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Regions Financial Corp. (RF)

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CORPORATE PARTICIPANTS

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

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

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

MANAGEMENT DISCUSSION SECTION

Unverified Participant

From the company, we have John Turner, CEO; David Turner, CFO – no relation, I don't think; and Deron Smithy, the Treasurer. So gentlemen, thank you for joining. Maybe just throw out the first ARS question as people take their seats and I find my notes.

QUESTION AND ANSWER SECTION

Q

And maybe, John, we could just kick it off with you and just talk about – I know you're constantly out in the market talking to customers on a daily basis. We keep on reading in the newspapers and the news it's recession and very high inflation and rising interest rates. Maybe just talk to in terms of kind of what you're hearing and seeing on the ground?

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

A

Yeah. Our story is not any different than anybody else's. As I visit markets across the Southeast, Midwest, and Texas, continue to see economic expansion, a lot of construction activity, businesses are doing well. I think all the volatility that we're experiencing in the market does create some caution. We do know that some projects have been delayed or put off as a result of rising cost concerns about inflation. But in general, businesses are doing well. They made adjustments during COVID that they're benefiting from today and they feel confident about their future. Many businesses are continuing to invest, particularly if they have an opportunity to build something out that creates more efficiencies. So, we're seeing capital investment at a rate that I think is good and just general business expansion. Consumers, likewise, are in good shape; lots of opportunity. The one thing that we consistently hear everybody talks about is labor, labor, labor. They're still impacting virtually every industry across every geography, and I think that bodes well for the consumer in the future.

Q

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So, I guess capital expenditure doing things that bode well for the consumer. It sounds like it should be a positive environment for loan growth. Can you maybe just talk to in terms of the trends you guys are seeing kind of in the major categories? And just do you think differently about lending into an environment – that we're in an economy that may be slowing?

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

A

Well, we say we make our worst loans in the best of times, so we want to be careful, thoughtful certainly. And we continue to ask ourselves what the market see that we're not seeing because as we look across our portfolios, we don't have any concentrations in asset classes or geographies. There are not any areas that we're overly concerned about and we are experiencing good loan growth across our business portfolios and in consumer as well, particularly as a result of the acquisition of EnerBank, and we're seeing some growth in our mortgage portfolio on balance sheet. So, loan activity is good; it was very good through the first half of the year, it's continued into the third quarter. We expect that will taper off as we approach the end of the year.

Borrowing is both to support expansion of inventory, so for working capital needs, to make investments in CapEx as I talked about. We're also seeing the large corporate customer come into the bank space borrowing when they don't have access to the capital markets, so much as we saw back in the third quarter of 2018 there's some growth in our balance sheet which will likely be temporary as those larger companies get access to the capital markets in the future and pay that off. But in general, good borrowing activity across virtually every asset class, every industry group within our portfolio.

Q

I guess, David, last we spoke you were talking about average loans [ph] up (00:04:05) about 8% for the year.

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

A

Yeah.

Q

How do you feel about that?

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

A

Yeah. So, while we saw a little above-average growth in the first part of the year, we do think that's going to settle a bit in the second half. We haven't seen it yet but – and part of that is the capital markets issue that John just mentioned. But all in, I think that's a pretty good measure in terms of for the full year.

Q

Got it. Maybe kind of moving through – I guess the other big asset class besides loans is securities. You seem to be one of the banks that's kind of I guess – I don't want to say less reluctant, but has a larger cash position as a percent of earning assets. Given rates have backed up, maybe just talk about your thoughts on – you deployed

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some of that but kind of less than peers, just how you're thinking about that or managing that portion of the asset base.

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

A

Sure, I'll start with that. So, if you go back to the pandemic period, and obviously the surge in cash that we saw was driven by a surge in deposits, and so what we've talked about is an expectation that two things will happen, that over time, as the economy continued to recover, we would see some of that cash get put to work, so we held it more in cash form. And number two, to the extent there's excess liquidity that remains in the system, certainly on the large corporate side, that you will see those depositors expect a higher rate or seek a better rate at the end of the tightening cycle, and so we've maintained a liquid position to allow for that. We've suggested that we think as much as $5 billion to $10 billion of deposit normalization will ultimately occur through the tightening cycle. We started to see some of that in the second quarter; it's continued into the third quarter. We still think that's a reasonable estimate, so maintaining a relatively large cash position to allow for that has been part of our strategy.

The other part of the strategy really though is to take what we think is the more stable part of that growth and deploy it in loan growth. So, you talked about the loan growth that we've seen. We've been able to fund all of that with cash on hand and so that's an advantage for us, not having to go into the wholesale markets to borrow, certainly in this environment where rates are rising and spreads are wider as well. And so as we look forward, the combination of continued loan growth, the normalization on the deposit side, we'll certainly utilize some of that cash. But it's likely that we'll still have a meaningful position six months from now, 12 months from now that, again, hopefully we will continue to be able to deploy from a loan perspective. But there's an opportunity for us to put some of that to work in securities. But think about it more as continuing our hedging program and preparing for what might be a downturn in the economy and using securities in lieu of derivatives rather than, again, trying to put cash to work in the securities portfolio. It's certainly additive from an earnings standpoint but when you think about the highest value use of those deposits, we think the best way to monetize the value of that deposit growth is through growing our loan book.

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

A

Like, I mean, the benefits of having our hedging strategy in place has allowed us not to have to stretch to grow NII and to put our cash to work in the securities book where we didn't think we'd get compensated for the duration risk. So, we've been patient; we're going to continue to be patient. Things have changed and so to Deron's point, we may have an opportunity to put some of that to work in the securities book but as part of a hedging program versus just trying to have more NII.

Q

That's helpful, and you mentioned deposits a couple of times. Maybe we could talk to what you're seeing there. We've heard kind of varying trends around deposit levels, deposit mix in terms of the shift from non-interest-bearing to interest-bearing deposit betas. Kind of maybe talk about kind of what you're seeing near-term and kind of expectations as we head into next year.

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

A

Yeah, it's a good story. Certainly, on the consumer side we continue to grow customers, grow accounts, albeit at a slower pace than what we saw during the pandemic period, but balances remain relatively stable following

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seasonal patterns in here in the quarter. But on the rate side, the competitive pressures have been pretty muted so far and so obviously, we prepare for as rates rise the ability to stay competitive and raise rates over time. But we really haven't seen that pressure yet so on the consumer side, a very good and simple story. On the commercial side, as we've talked about, we're expecting some normalization; we're continuing to see that. We're engaged with our customers every day through the treasury management part of our business, looking for alternatives for our customers that meet their needs for managing their cash positions, their cash flows.

And so, there are some off-balance sheet options that are part of that and some on-balance sheet options as well. And so, we've created some new products on-balance sheet for those more rate-sensitive customers that will allow us to keep some of that and really unlock incremental liquidity value from those deposits, and so we're seeing some traction there as well. But by and large, the deposit part of the business is following our expectation.

Q

Got it. So, I guess when we kind of, I guess, add that all up, you've talked to – I guess, maybe we'll go to the next ARS question because it's going to kind of dovetail into my next question. What's your estimate for Regions' reported NIM for next year? And by point of reference, they were 3.06% in the second quarter. So, we've talked about loans, deposits, securities. I guess, when we think about just kind of managing in terms of net interest margin, we've seen a nice uptick in the first half of the year. I guess, what are your thoughts in terms of how that plays out into the back half of the year just given this dynamic rate environment? And as you start to think about kind of putting together a plan for next year, how you're approaching it?

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

A

Yeah. So, we certainly think that that margin expansion continues in the second half of the year. We've guided to we think – there's a few moving pieces with respect to legacy hedges and deposit normalization that we've tried to synthesize into a fourth quarter to first quarter comparison. And what we've said is that we think fourth quarter net interest income will be around 25% higher than first quarter, which is reflecting our expectations for growth; and I think that that was based on a rate environment in early July, and so obviously the outlook for rates has improved. And so, I think there's an opportunity to outperform that number. So, we think that the margin continues to expand throughout this tightening cycle, but we're turning our attention to the likelihood that at some point in the future either the weight of inflation or higher rates might lead to a more pronounced downturn in the economy, and we're trying to protect against that.

And so, we've been actively engaging in a new hedging program as well that is starting later in 2023 and into 2024. And so, you'll see over the next several quarters, you'll see the margin expand. And we think that even in an environment where the Fed is reversing course, either because they have to because the economy is declining or perhaps they are seeing the benefits of tightening policy with respect to inflation and rates start to come down in any of those environments, we think we've protected the margin in a corridor between say 3.60% on the lower bound up to 3.80%-plus if rates were to remain high for an extended period. So, our strategy really has been to, over time, grow the margin and make it more predictable and consistent through cycles.

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

A

I think we put together a slide, Deron, I think it's slide 14 in our deck. It's a pretty good slide that kind of show you what we're trying to do over time. That slide was built on [indiscernible] (00:13:06) I think July 1, and so that's changed and shifted up a little bit of late. But to Deron's point, taking the volatility out of what is two-thirds of our

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revenue we think is a good deal, and that 3.60% level that Deron mentioned if the Fed were to go the other way and go back to virtually zero is a higher net interest margin than our peak level last cycle. So, we've done a lot of balance sheet management to have a much better net interest margin and much less volatility.

Q

Okay. Two points of clarification. That 3.60% to 3.80%, is that ex-cash or reported?

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

A

Yes, that's the reported number.

Q

Full number, that 3.60%...

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

A

And as obviously, when rates have been lower that cash position was a drag on margin. As rates increase, those two are converging rapidly.

Q

So, that's a 3.60% to 3.80% versus I think 3.06% in the second quarter?

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

A

That's right.

Q

And then, you mentioned when talking about the fourth quarter NII growth versus the first quarter, I think your guide was 23% to 25% up. You said 25% and I think you said higher, so could it be above that 25%?

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

A

Yeah. Certainly, the driver of that has been rates, and the rate environment today is higher than what produced that guidance, so I do think there's an opportunity to outperform that.

Q

And then, I guess for the third quarter you were thinking up 8% to 10%, so it sounds like we could do a bit better than that as well?

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

A

Yeah.

Q

Good, all right. And then, maybe shifting gears to the fee income side of the house. I guess, it sounds like a bit more challenge for most of the banks that presented so far relative to NII, whether it's mortgage or service charges and the like. Could we just maybe talk through kind of some of the key components and what you're doing to maybe combat some of these kind of macro pressures?

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

A

Sure. So, yeah, service charges, clearly a lot of attention on service charges. We've done a number of things relative to our overdraft policies. We obviously eliminated NSF fees. We've put in some changes literally this week relative to giving customers access to the paycheck a couple days early. We are working on having 24-hour grace that'll go in next year. And we've made, I don't know, seven, eight different changes on service charges to try to help our customers but to continue to provide access to liquidity which we think is really, really important to our customer base, and they have to opt-in for that and there's a cost to doing that. When you boil it all down, we've given you the guidance of that service charge line item to be around $600 million this year. If you were to take first and second quarter and extrapolate that, you would calculate more than $600 million. Some of our changes have gone in later, so you're going to see a little more of an impact in the third and fourth quarters than you've seen in the first and second. And perhaps we've been a little bit conservative on the number, and then we've given you a number for next year which takes into account that 24-hour grace to be $550 million for total service charges.

So, that's our best estimate today. We'll update that as we learn more, but we've been pretty accurate. If we missed it, we missed it because we were a little too conservative, and we think that's okay. At the end of the day, it's all about providing products and services to our customers that they value, and we think we've made a number of changes that have kind of put us on par with the industry. Everybody does something a little different, but for the most part kind of on par with everybody and we think that's a good service charge number.

Moving through the other parts of the income statement, obviously mortgages continue to be challenged in terms of volumes. We have historically been more of a purchase shop than a refi shop; I think it was 80% last quarter in terms of purchase versus refi. You're going to continue to see that. The housing market still is strong, it's just not as strong as it has been and so you're going to continue to see pressure on mortgage. Mortgage probably won't be as strong as it was first part of the year as we wrap up this second part, so you'll see a little bit of pressure there. Our capital markets business we're very proud of. There's probably five sub-businesses in that. That's a $90 million to $110 million business. We thought we'd be at the higher end in the back half of the year. Capital markets kind of shut down if you will, and so we're going to be within the range. We're going to be at the lower end of that range for the remaining – for this quarter and probably the remaining part of the year. Things can change pretty quickly there and we have some businesses in there like M&A that are episodic, that it depends on the deals that get closed, but that's a pretty good range that you could model out.

Wealth management is doing fine. We continue to grow customers, assets under management, so we're proud of that. And our interchange revenue, debit and credit card spend revenue is pretty strong. From that standpoint, the dollars are up because of inflation. Our customers have a tendency to use their debit card for gas and groceries

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and travel; those are the top three. And that travel has been pretty strong June, July, August timeframe, so feel good about that line item. So, yeah, there's some pressure in certain categories but net-net, we feel pretty good.

Q

I guess, when you tie up the net interest income discussion we just had with what you're seeing on the fee income front, I think you talked to kind of full year revenue growth in the 7.5% to 8.5% area. NII is going to be above I think expectations. How do you feel about that guidance?

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

A

Yeah. So, we're not going to update our guidance just yet, but we'll give you directionally, mathematically speaking, if two-thirds of your revenue have a higher yield curve when you gave the original guidance, one would expect it to be somewhat higher. I'll kind of leave it at that.

Q

That's fair. I guess on that note, maybe kind of shift gears to the expense front. I think with NII higher than expected, do you kind of take some of that excess yield curve revenue and invest it? Does it fall to the bottom line particularly as you look out and kind of expect it to slow? Just maybe how you're thinking about kind of managing the cost base overall?

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

A

Yeah. So, we're proud of how we manage our expenses over several years now, starting with our simplify and grow initiative. We now transitioned that to continuous improvement. Senior management, those in senior positions meet often to talk about how we continue to get better. John talks to us just about every week at his staff meeting how we're going to do whatever we're doing just a little bit better tomorrow just to get a little bit better. So, the idea of continuous improvement never stops. We're looking for ways to leverage things like technology to help take out steps, to take out – let attrition take care of head count, and we're going to have to stay focused on that; we have one of the lowest efficiency ratios.

But when you're in a commodity business like we were in, you have to be efficient; there's just no option. So, we are fixated on becoming efficient, but we will make appropriate investments to grow and we have to overcome the investments we need to make. So, an example would be we've got to get better at digital. We like the investments we made in digital. We're happy with that, but you just have to keep looking and keep making those investments. We had to pay for that. If you're going to pay for that and you're going to do that, you have to find the savings somewhere else. So, we're not going to let ourselves off the hook just because we have higher NII revenue. We're going to stay fixated on that expense increase because we expect to generate positive operating leverage; clearly, we'll do that this year. And we're working on our strategic plans for our businesses, and we don't submit a plan that you don't generate positive operating leverage. One got close and John got to weigh in on that one before I did, and he said where's positive operating leverage.

So, we're fixated on it and for support areas, including finance, we got to watch our costs, too, as I'm warned from time to time. So, we have a number of ways to do that. We'll manage our people, we'll manage our facilities, our occupancy costs. We have a pretty nasty procurement guy that wears out our vendors constantly and he's not

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letting up. So, it's just we're not letting this idea of inflation and letting people just say oh, we got to pay for this inflation. No, no, no; let's talk about why you think you need an increase [indiscernible] (00:22:35). And if it's warranted, that's fine; but if it's not, we're not going to pay for it.

Q

All right. You've talked, I think, 4.5% to 5.5% expense growth for the year.

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

A

Yeah, a lot of our expense growth – so going into the year, as you may recall, our expense increase was really driven by the three businesses we acquired in the fourth quarter of last year. Outside of that, we wouldn't have had much of an increase, which means we're overcoming the inflation baked into our salary and benefits which has been 2%, 2.5%. That number will be higher this year, another 1 point probably on that piece, and we got to pay for that. We got to go figure it out, and that's what we'll do. So, again, we're not going to let up.

Q

Fair enough. Maybe we'll put up the next ARS question as we transition to the next topic. Where do you see Regions' net charge-offs ratio for next year? And by point of reference, 1.17% in the second quarter. I guess maybe we'll just start off with charge-offs are really low, non-performing are really low, delinquencies are really low. Every investor tells me it has to go meaningfully higher next year. So, maybe talk to in terms of kind of what you're seeing, what you're hearing from your customers. And obviously, everyone has areas of emphasis that they're looking at for kind of where they see the crack develop first. Kind of where are you spending most of your time on?

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

A

Yeah. So as I've said, in my almost 40-year career, best credit quality I've ever seen and we don't expect it to continue. We do think normalization will occur sometime toward the end of this year 2023. We'll begin to see some movement toward more normalized credit metrics. At this point, I think it'll be modest movement and we don't expect any sort of dramatic events or dramatic changes in credit quality, but we will move back to a more normalized environment I believe. Since COVID started, we've been staying very close to our customers, and I think that's provided a tremendous benefit over the last 2.5-plus years. We have a lot of insight into our customers' businesses and industries. Areas of some concern would be office just because of all the changes there. Senior housing and healthcare in general, where customers aren't able to impact; they have rising costs, but they can't impact the revenue side of their business, particularly those businesses where they're relying on third parties for reimbursement as an example. So, acute care hospitals would be an example of an area that we continue to watch closely. On the consumer side, we're not really seeing any changes at all. Past dues remaining very low, payment rates on credit cards very high, and overall consumers maintaining a lot of liquidity and just a good credit posture.

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

A

I would add to that that, I don't know, it was about two years ago that we put in a tool in our commercial corporate space to analyze cash flows of our customer base. The purpose was originally intended to help us understand

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what products and services that that customer may need that we're not offering. What we've learned is now we have access to seeing cash flows on a more timely basis which gives us insight as to whether that customer may or may not be having problems that could manifest itself into a credit event. So, you're going to see us be much more reactive in terms of moving on credit provisioning and things than we have historically. Of course, CECL, the God awful accounting standard, also caused us to recognize things much more timely. So, we feel good about our credit as John mentioned, but we like the tools that we have in place, too, to help us really get on top of things quickly.

Q

So, I guess a bunch of things within that. You talked to charge-offs for the full year at the lower end of the 20 to 30-basis point figure you gave; I assume it sounds like no change to that. And I guess as you kind of – it's interesting to see the audience response in terms of next year, but 77% net charge-offs next year is still under 40 basis points, which I guess is healthy. But, David, you mentioned CECL. I guess as you look out, you said you're going to be maybe a bit more proactive. How should we think about kind of just the pace of the reserve build in an environment where losses are still low?

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

A

Yeah. So unfortunately, CECL gives you a very volatile picture. I think everyone should expect that provisioning is going to come before the charge-offs. And as things change – and of course, we look at it at the end of each quarter – and if we forecast deterioration, whether it be in the credits or the economy or other things, then you're going to see provisioning over charge-offs coming here I think this year. The magnitude of that, it's too hard to tell. And it really is we have a better idea of one's credit quality when you can forecast out what you think the ultimate charge-offs would be. But I'll take you back to the pandemic. If you look at what happened in that first, second quarter of the pandemic, we all provided just enormous amounts and then that came back to us, so you just had big debits hitting the income statement then big credits following. And I'm not going to get into a CECL debate, but...

Q

Not debate. We're on the same...

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

A

...it's not a debate, but time is short, is that really understanding what a forecast of charge-off trend I think is a better indicator. Obviously looking at past dues on the consumer side, looking at criticized classifieds on the business services side, those are good indicators of one's credit quality is going to look like. But we feel good about where we're going to be in 2023 on the charge-off front, with provisioning probably this year over charge-offs.

Q

Right. I guess because in the first quarter we had like an $80-somewhat-million release, we had a $20 million-somewhat build in the second, and I guess just expectations for kind of continued builds.

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

A

Yeah. I think that when you do provide, you're supposed to provide for life of loans, so there are times where you get everything in one particular quarter and then you don't see anything over charge-offs. It's a very tough thing for you guys to model. We actually hold ourselves accountable to the charge-offs, it's what our board holds us accountable for, and getting that volatility in the income statement taken out of the equation.

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

A

But absent changes in the economic scenarios, provisions will likely follow loan growth, right?

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

A

Right.

Q

Right, and maybe shifting gears to capital. I think you've talked to a 9.25% to 9.75% CET1 target. I guess, how do you think about that relative to versus – and then you have loan growth, you have maybe the ability to repurchase shares. Just maybe talk through maybe some of your capital management priorities.

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

A

Well, I'll start and then Deron can weigh in. So, we set an operating range of Common Equity Tier 1 of 9.25% to 9.75%, with the idea we'd operate in the middle. The reason we set the range which is above what regulatorily we need to have obviously is to give us opportunities to invest, and invest is – our first priority would be loan growth and supporting our customers. And we had pretty strong loan growth at the end of this last quarter so if you look at average loan growth, we're about where our peers were. But if you look at ending loan growth, we're ahead of peers because we had a lot that came in literally closed right at the end of the quarter which caused our capital to dip to that 9.2%, 9.25%, the lower end of the range, and we're okay with that; not an issue for us.

We're generating a lot of capital. We did have some share repurchase. You're not going to see that this quarter, may not see it this year. We use that as our last ditch effort to manage capital in that range I just talked about. So, we need to build that back up, knowing that we're going to continue to have some loan growth. Again, I don't think it's as robust as the first half of the year. And we want to make sure we pay an appropriate dividend, 35% to 45% of our earnings in the form of a dividend. We just increased it I think 18% and we're still at the lower end of the range. We were kind of out of that range a little bit. We were on the low side relative to peers; we're trying to catch that up a bit. And then, we use capital that we generate above doing all that for some non-bank acquisitions. You saw the three last year, and in the fourth quarter we'll try not to have them all hit in the same quarter.

But we're looking at things. Nothing large, but from time to time we'll have a non-bank opportunity to help provide a product or service that our customers value that we don't have. And then again, our last thing is share repurchases which we really don't like to do because we want to invest back into the business and grow the business. But if we can't, there are not proper opportunities on a risk-adjusted basis, that's what we'll do; we'll buy our shares back.

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Q

I guess maybe we'll put up the last ARS question. What do you think is the best use of capital for Regions after organic loan growth? And I guess as the audience answers that, you mentioned the three acquisitions you did I guess [indiscernible] (00:32:45), EnerBank, Sabal Capital, Clearsight Advisors. Kind of three very distinct companies but all kind of adds newer, extend kind of existing capabilities. I guess, maybe what else kind of interests you? Where do you think you're lacking? Kind of what other products or services do you need?

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

A

Yeah. We have some opportunities. We talked about the mortgage business. We continue to – we think we have a very low-cost mortgage servicing platform. We've acquired mortgage servicing rights; we'll likely continue to do that. In the wealth management space, we have some niche capabilities in our corporate trust group, institutional trust, and we continue to look for things like we own a funeral trust business which is small but very good business, and so are there other opportunities like that that we can take our institutional trust capabilities and layer those into wealth management. Similarly, we look at RIAs. We have some interest but currently, they traded about two times what we'd be willing to pay. So, I think we're actively looking for how do we add to the wealth management business as an example.

Capital markets, we have most of the capabilities we need. But if we can further enhance products and services we offer our customers through acquisitions like Clearsight which added to our M&A capabilities, we'll certainly make investments there as well. I think if you look at the benefits of – we talked some yesterday about the benefits of our hedging strategy produce a significant amount of cash flow which we then turned around and invested in some of these fee income-generating and portfolio businesses which will provide for profitability in the future. So, the excess return we got from our hedging strategy we put back to work in the business, and that'll pay off over time. We want to continue to do that.

Q

Got it. Looking at the answer to the ARS question, a little bit surprised. But the number one answer, acquiring depository institutions.

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

A

[ph] Jim (00:34:54) must have voted multiple times.

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

A

It should be noted, if you go back to the – thinking about Comerica, if you go to the first slide that came out, 62% of the people in this room said they didn't own the stock. They're the ones who voted for number two.

Q

I guess I got to ask your thoughts around bank acquisition.

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

A

Yeah. I think we've been clear from over the last number of years we just haven't had much interest, no interest in bank acquisition I have to say. We think we have a very good plan. We've been executing our plan. Our plan has delivered, we think, some of the best-in-class results in terms of – for our shareholders. We want to continue to execute that plan. We like these non-bank investments that we've made. Bank acquisition is challenging, it is distracting. That's not to say that something may change in the environment. Lots change in the environment we're in but today, we don't have any interest in bank acquisition.

Q

I guess it's interesting because I covered AmSouth, I covered Union Planters, I covered the vintage Regions, and obviously all came together to create a more scaled institution. Earlier this conference, we heard from JPMorgan, Bank of America, PNC, US Bank all talked about the importance of scale. And David, I think you mentioned scale like 12 times between them. Do you feel you have kind of the scale to compete just in your markets now these bigger banks are kind of becoming bigger...

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

A

Yeah.

Q

...organically? Just can you compete effectively?

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

A

We think we can. And as we talked about, we continue to grow consumer accounts, we continue to grow small business accounts. We're able to make investments in technology that allow us to keep up with our competitors, both our larger competitors particularly, who are entering some of the markets that they haven't been in before that we have long-dominated. But we believe and we continue to focus on providing great service; we continue to make investments in our digital platform, offering products and capabilities to customers. Just stay focused on the things that we can control which is primarily how we serve customers, and we can continue to build a really nice business and provide strong returns for our shareholders.

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

A

In 70% of our markets, we don't have a significant money center presence. We are, to our customers, the money center bank for them. And so to John's point, we continue to provide the service that we're doing where we can compete. A number of transactions that have occurred in our markets have created a lot of disruption; we've been beneficiary of that disruption. And they're great competitors, so you could take a BB&T, you can take a SunTrust, both great competitors; but the two of them, now they're one of them, and we're competing with the new one. And so, same thing just about every other acquisition; there's some competitors being taken out that creates an opportunity for us. Even though they're bigger, we have all the products and product set to compete. And you put the service with that, we think we're in good shape. Competition makes us all better, and we're ready.

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Q

And maybe a First Horizon to boot?

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

A

Yeah.

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

A

Yeah.

Q

I guess you talked to this kind of longer-term ROTCE target of 18% to 20%. Obviously, you're above that. I guess over time, credit will normalize, although the NIM also has some more room to normalize. Is that still, you think, the right number kind of over time for a bank like yourself?

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

A

Well, so I think our return on tangible common was 25% or something like that. We'll have to acknowledge the OCI benefit on the denominator; it makes that look better than it really is. But it's plus 20% when you take that out, so it's above normal. Right now, probably going to remain above normal. When you have a rising rate environment, for a depository institution that has our competitive set as our deposit base – we extract the value when rates are going up – and you have credit that's muted, you're going to make pretty solid returns better than normal. We debate kind of where our returns ought to be. A regional bank is really in the high teens, middle to high teens. It's not a plus 20% business over the long haul, I don't think. If we can get much more efficient and we're pretty good, we're at 54%, if we can get in that 50%, 49% range, maybe you can have returns that are different than they historically have been. But I'm thinking kind of mid to upper teens.

Unverified Participant

Perfect. On that note, please join me in thanking Regions for their time today.

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