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Call Participants

EXECUTIVES

John M. Turner
President, CEO & Director

M. Deron Smithy
Executive VP & Treasurer

ANALYSTS

Ryan Matthew Nash
Goldman Sachs Group, Inc., Research Division

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Presentation

Ryan Matthew Nash
Goldman Sachs Group, Inc., Research Division

Up next, we're excited to have Regions Financial joining us. Regions has continued to navigate the environment better than most, demonstrated by having the lowest deposit cost in our coverage. In addition, they benefit -- they've positioned the balance sheet to benefit when rates are eventually cut due to their dynamic hedging program, which I'm sure we'll maybe talk a little bit about. Here to talk about the strategy is President and CEO, John Turner; also joining him is Treasurer, Deron Smithy.

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Question and Answer

Ryan Matthew Nash
Goldman Sachs Group, Inc., Research Division

So maybe to just kick it off, John, 2023, I think, was a year that was different than I think most of us were expecting when we were sitting here a year ago. Post bank failures, we've seen funding costs increase substantially, and we've seen banks move to shore up the capital basis, and we've also had a wave of regulations.

As I said, you've weathered the environment better than most. So as you think about 2024, how are you feeling about the backdrop? And how do you think Regions is positioned to succeed?

John M. Turner
President, CEO & Director

Well, it's still obviously a pretty uncertain time whether you think about the economy, the political environment in the U.S., the geopolitical concerns we have. Additional regulations seem to be coming our way. So as we think about all that, we want to position ourselves to be cautious and careful.

I think we've spent the last 8 or 10 years repositioning our business, our balance sheet, our income statement to be more consistently performing, to be more resilient. Today, we have a very strong capital position, very strong liquidity position. We operate in really good markets across the Southeast, Texas, and the Midwest. We have a loyal, low-cost granular deposit base, which has served us very well. And so we think we enter 2024 from a position of some strength.

And as we think about our opportunities, we want to be sure to provide capital to our -- in support to our customers and look for opportunities to grow the business to the extent they present themselves. Today, we're -- over the last couple of quarters anyway, originations have largely been to support customers' businesses. Customer demand has certainly softened, but we believe that our economies are still good, and there are opportunities ahead. So we want to take advantage of those as we see them.

Ryan Matthew Nash
Goldman Sachs Group, Inc., Research Division

And maybe to drill in a little bit further. I think you mentioned that earnings or presentation that pipelines are down 50%-plus . Can you maybe just talk about both the supply end of credit that you're seeing in the market in terms of what corporates are saying as you're meeting with them. I think you just referenced that a lot of your borrowing is coming from your customers. While you guys are not under RWA diet like others, what is the appetite to lend at this point?

John M. Turner
President, CEO & Director

Well, we still want to grow our business, although we've indicated we expect sort of flat to modest growth this year and into 2024. As far as supply goes, I would say that there certainly is a more discipline amongst lenders. And so I think credit is clearly constrained. At the same time, demand has come down as customers are more cautious. We see customers making long-term investments if they have to, but if they can defer those investments, they are.

And so to your point, pipelines are down about 50%, customers still feel good about their businesses. Labor is still a constraint for many of the customers that we interact with, particularly in our markets. And rising costs, in particular, cost of materials and, obviously, interest costs are of some concern. But in general, I think customers are in a good place.

We see that in our deposit balances, where wholesale balances are still up 20%-plus over pre-pandemic levels and consumer balances are up 10%-plus over pre-pandemic levels. So the health of the customer is still good. And as a result of that, we feel good about the performance of the customer over the next few quarters.

Ryan Matthew Nash
Goldman Sachs Group, Inc., Research Division

Maybe just drilling one last question on growth. You talked about flat to modest growth. What do you see as the actual drivers of that within the portfolio commercial relative to consumer, and any sort of capital allocation changes we should expect when you think about the loan portfolio?

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John M. Turner
President, CEO & Director

I think the 2 areas, or maybe 3, you'd see some growth in the wholesale business are continued fundings in our multifamily portfolio, which -- where we've made commitments to fund projects in. And we're -- you'll ask me sooner or later about credit quality. Multifamily is an area that we're watching, but we still feel very good about, particularly the projects that we have on the books. So you'll see some growth likely there.

In the middle market, commercial business, again, customers are still investing and borrowing where they have long-term projects and needs to support their business. And then third, naturally, you might expect in the asset-based lending business, we see some opportunity to grow. So that's where growth will come from on the wholesale side.

On the consumer side, our strategy is built around lending to the homeowner, while mortgage is down, HELOC is down, we still see pretty good activity in the consumer unsecured business for home improvement. That's off modestly, but we believe that will continue to provide opportunity for growth.

Ryan Matthew Nash
Goldman Sachs Group, Inc., Research Division

Got it. And you are right, we will talk about credit after, but maybe before we get to credit, we'll talk about some of the juicier things. And Deron, maybe you could shift and talk a little bit about NII. You guys have talked about it potentially bottoming at some point in the middle of the year. Maybe just talk about some of the moving pieces behind how we get to bottoming of NII?

M. Deron Smithy
Executive VP & Treasurer

Sure. There's really 3 main drivers that are playing out over the next couple of quarters. The first is, as you mentioned, we continue to look for opportunities to hedge our downside risk, and that is -- and that's executed through our hedging program.

These were swaps that we've put on several quarters ago that are becoming live over the next couple of quarters. And that gets fully in our run rate by the first quarter. There's some modest negative carry in that today. And so that is a headwind for us over the next couple of quarters, but that's in our run rate by the end of the first quarter.

The second is a positive that will continue for quite some time, which is the continued repricing of the balance sheet. So fixed rate lending, renewals on loans, new originations that's around $12 billion to $14 billion that's picking up close to 200 basis points today. And again, I think that's a trend that continues into 2025.

The third piece is the one that is -- it is overwhelming the repricing positive today, and that is the continued remixing of the deposit portfolio. We've talked about -- really, there's 2 major things that have been going on over the last couple of years. In the post-pandemic period, normalization of surge deposits has occurred as well as a pretty rapid Fed tightening.

And those 2 components have really served to draw deposits off bank balance sheets. And the balances have played out largely as we've expected, but we've certainly seen a more competitive environment over the last couple of quarters post the events of the first quarter. But really, this is a story that is more about consumers continuing to carry marginally more liquidity in their checking accounts and looking for opportunities put that to work.

And so if we look at checking account balances, in relation to spend patterns, we're still slightly above historical trends in terms of how much excess cash customers carry in their checking accounts to cover their spend. And so we've messaged that perhaps $3 billion to $5 billion more normalization is expected over the next couple of quarters. And that gets us back to a multiple of spend that's consistent with where we -- what we experienced pre-pandemic.

Ryan Matthew Nash
Goldman Sachs Group, Inc., Research Division

And the markets are obviously uncertain right now if we're going to see higher for longer or the forward curve come into fruition. We talked about it last night, you seemed a little bit more hawkish than the forward curve. But how does this impact the trajectory of NII over 2024? I think you've indicated that you're relatively neutral from a short rate perspective. But is there an ideal rate environment for Regions?

M. Deron Smithy
Executive VP & Treasurer

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Yes, there is. I would say, if I could choose a rate environment where we perform the best, it's neutral rates with some shape to the curve and a stable economy, and so we've been positioning the balance sheet to get relatively neutral at the top of the rate cycle. And I think we've largely accomplished that.

We're -- as we transition from rising rates to declining rates, there is a bit of transition period as we go through that. But we're, as you mentioned, relatively neutral, but I do think rates coming down to a more neutral stance from a momentary policy standpoint is marginally helpful to us.

Ryan Matthew Nash
Goldman Sachs Group, Inc., Research Division

Maybe just talking about deposits. Can you maybe talk about your views on growing them over an intermediate time frame? And I think you referenced $3 billion to $5 billion of potential declines. Do you expect to see stability once we see those leaving? And regarding non-interest-bearing to total deposits. Maybe just talk about your confidence in seeing that leveling off in the low- to mid-30s%.

M. Deron Smithy
Executive VP & Treasurer

Sure. Again, going back to the normalization that's occurring in non-interest-bearing, we're in the mid-30% today in terms of non-interest-bearing as a percentage of total deposits. That is a bit above what our normal or historical levels are. Obviously, it surged much higher than that during the pandemic period. We think we get back into the low-30s%. And â€“ that's what the $3 billion to $5 billion of continued normalization would represent.

We're continuing to grow customers, accounts, households, that has just been overwhelmed over the last year by the normalization in the post-pandemic period. And so as that normalization of liquidity, from a customer standpoint, plays out over the next couple of quarters, we do expect to be able to grow deposits as we continue to grow customers and households perhaps in the second half of the year.

Ryan Matthew Nash
Goldman Sachs Group, Inc., Research Division

And maybe just tie it altogether, you referenced earlier the bank's hedging program, which you guys have done a great job over the last few cycles. Maybe just talk a little bit about the strategy in place, and does having these hedges in place allow you to get back to that 3.6% to 4% margin that you'd highlighted over time?

M. Deron Smithy
Executive VP & Treasurer

Yes, it does. We spent a lot of time studying our balance sheet, customer behavior through cycles, and we know what our particular risk is for our balance sheet, and that's a lower rate environment. And typically, that comes alongside a weakening economy. And the 2 of those things happening together would put a lot of pressure on our earnings if we weren't actively hedging. And so we have a very disciplined approach to ensure that we're always protecting that downside risk.

And so as you mentioned, we created, through that hedging program, a corridor that I think is pretty durable over the next several years of that 3.60% to 4%. There's a potential to drop below that for -- temporarily as we're transitioning from this higher-for-longer environment to perhaps more normalized rates. But I do think from a long-term standpoint, the hedging program and our just overall balance sheet management, coupled with the funding advantage we have from our deposit base, will allow us to stay in that 3.60% to 4% range.

Ryan Matthew Nash
Goldman Sachs Group, Inc., Research Division

Maybe one last thing to come back to on the deposits. You had been targeting a 40% beta. I think you took it up to 45%. Can you maybe just talk about where you saw the incremental pressure? And how do you think about the risk of further increases from here given how much you've outperformed peers?

M. Deron Smithy
Executive VP & Treasurer

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Yes. It's really just a dynamic of higher for longer. Our messaging initially was, perhaps, we thought the full-cycle beta would be in the 35% range, but that was consistent with Fed policy beginning to return to normal, perhaps earlier than it is going to play out. We thought the Fed might be initially done midyear and returning more to a neutral stance beginning second half of this year. Obviously, that has not occurred.

I do think that the Fed will remain higher for at least a couple of more quarters. I think the market, you mentioned earlier, I think the market is a little ahead of itself in terms of pricing in cuts to the Fed funds rate. We're more in the perhaps second half of next year camp. But in that environment, it's important for us to stay vigilant and always protect the downside. Rates can move pretty quickly as we've seen over the last few weeks.

And so again, it's about establishing that downside protection and giving ourselves the ability to have more stable earnings through an extended period or through all cycles. The betas are playing out to be higher than anticipated just simply because the longer we're at elevated levels, the remixing the opportunity cost of leaving cash idle for our customers, it's -- it continues to be pretty substantial.

And so we think there's continued remixing, and as we get to more normalized levels of cash and/or liquidity buffers, that will cause betas to push modestly higher than we expected, perhaps 40% by year-end. The 45% or mid- 40s%, as we've said, range that you're referencing is assuming that the Fed is on hold at least through midyear and perhaps into the second half of next year. If we started to see the Fed cut rates sooner than that, then you're probably seeing some pressure on betas abate and as we start to bring all the cost down consistent with declining rates.

Ryan Matthew Nash
Goldman Sachs Group, Inc., Research Division

John, maybe coming back to you. I think you guys gave some guidance for the fourth quarter, NII declining 5% as swaps come on, and you've given some other things about capital markets and service charges. Given that we're now 2-plus months into the quarter, any sort of updates on how things are progressing relative to expectations?

John M. Turner
President, CEO & Director

No changes in the expectations we communicated at this point.

Ryan Matthew Nash
Goldman Sachs Group, Inc., Research Division

So no changes in NII, still on target, Dana, is it still on target?

John M. Turner
President, CEO & Director

Dana wouldn't want me to give you any more information on that. So, yes, still on target.

Ryan Matthew Nash
Goldman Sachs Group, Inc., Research Division

Maybe we'll phone a friend. We'll have Dana, maybe he's got anything a bit more incremental.

Deron, as one other follow-up, there seems to be an emerging debate as to the bank's ability to bring down deposit costs in the environment where the Fed does start to ease. Can you maybe just talk about how you're thinking about it? And given your portfolio, lots of low balance retail, do you think you end up looking different than the industry in terms of the ability to bring down deposit costs?

M. Deron Smithy
Executive VP & Treasurer

Well, it's hard to say whether we're going to look different than the industry and our ability. We're competing with all the major players across our markets. And so we certainly can't defy gravity if there are competitive pressures that we have to be respectful of.

I do think the -- our portfolio, given the granularity of the portfolio and the lower concentration in high balance deposits, probably gives us a little more ability to manage costs a little lower. We've certainly seen rate sensitivity in those higher balance customers, both on the commercial side and on the wealth management side in particular.

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But we do have roughly 15% of our deposit base that is indexed or that moves readily with market rates. And so those will start to move immediately when rates move. We have a CD book that has grown over the year. And so there's a little bit of a lag in how that will reprice, but it's relatively short.

And so I do think there is a period, there's an inflection point that there's a bit of a lag for a couple of quarters in being able to fully experience the declining rate betas similar to how they've gone up. But over a year time frame, let's say, I think you'll see us be able to bring rates down consistent with how far they've come.

Ryan Matthew Nash
Goldman Sachs Group, Inc., Research Division

John, '23 has been a challenging year for fee income for the industry. You guys obviously had softness in capital markets and some service charge policy changes. As you look out to '24, maybe just talk about what do you see as the drivers of your fee income over the medium growth, what are the areas you're most excited about. And second, are you expecting debit interchange regulation to happen? And if so, what are -- are there any mitigants?

John M. Turner
President, CEO & Director

Yes. So maybe starting from the end of your question moving forward, if you go back to 2011, we've seen about $175 million reduction in overdraft NSF income and a $300 million impact from Reg E, so almost $500 million. Over that same period of time, we've actually grown in non-interest revenue by $200 million. So we've covered the loss of revenue and added $200 million.

We've done that through growing our capital markets business, growing our mortgage business, growing treasury management, growing the number of accounts, particularly consumer accounts. So we see more consumer activity, debit interchange, and other things that help us grow revenue. And I anticipate that we'll continue to have challenges to our non-interest revenue models.

And the way we're going to overcome that is the way we have in the past. We'll continue to look for ways to grow capital markets. I think mortgage is stabilizing, and we see -- hopefully, we'll see opportunities there, depending upon what the current Basel III proposal does to mortgage, we'll see. But it's been a good business for us.

And mortgage is an important part of our business. 30% of our mortgage originations come from referrals from our branches, and we skew much higher than our peers to a purchased portfolio. And that is a reflection, we think, of the relationship nature of that product and the in-migration of people into our markets.

So -- and then wealth management has been growing nicely despite a lot of volatility in the marketplace. And so we think those are all opportunities to overcome any negative changes to non-interest revenue that are imposed by increasing regulation.

Ryan Matthew Nash
Goldman Sachs Group, Inc., Research Division

I think most would agree that in 2024, at least the first half of the year, it's going to be a challenging revenue backdrop. You guys have done a good job over an extended period of time managing costs. In the most recent years, we've had sort of mid-single-digit growth, ex the fraud costs, which we'll talk about. As you look ahead, you've highlighted that you expect reported expenses to be down maybe core flattish. Maybe just flush out some of the drivers, where are you seeing the opportunities to reduce costs? I know you haven't deferred any investments to a better revenue opportunity.

John M. Turner
President, CEO & Director

Yes. So we're not deferring any investments. We have a big project underway to transform our business and replace our core deposit system. We announced that now, probably 24 months ago or so, and said we thought we could accomplish that within our existing run rate of technology spend, and we still believe that's true. We're on time and on budget. We feel really good about the work that's being done there. Our core expense items are salaries and benefits, occupancy and vendor spend primarily related technology.

We're always looking for ways to do things better and smarter. And we have an opportunity to do that, and the transformation work that we're doing certainly helps us. We're constantly looking for opportunities to renegotiate vendor spend, and we've had nice success there. Leaving facilities, we'll -- we've closed quite a few branches, maybe 500 branches, I guess, since going back over the last 7, 8 years, generally, and we'll continue to look for ways to consolidate our footprint.

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So those are all, obviously, common sense things we do, but they have a real impact and have and will allow us to keep our expenses flat, adjusting for the fraud expense that we had and still invest in our business, still provide opportunities for merit increases for our associates, hire new bankers to put them to work, trying to grow our business, and invest in technology appropriately to keep up with the changing times and needs.

Ryan Matthew Nash
Goldman Sachs Group, Inc., Research Division

Just maybe to touch upon the fraud that you've experienced in the past 2 quarters, and you've highlighted you think that they're going to normalize, but at a slightly higher level. How confident are you as we sit here today, 2 months into the quarter, that you've made the right changes and we're not going to see these elevated operating losses continue?

John M. Turner
President, CEO & Director

I'm very confident. We talked about it as late as yesterday morning, internally. I think we have the right people and processes in place today. The fraud that we experienced occurred over a very short period of time; it was 2 separate schemes. The first was a counterfeit check scheme, which we identified within 4 or 5 weeks of it starting.

The second scheme was a stolen check scheme. And because of the way that works, there's real latency in returns. And we just didn't know it that it happened until the third quarter. We've made some leadership changes in the area back in the April, May time frame. We've installed some new technology that we didn't have. We've got people in place now. And so we're confident we can deliver on our commitment to reduce that fraud expense in the fourth quarter.

Ryan Matthew Nash
Goldman Sachs Group, Inc., Research Division

So if I bring together all the different things we talked about on both revenue and expense, on NII fees, and costs, '24 is going to be a challenging operating leverage for the industry given the headwinds in the first half of the year. Can you maybe just talk about when you think you can return to operating leverage? And what do you see as the main drivers of achieving it over a medium time frame?

John M. Turner
President, CEO & Director

Well, the math works in our favor probably, get to 2025. So that would -- we're committed to generating positive operating leverage there. Sometimes, when it's very challenging to do, and to your point, 2024 is going to be that year, but you can expect us to remain committed to generating positive operating leverage. And I think we'll return to that position in 2025.

Ryan Matthew Nash
Goldman Sachs Group, Inc., Research Division

Maybe let's shift gears to talk about credit. Maybe to kick off, you did see non-performing loans rise 15 bps last quarter, and we saw charge-offs increase. Maybe just talk about what some of the drivers of that were across the portfolio?

John M. Turner
President, CEO & Director

Well, first, I think it's important to sort of set up what do historical levels of charge-offs and non-performing loans look like at Regions. Because we talk about normalization, but normalization is different for everyone depending upon where you are, what your composition of your portfolio is, et cetera.

So if you go back to 2014 to 2019, our charge-offs were somewhere between 40 and 45 basis points pretty consistently. We've guided 35 to 45, and that's where we think we'll perform.

Non-performing loans were, during that same period of time, between 80 and 100 basis points. Today, we're at 65%. I would anticipate over time, as we think about moving to more normalized or historical levels, that you'll see some migration upward in non-performing loans. That's just a natural process and, again, consistent with where we were over that 5-year period. The other thing I think to point out is that from time to time, we will see elevated charge-offs.

One of the things that goes with building a capital markets business, which we began doing in 2014, is you have to bank larger companies, you have to bank companies that have capital markets needs, and so you have the whole larger exposures. And in our

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particular case, and we're doing that, we've seen our capital markets business grow from roughly $70 million in revenue to $350 million, $360 million, or $300-plus million last year, and we believe it will continue to grow. Count that, that brings with it some credit risk. And so again, we've pointed that.

In terms of credit, there are a couple of areas that we've -- I think, consistently said we've been watching office where we have modest exposure, and we think it's well managed. Transportation, sort of on the lower end of the transportation space. There's been -- I think that's been well documented as an area of some risk. Consumer durable goods, consumers are buying less goods and more services, again, something I think that's been well documented.

And then in our particular portfolio, information and technology, we had large non-accrual last year in the information -- last quarter in the information space. Those are areas that are demonstrating some weakness, but we've got great balance and diversity across our portfolio, and we don't see any major areas of concern at this point.

Ryan Matthew Nash
Goldman Sachs Group, Inc., Research Division

Maybe just to follow up, maybe can you dig in a little bit further on multifamily, what you're seeing. And as you look ahead to '24, I know we'll get formalized guidance in January, but how are you thinking broadly about loss content in the portfolio in the year ahead?

John M. Turner
President, CEO & Director

Yes. So with respect to multifamily, we are seeing -- rents are not rising as fast as they were, and in some markets, they've essentially stabilized. Costs are rising, whether it be insurance cost, interest cost, obviously, associated with projects. And so that's creating some softness in multifamily. At the same time, we've got a lot of product coming on the market, in some specific markets that are -- have been growing and have been targeted for growth.

Our view is that those projects have been well underwritten, that there is significant need for housing in those markets. An example would be Raleigh or Atlanta, or possibly, Dallas. As an example, we've got a lot of things coming on the market. You may see some softness. We don't think -- and even maybe some deterioration in credit quality, but we just don't see any loss content in our portfolio or, frankly, in the sector.

I think that while there will be some softening over a 12- to 18-month period, that excess supply will be absorbed, and the fundamentals of multifamily space are still good. There's a big need for housing. Single-family housing is not being constructed at a rate that really is even competitive with multifamily. And so I think that will bode well for that sector. What was the second part of your question?

Ryan Matthew Nash
Goldman Sachs Group, Inc., Research Division

'24?

John M. Turner
President, CEO & Director

We got it to 35 to 45 basis points. And at this point, we don't anticipate that necessarily changing.

Ryan Matthew Nash
Goldman Sachs Group, Inc., Research Division

Maybe one last question on credit before we shift to capital. You made some changes to the product offering within EnerBank. Maybe just talk to what led to that decision? And any areas of softness that you're watching more closely on the consumer side?

John M. Turner
President, CEO & Director

Yes, within EnerBank, we called out a particular product related to solar. That was a product that was built around this idea that you could get energy tax credits essentially, solar tax credits, offset the cost of construction. At the same time, you derive the benefit from reduced energy bills, and that worked in a low rate environment. The product provided customers a 12-month plus or minus sort of construction period, where interest accrued, but they had no payments. And as soon as the 12-month construction period ended, it converted to payments.

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Well, that -- again, that worked fine when rates were low, we had to make a concession to the vendor to help the customer fund it. And so as rates begin to rise, it became apparent to us that that was a non-economic product. And I think it's not a â€“ it won't have a big impact on Regions. I think we called it out really as an example of the discipline that we're demonstrating around capital allocation and risk-adjusted returns and just risk management. But we created a little more conversation about it, we probably would want to.

Ryan Matthew Nash
Goldman Sachs Group, Inc., Research Division

Sure. Deron, maybe we'll -- both of you will close with thoughts on capital. So you're operating above 10% at 10.3% on the high end of peers and above your target. I think in the Q, you disclosed you bought back some stock. Can you maybe just talk about, for the current environment, where is the right level for Regions to operate? And how do you think about use of the phase-in as we have regulatory changes coming?

M. Deron Smithy
Executive VP & Treasurer

Yes. So as we've talked about, the total of the regulatory changes that are coming down the pike, and it will be phased in over a number of years, will cause us to need to carry more capital dollars. We've done pro forma analysis of that and have concluded that as long as we keep capital above 10% between now and the phase-in periods, then we can meet those requirements as they become effective.

That is our longer-term target for capital or operating range for capital has historically been 9.25% to 9.75%. And that's more representative of what we think the level of capital that's necessary to manage the risks in our business and give us an opportunity to use our capital for growth. The way the regulatory changes will be implemented are more in increasing risk-weighted assets.

And so you won't -- today, we are carrying more dollars in the ratio. But in the future, it will be a higher risk-weighted asset number, and you should see the capital ratios move back down into -- post those changes to risk-weighted assets move back down into our operating range.

But we are generating a lot of capital, as you pointed out, at the margin, and we're at the level that we think where we needed to be for the upcoming changes. NAME And so it does give us quite bit of flexibility to continue to grow our business where we see opportunities to do that, to maintain an appropriate dividend and continue to grow the dividend as earnings grow over time.

And if there's excess above that level, that we need to meet the regulatory requirements, we will engage in share repurchases. We have started that, as you pointed out, in the quarter. But again, you should expect us to maintain at least in the low-10s%, so that we have the opportunity to meet the upcoming regulatory requirements with flexibility.

Ryan Matthew Nash
Goldman Sachs Group, Inc., Research Division

Deron, one thing we've started to see more of in securities portfolio restructurings, given your strong capital, we've seen rates come in, which in theory should be helpful. How are you thinking about the repositioning of the securities portfolio? And how do you think about this relative to other uses of capital?

M. Deron Smithy
Executive VP & Treasurer

So we've been analyzing that for quite some time. The shape of the curve matters a lot. We've seen rates come down quite a bit. For a bit of time, it had steepened nicely, and that makes the math on that work out a little better. The payback periods are a little over 2 years today, and we would think about that in the con of our use of capital for growth in the business or share repurchase and its contribution to EPS and/or the tangible book value.

And so we think about those uses of capital, the way we think about all the uses of capital across the range of alternatives. And so we'll continue to look at that. It is -- I would say, it is something that we do think makes financial sense. But where the market is, where rates are, and the shape of the curve has a lot of influence on that.

Ryan Matthew Nash
Goldman Sachs Group, Inc., Research Division

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Maybe, we're in the last minute. John, we talked about this last night at [dinner], you guys have done lots of successful bolt-on transactions, BlackArch, Ascentium, Sabal, EnerBank. As you think about the opportunities set here today, what are the areas of focus for you for any sort of non-bank acquisitions? And does operational risk regulation change your appetite at all for something like this?

John M. Turner
President, CEO & Director

Well, it may. I mean we have to see how that turns out. But we continue to want to grow our capital markets business and look for opportunities to do that. The investments we've made have been really meaningful. We're buying more servicing rights. We like that. We're a low-cost provider. We think we can originate mortgages at almost 40% less than cost than most of our peers and our -- again, our servicing book and servicing business is a reliable low-cost business that we like.

We're investing -- like to continue to invest in wealth management, which provides opportunities for growth and has certainly been good to us. And we will look for other things that make sense that connect and allow us to extend our capabilities and meet our customers' needs.

Ryan Matthew Nash
Goldman Sachs Group, Inc., Research Division

Since I know this is going to be a quick answer, do you think '24 is the year we see the return of bank mergers?

John M. Turner
President, CEO & Director

I think we will. I don't know -- I think, certainly on the lower end of the cohort of banks and the above hundreds, I'm not sure, Regions will not be participating. But just that's consistently been our point of view is that M&A is disruptive. We think we have -- I'm sorry about that to our friends over in the corner over here, our investment bankers -- but we have continued opportunity. We just like to execute our plan and deliver top-quartile returns for our shareholders, and we'll continue to do that, particularly in what's an uncertain regulatory environment.

Ryan Matthew Nash
Goldman Sachs Group, Inc., Research Division
Great. Well, we're out of time. So please join me in thanking Regions.

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