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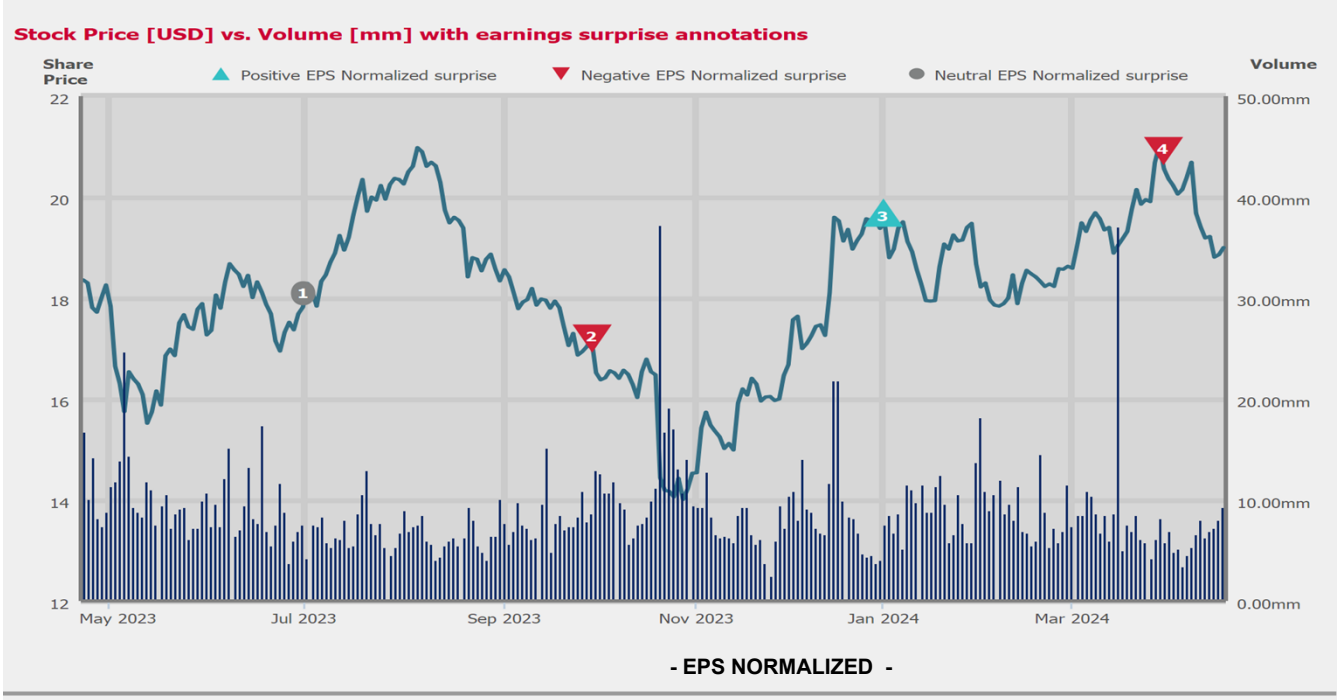
FQ1 2024 Earnings Call Transcripts

Friday, April 19, 2024 2:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ1 2024-			-FQ2 2024-	-FY 2024-	-FY 2025-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.46	0.44	(4.35 %)	0.47	1.97	NA
Revenue (mm)	1757.79	1760.00	0.13	1765.83	7139.87	NA

Currency: USD
Consensus as of Apr-19-2024 1:00 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ2 2023	0.59	0.59	1 0.00 %
FQ3 2023	0.58	0.50	2 (13.79 %)
FQ4 2023	0.48	0.52	3 8.33 %
FQ1 2024	0.46	0.44	4 (4.35 %)

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Presentation

Operator

Good morning, and welcome to the Regions Financial Corporation's quarterly earnings call. My name is Christine, and I will be your operator for today's call. [Operator Instructions] I will now turn the call over to Dana Nolan to begin.

Dana Nolan
EVP & Head of Investor Relations

Thank you, Christine. Welcome to Regions First Quarter 2024 Earnings Call. John and David will provide high-level commentary regarding our results. The earning documents include a forward-looking statement disclaimer and non-GAAP information are available in the Investor Relations section of our website. These disclosures cover our presentation materials, prepared comments and Q&A.

I will now turn the call over to John.

John M. Turner
President, CEO & Director

Thank you, Dana, and good morning, everyone. We appreciate you joining our call today. This morning, we reported first quarter earnings of $343 million, resulting in earnings per share of $0.37. However, adjusted items reconciled within our earnings supplement and press release, representing an approximate $0.07 negative impact on our reported results.

For the first quarter, total revenue was $1.7 billion on a reported basis and $1.8 billion on an adjusted basis as both net interest income and fee revenue demonstrated resiliency in the face of lingering macroeconomic and political uncertainty. Adjusted noninterest expenses increased quarter-over-quarter and is expected to represent the high watermark for the year as seasonal impacts offset our ongoing expense management actions.

Average loans were lower quarter-over-quarter, reflecting limited client demand, client selectivity, paydowns and an increase in debt capital markets activities. Average in ending deposits continued to grow during the quarter, consistent with seasonal patterns. Credit continues to perform in line with our expectations. While pressure remains within pockets of business lending, our consumers remain strong and healthy. We anticipate overall asset quality will perform consistent with historical levels experienced prior to the pandemic.

In closing, we feel good about the successful execution of our strategic plan as evidenced by our solid top line revenue, which allows us to continue delivering consistent, sustainable long-term performance while focused on soundness, profitability and growth.

Now Dave will provide some highlights regarding the quarter.

David Jackson Turner
Senior EVP & CFO

Thank you, John. Let's start with the balance sheet. Average and ending loans decreased modestly on a sequential quarter basis. Within the business portfolio, average loans declined 1% as modest increases associated with funding previously approved in investor real estate construction loans were offset by declines in C&I lending. Approximately $870 million of C&I loans were refinanced off of balance sheet through the debt capital markets during the quarter.

Average consumer loans remained relatively stable as growth in residential mortgage, EnerBank and consumer credit card were offset by declines in home equity and run-off portfolios. We expect 2024 average loans to be stable to down modestly compared to 2023.

From a deposit standpoint, deposits increased on average and ending basis, which is typical for the first quarter tax refund season. In the second quarter, we expect to see declines in overall balances, reflecting the impact of tax payments.

The mix of deposits continue to shift from noninterest-bearing to interest-bearing products, though the pace of remixing has continued to slow. Our analysis of the trends and overall customer spending behavior gives us confidence that by midyear, we'll have a noninterest-bearing mix in the low 30% area which corresponds to approximately $1 billion to $2 billion of potential further decline in low interest savings and checking balances.

So let's shift to net interest income. As expected, net interest income declined by approximately 4% linked quarter, and the net interest margin declined 5 basis points. Deposit, remixing and cost increases continue to pressure net interest income. The full rising rate cycle

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interest-bearing deposit beta is now 43%, and we continue to expect to peak in the mid-40% range. Offsetting this pressure, asset yields continue to benefit from higher rates through the maturity and replacement of lower-yielding fixed-rate loans and securities. We expect net interest income to reach a bottom in the second quarter followed by growth over the second half of the year as deposit trends continue to improve and the benefits of fixed rate asset turnover persist.

The narrow 2024 net interest income range between $4.7 billion and $4.8 billion portrays a well-protected profile under a wide array of possible economic outcomes. Performance in the range will be driven mostly by our ability to reprice deposits. A relatively small portion of interest-bearing deposit balances is responsible for the majority of the deposit cost increase this cycle, mostly index deposits and CDs. We have taken steps to increase flexibility such as shortening promotional CD maturities and reducing promotional rates. If the Fed remains on hold, net interest income likely falls in the lower half of the range, assuming modest incremental funding cost pressure.

So let's take a look at fee revenue, which experienced strong performance this quarter. Adjusted noninterest income increased 6% during the quarter as most categories experienced growth, particularly capital markets. Improvement in capital markets was driven by increased real estate, debt capital markets and M&A activity. A portion of both real estate and M&A activities were pushed into the first quarter from year-end as clients delayed transactions.

Late in the first quarter, we also closed on the bulk purchase of the rights to service $8 billion of residential mortgage loans. We have a low-cost servicing model. So you'll see us continue to look for additional opportunities. We continue to expect full year 2024 adjusted noninterest income to be between $2.3 billion and $2.4 billion.

Let's move on to noninterest expense. Adjusted noninterest expense increased 6% compared to the prior quarter, driven primarily by seasonal HR-related expenses and production-based incentive payments. Operational losses also ticked up during the quarter. The increase is attributable to check-related warranty claims from deposits that occurred last year. Despite this increase, current activity has normalized to expected levels, and we continue to expect full year 2024 operational losses to be approximately $100 million.

We remain committed to prudently managing expenses to fund investments in our business. We will continue focusing on our largest expense categories, which include salaries and benefits, occupancy and vendor spend. We continue to expect full year 2024 adjusted noninterest expenses to be approximately $4.1 billion with first quarter representing the high watermark for the year.

From an asset quality standpoint, overall credit performance continues to normalize as expected. Adjusted net charge-offs increased 11 basis points driven primarily by a large legacy restaurant credit and one commercial manufacturing credit. As a reminder, we exited our fast casual restaurant vertical in 2019 and the remaining portfolio is relatively small.

Total nonperforming loans and business services criticized loans increased during the quarter and continue to normalize towards historical averages, while total delinquencies improved 11%. Nonperforming loans as a percentage of total loans increased to 94 basis points due primarily to downgrades within industries previously identified as under stress. We expect NPLs to continue to normalize towards historical averages.

Provision expense was $152 million or $31 million in excess of net charge-offs, resulting in a 6 basis point increase in the allowance for credit loss ratio to 1.79%. The increase to our allowance was primarily due to adverse risk migration and continued credit quality normalization, and incrementally higher qualitative adjustments for risk in certain portfolios previously identified as under stress. We continue to expect our full year 2024 net charge-off ratio to be between 40 and 50 basis points.

Let's turn to capital and liquidity. We expect to maintain our common equity Tier 1 ratio consistent with current levels over the near term. This level will provide sufficient flexibility to meet proposed changes along with the implementation timeline while supporting strategic growth objectives and allowing us to continue to increase the dividend commensurate with earnings. We ended the quarter with an estimated common equity Tier 1 ratio of 10.3%, while executing $102 million in share repurchases and $220 million in common dividends during the quarter.
With that, we'll move to the Q&A portion of the call.

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Question and Answer

Operator

[Operator Instructions] Our first question comes from the line of Ebrahim Poonawala with Bank of America.

Ebrahim Huseini Poonawala
BofA Securities, Research Division

David, just following up on your comments around noninterest-bearing deposits sitting mid -- I guess, low 30% by mid-2024. Just give us a sense of if we don't get any rate cuts, do you see that dipping below 30% based on what you're seeing in terms of customer behavior and just use of balances as I'm assuming there's some attrition on consumer balances that's at play here?

So like where do you see that mix bottoming out? And what's the latest that you are seeing in terms of pricing competition across the markets?

David Jackson Turner
Senior EVP & CFO

Yes. So from a balance standpoint, we still feel pretty confident based on flows that we have seen and expect that we'd be in that low 30% range. We continue to look to grow noninterest-bearing balances through new checking accounts, new operating accounts. That's what's important to us. That's what fuels our profitability.

And so being in the favorable places, in particular, in the Southeast where there's migration of businesses, people give us some comfort that we can grow there. We talked about deposits bottoming out this first half of the year and then maybe growing a little bit from there. So I think that low 30% range is a good -- still a good level.

With regards to competition on pricing, I think at the end of the day, we haven't seen, across the industry, a lot of loan growth. And as a result of that, competition for deposits is not as strong as it could have been had we had a lot of loan demand.

We always have competition. We have to be fair and balanced with our customers and making sure that we are creating value. And so we look at what our competitors are doing from a price standpoint, and we adjust accordingly. But there's nothing unusual that's happening there. And I think the biggest driver of that is because of the lack of loan growth.

Ebrahim Huseini Poonawala
BofA Securities, Research Division

That's helpful. And just a separate question. As we think about capital deployment that you outlined on Slide 10, is there more to go in terms of just the appetite for securities repositioning? And how much should we expect in terms of what you did in 1Q with regards to the lift in the second quarter to bond yields?

David Jackson Turner
Senior EVP & CFO

Yes. So we consistently challenge ourselves on what's the best use of our capital that we generate. Obviously, we're at a robust 10.3% common equity Tier 1. We think we're close enough to be in striking distance on whatever the regime changes with regards to capital. And again, with loan growth being muted in the industry, we want to pay a fair dividend. So we're generating capital that needs to be put to work. We either buy the shares back or we do things like securities repositioning.

We did the $50 million in the first quarter. We'll continue to look for opportunities. I would say that proof is not as close to the ground as it was because we want to keep our payback less than 3 years and frankly closer to 2.5 if we can get it. Our payback in this last trade was about 2.1. And so we think that was a great use of capital for us. And so we'll look to do that, but we're not committing to it.

Operator

Our next question comes from the line of Scott Siefers with Piper Sandler.

Robert Scott Siefers
Piper Sandler & Co., Research Division

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I was hoping you could please flesh out some of the rationale behind the softened loan growth outlook. I certainly understand it, given the backdrop and what we're seeing in the H8 data. But it in ways contrast with some peers who might be expecting more of an acceleration in the second half. So just curious to hear your updated thoughts on customer demand and how they're thinking.

David Jackson Turner
Senior EVP & CFO

Well, on the consumer side, as we mentioned, we did a pretty good job growing mortgage, growing EnerBank, growing card, but it was offset by declines in the home equity which made consumers flat. Consumers are actually in really good. Now we feel good about that, we just don't see a lot of loan growth -- net-net loan growth.

Relative to commercial, depending on the industry, some industries are blowing and going, and others are being careful at this point. We've had nice production, but we've had payoffs and pay downs. And of course, this past quarter, we had $870 million of debt placements through our M&A group that helped us from an NIR standpoint, but obviously hurt us from a balance standpoint. If we start seeing rates actually decline, that activity will pick up. And so net-net, it's going to be hard to grow meaningfully through all of that activity.

And we're fine with that. We don't need to push. In this environment, there's still uncertainty. We don't need to push for loan growth. We need to be careful on client selectivity. John has talked about that numerous times. And we want to be careful. We clearly have the capital and liquidity to do so. And if we see opportunities, we'll grow, but we're not going to force it.

Robert Scott Siefers
Piper Sandler & Co., Research Division

Okay. Perfect. And then separately, I was hoping you could discuss the additional operational losses. it was definitely glad to see no change to the full year expectation, though they were elevated in the first quarter. Maybe just an additional color. Were there new instances of the issues that have cropped up last year? Or were these just sort of true-ups? And what gives you confidence that all the issues are still resolved and everything?

John M. Turner
President, CEO & Director

Yes. This is John. So there were no new events. The tail was, with respect to the breach of warranty claims, was a little longer than we anticipated. And as a result, we did incur some additional losses in the quarter.

What gives us confidence that we can meet our expectations is the exit rate for the quarter was significantly reduced, which implies that the countermeasures we put in place, the talent that we've recruited for our fraud prevention activities, all of that is working and gives us confidence that we can and in fact, meet our $100 million target for the year.

Operator

Our next question comes from the line of Betsy Graseck with Morgan Stanley.

Betsy Lynn Graseck
Morgan Stanley, Research Division

So one question just on how we're thinking about NII for the full year in relation to loan growth being a little slower. So I just wanted to understand, your NII guide obviously, is the same as it was before. Loan growth expectations, a little lower understandably so. How do I square those things?

David Jackson Turner
Senior EVP & CFO

Well, loan growth, we had talked about being in the back half of the year. So you weren't going to get a lot of carry from loan growth in our guidance. And so really what we want to see loan growth for the back half of the year is setting us up for 2025, not for 2024. So that was never factored into the guidance that we gave you on NII.

We feel good about where we're positioned from a balance sheet standpoint with basically neutral to short-term rates. And we have a little bit of shape to the curve where we reinvest our securities book and we're picking up a little over 200 basis points -- 235 basis points on that, front book, back book. So that gives us confidence there that we're going to do pretty well with regards to the NII.

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And if you look at the input cost, so our deposit cost, they've also started to flatten. If we look at the months of February and March, there was little change in our deposit costs. So our cumulative beta, which is at 43 today, we said would be in the mid-40s. We have a lot of confidence in that. So that's why we didn't change our NII guide.

Betsy Lynn Graseck
Morgan Stanley, Research Division

Okay. Got it. That makes a lot of sense. And then just on the securities repositioning that you talked about on Slide 5, is it? Just wanted to understand how you're thinking about the go forward here. You added some duration, again, makes sense, but wanted to know if you're thinking of leaning in even more? Like how long will -- are you comfortable extending the duration of the securities book is basically the question.

David Jackson Turner
Senior EVP & CFO

Well, our extension duration was only like 1-2, 12 basis points a year. So negligible. And from our standpoint, especially if you believe the risk of rates going up is very low, i.e., you believe they're either flat to down, then perhaps taking a little duration risk where we can get compensated for make some sense today.

Our duration naturally is declining. So doing a trade to kind of keep it flat to modestly higher than where we are right now, it seems to make sense. And it's a good use of capital. If we can get a payback, like I said, the one we just did, our payback's 2.1 years. We'd like it to be less than 3, closer to 2.5 if we can.

And so while we won't commit to doing that, we would look at it. And if we did it, it would be no more than what you just experienced. We want to keep it at a fairly small percentage of our pretax income.

Operator

Our next question comes from the line of John Pancari with Evercore ISI.

John G. Pancari
Evercore ISI Institutional Equities, Research Division

On the credit front, saw about a moderate increase in nonperformers in the quarter. However, your loan loss reserve is pretty stable despite the move-in reserves. So -- I mean, not performance, so I just want to see if you get a little bit of color on how you're thinking about the reserves here? And also, maybe if you can give a little bit more color behind the nonperformers.

John M. Turner
President, CEO & Director

Yes. John, maybe I'll start. This is John Turner. First of all, we began signaling now a couple of quarters ago, stress in a couple of specific portfolios or industries: office, senior housing, transportation, health care, specifically goods and services, and technology. And the increases that we are seeing in nonaccrual loans and classified loans are largely consistent with the indication that there is stress in those particular industries.

In fact, when you look at our nonaccruals, 21% of our -- 21 of our nonaccruals -- excuse me, 21 credits make up 72% of our nonaccruals, and 18 of those 21 credits are in those 5 sectors that I mentioned. So we did anticipate that we would see some deterioration, and that's been consistent with our expectations.

The second thing I'd point to is several quarters ago, we began to set the expectation that we would return to prepandemic historical levels of credit metrics. And specifically, that would be an average charge-off ratio of about 46 basis points, and nonaccruals of 105 basis points. And again, we are -- we have trended back to those ranges, which is consistent with our expectations.

With regard to the allowance, we go through the process every quarter to ensure that we're properly reserved against expectation for loss in those portfolios. Given that we have a very high degree of visibility into the 21 credits that make up 72% of our nonaccruals, you can expect that we feel very good about our reserve position.

John G. Pancari
Evercore ISI Institutional Equities, Research Division

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Okay. Great. And then separately, on the expense front, I know you mentioned that the first quarter should represent the high watermark on expenses. Is that primarily because of the elevated operating losses? Or do you expect some building efficiencies through the remainder the year, either given the backdrop or given the revenue picture?

David Jackson Turner
Senior EVP & CFO

John, several things. And we have probably $75 million worth of expense we can point to on different front. So part of it is operational losses that we don't think will repeat. We obviously have the first quarter issues with regards to payroll taxes and things of that nature. We had HR asset valuation that's offset in NIR that's a part of that, too. We have some things in occupancy and professional fees.

If you add all that up, it's about $75 million, and we have pretty good confidence that, that won't repeat. We tried to signal that the first quarter was going to be the high watermark and that you couldn't take the $4.1 billion and divide by 4, and we're sticking to that, and we're sticking to our guidance that we have. And we have pretty good confidence. We did take some actions this quarter like we did in the fourth quarter from a severance standpoint.

Now the first quarter has the normal expense of payroll for those folks in addition to the severance. So that won't repeat. So all of that, like I said, adds up to right around $75 million.

John M. Turner
President, CEO & Director

And that's just -- we have other opportunities to reduce expenses as well. That's just an indicator of what we can pretty quickly identify it won't repeat.

John G. Pancari
Evercore ISI Institutional Equities, Research Division

And if I could ask just one follow-up related to that. Is your -- the status of your core systems conversion. Is that still trending as expected in terms of timing and cost?

John M. Turner
President, CEO & Director

It is. Yes. We, in fact, just had a Board meeting this week and went through all that detail with our Board. We feel good about the project and the progress that we're making and our ability to stay on budget on time.

Operator

Our next question comes from the line of Ken Usdin with Jefferies.

Kenneth Michael Usdin
Jefferies LLC, Research Division

Wondering if we -- David, you could talk a little bit about that bullet you put in on Slide 5 about stable deposit costs, February to March. And what our takeaway should be in terms of mix shift pricing movement, et cetera, and I know you talked about still mid-40s deposit betas, but just what's changing underneath in terms of that stability that you're starting to see?

David Jackson Turner
Senior EVP & CFO

Yes. Part of -- one of the big reasons we put that in there is because our deposit cost change was higher than what you're seeing from peers, but that's because of what we did in the fourth quarter, and you had a full quarter effect of that.

Now that we've kind of got that baked into the base, and we start seeing offers and things of that nature on the deposit offerings coming down, the exit in February and March gives us a lot of confidence that those deposit costs are stabilizing and therefore, we have a lot of confidence in our cumulative beta band in the mid-40s. So a couple of more points from where we are today.

Kenneth Michael Usdin
Jefferies LLC, Research Division

Okay. And I guess as a follow-up, are you starting to change pricing, change offers, bring in duration? What are you doing in terms of trying to take that point further?

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David Jackson Turner
Senior EVP & CFO

Yes, that's a good point, Kenneth. So yes, we started that last quarter. Actually, we had some CD maturities coming that were longer dated 12-, 13-month CDs and we went shorter in the 5- to 7-month range that to be able to reprice those this year with the original expectation the rates would be coming down sooner than they probably are now. And so -- yes.

And we can see from a competitive standpoint, we want to be competitive, we don't have to lead with price, but we do need to be fair and balanced. And so you're starting to see the benefit of having the promotional rates coming down here.

Kenneth Michael Usdin
Jefferies LLC, Research Division

Okay. And on that last point about the higher for longer, you've talked about the $12 billion to $14 billion of fixed rate production for a while now and you say that's per year. Has the benefit from that also -- does that get better and higher for longer? And how does that differ when you think about this year versus next year?

David Jackson Turner
Senior EVP & CFO

Yes, I would say marginally higher for longer because you have a lot of securities that are repricing, that we're picking up about 235 basis points today. We're picking up, call it, 125 basis points on the loan side.

So if you get -- and we expect to get the deposit costs stabilized then you don't -- then the repricing can actually start overwhelming the costs that you had on the deposit side. That has not been the case thus far. It's been just the opposite. So you're going to see that turn, which is why we're calling the bottom for us in the second quarter.

Operator

Our next question comes from the line of Dave Rochester with Compass Point.

David Patrick Rochester
Compass Point Research & Trading, LLC, Research Division

Just on credit regarding the large restaurant credit and the commercial manufacturing credit, could you guys quantify the impacts on net charge-offs and provision this quarter? And if you could just give some additional background on where you are in the resolution process there, that'd be great.

David Jackson Turner
Senior EVP & CFO

So if you were to look at those two added together, just those two made about 7 basis points of charge-offs. So if we didn't have those two, our 50 would have been 43.

David Patrick Rochester
Compass Point Research & Trading, LLC, Research Division

Great. And then where are you guys in the process of resolving those?

David Jackson Turner
Senior EVP & CFO

Say that again?

David Patrick Rochester
Compass Point Research & Trading, LLC, Research Division

Where are you in the process of resolving those credits?

John M. Turner
President, CEO & Director

They're both still being worked out.

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David Patrick Rochester
Compass Point Research & Trading, LLC, Research Division

Okay. And I guess just bigger picture with you reiterating the net charge-off guide here for the year of 40 to 50 bps, you're at the high end of that right now. So you're expecting that to either remain stable here or decline through the end of the year, and you have confidence around that?

John M. Turner
President, CEO & Director

Yes, we do.

David Patrick Rochester
Compass Point Research & Trading, LLC, Research Division

Great. And then just switching to deposits with the recent inflation data that's been elevated and the shift to expectations to fewer rate cuts this year, are you noticing any impact from any of that on your corporate deposit customers' behavior at all? Are you seeing any change in activity there? And does that impact your expected range of NIB remix at all for the year?

David Jackson Turner
Senior EVP & CFO

No. Our NIB largely comes from our consumer base. We do obviously have a big NIB on the commercial side. I think folks that were going to move out of NIB to seek rate have done so. And we think that that's why we're calling for our NIB to decline a little bit but still stay in the low 30% range.

And they all just want to maintain a little bit more liquidity going into a cycle that still has uncertainty, geopolitical risk, our own elections this year. But no, I don't think from an inflation standpoint, we're going to see a huge change from NIB.

Operator

Our next question comes from the line of Matt O'Connor with Deutsche Bank.

Matthew Derek O'Connor
Deutsche Bank AG, Research Division

Was just wondering if you could elaborate a little bit on some of the fee trends the deposit service charges were up nicely. And I know the treasury management is a big part and a positive driver, but there is weaker seasonality. So I was wondering if you can scale that out.

John M. Turner
President, CEO & Director

Yes. So if you look at -- just talk about fee revenue across different parts of the business. Treasury management is up 7% year-over-year, and that's a reflection both of increases in fees and increases in relationships and activities.

So the nice growth in that business. Similarly, wealth management is up over 6% year-over-year, which is both reflective of increases in asset valuations and increases in assets held for customers increasing relationships. We also saw a really nice increase in mortgage activity during the quarter, and we would expect that to continue.

Consumer fees are down modestly, and that's a reflection really of the implementation of all the changes we've made to benefit customers with respect to overdrafts. And more specifically, as a result of the implementation of overdraft grades, we've seen about a 25% reduction in the number of customers who are actually overdrawn. So that is resulting in some decline in fee revenue, offset by our -- currently by interchange activity and customers use of their debit cards.

So generally, fee income is solid. We're seeing good growth in the wholesale parts of our business and in wealth management that reflect growth in relationships and growth in activities.

Matthew Derek O'Connor
Deutsche Bank AG, Research Division

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Okay. And then capital markets, that also came in strong, and I think you've had this like $60 million to $80 million range in the past with wind for upside. And yes, just talk to, were there any deals that -- just talk to how sustainable you think that is? Obviously, it's somewhat market dependent, but a little more color on the 1Q driver there and the thoughts going forward.

John M. Turner
President, CEO & Director

Yes. I think we still stick to that range generally and incorporate our expectations for capital markets into the broader guidance of around $2.3 billion to $2.4 billion in adjusted NIR. But we do see good pipelines. Capital markets activity is picking up. There's more M&A activity. We're seeing more customers go to the institutional market to raise debt, which has been helpful.

Our M&A activity was pretty diverse during the quarter. And then real estate capital markets, which is a really important business for us is also very active. And so we feel pretty good about the $60 million to $80 million range for the quarter.

Operator

Our next question comes from the line of Gerard Cassidy with RBC.

David Jackson Turner
Senior EVP & CFO

Gerard, before you ask your question, let me clean something up from a question that just came up in terms of the, what's the charge-off percentage would have been had we not had those two large credits. I said 7 basis points. It's 13 basis points actually. So we would have been at 37 had we not had those two. I didn't do the math correctly. I just want to make sure that gets fixed in the transcript.

Gerard Sean Cassidy
RBC Capital Markets, Research Division

Very good. All set?

John M. Turner
President, CEO & Director

Gerard, fire away.

Gerard Sean Cassidy
RBC Capital Markets, Research Division

Can you give us an update where the proposal is going for the long-term debt? And when do you think that will be finalized in the NPR that's out there?

And second, as part of that, what your latest estimate is? I know you've given us some color on this in the past, but what's your latest estimate and what it might cost you once you have to -- and your peers, of course, have to issue the debt and carry higher levels of debt?

David Jackson Turner
Senior EVP & CFO

Yes. So Gerard, the whole Basel III and long-term debt has kind of gone into a little bit of a hold at the time. We're not sure when that will get taken care of. We suspect it will be this year at some point. The proposal on debt was to have 6% of RWA, which is about $7 billion for us. To give you credit for what you have outstanding, which is a couple of billion. So you're talking about raising $5 billion.

We can leverage that and put it to work. And it wasn't a terrible drag on NII, less than 1% drag on NII for us. It's fully implemented and this was going to take time to do that. We need to have some -- our $2 billion of existing long-term debt is -- it's something we were going to address just in a natural order of things. But with loan growth being muted, there's no need to go out and raise debt if you don't have to have it.

We're hoping that the proposal cuts down from the 6% number. There's been talk of it maybe being in the 2% to 3% range of RWA, but we don't know. We'll just have to adapt and overcome when the new rule gets put out.

Gerard Sean Cassidy
RBC Capital Markets, Research Division

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Very good. And then as a follow-up, you've been very clear about the identification of the stress portfolios with credit. In your prepared comments, David, you mentioned that some of the increase in the nonperformers was due to -- I think you said, yes, some of it was due to the downgrades in certain -- in those industries that you have identified. Can you share with us what -- within those downgrades, what process -- or not the process, but what caused the downgrades? Was it debt service coverage? Was it the business, the borrowers' business is deteriorating for some reason? Can you give a little more color on the downgrade part of that?

David Jackson Turner
Senior EVP & CFO

Gerard, usually, we're seeing strength in consumers and businesses in general. There are pockets of stressed industries that John mentioned earlier. I think at the end of the day, they seem to be more idiosyncratic to the business model of that borrower, and these are valuation charges that are being taken. And so you don't have any one -- when you kind of cut to the chase, you think about credit risk actually being fairly good right now, but you're going to have these pockets -- these one-off pockets, as I just mentioned, just two credits for us. It's a big deal in terms of the effect on the charge-off percentage. So -- and we don't see it as a contagion as much as we see it as an idiosyncratic business issue.

Gerard Sean Cassidy
RBC Capital Markets, Research Division

I see. So it wasn't really like across the board, the higher rate environment for these downgrades really affected it, but it was more idiosyncratic for each one of the borrowers.

John M. Turner
President, CEO & Director

I think the one exception to that, Gerard, would be transportation where we are seeing that industry, particularly the truckload industry and smaller borrowers is under some stress and valuations -- equipment valuations are also under stress. I mean, obviously, if you think about real estate-related portfolios, office and senior housing, in particular, you can understand why those are also under stress, but transportation would be the one area where I would say it feels like across that industry for the truckload related. The less in truckload businesses are still doing okay, but truckload-related carriers are having challenges.

Operator

Our next question comes from the line of Christopher Spahr with Wells Fargo.

Christopher James Spahr
Wells Fargo Securities, LLC, Research Division

So my question is just relating to the shift in loan mix over the last few years, particularly with EnerBank and comparing it to the average prepandemic charge-offs. And kind of your thoughts on where you think the mix would have -- has shifted a little bit and might have impacted the comparisons. And then just thoughts about the EnerBank kind of portfolio itself, it seems to be holding up a little bit better than expected.

David Jackson Turner
Senior EVP & CFO

Well, let me couch it in terms of just our overall portfolio from a CECL standpoint. So if you go back to prepandemic, so the fourth quarter 2019, when we all implemented CECL, our CECL reserve at that time was 1.71%. If you adjust that for the portfolio we have today, so there's pluses and minuses, just a completely different mix, and apply those same loss rates to our current portfolio, that would imply a seasonal reserve of 162. I think that's on one of our slides.

And so I think at the end of the day, we have pretty robust reserves to cover expected losses. The stress portfolios that we've talked about are our driver. The lower FICO bands of consumer have more pressure on it than the rest of the consumer base. And some of the portfolios that we've added, whether it be EnerBank or Ascentium, those are higher-yield portfolios, and they have higher loss content. In both cases, we had those two portfolios, EnerBank and Ascentium at, call it, 2%, 2.5% expectation, and they're performing in line with that.

So -- and I think it gets back to the fact that businesses and consumers, generally speaking, are in pretty good shape. So we've been real careful making sure we don't grow too fast in those portfolios. And so far, everything is worth according to plan.

Operator

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Our final question comes from the line of Peter Winter with D.A. Davidson.

Peter J. Winter
D.A. Davidson & Co., Research Division

Just one quick question. Last quarter, you mentioned an exit rate for the NIM around 360. I'm just wondering if you're still comfortable with that? Just on the one hand, you're building more liquidity, but then you did the securities restructuring.

David Jackson Turner
Senior EVP & CFO

Yes. I think whether we get -- we should get pretty close to that number still. Again, we're not counting on rates being a huge driver. Incrementally, though, if we have the long end that stays higher than our reinvestment yields are a little bit better. And if short rates come down, then our negative carry on, our swap book will be helped and that could propel us.

So I would say the upper 350s to 360, we are carrying a bit more cash. You probably saw that, just out an abundance of caution given the events of last quarter. And while that cash doesn't really hurt us from an NII standpoint, it does hurt us from a margin standpoint.

And so we still should have one of the leading margins regardless because we have a lot of confidence in our funding costs kind of settling down.

Peter J. Winter
D.A. Davidson & Co., Research Division

Got it. And how much benefit do you get from the securities restructuring on the margin?

David Jackson Turner
Senior EVP & CFO

Well, cost is, round number, $50 million, and it's a payback of 2.1 years. So you can do quick math. You mean on margins? It's a couple of basis points of positive.

Operator

Mr. Turner, I would now like to turn the floor back over to you for closing comments.

John M. Turner
President, CEO & Director

Okay. Well, thank you all for your participation today. We appreciate your interest in our company. That concludes the call.

Operator
Ladies and gentlemen, this does conclude today's teleconference. You may disconnect your lines at this time.

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