08-Dec-2021

Regions Financial Corp. (RF)

Goldman Sachs US Financial Services Conference

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CORPORATE PARTICIPANTS

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

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

OTHER PARTICIPANTS

Ryan M. Nash
Analyst, Goldman Sachs & Co. LLC

MANAGEMENT DISCUSSION SECTION

[Abrupt Start]

Ryan M. Nash
Analyst, Goldman Sachs & Co. LLC

...one of the members of Regions Financial. I can't remember another bank that did a better job protecting themselves from a PPNR perspective heading into the most recent downturn given the actions that they took, more recently, begun to remove some of those hedges to better position them from rising rates. In addition, after a long period of de-risking, the company is now poised to see better than peer growth driven by a better growth profile in its Southeast markets versus other parts of the country. And it reaps the benefits of several non-bank businesses it recently acquired, which we'll touch upon.

Here to tell us more about the strategy is President and CEO, John Turner. And joining us is also Chief Financial Officer, David Turner.

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QUESTION AND ANSWER SECTION

Ryan M. Nash
Analyst, Goldman Sachs & Co. LLC

Q

So maybe to kick off, John, since we were here virtually last year, I think most can agree that 2021 has turned out to be a much better year than many of us had expected, and now we're getting close to hopefully the end of the pandemic. And so, maybe can you just talk about how you feel the bank is positioned to succeed as we move into 2022?

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

A

I think we're in a great place. We had a good third quarter. We will have a good 2021, within the year with momentum. The markets we operate in are doing well. As you indicated, Southeastern states were some of the last closed, their economies, and first to reopen, and we benefited from that. We see employment continuing to improve, unemployment coming down. Business sentiment is good. As I visit the markets that we operate in and talk to our customers, they're very positive and feel good about their outlooks.

They're still dealing with supply chain issues and some constraints associated with labor, but all those things I think they feel are manageable and can be resolved over time. And so, to the point you made early, we did a lot of de-risking and repositioning our balance sheet so that we could better weather volatile periods in the economy; build a more resilient, consistently performing business; grow and diversify or diversify our balance sheet and our income statement. I think we've done those things. So we're well positioned, to your earlier question.

Ryan M. Nash
Analyst, Goldman Sachs & Co. LLC

Q

So, you recently closed the EnerBank deal which gets you into the home improvement space. Can you maybe just talk about why this deal made strategic sense? And I think it was doing about $1.7 billion of originations. Are there opportunities to accelerate that and how big of a driver can this be of growth in the coming years? And David, can you just remind us, I mean I know that you had mentioned that there was a CECL day one upfront hit. Can you maybe just remind us what that is, as we head into – because the deal recently was closed?

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

A

Yeah. So I'll start with that. So we did have CECL day 1. It's about $140 million. So you'll see that come through the income statement this quarter. We also, just to – you didn't ask the question, but we'll make sure everybody realize, we also, in purchase accounting, had to mark all the loans to market. So the yield on the existing $3 billion portfolio will be closer to 6% to 7% versus something in the 9%, 9.5% on new originations because of that purchase accounting adjustment.

John, do you want to talk about...

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

A

So back to your question about strategy, we really want to build our consumer lending business around lending to the homeowner. So, we think about that sort of a three-legged stool. We've been investing in the mortgage

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business. We've hired over 150 mortgage loan originators going back a couple years, and that was very timely. As the mortgage market expanded, we grew mortgage market share.

We've always had a very good referral pipeline from our branches to our mortgage business. So, that's a strength of ours and one we want to build on. Separately, we think that the home equity business is still a viable business and one that we can grow. And we're continuing to invest in capabilities there, trying to streamline processes and deliver a faster, better experience to customers.

And third was point-of-sale lending, particularly around the homeowner. What we know is that homeowners maintain about 75% higher average deposit balances and non-homeowners, they generate 62% more revenue, they use more bank products and services. That business was being disintermediated away from banks and increasingly found it more and more difficult to reach customers. We tried the indirect platform for a while, but what we concluded was that we were just buying paper. We couldn't establish a relationship with a customer.

So EnerBank gave us the opportunity to fill out our strategy, if you will, around lending to the homeowner. At the same time, because we're lending to the customer and now have a relationship with the customer, we have the opportunity we think over time to really expand that business and provide other products and services to those customers whom we'll maybe begin a relationship with because we make a loan.

Ryan M. Nash
Analyst, Goldman Sachs & Co. LLC

Q

Maybe just sticking with the theme of non-bank deals, you've obviously done a handful over the years, EnerBank, Ascentium, Sabal, BlackArch, First Sterling and a few others. As we sit here today, given your focus on non-bank deals, is there an appetite to do more? And if so, what would be some of the areas of focus for you?

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

A

Definitely an appetite to do more. We think the strategy has been very effective going back to 2014 when we first acquired a Fannie DUS license and coming forward through the acquisitions that you named. We've been able to grow and diversify revenue, importantly, acquire capabilities to meet customer needs and expand platforms, things that we think we're good at like mortgage servicing.

We definitely want to continue to do that. We think we developed a nice cadence around acquisition of non-bank opportunities. We're looking for more things to acquire, potentially in capital markets, specifically in wealth management opportunities, we think, around mortgage lending and mortgage servicing that are interesting to us. Again, we'll continue to look for ways to fill in gaps to meet customer needs and grow and diversify revenue, and we think it's been an effective use of capital.

Ryan M. Nash
Analyst, Goldman Sachs & Co. LLC

Q

No, absolutely. Why don't we shift and talk a little bit about growth and then maybe we'll get into loan growth. So, you guys are obviously in some of the fastest growing markets in the Southeast, yet growth has lagged gears over the last five to six years driven by, as I mentioned in my prepared remarks, the de-risking and the focus on risk-adjusted returns.

So first, can you maybe just talk about how the footprint is performing? And second, are we the – for the most part done with the recycling? And what could that mean for, broadly speaking, growth in the franchise over time?

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

A

Yeah. So, we are generally done with the recycling, but we're always going to maintain a focus on risk-adjusted returns and look to recycle capital out of underperforming relationships, portfolios, businesses into things that will perform at a higher level. Again, I don't want to miss an opportunity to celebrate that because I think it has resulted in us generating top quartile returns for our shareholders. And so it's been an effective strategy.

With respect to growth, the markets we're in are growing faster than – the Southeast region's growing faster than other parts of the country. We expect that to continue and in-migration of population into Georgia, Florida, Tennessee, Texas. They're business-friendly states, they're tax-friendly states, and I think we'll continue to see more growth there. We're well-positioned to take advantage of that.

At the same time, we operate in really good solid core markets like Alabama, Mississippi, Louisiana where we have number one, two, three market share in many of our markets. And so, again, we think that we have a really nice platform, a good mix of markets for stability and growth. We should grow with the economy, plus a little.

We want to be thoughtful and careful about how we grow. We've worked hard to get to a place where we've built I think a really sound balance sheet and a strong risk culture, and it's important we maintain that as we look to the future and we see growth in our markets.

Ryan M. Nash
Analyst, Goldman Sachs & Co. LLC

Q

Maybe to dig one level deeper, so can you maybe just talk high level – I know we'll get formal guidance in January, but can you maybe just talk about how you're feeling about commercial loan growth into 2022? I think you saw a little bit of an uptick in utilization and the – I think you mentioned even that continued into 4Q, but obviously utilization is still well below historical averages so I was just talking about – thinking, where could that go into 2022?

And are you still seeing – as you talked about in your opening remarks, John, are you still seeing impacts of things like supply chain that are impacting the customers' willingness to borrow?

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

A

Yeah. So we won't give guidance on 2022 but we did, in the third quarter with some momentum, we have seen pipelines and production recover to pre-pandemic levels. In fact, pipelines and production were up over 2 times what they were in the third quarter of 2020. We've seen a little uptick in utilization, and that's continued into the fourth quarter, as have our pipelines and production remain solid.

So we think we'd carry some momentum through the end of 2021 into 2022 and believe that that commercial loan growth can manifest itself really across all sectors. We're seeing good activity in health care, in tech in defense, in financial services, in transportation. But generally, across our general industries middle market business, there's also good activity.

Ryan M. Nash
Analyst, Goldman Sachs & Co. LLC

Q

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And maybe one other question. I know recently you talked about restaurants, national brands as an area that you could look to expand into. Are there any other areas or verticals that could be potential areas that you could look to move into that could drive growth over the intermediate term?

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

So we're – just to clarify, we're – one of the things we're doing to continue to de-risk is in our restaurant portfolio. So we're not looking to expand restaurant. I'm not sure where that...

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

I'll take that. It's probably franchise...

Ryan M. Nash
Analyst, Goldman Sachs & Co. LLC
Q

Yeah, franchise.

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

...versus restaurant.

Ryan M. Nash
Analyst, Goldman Sachs & Co. LLC
Q

Yeah.

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

Yeah. But the franchise business will likely be built around, to your point...

Ryan M. Nash
Analyst, Goldman Sachs & Co. LLC
Q

Yeah, yeah, yeah.

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

...one or two national brands...

Ryan M. Nash
Analyst, Goldman Sachs & Co. LLC
Q

Of course.

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

...and then extend it to other sectors where there are franchises we can potentially finance. So I think the restaurant space has been more center for us.

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Ryan M. Nash
Analyst, Goldman Sachs & Co. LLC

Q

Yeah, of course.

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

A

Okay. Now back to your question, I got stuck on that mixing of words. No, I was asking, are there other areas where you could look to expand into that – other verticals that could create drivers of growth?

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

A

Yeah. So we're – we really like the Ascentium platform that we acquired now a year ago. We're actually driving that through the branches. It – it's a business that was largely built around vendor relationships. We love the technology and the speed with which we can deliver answers to customers quickly. So, 70, 75 minutes, we can get a customer an answer and pretty quickly deliver documentation and close. That's a business built around lending to small businesses to finance equipment, so we think a really good business and one we'll extend.

We're also investing in SBA, hiring SBA bankers. We've got a new leader for SBA platform we feel really good about. Specialization, to your point, is – has been good to us. It's not only been helpful in terms of just giving us a platform to grow our loan portfolio, but it ties closely to our capital markets business. And as we've grown capital markets, it's been primarily through our specialized industry groups and we'll continue to lean into those.

Ryan M. Nash
Analyst, Goldman Sachs & Co. LLC

Q

Maybe switching gears, so if I think about some of your fee categories, so service charges are down 10% to 15% from pre-pandemic levels. I think you guys have articulated the expectation that they're going to remain there. John or David, can you maybe just help investors understand why you have a greater amount of service charges? What is it about the client base that drives this?

And you rolled out a new checking account product with, I think, no overdrafts and a low monthly fee. How is this rollout going versus expectations and what do you think this product can mean for revenues over time?

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

A

Yeah. So I do think it's important to – because we screen high for overdraft and NSF fees relative to our peers, I think it's important to understand the distinction about our customer base. If you look at third-party data, the observation you come to is about 72% of our customers are mass market customers as opposed to peers whose customer base screens to about 40% mass market. So we have a customer who has a lower average balance generally than many of our peers.

We also have a higher level of customer primacy. So our customers generally will conduct 33% more transactions in their checking account than our peers will. And as a result of that, you got again more customers, lower average balance, more transactions through their account, more opportunities to create an NSF or an overdraft and that's why we believe primarily we screen higher.

We're going to continue to – we believe, looking at all of our peers and their offerings, that our practices, our products, our features align well with our peers. In other words, we're doing many of the same things that our

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peers are to help benefit customers. We've made a number of changes this year. We have others planned to continue to provide more tools to customers, to give them more product options, provide more advice and guidance so that they can, in fact, better manage their money.

It's our hope over time and our expectation that fees will continue to decline. And in fact, if you go back 10 years, we've seen a 40% reduction in NSF/OD fees; and at the same time we've grown pre-provision income by over $700 million. And that accounts for the impact of [indiscernible] (00:14:32) as well.

So my point is, we're going to continue to make investments to benefit customers. We're also going to continue to develop our business to generate other sources of fee income. Additionally, as we grow our consumer base which, by the way, is growing over 3% this year, we'll see more debit card activation and more debit card utilization and other fees and services that'll compensate for declining OD/NSF revenue. I think it's manageable. I do.

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

Yeah. That last part, it's really important because the – we're talking about the decline in fees associated with the existing customer base. But as you grow new customers, then you're offsetting some of that decline with new fees, same type of fees for the new customer base.

Ryan M. Nash
Analyst, Goldman Sachs & Co. LLC
Q

Yeah. Maybe just to pick up on that point. It sounds like there's some puts and takes in the customer-related fees. Given that dynamic and maybe there are push, maybe there's a little bit of growth, where do you foresee growth across the fee parts of your businesses coming from over the intermediate timeframe?

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

Well, growth in just consumer-related fees because we're opening more consumer checking accounts, debit card activation's very high. I think we've talked about before, Visa has a power score that rates essentially the effectiveness of your debit card based upon activation and utilization. 31 quarters in a row, we've scored highest, so our customers are using their cards, there's a lot of activity. We think that's a continued source of fee revenue.

Wealth Management is a business that we've invested in, we'll continue to invest in. It's growing, we feel good about. Mortgage will have its ups and downs, but again a really solid business for us, particularly in the markets that we are currently in. Capital market's a business we continue to invest in. It is very diverse today given the investments that we've made. And so, from quarter-to-quarter we'll see one source of fee revenue up, another down. But again, there's good momentum in that business. So I think all those things will contribute to growth in fee revenue.

Ryan M. Nash
Analyst, Goldman Sachs & Co. LLC
Q

Maybe to switch gears a little bit, so I think you're spending about 10% or 11% of revenues on technology and you've been modernizing some systems as recently as this year. Can you maybe just talk about what are some of the key initiatives you have on the tech front that are underway? And maybe just talk about the pace at which your tech spend is growing, and when will we start to see a shift towards more new tech or offensive tech spending?

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

A

Well, we spend $625 million. As you said, about 10% to 12% of that is on cybersecurity. Another $45 million to – we've historically said 48%, we call it 45% to 50% is on business as usual, is keeping the business going. And the balance or 40% to 45% is on new capabilities, new products, new technology.

We've been able to move as a result of investments in mobile. As an example, we've been able to move our mobile operating from something that was kind of sub3% to 4.8%. And we think one of the reasons that we're seeing continued momentum in new account openings, particularly amongst younger customers, is a result of that investment that we've been making in mobile.

We've also invested in technology to give us e-signature capabilities across our business, which is a convenience to customers, helps reduce cost. We're making investments in an omni-channel strategy to continue to try to improve our customer experience, and we're going to do all that, all while replacing our core system, which were a project we're starting on and will complete over the next, call it, four to five years, and we believe we're going to be able to do that without significantly increasing our technology spend.

Ryan M. Nash
Analyst, Goldman Sachs & Co. LLC

Q

Maybe just sticking with the theme of costs. Inflation is currently running higher than I think most of us expected. We're no longer talking about it being transitory. Can you may be talking about how this is impacting both clients and your employee base? And are you seeing signs of inflation increasing, and what do you think it means for the bank over the next year or so?

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

A

Maybe David can answer some of this too, but definitely seeing inflationary pressure in our markets as I'm out talking to customers, they're experiencing increase in cost and in goods, increasing cost of labor. I was in a restaurant two nights ago, talking to the chef, cost the beef's up, cost of fish is up and really we're seeing customers handle that in two different ways. On the one hand, some customers are increasing prices now.

On the other hand, like this chef, he's decided the restaurant's been open about 20 months, he opened it just as COVID was hitting, not to increase prices before until sometime in 2022. So I think we're seeing some impact of inflation today but there will be a what I'll call a secondary effect or knock-on effect in early 2022, with additional increases in prices. Despite that, customers are still optimistic. They are still focused on growing their businesses, and I think that's positive. You want to talk about reasons?

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

A

Yeah, I'd say, related to our company, our kind of average starting point for wage increases has been about 2.5%. We'll still have that. But on top of that, this year will be certain areas of our associate base have more inflation pressure coming. So data scientists would be an example where that job class is in high demand. They're getting a lot of offers to go to different places, work different places, but work from home, so we're going to have to do – we have to do to keep those type people.

And so we know there's inflation coming in 2022. We've seen it already. That means we have to figure out other ways to cut costs elsewhere, to pay for the continued investments in technology that John just mentioned and to

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cover the inflation, because our goal is still generating positive operating leverage over time. And so it just puts a little bit more pressure on us to continue to look for process improvements, leverage technology best we can, control our head count best we can, and I think we have a good path for 2022. [indiscernible] (00:21:06)

Ryan M. Nash
Analyst, Goldman Sachs & Co. LLC

Q

Two things maybe one a comment and then one a question. John, don't let David classify himself as a data scientist to try to get a pay raise. But when you think about maybe just to build on what you said, David, obviously there's some wage pressure, there's some technology cost pressure, what are the areas that you can use to offset some of these costs? Obviously, branches, you guys have been very aggressive in cutting, but can you give us some examples of areas where we just went through the whole simplify and grow, which has become more continuous improvement, where are the areas where you're finding opportunity to rationalize given the pressures you're seeing elsewhere?

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

A

Yeah. So you have to start at the top of the funnel and look at your highest costs, so salaries and benefits are still number one, it's 55% to 60% of our cost structure. So while we will have the labor pressures we just mentioned, we have to go through our continuous improvement process. It's a very formal process we have in place to look for process improvement that will reduce the number of people we have to have. So we think there's some offsets in the associate head count area. Then we have to look at occupancy.

So we think we're going to be able to leverage the kind of flexible work arrangement we are asking people to come back into the office. We do have a little bit of flexibility there and we think over time we can reduce our footprint, both in branches – we still screen high for our branches. We always will, just the nature of where we operate. But we have opportunities to continue to consolidate branches. We have opportunities to consolidate office space as well. And then our furniture fixtures and equipment, we just have to figure out how, if we get fewer people than we have fewer computers and fewer chairs, and all those kind of things, the fruits not as low as it was to the ground, but there's still opportunities, and it's just harder, but we have to get after that.

Ryan M. Nash
Analyst, Goldman Sachs & Co. LLC

Q

Maybe shifting gears to the near term, you've given 4Q guidance that includes growth in NII, 5% to 6% and a full year guidance that implies a relatively strong 4Q. Could you maybe just give us an update on how the quarter is progressing, any trends you want to highlight, whether it's NII or loan growth, as well as any changing thoughts on fees or expenses.

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

A

Yeah. So nothing really to update. Our growth in NII on a core basis will be relatively stable. There's going to be some dependence on PPP forgiveness usually as we get to the end, we're almost through our PPP1, it's PPP2 loans that are out outstanding, about $1.5 billion I think. If we get more forgiveness then we think we'll have a better finish. From a fee standpoint, we've obviously added a few things this fourth quarter with EnerBank and Sabal that will help us. You're right on the NII, I skipped through that 5% or 6%, most of that's driven by EnerBank.

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

EnerBank.

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

But really excited about capital markets that continues to be strong for us, continue to grow customer checking accounts, which gives us service charges and interchange. Mortgages always has a little bit of volatility there and the market is strong, so wealth management should do fine. So, we feel good about our revenue. Now, our expenses have – obviously, we're going to have new expenses with EnerBank, we'll have new expenses with Sabal.

Our expenses have been elevated from where we thought we would be, a vast majority of that driven by incentives. I think that's true with all of our peers, as pre-tax income is up due to improved credit, as well as PPI improvements that we've seen. So, that'll be elevated a bit. But all in all, we should have a good – we expect no real change, should be a solid finish to the year, most important, set up for a really strong 2022. And again, we'll give you specifics in January.

Ryan M. Nash
Analyst, Goldman Sachs & Co. LLC
Q

So I know you love when I try to pin you down, David, for formal guidance. But the goal is, positive operating leverage. Are you ready to commit to that? And if not, maybe you or John just high level, can you talk about some of the puts and takes that you want the investor community be aware of as we start to think about into 2022?

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

Well, clearly, there's a path for positive operating leverage in 2022. We'll commit to the exact number when we get to January. But we've done a number of things. Acquisitions are really helpful to us. We gave you a chart that shows you our NII CAGR of 4% to 6%, big driver of that is EnerBank. And so, we're looking to leverage that. We think we can grow that portfolio of double digits.

And we've made investments in the NII sources that we just talked about, and you control your expense base and you're in pretty good graces there from an operating leverage standpoint; and maybe even more importantly, a great return on capital. That low rate environment is going to persist. We have – we think maybe one increase coming in 2022, and so you're not going to get the kind of lift we all would love to have with higher rates in 2022. That'll be 2023 and beyond.

Ryan M. Nash
Analyst, Goldman Sachs & Co. LLC
Q

David, you've referenced one hike potentially in 2022, could you maybe just remind everyone about how your sensitivity long end versus short end, and maybe what you're assuming for deposit betas as rates start to rise and where could there be areas of upside?

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

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Yeah. So I think in the first couple of rate increases, you have little to no beta being passed through. It takes really the third or fourth increase where you start seeing a little bit and then you're in kind of the 20% range. Just to remind everybody, our last cycle we were about 29%, I think peers were about 35%. We don't think you really start seeing higher betas until you get through that first 100 basis points. When you get into the next 100 basis points, you start seeing things a little quicker, maybe in the higher 30s. But all-in, we think when you get through this next cycle, we should be pretty close to what we did last go-round, which is call it, low 30% range. I think you still have the follow-up.

Ryan M. Nash
Analyst, Goldman Sachs & Co. LLC

Q

I have a split long or short.

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

A

So right now, rates are fairly neutralized. We probably have a little bit more. So it's fairly even against all three short, middle, and long. I would say, we have a little bit more risk on reinvestment right now. Cash flows come off the securities book just don't have any place to really high right now.

Ryan M. Nash
Analyst, Goldman Sachs & Co. LLC

Q

I'm going to switch gears to talk about capital for a minute and then we'll come back to rates. You've given a capital target, and I think the expectation is going to be close to the middle. If I think about before the pandemic, you were running at 9.5%, but there was the potential to bring it closer to 9%. As we get some clarity on the economy and the outlook, one, John, what are the capital priorities; and two, could we see the capital levels come down over time?

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

A

Well, priorities would be to fund growth in our business first, to pay a consistent dividend to our shareholders who want to use capital to make acquisitions, in our case, non-bank acquisitions. And then, if we have no other use of capital and we continue to build it up, we'll repurchase shares. But that's really not something we want to do. Our preference is to use capital to support growth, and we think we have an opportunity to do that. You want to speak to...

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

A

Yeah. So, we've given you a range of $925 million to $975 million [indiscernible] (00:28:52) pick the middle of that as our point estimate. We won't hit that perfectly. It depends on what happens in a given quarter. Could we go lower than that? Yeah, I mean, we can always do that if we saw a great opportunity to make an investment that would lower that temporarily, with a good plan to build it back to something close to that range, we could do that as well. You should expect us to have a couple of that non-bank acquisitions. It's amazing after we've done a couple of things.

Now we get calls all the time and people wanting – they know we're ready to spend some money, so they send all kind of crazy deals to us and you have to sift through to make sure the things you really want. But that being said, we'll have a couple of things we'll be able to invest in to continue to grow our business because that's what it's all

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about. How do you grow your business responsibly with appropriate returns to the shareholder. And I think we have a good strategic plan that would deliver that.

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

At 9.5%, we think we're well positioned to David's point, if some opportunity comes along, we can act on it. And because we're creating capital pretty rapidly, we can rebuild our capital levels. So could we operate at a lower rate, sure. But I think it's prudent and comfortable for us thinking about sustainability, resiliency, consistency that 9.5% feels pretty good.

Ryan M. Nash
Analyst, Goldman Sachs & Co. LLC
Q

And I'm noticing your capital priorities, that traditional bank M&A was absent. And if I think you guys may be the only bank in the $100 billion to $500 billion asset category who has not done a traditional deal the last five years or so, and I guess I'll ask the question given the much improved currency, at the peak, it was close to two times tangible. Is there any appetite for bank acquisition to increase scale in your markets?

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

Not today. We continue to believe that we have a really solid plan. If we execute our plan, we could deliver top quartile returns for our shareholders. We think bank acquisition is difficult, is challenging, is complex, is distracting. We continue to follow what's going on in the marketplace and we're paying attention but we're not actively interested, and bank M&A is not part of our strategy today.

Ryan M. Nash
Analyst, Goldman Sachs & Co. LLC
Q

David, I wanted to come back to the discussion regarding rates. And you've added about $35 billion of deposits since the pandemic began and you've had a view that roughly 30% are going to stick around and the remainder will be more sensitive to higher rates, and if so, they'll probably eventually find a new home, and you have grown securities a bit since then. I guess, how should we think about the further uses of all that liquidity that's sitting there? How do you think about the tradeoff between keeping some of this excess that's a little bit more expensive versus potentially you know keeping it around and putting it to work?

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

Yeah. So of the $35 billion, to your point, 70% of it we think has a risk of moving up pretty rapidly. So trying to deploy that cash outside of giving it to the Fed is not something we really want to take the risk on. The other 30% we think could have a higher beta, but will stay with us, a 75% type beta on that. And so we've put some of that to work. So that's about, call it, $10 billion. We put about $6 billion of it to work in the securities book, that's the growth you've seen.

We're looking for a little better opportunity, as the 10 was approaching 2%, we thought that was a better way to leg in, and we're getting close to here and then an abrupt about-face, and we're in the – getting down to the 140-ish range. So we really need to see this. And there's a lot of volatility there. What we don't want to do is just get caught upside down, and we know we're forgoing a little bit of carry today.

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But to kind of juice the carry today is almost like taking a securities gain, where you're robbing from the future just to make your numbers look good today would make you feel good for a quarter and then terrible the next. So we want to be prudent about it. We need to see that 10 get closer to 2% before we feel comfortable, getting that other $4 billion-ish, if you will, to workforce.

Ryan M. Nash
Analyst, Goldman Sachs & Co. LLC

Q

With inflation feeling poised to stay higher, one of the discussion points that we were having yesterday is that there was a handful of banks who did think that rates are going to rise faster than forward curves are expecting. And you've done some repositioning of the swaps book. And I'm curious, how do you feel about the positioning of the balance sheet right now from a swap perspective, just given the fact that we could be looking at a more hawkish stance in the coming months?

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

A

Yeah. We feel very good. We terminated $5 billion of our notional swaps in the third quarter to move our sensitivity, but we had protection all the way out to 2026. We wanted that sensitivity back in 2026, and we kept it through the end of 2022, because we still think, as I mentioned rates would be low through 2022. And so we locked in those gains. That's part of the NII that we have is roughly $100 million of NII that we'll have each quarter this whole next year through our hedge book, most of which has been locked in.

So, our expectation as you start getting out into 2023, our sensitivity is back and we start getting rate increases would be great for us. And as I mentioned, we really start leveraging our low cost for stable deposit base. And that's where we get the expansion and net interest margin that we think over time could get us back to our normal level, which is closer to 3.70% versus the 3.30ish where we are today.

Ryan M. Nash
Analyst, Goldman Sachs & Co. LLC

Q

Maybe one last question in the last minute here. John, you talked about having the top quartile returns for the bank. I think back to your last Investor Day, you were talking about low-50s efficiency and an 18% to 20% return, David just mentioned hoping to get to a 3.70% NIM, plus all the things that have changed digitally and the like. Are those still the right goalposts for either the organization and what would it take to get there?

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

A

Yeah. Just a different rate environment, primarily. We set those goals back in 2018 to you point, when rates were rising. It looked like they would continue to rise. That didn't last very long. And so we've made a number of adjustments to your point to the business. I think we benefit significantly from rising interest rates over time. As David said, we began to enjoy the real value of our low cost deposit base which is in its least valuable point today with rates being as low as they are. We'll see that again. I think as rates rise and those will be the right metrics again in the future. They're not today, but they will be in a better rate environment.

Ryan M. Nash
Analyst, Goldman Sachs & Co. LLC

Great. Well, please join me in thanking the team.

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John M. Turner

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

Yeah. Thank you.

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