth. For instance, you got Nashville that really has shown great growth metrics. And so you see both really good core market and opportunity to enjoy some of the growth that's going on in that particular market. Atlanta continues to impress as well. But generally, across the board, our businesses are being given opportunity to expand past the borders that they had established for themself.

But as you can imagine, throughout our 15-state footprint, the growth markets in Texas, the growth markets in Florida, Atlanta, Nashville really do set themselves apart, just with the growth metrics and population migration to those areas drive new businesses, especially the small business opportunities that we see in those markets. But generally, it's across the board but certainly stronger in those markets that I just mentioned.

Scott M. Peters
Senior Executive Vice President & Head-Consumer Banking Group, Regions Financial Corp.

A

Yeah. And I'd just add, but Ronnie hit pretty well, really outsized growth when you look at Florida, Georgia, Texas, Tennessee. That being said, our core markets are growing as well at a nice clip. I think the stats, a little more than 60% of the metros or MSAs that we operate in have projections to grow at above the national averages. So, we are advantaged by a nice footprint from the standpoint of both, in migration as well as business formation.

Ebrahim H. Poonawala
Analyst, Bank of America Merrill Lynch

Q

Got it. Got it. And I guess just shifting gears, in terms of – we talked about investments. As we think about efficiency and operating leverage, like in both of your businesses. How do you think about the opportunity to cut costs and get more efficiencies relative to the investments that are needed? [ph] And the net-net (00:35:07) of that, a lower efficiency ratio, a stable efficiency ratio, and I'm assuming it's not a higher ratio? But if...

Scott M. Peters
Senior Executive Vice President & Head-Consumer Banking Group, Regions Financial Corp.

A

Well, I'll just make a couple of comments, and I kind of briefly touched on these things a little bit strategically, what we've done over the last number of years. So, if you kind of track that efficiency ratio in the consumer business, it's been a continuum, kind of march down. And we've done that really by being smart about our branch footprint. As I mentioned, we've consolidated 450-plus branches. We've added about 75 in some of these growth markets, too. So, it's a balance of adding and reducing.

We've also reduced our head count by about 30% over that period of time. That's allowed us to make both the geographic investments, but also fund the technology investments to make our bankers more productive and

Copyright © 2001-2021 FactSet CallStreet, LLC

make banking easier for our customers at the same time. We continue to see opportunity to do that. We've gotten quite good at understanding the analytics and impacts when we do consolidate, which has allowed us to continue the growth path through all that activity. So, I think we still have runway to get more effective and efficient over time.

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

Yeah. Very similar to what Scott said, just really strong disciplined exercise around expense management, whether we're looking at a potential acquisition – in our world, it started with First Sterling. We moved to BlackArch, Ascentium. We recently announced Sabal. And so, as I think about the expense growth, it really could hit us pretty hard when we're making those acquisitions, but our view is that those need to be accretive to what we are doing.

And so, as we model those, the hurdles that we put in place for those that we want to acquire really do go through a strong view of what does that mean from an expense management standpoint, how does it impact our efficiency ratio, what type of revenue gains could we have versus the expense growth? And so, it's just core to what we do each day. It's a never-ending task as well.

As technology gets better, we can become more efficient. Much like our clients are making investments to do more with less, we have to do it as well. But it's a good core competency that I think that you'll see us continue to focus on.

Ebrahim H. Poonawala Q
Analyst, Bank of America Merrill Lynch

Got it. And I know we only have a couple of minutes left. Can't believe we're running out of time, but just a question around, you mentioned you've done a bunch of acquisitions in your business – in both of your businesses, and I think John's talked about non-bank M&A. I think Dave talked about it last week as well. Are there a lot more Sabals or EnerBanks out there that you could acquire or is that kind of run its course?

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

I'll start. We do look at a lot of transactions and we plan to continue to do that, but the lens that we will look through is the one that I just mentioned is it's something that could be accretive to our overall performance. But the second and maybe 1B, 1A on some discussions is that does it provide another tool for the toolkit of our local bankers?

Are there solutions for those clients who've already elected to do business with us that are provided that service elsewhere? And does that acquisition give us the ability to go gather more of that share of wallet than we have had in the past? So, we try to look at it through those lens. And I would tell you, yes, I'm encouraged about other opportunities, but again, we'll be strategic with those, we'll continue to look at a lot of things, but it really needs to fit into those parameters that I just laid out there.

Scott M. Peters A
Senior Executive Vice President & Head-Consumer Banking Group, Regions Financial Corp.

Yeah. Much like Ronnie, we want to add to our capabilities as a bank and bring more services to our customers. I would say, on the consumer side, we look at a lot of things as well. Probably the two areas where I'd say we have

Copyright © 2001-2021 FactSet CallStreet, LLC

good opportunity just based on the dynamics in the marketplace right now, one is continuing to grow and make mortgage servicing right. Acquisitions, we've got capacity to fill there.

We're at about $55 billion that we service today. We have capacity to grow that up to, call it, $85 billion or so. We've gotten some nice flow arrangements in the last couple of years contributing, call it, $7 billion a year as well as growing our organic origination. But we'll be active looking at that. That marketplace is starting to pick up. And we're an exceptionally good servicer, both low cost, as well as good quality, to the customers, which is good for us.

And then not to get over our skis, but we are participating now with one of the strongest providers and are one of the strongest providers in point-of-sale home improvement with our EnerBank acquisition. It's very fragmented industry right now across different verticals and different participants in that marketplace, so we expect that, one, we have a lot of confidence about the organic growth we can get from that acquisition, but we'll also have our eyes open for where there might be opportunities to tuck-in improvements on different verticals or other providers that might make sense for us.

Ebrahim H. Poonawala

Analyst, Bank of America Merrill Lynch

Got it. With that, I think we've gone over time. So, Scott, Ronnie, Deron, thank you so much. And, Dana, thank you for making it happen. Appreciate it.

[indiscernible] (00:40:55)

Ronald G. Smith

Senior Executive Vice President & Head-Corporate Banking Group, Regions Financial Corp.

Okay.

Disclaimer
The information herein is based on sources we believe to be reliable but is not guaranteed by us and does not purport to be a complete or error-free statement or summary of the available data. As such, we do not warrant, endorse or guarantee the completeness, accuracy, integrity, or timeliness of the information. You must evaluate, and bear all risks associated with, the use of any information provided hereunder, including any reliance on the accuracy, completeness, safety or usefulness of such information. This information is not intended to be used as the primary basis of investment decisions. It should not be construed as advice designed to meet the particular investment needs of any investor. This report is published solely for information purposes, and is not to be construed as financial or other advice or as an offer to sell or the solicitation of an offer to buy any security in any state where such an offer or solicitation would be illegal. Any information expressed herein on this date is subject to change without notice. Any opinions or assertions contained in this information do not represent the opinions or beliefs of FactSet CallStreet, LLC. FactSet CallStreet, LLC, or one or more of its employees, including the writer of this report, may have a position in any of the securities discussed herein.

THE INFORMATION PROVIDED TO YOU HEREUNDER IS PROVIDED "AS IS," AND TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, FactSet CallStreet, LLC AND ITS LICENSORS, BUSINESS ASSOCIATES AND SUPPLIERS DISCLAIM ALL WARRANTIES WITH RESPECT TO THE SAME, EXPRESS, IMPLIED AND STATUTORY, INCLUDING WITHOUT LIMITATION ANY IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, ACCURACY, COMPLETENESS, AND NON-INFRINGEMENT. TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, NEITHER FACTSET CALLSTREET, LLC NOR ITS OFFICERS, MEMBERS, DIRECTORS, PARTNERS, AFFILIATES, BUSINESS ASSOCIATES, LICENSORS OR SUPPLIERS WILL BE LIABLE FOR ANY INDIRECT, INCIDENTAL, SPECIAL, CONSEQUENTIAL OR PUNITIVE DAMAGES, INCLUDING WITHOUT LIMITATION DAMAGES FOR LOST PROFITS OR REVENUES, GOODWILL, WORK STOPPAGE, SECURITY BREACHES, VIRUSES, COMPUTER FAILURE OR MALFUNCTION, USE, DATA OR OTHER INTANGIBLE LOSSES OR COMMERCIAL DAMAGES, EVEN IF ANY OF SUCH PARTIES IS ADVISED OF THE POSSIBILITY OF SUCH LOSSES, ARISING UNDER OR IN CONNECTION WITH THE INFORMATION PROVIDED HEREIN OR ANY OTHER SUBJECT MATTER HEREOF.

The contents and appearance of this report are Copyrighted FactSet CallStreet, LLC 2021 CallStreet and FactSet CallStreet, LLC are trademarks and service marks of FactSet CallStreet, LLC. All other trademarks mentioned are trademarks of their respective companies. All rights reserved.