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Regions Financial Corp. (RF)

Credit Suisse Financial Services Forum

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CORPORATE PARTICIPANTS

Deron Smithy
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Scott M. Peters
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OTHER PARTICIPANTS

Susan Roth Katzke
Analyst, Credit Suisse Securities (USA) LLC

MANAGEMENT DISCUSSION SECTION

Susan Roth Katzke

Analyst, Credit Suisse Securities (USA) LLC

Okay. Good afternoon, everybody. For those of you joining us via webcast, I'm Susan Katzke. I cover the large cap banks for Credit Suisse. This is the final session of Day One of the conference for the bank presenters. And I would say you are all troopers for lasting this long and for agreeing to do the 4:20 slot when it's nice outside.

So, I am very pleased to be joined and to welcome back Regions Financial to be joined here in person by Deron Smithy, the Treasurer of the bank; by Scott Peters, the Head of Consumer Banking; by Dana Nolan who Heads up Investor Relations and knows everything about this bank. We're going to run this as a fireside chat. But, by all means, I'm happy to take questions along the way, so don't hesitate to raise your hand. We'll take some questions and get started.

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QUESTION AND ANSWER SECTION

Susan Roth Katzke
Analyst, Credit Suisse Securities (USA) LLC

Q

So, I know this is a tough question where every time we turn around something's changing. And when we sat here two years ago, we had the same situation, but very, very different in the midst of the pandemic. So, let's talk a little bit about the macro environment and what you're seeing out there in your territory? And really, how anything's changed over the last four weeks in terms of rates, loan demand, customer and client activity, uncertainty? Go for it.

Deron Smithy
Executive Vice President & Treasurer, Regions Bank

A

Sure. Well, I'll start. So, obviously, it has been a challenging two years. Obviously, the last six, nine months or so, we've seen a progression toward, hopefully, better future regarding the virus and reopening, starting reopening, and then a pause and then reopening again. But I think what's been consistent across most of our markets is, we were one of the last to start to feel the pressures of the pandemic, and we certainly aren't immune to it. But reopening started earlier. And so, by and large, most of our markets have seen pretty steady improvement in progression over the last couple of years. And as we talk to our clients today and they look toward 2022 and beyond, I think they're pretty optimistic and looking to grow their businesses. Our business clients are looking for those opportunities.

And so, obviously inflation is a big concern for everyone today and the path of rates. And I think with respect to the bank, we're well-positioned to manage through that. Obviously, rising rates can be problematic if it comes too fast and unexpectedly for the economy. And so, there's still some uncertainty as to how that's going to play out, but our expectation is that the economy will continue to grow and certainly across our markets. We're the beneficiary of a lot of in-migration into our markets. And so, we're seeing good growth opportunities both on the commercial side, as well as good consumer growth and Scott can speak to that. But, I think, we're optimistic for 2022 to be a pretty good year.

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

A

Yeah. I think, Deron, caught it pretty well. I think fortunately in our footprint, we've actually had [ph] economies that (00:03:21) bounce back quicker, probably came out of the most perilous times and concerns and fears that were in the marketplace and a lot of in-migration. We're in a great part of the country where we do see not only companies actively moving into our footprint, but consumers, whether it's – if you look at the pandemic may be speeding up for some people retirement has been the case in the baby boomer generation. Well, we're in in-migration part of the country for a lot of those folks. And fortunately some real attractive parts of the country, too, for people who can work from anywhere that they want to work from and as well as, to some degree, tax rates and those types of things.

So, we started a little quicker. The economies look good. Consumers are pretty optimistic. And, I would say, we're seeing our spending levels through card transactions and things like that, have really rebounded. And, as we look forward, pretty much a good optimism and our consumers have behaved really well. And so, as a banker, we try to teach our consumers to have a cushion to manage debt prudently. The pay-down rates we've seen have

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decreased the debt burdens for most of our consumers. So, it really is a very pristine credit quality and the economy looks good, too.

Susan Roth Katzke
Analyst, Credit Suisse Securities (USA) LLC

Q

Okay, great. And so, let's take that, that optimistic or relatively optimistic macro view into actual loan demand and what you're seeing. And, I mean, we had a pretty healthy pickup in the fourth quarter of last year. And the [ph] HA data (00:05:00) maybe doesn't look quite as strong into the beginning of this year, but let's talk about what you're seeing on both the consumer side and on the [ph] broader commercial side in the future (00:05:07)...

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

A

Sure.

Susan Roth Katzke
Analyst, Credit Suisse Securities (USA) LLC

Q

...into that as well?

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

A

Yeah. Well, why don't I start on the consumer...

Deron Smithy
Executive Vice President & Treasurer, Regions Bank

A

Sure.

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

A

...and, Deron, you can make some comments on the corporate and the commercial side. One is we see a very healthy – our pipelines are as good as they've been in quite some time, just in our core business. And, of course, we've been pretty excited and we've seen a great loan demand on the point of sale, home improvement, and the EnerBank acquisition that we made. That was a business that had a lot of momentum from growth last year. We brought on about a $3 billion balance sheet and last year, call it about $2 billion worth of production. And the home improvement and home repair space continues to have really strong numbers from the standpoint of forward growth, and that business is growing quite well and been integrated extremely well.

Deron Smithy
Executive Vice President & Treasurer, Regions Bank

A

Yeah. And, on the commercial side, certainly we saw a strong momentum in the fourth quarter coming from what had been more depressed periods earlier in the year. But we started to see pipelines firming and commitments growing, starting to see improvements in utilization rates. Obviously utilization rates had gotten down to historic lows for us. And we saw improvements in the fourth quarter and that momentum is carrying into the first quarter. Again, lots of optimism about businesses looking for growth plans both organically as well as through potential strategic transactions M&A. So I think all of those are symptomatic of continued improvement in the economy and a good backdrop for growth in our business. We're seeing growth in tech and defense. We're seeing growth in

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transportation, healthcare, which is big in our markets, financial services. And so, in anything related to building and construction, multifamily construction, those are all places where we continue to see opportunities for growth.

Susan Roth Katzke
Analyst, Credit Suisse Securities (USA) LLC

Q

So, I'm curious when we look at the recent senior loan officer survey, it indicated confidence in continuing demand across most loan categories, but also spoke to easing of standards being fairly prevalent across loan categories. So, I'm curious what are you seeing? And are you easing standards in any of your portfolios materially?

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

A

Yeah. I'll start from the consumer side.

Deron Smithy
Executive Vice President & Treasurer, Regions Bank

A

Sure.

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

A

Definitely not easing standards in our portfolios.

Susan Roth Katzke
Analyst, Credit Suisse Securities (USA) LLC

Q

I somehow expected that [ph] from you (00:07:37)

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

A

Yeah. We're prime shop. We make no mistakes about that. We've got a lot of disciplines around credit. We really announced with the interbank transaction that we wanted to become the premier lender to homeowners across the board, not just for mortgages or equity, but with the point of sale and home improvement, that's a prime kind of market from a credit quality standpoint. So by adding getting both the surprise or small repairs and the contractor base selling directly to consumers, we can serve a prime customer base without deteriorating our credit standards, but have very healthy growth.

Deron Smithy
Executive Vice President & Treasurer, Regions Bank

A

Yeah. And I would echo those comments with respect to commercial. Obviously, competition has been pretty intense, but it's always strong. And so there are always players in the market that are willing to do things to drive growth that we have to try to be as competitive [ph] with others, (00:08:40) what we make – as what we think makes sense. But obviously, there are some things that we're not willing to give on structure. Pricing is something you have to compete on structure and the overall credit worthiness of those decisions is not something you compete on. And so there are perhaps some of the smaller players that are willing to be a little more forward leaning in certain spaces. But by and large, it's business as usual for us.

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

A

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I'm going to channel my colleague, Ronnie Smith, who runs, Corporate and Commercial. And I do think it's absolutely important when you talk about this, but client selectivity is extremely important. And as you think about it, you can have the right kinds of deals, the right kinds of structure that's still within our standards. And if you've selected the right clients, they understand that they want to be with you through thick and thin and you're going to stand by each other, their credit quality is going to perform better, so that's really also very, very important to us on the Corporate and Commercial side.

Susan Roth Katzke
Analyst, Credit Suisse Securities (USA) LLC

Q

Okay. Okay. So let's switch gears a little bit into the balance sheet. And I want to take – considering your NII guidance and the path of interest rates from January, when you spoke to modest NII growth in the first quarter after accounting for two fewer days in PPP and all that, and really when I think about more broadly how you manage your balance sheet, how defensive you were in terms of managing interest rates into the tightening cycle that we had seen starting two years ago, I want to understand your current thinking about how monetary policy plays out. And then I think it's probably helpful if you walk through some of the guidance changes, fine tuning that you put in the 8-K that you filed on Tuesday I think of this week.

Deron Smithy
Executive Vice President & Treasurer, Regions Bank

A

Just a couple of days ago. Yeah. So, that was really to reflect the fact that since we gave guidance coming out of earnings, rates have – the outlook for rate increases has continued to increase. And so, that does translate to better growth in net interest income. So, that's the driver of the increase in the revenue guidance.

With respect to the first quarter, obviously, there are some seasonally with fewer days. There are some elements that generally make the first quarter a little weaker, but there are some PPP headwinds, but we believe we'll be able to overcome all of that and still have modest growth in top line net interest income.

And I think what has happened since earlier to the start to this year is we've just seen rates continue to move higher. We've had better reinvestment rates in the securities portfolio. We're now starting to see LIBOR begin to anticipate the Fed's ultimate tightening. And so, we'll start to see some of that manifest in growing commercial yields. And so, all of that together is modestly more helpful for the first quarter. But again, most of that growth in NII is going to come after the first Fed tightening expecting in March.

Susan Roth Katzke
Analyst, Credit Suisse Securities (USA) LLC

Q

Right, which – the curves that you put out in the 8-K were multiyear CAGRs and...

Deron Smithy
Executive Vice President & Treasurer, Regions Bank

A

Correct.

Susan Roth Katzke
Analyst, Credit Suisse Securities (USA) LLC

Q

...raising that multiyear growth rate of NII. So, I wasn't looking to kind of pin you down on...

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Deron Smithy
Executive Vice President & Treasurer, Regions Bank

A

Sure.

Susan Roth Katzke
Analyst, Credit Suisse Securities (USA) LLC

Q

...the first quarter guidance changes, assuming that, it all was rolling into the first quarter as opposed to that improved growth rate on the back of the shift up.

Deron Smithy
Executive Vice President & Treasurer, Regions Bank

A

Yeah. One of the things that we tried to do with that guidance, obviously, there are a number of crosscurrents.

We have had a fairly large hedging position that we've been actively managing, preparing for an ultimate begin to the Fed's tightening cycle. And so, we've made some revisions to that in the fourth quarter. And so, we wanted to combine those actions and really speak to how, once you get into the second half of this year and into 2023, when we think that the Fed's going to be in a full swing of the tightening cycle, how our sensitivity position really does drive the potential growth for NII and the widening of the margin.

We also got a stronger outlook for balance sheet growth than we've had in previous years. We've obviously got the acquisitions, EnerBank, in particular, that will help fuel loan growth. All of those things together are giving us a better outlook for NII growth on a sustained basis, assuming that rates move up on a fairly orderly fashion. And we don't have to go too far and too fast and bring forward the potential for a recession. But the growth outlook...

Susan Roth Katzke
Analyst, Credit Suisse Securities (USA) LLC

Q

You're not allowed to say that word.

Deron Smithy
Executive Vice President & Treasurer, Regions Bank

A

I'm sorry. We are always thinking about the probability for that.

Susan Roth Katzke
Analyst, Credit Suisse Securities (USA) LLC

Q

Understood.

Deron Smithy
Executive Vice President & Treasurer, Regions Bank

A

And so, that's obviously what helped protect us in this most recent downturn is being thinking about that well in advance. And so, we're obviously on an upswing in the rates today. And we think that assuming, again, that the Fed doesn't have to move too aggressively, we've still got a pretty good runway for growth in the economy, but we are turning our attention to when we might think about putting protection on out in the future as well.

Susan Roth Katzke
Analyst, Credit Suisse Securities (USA) LLC

Q

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So, let's just talk about how your expectations have changed and a concern that the Fed has to move too quickly. What do you expect now in terms of the Fed moves?

Deron Smithy
Executive Vice President & Treasurer, Regions Bank
A

So, we model versus the forwards. And so, the forwards have somewhere between six and seven...

Susan Roth Katzke
Analyst, Credit Suisse Securities (USA) LLC
Q

Yes.

Deron Smithy
Executive Vice President & Treasurer, Regions Bank
A

...tightenings baked in today. And then, it's – there's some concern about perhaps a 50-basis-point tightening in March. We're not in that camp. We don't believe we're going to get 50 basis points, but the market is certainly pricing in some probability of that. But we think that every meeting is live, and the potential to have a pretty steady rate increases over the balance of the year is likely. And whether we end the year at – in the [ph] $150 million (00:14:54) range or modestly higher, I think, will drive the outlook for what happens in 2022 and beyond.

Our expectation again is not that – I mean, we plan for what might look like a soft landing in our base guidance. But we're always preparing for what-ifs, what might happen if the Fed were to move more quickly. We're well positioned. If the Fed is moving more aggressively over the next year or so, that translates to a widening margin for us, and higher net interest income. But, again, it increases the probability that at some point on the horizon, rates may have to go the other way.

Susan Roth Katzke
Analyst, Credit Suisse Securities (USA) LLC
Q

Understood. That's the business cycle.

Deron Smithy
Executive Vice President & Treasurer, Regions Bank
A

Yeah.

Susan Roth Katzke
Analyst, Credit Suisse Securities (USA) LLC
Q

So, in terms of – you mentioned, the improved outlook based in part on improvements in liquidity deployment and the yields that you're getting on that. So, where are you outside of the loan growth for deployment? Where are you putting liquidity today?

Deron Smithy
Executive Vice President & Treasurer, Regions Bank
A

So, I would say our first – our first objective or our most desired place is through loan growth.

Susan Roth Katzke
Analyst, Credit Suisse Securities (USA) LLC
Q

Sure.

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Deron Smithy
Executive Vice President & Treasurer, Regions Bank

A

And our outlook for loan growth over the next year or two will be very effective in putting the excess liquidity that's sitting on our balance sheet and cash to work. There's some cross currents with the EnerBank transaction. We got a pool of CDs that will be – brokered CDs that will be rolling off over the next couple of years. And so, that'll use some of that cash as well.

We also anticipate that, as the Fed begins to raise rates and normalize its balance sheet, that some of what we've seen flow on to the balance sheet and surge deposits, namely deposits that are more commercial in nature, from our commercial clients, that's going to find a better, more productive use off the balance sheet or perhaps may find better opportunities for higher rates off the balance sheet.

So, we see some opportunity for that to moderate and that will utilize some of that cash as well. But as we look forward over the next couple of years, we really think the lion's share of the excess liquidity that we have today will be deployed through balance sheet growth. And we think that's the most productive use of those deposits.

Susan Roth Katzke
Analyst, Credit Suisse Securities (USA) LLC

Q

Okay. So, you mentioned the surge deposits in the core consumer banking book. Let's talk about what the beta might look like in that book this time around.

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

A

Yeah. So, I'll talk a little bit about our book and how it's unique. It's clearly been a strength of our company for a long time. Underneath that, what makes it such a strength is our core strategy is to bank our customers and consumers' operating account. So, their core checking accounts where their payments are flowing through it. We've been very successful with that. The last couple of years we've been growing core checking accounts at about 3 times the industry average. So, that feels good. We're bringing in deposits with that, of course, and getting NIR associated with it. We've got the strongest debit card portfolio in the industry. So, I think it's 30 straight quarters we've had the highest Visa power score, which is a combination of activation, utilization.

So we have a super strong granular base. That base, largely those operating account dollars are largely impervious to the rate increases. We have one of the highest percentages of NIB, non-interest-bearing checking account balances in the industry. So, that's our strength. And then, Deron, you might give the overall betas and then the consumer beta.

Deron Smithy
Executive Vice President & Treasurer, Regions Bank

A

Sure. Yeah. I think a byproduct of what Scott is describing, this out of the $39 billion to $40 billion of surge deposits that we've seen, 35-ish-percent has come from what we would consider good core deposit growth – no pun intended there – but dollars coming from growing customers, growing accounts that we think will perform more similar to our legacy portfolio.

And in the first 100 basis points, our history tells us that that consumer portfolio is fairly slow to move, and we will see betas somewhere in the 10% to 11%. For the first 50 basis points, you might not see much movement at all, but over the first 100 basis points, perhaps 10% to 11% in interest-bearing. Once you get past 100 basis points, history tells us that depositors become more aware and there are other alternatives that become more

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competitive. And so, we start to see betas move a little more. But over the full tightening cycle, we think the betas are in that upper 20s, 29% to 30% range, which is more similar to what we saw in the last tightening cycle.

Again, we do think, though, there is growth in categories and products that likely will be more rate sensitive this time around, namely around corporate. And so, we've positioned the balance sheet that way, and so we're carrying excess cash to manage through what we think will be normalization. But underlying all of that is a really solid outlook for growth on the consumer side that will give us quite a runway to fund growth in the balance sheet looking forward.

Susan Roth Katzke
Analyst, Credit Suisse Securities (USA) LLC

Q

And in terms of when you look at the beta in that core book and you look back at historic experience in the stickiness of your deposit base in particular, what if any impact have the new competitors, the neobanks, had on that deposit base? And does that factor in at all to your beta assumptions?

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

A

To a smaller degree, probably for us versus some peers because our base is so granular and so focused on the operating account, that's not really where folks are going for, let's call it, the digital competitors. It's more the rate seekers, the more price-sensitive money, money that you put – maybe put there, and it's not really your operating money. I will say if you look at the digital entities that are trying to do operating business with folks, what we find and we look at money going out and money coming back in and customers, we found over time that a good percentage of what we see go out very often comes back in, especially as core accounts because the service proposition and the overall proposition is different. And customers really still want that full banking as well.

Susan Roth Katzke
Analyst, Credit Suisse Securities (USA) LLC

Q

Okay. Makes sense. So let's just touch on credit quality while we're kind of in fundamentals here. And you mentioned at the outset of, if I'm correct, you mentioned that credit was pretty pristine, which is a fairly uniform view at this point. Although, it feels like people are trying to caveat, and we all know that at some point losses feel a little bit unsustainably low at this point. So what do you expect to see in terms of the loss rate on the consumer portfolio this year? What is a – I hate to use the word normal with respect to credit because it's either low or high, but we're kind of too low. So how do you see this playing out?

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

A

So for our book...

Susan Roth Katzke
Analyst, Credit Suisse Securities (USA) LLC

Q

Yes.

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

A

...from a consumer perspective, and again going back to the fact that we're a prime shop what we've largely seen. So I'll give you an example. Over 20% of our checking customers, about 22% have credit cards with us. So when

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we look at our credit card balances, the behavior of that book has been extremely strong. Payment rates have been exceptionally high. So what you see is liquidity is being created by the consumers, or they're concerned because there was uncertainty clearly with the pandemic for a period of time. So really good credit behavior from a standpoint of the amount of debt that they were holding.

You had on top of that mortgage refinances and downward rates on other debt outside of, let's say, credit card. So you look at the whole consumer picture, and their debt situation is far better. We think and we believe with a prime portfolio, we'll continue to be pretty low. You start to see a little bit on delinquencies coming back up a little bit from an almost nothing. But we're a good ways away from what I'd even call a normalization on that.

I do think, if you look at it broadly, say, outside of our company and across the industry, you're probably going to see cracks in that, in the subprime category sooner as you would expect in a credit cycle. But we've got a really healthy consumer. Their behavior has been really, really good. And, at the same time, they've been paying down debt, they've been growing savings.

So, if you look at the customers who you would expect maybe to feel pressure from a credit perspective, and have lower cash flows, the fact of the matter is they got a greater degree of savings, they have a less debt outstanding, a lower debt burden on them. And, in addition, there's tons of jobs and the wages have gone up for most of those folks. So, maybe it sounds a little optimistic, but I do think it's going to be a slower burn towards an increased normalization on the consumer side, especially in prime portfolios.

Susan Roth Katzke
Analyst, Credit Suisse Securities (USA) LLC

Q

And so, that being the case, when you think about the loan loss reserves, is there an argument for a lower reserve level under CECL?

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

A

I'll let you take that one, Deron.

Deron Smithy
Executive Vice President & Treasurer, Regions Bank

A

Okay.

Susan Roth Katzke
Analyst, Credit Suisse Securities (USA) LLC

Q

I know you're fighting over on who gets to answer that...

Deron Smithy
Executive Vice President & Treasurer, Regions Bank

A

Right.

Susan Roth Katzke
Analyst, Credit Suisse Securities (USA) LLC

Q

...question.

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Deron Smithy
Executive Vice President & Treasurer, Regions Bank
A

Well, lower than where we are today or...

Susan Roth Katzke
Analyst, Credit Suisse Securities (USA) LLC
Q

Lower than – lower than CECL Day 1...

Deron Smithy
Executive Vice President & Treasurer, Regions Bank
A

...lower than...

Susan Roth Katzke
Analyst, Credit Suisse Securities (USA) LLC
Q

... [ph] for you (00:25:03).

Deron Smithy
Executive Vice President & Treasurer, Regions Bank
A

...CECL Day 1. All right. I'm not sure I have a crisp answer for that. I think that going into – prior to the pandemic and going into the adoption of CECL, we had an outlook for credit, which was a more normal position for credit. And I'm not sure we think very differently about that today...

Susan Roth Katzke
Analyst, Credit Suisse Securities (USA) LLC
Q

Okay.

Deron Smithy
Executive Vice President & Treasurer, Regions Bank
A

...than we did going into [ph] to CECL (00:25:30) Day 1.

Susan Roth Katzke
Analyst, Credit Suisse Securities (USA) LLC
Q

Okay. Okay.

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

And, I would say, our teams coordinate on this extremely well and we've got great folks who do the analytics on it. And there is a sort of quantitative modeling approach to it, but there's also a qualitative aspect. And the adjustments that we've made historically over the last couple of years have played out where our qualitative plus quantitative has been pretty close to what we expect.

Susan Roth Katzke
Analyst, Credit Suisse Securities (USA) LLC
Q

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Okay. So, let's shift gears to strategy a little bit and talk about things like the EnerBank acquisition last year, which was one of – I think, you closed four acquisitions. I'm looking at [ph] Dana (00:26:09). Four acquisitions in the fourth quarter, correct?

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

A

Three.

[indiscernible] (00:26:11)

Susan Roth Katzke
Analyst, Credit Suisse Securities (USA) LLC

Q

Three in the fourth quarter as well. Yeah.

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

A

Correct.

Susan Roth Katzke
Analyst, Credit Suisse Securities (USA) LLC

Q

Okay. The – and you talk about wanting to make additional bolt-on acquisitions in consumer lending and capital markets and wealth. So, let's talk about to the degree that we can play in your backyard with the consumer lending acquisitions, the integration of EnerBank and the appetite for additional portfolios.

Deron Smithy
Executive Vice President & Treasurer, Regions Bank

A

Yeah. That's great. So, EnerBank was a great match for us. We've been interested in that space for some time. As you know, we had some GreenSky paper over time. So, we got to get closer to the space, look at the performance dynamics, look at how that business operated, look at the regulatory and compliance demands that made sense because our regulators wanted us to sort of make sure that obviously GreenSky was compliant as well.

So, we wanted to be in that space for some time. We [ph] flirted (00:27:08) with a few different acquisitions in that space. Timing didn't work out and the EnerBank timing made a lot of sense. And I think we were strategically smart. We were probably a little bit lucky that we got the right partner for us. EnerBank was a regulated entity because it had an industrial loan charter so it had a bank charter. So, they were regulated by the FTC. Their parent company was utility. So, they kind of were capped on their growth. They're very much a prime shop. Their compliance is very strong. So, there's not a lot of fixing we have to do with regard to EnerBank. So the perfect for us anyway bank partner plus they have very, very strong team, strong relationships, a strong growth profile, but quite honestly, their growth profile had been held down because the parent company did not want them to get [ph] too (00:28:04) large impact their ratings, their credit ratings. It were more important to them than the raw growth.

Culturally, like a glove, very principled group who really focus on not only getting good results, but doing it the right way. So, they fit right into the region's culture well. The teams are operating great. We have good growth going on, a great pipeline right now. Really, not anything to fix. So, the opportunity really is to take off and grow. And in our integration, we've identified, call it roughly 9 or 10 work stream – synergy work streams. We just actually launched one just the other day.

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And those are things outside of what you would see baked into our forward optimism that aren't even accounted in that with regard to cross over in the customer base. The opportunities to leverage that, to leverage EnerBank customers into being full regions customers. Some of the product improvements we can make and the synergies we can offer to their customer base and theirs to our customer base as part of regions.

So, it's really gone quite honestly better than we could have even expected and have a lot of optimism for growth even outside of what probably we've thought about going forward.

Susan Roth Katzke
Analyst, Credit Suisse Securities (USA) LLC
Q

And so, how consuming is that acquisition to you right now? Or because it was a relatively clean, for lack of a better word, clean acquisition, you've got capacity to go out and look for additional opportunities.

Deron Smithy
Executive Vice President & Treasurer, Regions Bank
A

Well, I think, in that space, as you think about it, EnerBank was a top five provider...

Susan Roth Katzke
Analyst, Credit Suisse Securities (USA) LLC
Q

Yeah.

Deron Smithy
Executive Vice President & Treasurer, Regions Bank
A

...and those five were only 10%...

Susan Roth Katzke
Analyst, Credit Suisse Securities (USA) LLC
Q

Right.

Deron Smithy
Executive Vice President & Treasurer, Regions Bank
A

...of the home market.

Susan Roth Katzke
Analyst, Credit Suisse Securities (USA) LLC
Q

Right.

Deron Smithy
Executive Vice President & Treasurer, Regions Bank
A

So, there's a lot of, call it, verticals within the home improvement space. There's also different providers in those verticals that sometimes facilitate it, whether it might be technological platforms and things like that. So, we are very interested in growing that business, doing it the right way again, but there are opportunities for us to do potentially some acquisitions that are very quickly accretive because of the synergies that already exist. So, we'll continue to be looking there and looking for opportunities. And, really, we're taking a look at a variety of those now.

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Right now, though, the platform, quite honestly, it's not like adding the same platform, a direct competitor type of opportunity. Some of the synergies are much more in that stream and within the verticals of enabling technologies or partnerships that you might be able to acquire in order to just fold that into EnerBank and not create a – bringing on another, call it, EnerBank that operates very differently, that doesn't have the same risk profile, and those types of things.

Susan Roth Katzke
Analyst, Credit Suisse Securities (USA) LLC

Q

Right. Right. Okay. So, the appetite is still there...

Deron Smithy
Executive Vice President & Treasurer, Regions Bank

A

Absolutely.

Susan Roth Katzke
Analyst, Credit Suisse Securities (USA) LLC

Q

...for acquisitions. And I would say broadly on the bolt-on, speaking even outside of the consumer business, there's the potential to see more.

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

A

We – John has been terrific at encouraging Ronnie, Bill, and myself to really be on our forward foot from a standpoint of strategically, can we get stronger, can we deliver more products and services to a customer base and a footprint that we have, that where we might have gaps and has really tasked us at being much better than maybe we were three or four years ago to be really making that an active part of our job to be looking for ways that we can grow the business as long as it's strategically sound and has good economics.

Deron Smithy
Executive Vice President & Treasurer, Regions Bank

A

Yeah. And I think I would just add that that's our top priority for use of our capital is finding ways to grow our business. And Scott did a good job of laying out what the strategic thinking is there. But we're always looking for that first before other uses of capital like share repurchase. So, yes, you should expect us to continue to look for opportunities to grow the business and use our capital that way.

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

A

Maybe not at three per quarter, but...

Deron Smithy
Executive Vice President & Treasurer, Regions Bank

A

Well...

Susan Roth Katzke
Analyst, Credit Suisse Securities (USA) LLC

Q

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Right. Well, yes, that was a – that seems like a little bit of excess activity, if you will. And just to kind of housekeep a little bit while we're on the Consumer Banking business for a minute, in terms of the nuisance fees and the decisions in the fourth quarter in January to change the product and reduce those fees, can you talk about what the reception has been in the marketplace and kind of some of the decision making that went on behind?

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

A

Yeah. Sure. First of all, quite honestly, we don't look at it from a sort of we know what it is. We don't look at it from a revenue and an income stream standpoint, right? We look at it from a standpoint of what's our strategy to bank our consumers. As I mentioned before, we're very, very focused on having core operating accounts, and we are a primary bank, one of the highest primacy rates in the industry. So, when we look at this, what we're really thinking about – and we've been decreasing our amount of overdraft income over the last 10 years pretty materially – is how can we continue to serve the customers very well, take care of their needs and do so in a smart way and it's very complicated ecosystem. And you see a lot of the changes are across different vectors, whether it's price or whether it's, let's say, a de minimis or whether it's an advance. And so, understanding that and making sure that you don't have bad unintentional consequences, especially when you have a prime customer base, is really important to us.

So, our focus has been on we want to stay competitive, for sure. We want to make sure that we don't hurt our consumers in an unintended way, because sometimes, as an example, if you just decrease overdraft fees and get rid of them altogether, it's harder to provide that short-term liquidity, because, all of a sudden, it's upside down, and then, does that result in pushing people out of the banking system who maybe need to be there? So, we're trying to really manage those elements quite well.

Clearly, there was a move entirely in the marketplace. I don't believe there's – it's because of the complicated ecosystem. Rulemaking is challenging and has been stepped away from regulators in the past. But, clearly, there is a sentiment amongst the newer breed of the regulators, and as well as some of our legislators that wanted to have some pressure and some reduction of fees to the consumer in this way.

So, we're just trying to navigate it to continue to stay competitive, but really do the right thing for consumers and customers. And, quite honestly – and I talk to our folks in the field regularly when I go out and visit them, I was in four different markets actually last week and I always ask them, when I do roundtables with our bankers on the ground, I say, do customers ask you about our overdraft policies? And the answer is no, they don't. And, quite honestly, most customers don't go into a banking relationship with the idea that they're going to overdraw.

Susan Roth Katzke
Analyst, Credit Suisse Securities (USA) LLC

Q

Right.

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

A

And so, from a competition on the ground thing, it hasn't come about yet. I will tell you from our associates, they like it, because they think that it's friendly for the consumers, they feel that they're very vested in their consumers. And so, they feel really good about it. And we've simplified our posting order last year, a lot more alerts and visibility. So, we've, to some degree, demystified some things that maybe confuse customers, which obviously our people on the ground have to spend time when a customer does get an overdraft handling a lot of that.

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So, that's kind of what we've seen so far.

Susan Roth Katzke
Analyst, Credit Suisse Securities (USA) LLC
Q

Presumably, it pays off in customer growth and a lower deposit data...

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

That's right.

Susan Roth Katzke
Analyst, Credit Suisse Securities (USA) LLC
Q

...over time. Okay. So, we have a couple of minutes left here. I do want to touch on capital management a little bit. You've spoken to targeting CET1 this year in the middle of the 9.25% to 9.75% range. And this range has come down a little bit and I realize you want to have excess because you are conservative and because you are looking at bolt-on acquisitions. But what makes this the right level?

Deron Smithy
Executive Vice President & Treasurer, Regions Bank
A

Well, it starts with our internal stress test assessment. And so, that helps inform us the minimum level that we need. And so, that range is a bit higher than what we think we need from that – that's informed by the stress tests. And that's really to give us the flexibility to lean into growth when we see growth opportunities.

And so, there are other constituents that matter as well. It's not just what's required for regulatory purposes, rating agencies, for instance. And so, we're – we assess what is the appropriate range really to meet regulatory expectations, expectations from rating agencies to maintain our ratings, which are important to our business clients as well. And also to give us flexibility where when we see opportunities like the transactions that we completed in the third quarter to be able to lean into that and do it using capital in the way that we want to use it first which is to grow our business. And so, that range gives us flexibility to do that, to lean into growth. And growth can be organic as well when we see opportunities to see outside [indiscernible] (00:37:47).

Susan Roth Katzke
Analyst, Credit Suisse Securities (USA) LLC
Q

Sure. But just to push you on that for one minute, because you've been running the stress tests, you meaningfully de-risked your balance sheet over the course of the last five-plus years. Your performance – though, there were a lot of mitigating factors through this most recent cycle, your performance, I think, was far better than you probably expected or envisioned in your own stress tests. And so, I would assume that both your performance in the stress tests that you run and you see and what you're showing, the rating agencies would indicate that there should be some improvement or reduction in your requirements. You're holding yourself to a very high level is what I'm saying, and your performance has been better.

Deron Smithy
Executive Vice President & Treasurer, Regions Bank
A

Yeah. We have seen some modest improvements in our own internal stress tests. We've also added some portfolios like EnerBank, which are more risky at the margin. And so, we've seen modest improvements there. Obviously, we were managing to a higher level during the pandemic because of the uncertainty. I think that the

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range is the appropriate range for our business mix and to satisfy the full slate of constituents. Where we operate in that range, really, is about when do we want to lean into opportunities to grow or give ourselves flexibility to do so. I think there's an opportunity that capital levels could continue to modestly come down over time, but we think that's the appropriate range for us as we sit here today.

Susan Roth Katzke

Analyst, Credit Suisse Securities (USA) LLC

I think that makes all of the sense in the world. So, we'll end it on that positive note, and I thank you, once again, for making the trip; I'm not going to say down here, but making the trip over here and joining us, once again, at the Credit Suisse Financials Conference.

Deron Smithy

Executive Vice President & Treasurer, Regions Bank

Very good. Our pleasure.

Susan Roth Katzke

Analyst, Credit Suisse Securities (USA) LLC

Thank you.

Scott M. Peters

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

Thank you, Susan.

Deron Smithy

Executive Vice President & Treasurer, Regions Bank

Thank you.

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