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Call Participants

EXECUTIVES

David Jackson Turner
Senior EVP & CFO

M. Deron Smithy
Executive VP & Treasurer

ANALYSTS

Jason Michael Goldberg
Barclays Bank PLC, Research Division

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Presentation

Jason Michael Goldberg
Barclays Bank PLC, Research Division

Great. Moving right along, very pleased to have Regions Financial with us once again. From the company, we have David Turner, Chief Financial Officer; Deron Smithy, Treasurer.
Gentlemen, thanks for being with us.

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Question and Answer

Jason Michael Goldberg
Barclays Bank PLC, Research Division

Maybe the best place to start is, I guess a lot of uncertainty in the environment right now is kind of picking up maybe some mixed signals just given what's going on? You're obviously out talking to your customers all the time, a lot of data on the consumer side. Maybe just kind of talk to us what you're hearing, seeing and what's going on in your Regions?

David Jackson Turner
Senior EVP & CFO

So taking the questions a bit about loan growth and then credit quality kind of baked into one question. So let me talk about loan growth. We're not seeing a lot of demand for loans today. We think there's some uncertainty with regards to where's the interest rate environment. We need rates to come down just a little bit. They tell us, they -- our customers. There's some uncertainty with regards to policy, including tax policy. So I think getting the election -- through the election cycle would be helpful. And the question is, as the Fed continues to cut rates, are they cutting coming off of unusually high rates to get to normal or are they having to do so because the economy is faltering? So that, I don't know that we know the answer to yet. We need to see.

Again, if we can get into the fourth quarter, get through the election, get what is likely to be a cut with the Fed's next meeting and see about that, so we'll reassess what loan growth might look like for 2025. With regards to credit quality, credit quality is in pretty good shape. There are industries that are under stress. We've talked about CRE, office in particular. We haven't had losses on that yet, but we expect them, but well reserved for them. So you shouldn't see a CECL provisioning for office deterioration. The consumer is actually in pretty good shape.

We can see their balances in their account. We can see on the loan side, delinquencies. And there's been no abrupt changes there. I know there was a little difference in what came about yesterday in some discussion, but we are not subprime lenders. We do have loans that become subprime, but they didn't start out that way. And so losses like for credit cards have been in the 4% range for us or lower. That's about normal. So again, we don't see anything from the consumer that causes us to believe their problems there. And the good balances in their account are pretty consistent with pre-pandemic levels. So deposit balances were about 1.7x, their spend pattern pre-pandemic had gone up to about 2.5x. Today, it's back down to 1.7x. So general, Jason, nothing all that remarkable to report.

Jason Michael Goldberg
Barclays Bank PLC, Research Division

Maybe you talk to just like the competitive landscape. A bunch of banks have talked about kind of opening more branches in some of your regions, Morgan Chase yesterday, Huntington on day 1 announced it's going to go full-blown retail banking in the Carolinas, and kind of some others in the Southeast. Just maybe if you kind of talk to what you're seeing in those markets from that perspective and how you differentiate yourself?

David Jackson Turner
Senior EVP & CFO

Yes. So listen, the bank environment has been competitive for a long, long time. It's incumbent upon us to continue to provide service to our customers that they value. And we do that really well. We received a lot of awards in terms of customer service. So I think at the end of the day, people coming to our markets, they got to work hard to get our customers to move. That means we have to mess something up.

We've had a number of banks going to the Carolinas, North Carolina in particular. I mean that's not one of strong markets, we are in there but it's not one of our leading markets, so we're not to work up about that.

Jason Michael Goldberg
Barclays Bank PLC, Research Division

Got it. You touched on the loan side, what you're seeing there. Maybe talk to kind of deposit trends, what you're hearing/thinking? Maybe put the first ARS slide, while we answer this. But maybe in trends in terms of what you're seeing the Feds obviously widely expected to cut next week. Regions had maybe a lower than peer beta on the way up, which is a good thing, but kind of how does that you form your view on the way down?

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David Jackson Turner
Senior EVP & CFO

Yes. So, I think the story really is about stability on both deposit balances and costs really coming out of the second quarter and continuing into the third quarter. We've been going through a multiyear normalization post pandemic. And then obviously, the rate increase cycle was having its effect on balance switching and rate-seeking behavior, but I would say that's largely subsided, and we're seeing stable balances and stable costs, certainly on the retail side. Customers are still maintaining good liquidity on the business side. They are maintaining a, what I would say, more liquid position than perhaps where they would have been in the last cycle.

And we have solutions for them that are both on and off the balance sheet with market rates of interest. And on the retail side, again, in the private wealth side, the rate-seeking behavior has largely played out, and what we're seeing now is just stabilization of those balances.

You talked about the up cycle beta and our outlook for the down cycle. We put it -- we have a slide in our investor deck that really tries to simplify the way we think about the deposit base and the left-hand bar shows roughly 36% of our deposit base is considered more rate-sensitive and at market rates, and that's made up of largely the CD portfolio for the wealth business and the more rate-sensitive retail customers and the corporate deposits, largely money market that are indexed and move readily when industry changes in rates. And that's driven 80-plus percent of all of our deposit cost increases over this tightening cycle, and that bucket has roughly a 90% down cycle beta. So that's going to move pretty quickly when rates start to come down.

And the CD portfolio, we've been managing the tenor to be in the, call it, 5-month range on that. So that will take a little time to reprice down, but we expect that to be very reactive on the way down. And then there's 20%, 25% that is less rate sensitive, that will take a little time to bring down. But all of our guidance, as we talk about outlook for net interest income for the margin is really predicated on a mid-30s down cycle beta.

And that first bucket that I was describing, if you think that moves down at roughly 90%, that's going to get you a large way to that down cycle beta expectation. And so we say we're neutral to changes in short-term rates, and it's really that bucket that's going to drive our performance there. And then over time, I do think we see deposit costs come down equal to what they went up. And so we'll -- we will, over time, achieve a down cycle beta that's more in that mid-40s range like we went up, but we need about 35-ish percent to remain neutral in the short run.

Jason Michael Goldberg
Barclays Bank PLC, Research Division

And can we get the first ARS slide we've been asking this for all the companies. I forgot to do this earlier. On the second quarter earnings call, you kind of pointed to net interest income to be kind of the upper end of your targeted range as the Fed was maybe hiking less than expected.

And now kind of looking forward that's going to be presumably hiking more, you also talked about the benefit of fixed rate assets repricing higher, potentially that benefit is going to be less. Maybe just talk to just how you're thinking about net interest income growth in the back half of the year?

David Jackson Turner
Senior EVP & CFO

Yes. So that range that we gave, which was coming into the year, a pretty tight range of only roughly 2%, but there were a range of potential outcomes. And as you pointed out, the Fed on hold longer or perhaps the Fed beginning to normalize rates sooner would push you to one end of the range or the other. So I would say we did get a scenario where the Fed was on hold for longer, which would have tended to put us at the lower end of the range but really outperformance on the deposit side and some of the actions we've taken from a portfolio repositioning standpoint have pushed us to the upper end of the range.

And some of what we will continue to -- we have experienced and will continue to experience into the next couple of years is the repricing of the balance sheet. For us, that's a nice tailwind that continues for the next couple of years. And even the rates have come down more recently. We're still in the aggregate, seeing 150 to 175 basis points of lift as we renew loans and make new fixed rate loans in our lending businesses and reinvest securities.

So again, as David pointed out, loan growth being somewhat tepid today, we still think there's an opportunity for us to grow net interest income in successive quarters out through the next couple of years as that repricing of the balance sheet continues to play out, again, positioning ourselves relatively neutral to changes in Fed funds, but you would assume that the curve steepens a bit or we get a more normally shaped curve as the Fed begins to ease and that will continue or benefit us from a repricing standpoint into the future.

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So loan growth if we do get a soft landing in the economy and lower rates does help to bring about loan demand, that will be incrementally better for growth in net interest income. And then finally, I think over the next year or so, we will get back to that down cycle beta in the mid-40s. All of those are tailwinds for us for growth in net interest income that we'll experience over the next couple of years.

Jason Michael Goldberg
Barclays Bank PLC, Research Division

Perhaps the next ARS question. I'm a little behind on these. But I guess you mentioned securities portfolio repositioning. We've seen a couple of that the last couple of quarters. Given the move in rates, is that something you continue to pursue? Or are you've done what you expect to do there?

M. Deron Smithy
Executive VP & Treasurer

Yes, I think it's something we'll continue to evaluate. Our strategy really has been more in the portfolio shaping realm rather than a big splash all at one time to reposition the portfolio. We need roughly 4.5-year duration in our securities portfolio to maintain our neutral stance to changes in short-term rates. And our portfolio is naturally shortening. And so these transactions have helped us to achieve stability with our duration and manage to a target that we like. And so that's the impetus for the transaction.

As rates have come down, you've actually seen some of the un-inversion of the curve or steepening of the curve relative to being deeply inverted. That's helpful to these types of transactions because we're selling shorter-duration bonds and buying longer-term bonds that fit our needs. And so I think there is a population that is still eligible to continue to chip away at how we manage the duration of the portfolio. And so you could see us continue.

David Jackson Turner
Senior EVP & CFO

And obviously, Barr speech from yesterday indicating AOCI [indiscernible] this capital neutral. So it's a far superior transaction buying our shares. So we run through the math every time we consider this to make sure that, that's still true. And it's not even been a close call. So you should expect some more repositioning as we go through time.

Jason Michael Goldberg
Barclays Bank PLC, Research Division

Helpful. They do again the beta. Maybe we have the next ARS question.

David Jackson Turner
Senior EVP & CFO

I like you asked the question after we told them...

Jason Michael Goldberg
Barclays Bank PLC, Research Division

No, we'd like to ask before, I'm just off my game. Next, ARS question. We'll get ahead of them on this. But on NIM, I guess, just maybe how you talk about net interest margin. I know you've kind of carrying excess cash balances, which maybe weighs on NIM. As an [MI] neutral, although it's rate shifting, maybe that changes. Let me just talk about overall balance sheet management with respect to cash. You've also probably maybe a bit more active in hedging than some other players. So what's your strategy there is?

M. Deron Smithy
Executive VP & Treasurer

Yes. So you're right to point out that some of the steps we've taken to bolster liquidity at the margin, does weigh on the NIM, and it has very little impact on net interest income. But we still do expect the margin to continue to widen as again, the Fed returns to more normal stance and we get some steepening of the curve, there's probably a recalibration.

You've heard us historically mention 3.60% to 4% NIM range in an environment where we're expecting and preparing for new liquidity rules, and we are carrying more cash and bolstering liquidity. Again, that probably drags the NIM a bit. And some of our -- some of the other strategies that we've done, you've seen our recent debt issuances that typically, we have swapped those. But the swap curve being inverted as well as negative swap spreads has made it more advantageous for us to actually economically hedge that debt by buying securities.

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And so you couple that with the securities growth, coupled with the excess cash, it weighs on the NIM a bit. So you probably need to reset that upper end of that range down maybe 10 to 50 points. But I still think over the next couple of years, what you'll see is continued expansion of the net interest margin. We're in the low 3.50s today. I think that pushes up closer to 3.60 as we enter next year and assuming an environment where the economy is stable and the curve has some shape to it. I think we continue to see 3.60s and approaching 3.70 over a couple of years.

Jason Michael Goldberg
Barclays Bank PLC, Research Division

So here we ask the audience before you spoke, and it sounds like you are not too far off from that. So I guess on fee income -- I'm sorry, net interest income, it was kind of stable, it's up 2% for the third quarter, I think, was the guide that you gave on the July call. I guess, given kind of maybe move in rates, how you're feeling about that? And how big is the difference if the Fed goes 25 versus 50 basis points next week?

M. Deron Smithy
Executive VP & Treasurer

Yes. So within that range, I think we're today expecting to -- as we've messaged, be at the upper end of our range for full year 2024. And I think that that also means we're likely at the upper end of the range for the quarter. So closer to that up 2%. It is better if the Fed were to move slow and steady for obvious reasons, there's some lag in terms of repricing of deposits, certainly around CDs. It is, I would say, a marginal headwind if they move faster in the very near term. But again, I would still say it's within the neutral expectation.

The concern would be not really the impact to NIM, that would be why we're moving 50 or more. And is there an economic -- is there a problem with the economy versus just resetting rates lower. So I think that could be a reason why they might not want to move that fast because they feel compelled to do that, especially after this morning's news.

Jason Michael Goldberg
Barclays Bank PLC, Research Division

Yes. Maybe pivoting to fee income. In the deck you put out 3 weeks ago, you kind of reiterated expected to be the upper end of the guide for 2024. Although I felt like the commentary on capital markets within the deck was maybe a bit more positive than the tone that we got earlier. So just maybe talk to the key fee income drivers maybe expand on kind of the capital markets commentary you made in -- just your thoughts on....

David Jackson Turner
Senior EVP & CFO

Yes. So our -- we have 5 broad categories of NIR. They're all pretty predictable. With the exception of capital markets, that has a little bit of -- a little more episodic in terms of what's going on there. And the biggest -- most of the volatility is driven by M&A activity. So you saw in the first quarter, we actually had a really strong capital markets quarter, that's because deals that should have closed, we thought we're going to close in December, fell over the first quarter.

So we reset expectations, second quarter was much lighter than that. And as we looked at deals that were in the pipeline, that gave us the confidence that the second half capital markets was going to be pretty strong, and that's why we put it in the deck. We don't know when those deals necessarily close in any given quarter, but the third quarter looks to be more promising. So I think that we should have a pretty strong capital markets finish to the quarter.

The other category service charges, interchange fees, wealth management, all of those are working exactly like we thought they would work and feel confident that we'll be at the upper end of that range when we get to the end of the year. We'll reset expectations for next year. We're trying to get our capital markets business to about $100 million a quarter. We're in the, call it, $80 million range expectation now for the remainder of the year or maybe a tad higher than that.

So hopefully, we can -- we need a lower rates. There's a lot of real estate capital markets business in that capital markets revenue stream for us. You really need that more activity driven by lower rates to drive that. And of course, our interest rate protection business, you don't need that as much today. So again, if you have lower rates, then that business could pick up too.

Jason Michael Goldberg
Barclays Bank PLC, Research Division

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Got it. And then maybe on the expense side, you guys have been good at kind of managing costs. Any kind of update and guidance there. And just as you kind of start the 2025 budgeting process with kind of NII, maybe an upward trajectory, the income, having some momentum. How does that inform your expense outlook?

David Jackson Turner
Senior EVP & CFO

Yes. So the growth in revenue is going to drive higher expenses. We still are trying to -- and expect to generate positive operating leverage in 2025. We'll give you that commitment -- a firm commitment when we redo our numbers in January. But we have been good expense managers, a huge driver of our expenses of human capital, and we have about 20,000 people that work for us today. We still have opportunities to leverage technology and processes that we were using human capital to do that.

Though, as we can, we're going through a big process mapping exercise and looking at all of our processes to map those and see where there's duplication of effort, see where there's opportunities to leverage technology there, and then let our attrition rate, which outside of branches and contact centers, probably in the 6% range, which I think could be helpful in leveraging technology and getting that human capital costs down. We're continuing to work on vendors, and we have an awful lot of contracts that we're reviewing to make sure that the product or service that we're getting is necessary.

And hopefully, we can streamline those to take out some complication, take out cost. So as we think about inflation, it was interesting. We had 32,000 -- last month, 32,000 people fill out an application to come work at Regions Bank. The month before that was 30,000. Those are the highest we've ever seen. And it really -- that can't be Regions-only thing. So that's telling me that labor doesn't have quite the advantage that it did and therefore, labor cost increases are probably going to be lower this year than they were last year.

Our labor increases are probably going to be in that 2.5% range, on average, some will be higher, some will be lower. But I think we continue to manage the number of people that you have is the first part. And two, we want to pay people fairly and have a good solid workforce and people encouraged and happy with the work, but we don't want to overpay either. So I think managing our labor cost is really, really important.

Jason Michael Goldberg
Barclays Bank PLC, Research Division

And then how do you think about positive operating leverage and kind of put in the other budget?

David Jackson Turner
Senior EVP & CFO

Yes, I think -- so we don't let our business support something that we're going through our strategic planning process right now, and we'll do our budget and present that in December. But we don't let the businesses support provide a -- what their financial projections are unless they have positive operating leverage. And then we take the support areas and we keep their cost increases to a certain minimum unless they have to do something for a regulatory issue or cyber or something like that, where we have to make investments. So we're going through that right now. And I think when we add it all up, we'll generate positive operating leverage in '25, the amount of which we'll tell you in January when we get there.

Jason Michael Goldberg
Barclays Bank PLC, Research Division

Fair enough. One of the things that -- the top of the expenses is operational losses from a couple of different fraud incidents. I guess we had results last year and earlier this year. Is that something that's kind of in the rearview mirror? Has there been any regulatory response to that? And just kind of any thoughts around there?

David Jackson Turner
Senior EVP & CFO

Yes. So unfortunately, we got hit with a couple of different bands of bad act, fraudulent activity, which increased our operational losses this past year. We put in a lot of controls, including new technology that we didn't have, and that seems to have helped us drill tremendously. So we said our operational losses will be less than $100 million for the year. We're committing to that. We are on track to make that happen.

Little bit better, frankly, than we had thought when we first told you the number. So we're encouraged. But I'll tell you, the bad guys are out there and they're hitting every bank that they can. They're just looking for a loophole. So we have to stay on top of it and just

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like cyber, every bank gets attacked every day. And so you just have to have good controls in place to make sure you can detect and close whatever hole they find.

Jason Michael Goldberg
Barclays Bank PLC, Research Division

Got it. Maybe put up the next ARS question as specific to asset quality, and it's -- I know in your kind of -- when I asked you about the -- what you're hearing from customers, you talked about credit quality a bit, but it's kind of been lumpy throughout the industry. Your results in 2Q, you kind of did see some, I would say, broad-based improvement. So maybe just delve a bit deeper into in terms of what you're hearing and seeing as kind of been a lot of idiosyncratic C&I credits across the industry. You're obviously play in a lot of the same industries transport come up a lot more recently.

David Jackson Turner
Senior EVP & CFO

Yes. So from a credit quality standpoint, we feel good in cross borders, as I said in my opening comments. We did our charge-offs for the year would be pushing on 50 basis points. We're at 46 year-to-date, which implies it would be over 50% -- 50 basis points in any given quarter, third or fourth. We still believe 50 maybe slightly better than that as an offing. We had a few things break our way. We do have, from time to time, these big lumpy credits that make a big noise. And we've got a few we're working on right now.

So -- but if you step back and kind of look generally what's going on with the consumer, C&I customers, all that feels pretty good. And so we said our charge-offs should range in that 40 to 50 basis point range. This year, we're going to be at the upper end of that. But I think still that's a pretty range for us based on the risk profile that we have. We do continue to look at large credits. There are certain industries that have some of those -- trucking, you had mentioned as an area that's just more supply than there is demand. There's going to be losses in trucking. Wherein CRE office, we don't have a lot there, but we haven't had losses in office, but we will. And we have those well reserved for, so you shouldn't see the CECL provisioning more for that.

And so if our charge-offs are where we think they're going to be, then you would expect there to be a provision less in charge-offs or "a reserve release" if you will, that should be coming. The magnitude of which we'll have to see what the calculation looks like at the end of the quarter.

Jason Michael Goldberg
Barclays Bank PLC, Research Division

I guess some banks, I guess, have expressed, though, that gets somewhat mitigated by the fact that maybe Moody's economic forecast has degraded more than they had in their models. Does that -- how does that play overall?

David Jackson Turner
Senior EVP & CFO

So we use it as a checker model. We don't leverage that as -- we have our own models that we use. And we then look at the Moody's model as a qualitative factor, but it's not a direct input to what we have.

Jason Michael Goldberg
Barclays Bank PLC, Research Division

Got it. And here, we asked the audience ahead of you, and they seem to think you'll be in that 40 to 50 band range each year.

I guess on capital, we got the -- I guess, we'll get the BASEL proposal next week. We've got a preview last night -- or yesterday morning. And you guys will, I guess, not get hit with the RWA inflation that you thought. While you will get hit with the AOCI tax or whatever you want to call it. It's a lot less today. I suspect that it was on June 30. So I guess just how you're thinking about thought capital management, you guys have been modestly buying back stock. But just your CET1, I'm sure, mid-8's point, just how you're thinking about that?

M. Deron Smithy
Executive VP & Treasurer

Yes. So actually, the movement has been really helpful, obviously to get us back from we were around 8.2% CET1 fully loaded for AOCI last quarter. I would tell you it's probably 9% or better. And so that movement in rates has been pretty dramatic in terms of the impact of AOCI. You've heard us message that we think we need to remain in the mid-10s to have the appropriate glide path for B3

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implementation. That was including roughly a 5% increase in RWAs from Basel III. So obviously, that reduces what we're solving for. And then the movement in AOCI puts us much closer to our longer-term targets.

And so I think, again, incrementally more capital flexibility as we look forward with the news on B3 and the movement in rates. We'll be thinking more about strategies to manage that AOCI volatility more than we have in the past as rates have come down and continue to normalize, we'll think about strategies to manage that volatility that I would say, incrementally better for us, the news and gives us more capital flexibility looking forward.

David Jackson Turner
Senior EVP & CFO

Yes, I think we go through our own calculation of how much capital we need to have, and that range has been 9.25 to 9.75. We've said we'd operate in the middle at 9.50. We increased that to 10, 10.5 because of all the uncertainty that was being created at the end of last year and with Basel III. Now, we have a little bit more clarity with regards to Basel III. And so we don't need to let capital continue to accrete. As we generate capital, we obviously want to use that to support loan growth. There's not a lot of that. We want to pay our dividend. We constantly look for nonbank opportunities to use our capital to bolster our businesses and our customers.

And then we had to do one of two other things, and that is the securities repositioning, i.e., taking the losses and keeping our duration, as Deron mentioned, stable. And then the final thing to keep our capital from accretive, we'll buy our shares which -- and we've been doing both of those. So we're not going to let our capital continue to increase. And if we don't do something, that's what's going to happen.

Jason Michael Goldberg
Barclays Bank PLC, Research Division

And I guess on the -- you mentioned nonbank acquisitions, you've done Enerbank and Ascentium and Sabal and a bunch of others over the last few years. I guess, kind of what are you looking for? What's your kind of size appetite and what could maybe expect of you?

M. Deron Smithy
Executive VP & Treasurer

Yes. So we don't have any really size limitations. We -- what we do is we ask our businesses to think products and services that we don't have that we need to have to complement what we're doing today for our customers. And so we looked at the Ascentiums of the world and the Enerbanks of the world. Both of those, those 2 products, those 2 companies really help you in a low rate environment because the spread on those are really high.

In a high rate environment like we have today, if they're not as profitable, but as rates come down, the interest -- the yield on the loans then move commensurate with that so you get an expansion. So it's a good product to help us in a low rate environment, which is our NIM assessment. That's why we do all the hedging that we do is to protect our interest.

Our net interest income and margin run rates are low. So we like those type of businesses to help offset that risk. And then wealth management, if we could find something to bolster that, the problem is they're so expensive. And we just can't afford to do that. So it has to fit within our financial model, along with being additive to what our customers really want. We're looking all the time. We haven't had found one of late, but we have the capital to be able to do that.

Jason Michael Goldberg
Barclays Bank PLC, Research Division

You didn't mention bank acquisitions. You guys have done well, there's been kind of other banks that maybe had not done as well, kind of -- your company is a product of some -- a lot of bank acquisitions over the years, maybe updated thoughts around that?

David Jackson Turner
Senior EVP & CFO

Yes. bank M&A, we get the question all the time, bank M&A is hard to do. It's destroyed more shareholder value than it's created over time. Our industry had been particularly disciplined with regards to what you pay for a deal and unreal expectations. And then you've got to put the two together. You got cultural challenges. You got the operational challenges. That's just hard. And so they disrupt you. And so for us, it's not been our primary focus.

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We do acknowledge that times change and scale starts to matter a little bit more in particular as it relates to technology costs because technology costs today for most banks including Regions is 9% to 11% of our revenue stream, but I would not be surprised if that percentage doesn't increase over time. And perhaps the opportunities that could come in the bank space, it would help you get more scale, but it's just not -- that's just not where we are right now, where there's no clarity with regards to regulatory support and expectations for that.

We still have a little uncertainty with where the economy is going to be going to. So for those reasons, it's just not where we focus. But we run models, we look at all kinds of transactions and what could be. And so we're not saying never, we're just saying that's not where we want to spend our time and effort today.

Jason Michael Goldberg
Barclays Bank PLC, Research Division

And just a question. You talked about this low mid-single-digit increase in RWAs under kind of the original Basel proposal. Under the new proposal, even though it's not impacting you, what would kind of be that RWA impact, have you looked at that?

David Jackson Turner
Senior EVP & CFO

Well, we did. I mean if we were under B3?

Jason Michael Goldberg
Barclays Bank PLC, Research Division

The one that came out last -- was speculated last night.

David Jackson Turner
Senior EVP & CFO

I think it's a pretty de minimis impact.

Jason Michael Goldberg
Barclays Bank PLC, Research Division

Yes. The bank before you suggested it would be a benefit, leading to believe if some of these category 4 banks got together, category 3, maybe the math looks good and we can maybe kind of more kind of MOE-like transactions?

David Jackson Turner
Senior EVP & CFO

Yes, I don't know about that. I do think that there were some benefits that we were going to get. Unfortunately, we're going to have to do two calculations, and we don't have to do that now. But I don't think we're going to take that bait, Jason.

Jason Michael Goldberg
Barclays Bank PLC, Research Division

The other thing that Richard Barr said yesterday is we could expect long-term debt and liquidity proposals, I think relatively soon. I guess any thoughts on kind of, I think, debt is going to propose out there for it seems like a couple of years now, liquidity, maybe not. Just kind of what your thoughts around that are?

David Jackson Turner
Senior EVP & CFO

Yes. So debt proposal out there is something 6% RWA range. I think BPI came out to support the industry for at least the smaller banks to say that's really sounds more like a single point of entry, back door kind of thing, and that 2% would be more relevant for a bank of our size. And -- so we're heavily deposit funded. That's our competitive advantage and having to carry more debt than you need to run your businesses. It just seems to be working against what we ought to be doing. So hopefully, there's some tailoring that comes through that. They need to get through B3. They need to issue, they need to go through a comment period that's going to be fairly short, 60 days, 90 days, something like that. To get that done, then they're going to go on to a long-term debt.

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Hopefully, we'll get a little bit of a reprieve. Part of the issue was having to issue debt in the bank and holding company, and we're going to have some LCR challenges with regard to that. We're hoping and believe that, that will get addressed appropriately. And if we can get the percentage to come down just a little bit, we'll be fine. We've issued a lot of debt over the past 90 days.

M. Deron Smithy
Executive VP & Treasurer

Pretty far down the path, that's fine even with the original rule, and we're very pleased with the levels -- the funding levels that we've gotten. So I think that, coupled with the steps we've taken to bolster on balance sheet liquidity, carrying more cash, focusing on more LCR-friendly, assuming that, that comes back for us, LCR friendly assets on the balance sheet, those securities that we're investing in.

So I think all of those things and are already in our run rate moves us very far down the path for what we think is likely coming. And so when we get those final rules, I think we'll be in really good shape to be compliant with them with not much impact to us, to the balance sheet and/or to the cost of compliance.

Jason Michael Goldberg
Barclays Bank PLC, Research Division

And then maybe finally in the closing minutes, when I have you both back here next year, what do you think will be the kind of big themes that we'll be discussing?

David Jackson Turner
Senior EVP & CFO

Well, a lot of the same things we talk about, all the time, what's the economy doing and where is the growth going to come from. A lot of folks out in the audience that are listening, want to figure out what's the -- give me the reason I need to make an investment in any bank. Where is the growth going to come from? Where is it going to be appropriately done, so you're not taking excessive risk. How is your economy where you operate working? M&A is always be a part of it, too. So I think that those are probably be the general questions.

Jason Michael Goldberg
Barclays Bank PLC, Research Division
Great. With that, please thank -- please join me in thanking David and Deron for their time.

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