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Company Conference Presentation

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Unknown Analyst

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Presentation

Unknown Analyst

All right. I think we're going to begin. Good morning, everyone. Gerard, awesome job once again putting together this conference. Thank you. I'm here to introduce Regions Financial, a $24 billion market cap. This is, by the way, before yesterday. A $24 billion market cap, $160 billion asset bank that is headquartered in Birmingham, Alabama, and has retail banking offices in 15 states.

Regions should be applauded for a decent stretch of strong predictable earnings. And though the market has rewarded the performance when looking at price to tangible book value levels, one could argue that the stock has often been mispriced on price-to-earnings basis.

In the past year, 15 years, Regions' relative multiple relative to the S&P Regional Bank Index has exceeded 1.0x in just 4.6% of the roughly 3,900 trading days. It is a bit better over the past 5 years, but still only 13.4% of the time.

We are really happy to have with us here this morning, Senior EVP and Chief Financial Officer, Anil Chadha; and Senior EVP and Head of Consumer, John Jordan. Thank you both for -- and your colleagues for being here.

And one note, we will leave plenty of time for audience questions if you could just wait until I kind of give the prompt. But yes, good morning, and thanks for being here.

Anil D. Chadha
Senior Executive VP & CFO
Thank you for having us. We appreciate it.

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Question and Answer

Unknown Analyst

I guess I'll start off with the first question. Coming into earnings season, investors were worried about higher rates, deposit pressure, AI disruption, slowing economy, yet earnings results across the industry have been better than feared. As you sit here today, what are your commercial and consumer customers telling you? And where do you think investors are most out of sync with what you're seeing on the ground?

Anil D. Chadha
Senior Executive VP & CFO

Yes. So I'd say for all year, we've had really positive feedback from our customers in terms of the markets we're in have had a good pace of growth fundamentally underneath them. And so we've seen that evidence in terms of customers getting positioned to put loans on balance sheet. We've seen that most particularly in line commitments being up. So sentiment has been quite strong.

For the second half of the year, interest rates have clearly been a variable that have been particularly, as you alluded to, mindful on the commercial customers in particular. Now we have maybe another variable from Tuesday that certain sectors need to think about in terms of what that could mean locally in terms of regulation and things of that nature. But the important thing is the fundamentals remain strong. We're seeing that in pipelines, and we're seeing that just in terms of good performance on the ground across our commercial clients.

And I'll let John hit what we're seeing on the consumer side.

John T. Jordan
Senior Executive VP & Head of Consumer Banking Group

I'd say resilience on the consumer side. We've seen just deposit balances on a per consumer per household basis staying very stable. Our average deposit balance for consumer is just $5,200. The median is $900. We've seen those stay stable. We've seen spending, really high-quality spending in the debit card. We saw a great growth in the third quarter, both debit card and credit card spend. We've seen great small business activity and formation growth in that space. And just overall, just a healthy and resilient customer base.

Unknown Analyst

Regions operates in some of the fastest-growing markets in the country. As you look across the footprint today, where are you seeing the greatest opportunities for growth? And how our regions, local market positions allowing you to capitalize on those trends? You go ahead.

John T. Jordan
Senior Executive VP & Head of Consumer Banking Group

Well, I would just say, we love our footprint. Obviously, I'm biased. I've lived in our footprint in my whole life. I think everybody seems to love our footprint as well. We're seeing a lot of growth in the space. But if you kind of look at the geography we're in, it's about a full percentage point higher in terms of growth rates. We're seeing great business formation in that space. And then when you really look at our customer base, we've been doing business in this market for 90-plus years in most of the MSAs we serve.

And if you look at the customer base that we have, 70% of our deposit base is with customers we've been doing business with for over 10 years. So we have a great sign in Nashville that says banks have branches, we have roots. And in our geography, we have incredible roots. We have great long-term relationships with leaders in the communities. We work on 175 college campuses. So we're talking to the youth of the community. We're really connected to the nonprofits. It's a great and growing and thriving economy that we serve.

Anil D. Chadha
Senior Executive VP & CFO

And if you look at how we're able to invest, so whereas others who are entering the market for the first time are having to establish brand-new branch presences and bring in the marketing and everything alongside of it, what we're able to do is really look across our footprint and say how can we optimize? And for us, that's why we think it's really important, the investment that we're making in opening 135 to 150 new branches.

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We're excited to get that moving at a quick pace. We'll renovate most of our branches. And so for us, it's capitalizing on the spaces that we've been in, as John mentioned, for well north of 90, upwards of 150, even almost 200 years in certain places.

And so understanding these markets, having deep roots in these markets, we believe, gives us a great competitive advantage. And we have 4.5 million customers that we have the opportunity to deepen within -- as they grow their financial assets, we're able to capitalize on that. So we're really proud of where we are. We're excited about the continued investments that we can make. I feel like we're going to be a great competitor in the space.

Unknown Analyst

That 150-plus branch build, that would equate to probably the 50 or 60th largest bank in the country in terms of number of branches. I guess are there any markets where you're not adding where you maybe don't have the right to win or you have a different strategy?

Anil D. Chadha
Senior Executive VP & CFO

I think our strategy is different across each market, and it's not just different in terms of where we're adding branches. It's where we think we can be most competitive across our 3 lines of businesses. We're very intentional in terms of how we think we can win in each space.

And so as an example, in certain markets, we believe leading with -- establishing a commercial banking team is a great opportunity. We've done that in San Antonio. And we can quickly follow that with opportunities both in the retail space and in the wealth management space. So that's been our approach is to be very deliberate in terms of where do we think we can win, both in a very specific geographic area and what's the best strategy across each of our 3 businesses to capture share in the most efficient way.

Unknown Analyst

John, sticking -- going back to consumer, I guess, what are account activity spending trends, customer behavior telling you about the health of the consumer today?

John T. Jordan
Senior Executive VP & Head of Consumer Banking Group

Like I said, it's a healthy environment right now. We've looked at everything from just account growth, which we felt very positive about. We're adding new primary households at a healthy rate. We tend to see kind of the high end of acquisition at our bank relative to competitors. And so we're still seeing a lot of new accounts. We had the highest small business account growth rate that we have in over 10 years, great activity in home equity space. I think we had the most production in the home equity space that we've had in about 4 years. We had the most credit card production that we've had in 7 years. So we're seeing just a lot of activity in the markets that we're in.

We talk a lot about gas prices. That's always something we're all complaining about a little bit. But when you kind of look at it down to the customer level, it equates to $25, maybe $50 a month, and people have been able to digest that. In other words, they've been able to adjust their spending habits. It's not been causing any sort of major pain at this point.

Now you never want to see that last for a long period of time, but we've got low unemployment and just solid fundamentals in the economy, which really benefits all banks and the business environment in general.

Unknown Analyst

You mentioned home equity and the success you're having there. I guess, in terms of deepening customer relationships and driving growth, are there any other products, channels, segments that offer good opportunity?

John T. Jordan
Senior Executive VP & Head of Consumer Banking Group

Absolutely. I mean, our philosophy is people first. We really spend a lot of time investing in our culture. We've had the best engagement we've ever had. And we've just continued to see great success in terms of what our customers are saying about those people.

So yesterday, J.D. Power released that we were #1 in J.D. Power for small business. We've maintained kind of the top end of customer experience scores when it comes to our online banking. Our retail has the highest customer experience scores we've ever had. And so that model, that customer-friendly model, I think it works with a lot of the segments we do business with.

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Our mass affluent segment has grown by almost 10% year-over-year. And that segment is growing because we're growing our customers. So 80% plus of those mass affluent customers were existing customers who migrated up the wealth spectrum and then we grew with them over time.

Like I said, we're on 175 college campuses. So our campus strategy, and we're the official bank of the SEC, which certainly matters where I live. We're on these college campuses. We're doing financial education workshops. We're there for their orientation. We're bringing students in. We're setting them up with a budget, and we're seeing great growth rates in that space.

I mentioned small business. That is a space where we've put a lot of attention, and we've seen just tremendous growth. Our lending production for our small business owners is up almost 50%. Like I said, we've got the highest checking growth rate we've had in over 10 years in that space. So those segments are highly service sensitive, sitting in our footprint. They like our model. We're seeing great growth in all of that space.

Anil D. Chadha
Senior Executive VP & CFO

And I'll just highlight one point John just mentioned there. So the 8% growth in mass affluent and 70% to 80% of that coming from our customers growing into that segment. That cost of acquisition is dramatically lower than if someone was coming in and trying to recruit that mass affluent customer.

And so for us, capturing them at an early stage in their career, investing alongside of them produces meaningful returns as they kind of graduate, if you will, up to that segment. And of course, we have all the products and services to sell to them. That's a key piece of how we think we can continue to compete there.

Unknown Analyst

That's right. We talked about the branch build. How much of that strategy is about strengthening your existing position to maybe fend off competition? How much of it is it about growth opportunities?

John T. Jordan
Senior Executive VP & Head of Consumer Banking Group

I'd say it's kind of -- it's both really. We're trying -- it's an optimization body of work. So we're complementing our existing footprint, which I mentioned we love in spots where the neighborhoods that are growing a little faster, we want to make sure we position our branches in those neighborhoods.

So as we look across our footprint, we'll be filling in spots with new branches. We'll also, as Anil mentioned, we'll be renovating 1,000 of our branches. So we're spending a lot of time just updating the look and feel of the branch network.

Convenience of your branch network is still the #1 factor that people use to choose branches or choose banks. And so when we look at our footprint, we really analyzed top to bottom, we felt good about where our existing branches were, but we feel like there are some spots in the neighborhoods where we already exist where we could get a little more efficient growth. And so that's where we're spending our time and our money right now.

Anil D. Chadha
Senior Executive VP & CFO

I would say it's part of an intentional plan. So I wouldn't want you to believe that we're doing it just because others are coming in. We know where we believe we can be successful, and that's where we're going to invest. Now others see the same thing and want to come as well. But we believe understanding where the success and the growth can be gives us an advantage, and we're being very overt in getting those locations as quickly as we can.

Unknown Analyst

This might be more of like an industry question, but it obviously relates to reasons. But the number of branches you had in 2015 and a decade ago was over 1,600, and now you have 1,250 and now you're talking about increasing by 150 and you see all the other banks, some of them it's market expansion or -- but what's changed -- other than interest rates going from 0 to something, what's changed the behavior of the banks where now we're building branches again?

Anil D. Chadha
Senior Executive VP & CFO

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And let me just be clear, our 1,250, we're going to open 135 to 150, we'll probably close about a like number elsewhere in our footprint. So our total branch count will be kind of relatively flat based on what we see now. But I'll let John really go into details in terms of what our customers want and expect out of the branch.

John T. Jordan
Senior Executive VP & Head of Consumer Banking Group

Yes, there's just natural consumer behavior, I think, that is pretty well recognized. people moving to digital. So transactions per branch continues to come down, but interactions per branch around advice and guidance and opening up new solutions has stayed relatively flat. So just the need for the number of branches in general has come down over a period of time.

And what you want to do is just make sure that you're in a relevant geography to the customers and particularly where the growth is -- and we've benefited from that because we're in great geographies where there is good growth. And to the point Anil made, we're just being very thoughtful, analytical, looking really neighborhood by neighborhood, where do we need to be, where are we not today. And there's just always going to be optimization of those efforts. And right now, it's a great time for growth for us.

Anil D. Chadha
Senior Executive VP & CFO

I think as you think about the move of rural branches to urban branches, you just need more branches in a dense location in an urban area just to make sure the time to get to the branch is within customers' expectations. So just the density you should expect to increase as you go into larger markets.

Unknown Analyst

Your footprint, I mean, you have rural markets, you have small MSAs, you have now larger MSAs, fast growing. I guess what are you seeing competitively customers, bankers, -- how difficult is that right now?

John T. Jordan
Senior Executive VP & Head of Consumer Banking Group

Well, we benefit from being a great place to work. I mentioned culture here. So we constantly have great applications for roles across top to bottom, technology jobs, field jobs. So from a talent attraction perspective, I'd say it's been great.

And one of the things that I would highlight is most of the markets we're in, a lot of these big competitors we're already competing with them. I mean the Nashville of the world, Miami, Dallas, Houston, Atlanta certainly is a very competitive market. And so some of the places where they're entering are the places where we have the deepest roots candidly. So they're putting a handful of branches here and there, but it's not having a really big impact in terms of our overall business. They certainly make a big splash when they come to town, but we've -- they are great competitors. We certainly respect them as competitors. But in general, it has not been a big change for all of us.

Anil D. Chadha
Senior Executive VP & CFO

And we understand how they compete when they come into market. And so if someone is new coming into market, big or small, they're looking to attract customers and they're having to use rate to do that.

And so we understand very clearly within our customer base, what are those kind of higher beta, 100% beta customers. And within each of these areas, we can see when a bank files a branch application open. We proactively reach out to those customers, and we can make a very targeted offer to keep that customer if we choose to do so. And so understanding the tactics, understanding the branch where it may be located, where our customers are located near that branch, we can be proactive in reaching out to that customer if that's something that we choose to do.

John T. Jordan
Senior Executive VP & Head of Consumer Banking Group

And I would just make one more quick point that customer experience is a big differentiator right now. And in the age of AI, maybe even more because as people are looking -- using agents or using ChatGPT or whatever that they're using, those are using third-party research or rankings to really discern if you want to go to a bank, that's great.

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Customer service, where do you go? Well, if we're #1 in J.D. Power for small business, for online banking, we're very high in retail banking, then it's in many ways that our focus on customer experience, particularly in the markets where we have that the sticky deposits are staying sticky, because people still like to do business with us and particularly the segments like mass affluent and small business where they are more service-oriented, we've really had a lot of success there.

Unknown Analyst

This might be a little bit of a redundant question given you just mentioned J.D. Power scores and customer experience and rankings. But investors are debating deposit beta here and effects on margin. And so far, the industry is I guess, maybe outperform a bit. But the skepticism remains. Can you just talk about when you look ahead, what gives you confidence in your deposit and NII outlook?

Anil D. Chadha
Senior Executive VP & CFO

Sure. So I'll start with a couple of the key components. So for NII, one of our biggest tailwinds we've had it for the entire year and extends into next year is just fixed asset repricing benefits that we continue to see. So every quarter, we have about $3 billion of fixed rate assets repricing.

Depending upon where rates end up, that's going to give us a benefit of, call it, 100 basis points, plus or minus, depending upon where rates are. So that will continue into the future. So that's a natural tailwind for net interest income. When it comes to betas, again, what gives us confidence, one, I think the competitive nature that we've seen has been pretty consistent over the past, let's call it, 2 years at this point.

And so understanding the nature of your customer base, us being very deliberate in keeping about 30% of our customer base being in noninterest-bearing deposits. And then within that interest-bearing bucket, clearly understanding how we kind of highlight in the investor materials, 3 different buckets of beta behavior, if you will. And that tracks pretty consistently as we back test going through time.

And so because we see the consistency of that performance, we understand how that deposit base will perform in different environments. And so it's not as if we just kind of at a high level, say, 30 -- mid- to high 30s is going to be where the beta is, it's a buildup looking at each of the segments of our customer base and understanding how they performed historically. That's how we project into the future, the confidence that we have in our beta.

We're not unique to that. I'm sure every bank in here does the same thing. But it's because of that and because of what I would say, the rational level of high competition, that's how I think you've seen us and others kind of perform as expected.

For us, clearly, having the flexibility on our balance sheet with a relatively lower loan-to-deposit ratio helps, having a lower debt footprint outstanding helps us. And so as we have periods of loan growth exceeding deposit growth, those are levers we can pull as temporary funding measures, as deposit growth continues to pick up. So all those things coming together is what really gives us confidence in our guide for beta and our ability to execute against that as time passes.

Unknown Analyst

How does that play out in conviction for NII and margin in 2027?

Anil D. Chadha
Senior Executive VP & CFO

Yes. I won't get too far into '27, but some of those tailwinds will continue. So the fixed asset repricing, I mentioned before, continues into '27. It will be at a decreasing rate, as you'd expect. But we feel good about exiting the fourth quarter with a margin around 3.70% and feel good about some of the tailwinds that can persist into 2027.

Unknown Analyst

I think we'll -- I mean I have a bunch of questions remaining, but we want to open it up here just to make sure we have enough time.

Unknown Analyst

Can I just ask you, you mentioned at the beginning of [indiscernible] different initial environment post Tuesday. Can you maybe just elaborate? I know it's speculative at this stage, what potential impact might be? And then just in particular on data centers, I think

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there's been a lot of construction. I think you've been relatively cautious and it's been more about like the ancillary stuff, the power, the construction that may have kind of supported some of your commercial loan growth. So maybe can you give us a bit more detail?

Anil D. Chadha
Senior Executive VP & CFO

Yes, I'll start with the second. So you're right, it's an area we have not gone heavy into. We have a firm concentration limit around that of about $1.2 billion. We have about $800 million outstanding today and about $1 billion in commitments. So that's not really a place where we have been growing and not a place where clearly we plan to grow.

And so -- and structurally, as you mentioned, we have not gotten caught up in kind of what you've seen a lot of here of late. So our strategy there has been pretty intentional, and it's really just founded on our concentration risk management. There's nothing unique here that we saw something different than others. It's just traditional concentration risk management has kept us to limit the amount of that, that we're willing to put on our balance sheet.

And going to the first part of your question, yes, interest rates have been clearly topical for our customers all year long, really picked up in the third quarter. I think in certain pockets of our customer base, the Tuesday results maybe have some additional questions as to what could happen from a policy standpoint and regulation in certain industries. But the fundamentals are still strong, but it's just, I think, another variable that I think everyone will be paying attention to over the next several months and quarters.

There are some potential tailwinds. Tariffs have been a headwind for a period of time. Immigration has been an issue in terms of labor force. And so there's possible we could see some push and pull of things that actually could help as we look forward across different industries that we lend to. But too early to tell. We'll see how things emerge. But I would say maybe just another element of uncertainty that our customers and banks will have to deal with as we look forward.

Christopher James Spahr
Wells Fargo Securities, LLC, Research Division

This is Chris Spahr with Wells Fargo. John, what is the payback period for the branch builds? And with the consolidation, is there any offsets to that? And then also, do you expect the production increase in the markets that you're already in as you improve your density?

John T. Jordan
Senior Executive VP & Head of Consumer Banking Group

Yes. Good question. So typically, we get 3-year payback is typical for a successful branch. We really -- there's some dependency there on whether we are consolidating. So as Anil mentioned, a lot of the branch building is going to be taking maybe 1 or 2 branches and putting them in a better spot. And so we do expect better productivity and better growth based on the repositioning.

As you sort of look at the map, we're going to add about 5%, 6% of household coverage by this effort. And we're just going to be looking at this as an ongoing part of running the business. We do measure productivity just at the individual and branch level, obviously, like most banks do on a weekly basis. And we've seen great productivity improvements, particularly in the areas where we've specialized in small business, mass affluent.

We're seeing better lending, better results. We've given the branch teams more capacity to get out and talk to small businesses. And so with tools and resources and sort of just the automation, we've seen a lot of success in terms of just continuing to reinvest into growth and reinvest into productivity of the branch teams.

Anil D. Chadha
Senior Executive VP & CFO

And clearly, the payback period definitely differs in terms of the strategy. So John is alluding to when you do kind of a 2 for 1, you get the benefit of reduced cost and others. If you're doing a brand-new build in a new location, clearly, your payback period is going to be longer than that.

The other thing I'd mention is some of our strategy, I think I mentioned San Antonio earlier, it doesn't always have to be led by retail. That's an example where we actually took a commercial first approach. We had an opportunity to bring in a team. And so complementing that team with the retail branch presence, that economics looks different as well because you're able to capitalize and grow commercial opportunity as well. So depending upon the strategy in which you execute that, the payback, as you'd expect, would be different in different situations.

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Robert Scott Siefers
TD Cowen, Research Division

Robert Scott Siefers with TD Cowen. John, I was just curious if you could talk a little bit about maybe like the rate of change in the competitive environment. The reason I ask is because, we've all been concerned for a few years about this approach on your territory by top market players. But the point their own expansion, they just become seasoned players as well as they -- rather than new entrants. So does that make it tougher or easier to compete?

And I guess the other factor is, to your point from this morning on the branch expansion discussion, the Southeast has just a lot of new community formation. So you all are sort of new entrants in that regard. So maybe just sort of rate of change or direction of travel, has it gotten easier or tougher over the last couple of years? And how do you see it trajecting? Yes.

John T. Jordan
Senior Executive VP & Head of Consumer Banking Group

I was at a large bank for 21 years before I joined here. Banking is something like constant change really. And I would say that for Regions Bank, we certainly feel that. But we monitor -- really, if you think about a consumer business, it's actually kind of simple. I mean, you have to manage a lot of processes. There's a ton of moving parts, but how is your acquisition engine working. And we tend to be at the very top end of acquisition in terms of just the percent as you kind of measure us through third party. So that engine is still working great.

You want to build primacy, which we're in the top quartile in terms of building primacy. That engine is still working really, really well. You got to be great at pricing, and we've got a great team of people who are pricing, making sure that we maintain cost, the low-cost advantage, which we will maintain. And you've got to continue to deepen and engage over time. And so you kind of look across the spectrum of the processes that we're managing, they're evolving. But we're getting -- we're continuing to get better.

I mean, we're having more people open up digital accounts, which is a capability that we're -- that everyone has, but it's -- we're seeing great growth in that space. As I mentioned, we're #1 in the online banking space from a J.D. Power space. So we -- I feel like we've got a very defendable position.

And when you look at these -- and I don't have the stats on this specifically, but if you kind of look at these new market entrants, who are they going to be winning their customer base from. If you're a community -- someone who's doing business with a community bank, you're going to be changing to another bank, you're going to go to one of the big banks or you're going to go to one is a little bit more of a hometown, more traditional banking, high service model. And so I think we win our fair share in that. And so, I think that if we kind of look across the footprint, we're still seeing great success. There's no kind of warning signals that change is outpacing us.

The other thing I would just highlight is every branch is using AI for us. Everyone has Copilot, everyone is using action planning. They're using it to help target and help them with conversations. We've put in AI training simulation. So everyone's practicing conversations, honing their skills. We're seeing, like I said, more productivity from our bankers. So although there is great competition, there's a lot of change. We've been monitoring all the processes and feel good about where we are.

Ryan Michael Kenny
Morgan Stanley, Research Division

Ryan Kenny with Morgan Stanley. So Regions has always been really strong at really gathering the primary core checking account of the consumer. Are you seeing as we stay in this higher for longer interest rate regime environment than the 2010 competition for those low-cost primary checking accounts increase? Are you seeing more marketing expense from competitors? And as you think about your strategy to really win those checking accounts, clearly, you're focusing on branches, you're partnering with SEC, which strategies are working the best in any areas where you're falling a little bit short?

John T. Jordan
Senior Executive VP & Head of Consumer Banking Group

I'd say you do see a lot of offers, a lot of marketing offers out there across our footprint, certainly in places where people are either entering the market. But I would say just in general, that people are paying a lot. A lot of them are paying high dollars for mass affluent households because of high switching cost, and it's really hard to get those customers to move.

We spent a lot of our time acquiring young adults, mass market accounts, easier to move, easier to change. So we've had a very efficient model, I think, in terms of growth. And then like I said, our mass affluent segment is growing largely from our existing customer base. So we feel good about the model, and we kind of look across our footprint. We've seen, I think, pretty steady results.

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Different markets, like Anil mentioned, I mean, we have a different look and feel in some Texas markets than we have in certainly Birmingham or Huntsville or Mobile or Nashville. So there's slightly different kind of cost of acquisition across those, but we -- that's something that we're always monitoring and trying to optimize for in terms of our marketing expense.

Anil D. Chadha
Senior Executive VP & CFO

So our focus there is both on the consumer and on small business. And year-to-date, our acquisition rate for small business has been about 120 basis points and on the consumer side, it's been around 40 basis points. Both are well above our peers. And so that's the data that -- and this is from third-party data that we get. So that's data suggesting that what we're doing is working.

Now it takes time to get there. Clearly, when you're attracting new customer accounts. And an average account for us is $5,200. A new customer average account is probably closer to $2,000 to $3,000. So it's constant work that you have to do. But once you get that going, that continues to be kind of a tailwind for you. The small business side, that's another one. And so that's where we think really making the investments that we have and seeing it pay off in terms of our acquisition rate is, we believe, a very good sign of that strategy working.

John T. Jordan
Senior Executive VP & Head of Consumer Banking Group

A lot of business comes from referrals, believe it or not. I mean, still in this world of kind of a lot of things, a lot of offers out there in your mailbox, its almost people I feel like have almost become kind of numb to all of that's hitting them. So we're seeing a lot of our business comes from customers referring business to us.

Ryan Michael Kenny
Morgan Stanley, Research Division

And then just as a follow-up on your core consumer checking account, I believe that average balance over time is something like $5,000. Has that changed recently? Any change in rate sensitivity on the consumer? Or is it still fairly great [indiscernible]

John T. Jordan
Senior Executive VP & Head of Consumer Banking Group

I would say it's stable on the balances, which $5,200 plus or minus a little bit, has been very stable. And Anil may alluded to this, we have rate-sensitive customers. And we have customers who may hold their savings elsewhere. We don't chase rate. So we do -- we know the levers. We're watching where we need to grow deposits or where we may want to offer some pricing differentiation. But in general, it's a very targeted approach for us, and it's really to fund our balance sheet as needed. I mean, we continue to grow those low cost or no-cost deposits, and that's been our focus for years and years now.

Unknown Analyst

Other questions? I'll throw one in. We haven't talked about capital. You shifted from a CET1 ratio, reflecting AOCI inclusion to one that also incorporates proposed endgame relief. I guess how should we interpret that change? And where do you think you're going to be able to operate from a CET1 perspective once the rules are finalized?

Anil D. Chadha
Senior Executive VP & CFO

Sure. We try to provide transparency for all components. And so just to kind of level set, we -- our reported CET1 ratio for third quarter was 10.8%. We showed kind of a waterfall, if you will, of just the impact of AOCI, took that ratio down to about 9%. And then the proposed change in risk-weighted assets took it up to about 10% kind of a fully phased-in Basel III end game.

And the reason we did that is once we get the final rule, we expect that that's how we should start to show everyone. We'll see what type of phase-in periods exist and whatnot. So if you have a 10% fully phased-in ratio, generate 50 basis points of capital every quarter, 20 basis points of that will go to the dividend. We think that's sufficient capital for us to continue to grow our business and buy back shares as appropriate.

We still think managing to 9.25% to 9.75% is appropriate. And so as we invest in our business, you should expect us to kind of be at that level. Once we get the final rule, we'll see what type of phase-in exists, and that may influence kind of how we think about it. But based on what we're seeing right now, we feel good about the capital that we have. You saw us buy back about $94 million in

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share repurchases in the third quarter. Depending upon where rates are, clearly sitting here today, that will be a tailwind to capital. We expect we should be able to buy back more than that this quarter dependent upon rates.

Stephen Kendall Scouten
Piper Sandler & Co., Research Division

Yes, if I could just go with a quick one. Stephen Scouten, Piper Sandler. Your economic projections in your presentation are relatively conservative to what we've seen from actual GDP growth. Besides the obvious for rising tide lifting all banks maybe with GDP growth. How else could you see that benefit you maybe disproportionately around loan growth or otherwise in terms of your current projections?

Anil D. Chadha
Senior Executive VP & CFO

Yes. So for loan growth, I always like to break it into its component pieces. So for our business, most of our loan growth is coming from C&I and CRE, where we participate in the consumer, we really don't expect to see much growth there.

To the extent rates perform better than we expect, we potentially could see some momentum in the mortgage space. John alluded to some home equity production. But for us, we think our opportunity to grow loans is really in the C&I and CRE space. That's where we're making investments in our move towards kind of more middle market lending. That's where we're seeing good pipeline growth. And so I think that's the opportunity ahead of us to continue to grow. On the consumer side, it would be if rates came down more meaningfully, we could see some mortgage opportunity there.

Michael Lawrence Mayo
Wells Fargo Securities, LLC, Research Division

Mike Mayo with Wells Fargo Securities. You addressed capital, and let's just assume Basel III is a done deal and you talked about the capital return. But in the wake of the elections, not just nationally, but state by state, what are you scared of? What do you plan for the worst and hope for the best as you plan for the worst, what comes to mind?

Anil D. Chadha
Senior Executive VP & CFO

Yes. I don't know that I'd say scared. I think when I look at the elections, it's just a reminder, you have to be adaptable. And so as we think about where we want to deploy capital across our footprint, we still think our footprint is going to be a net beneficiary of new business formation, customers moving into the market. There could be places where maybe as a result of Tuesday, they may look a little different. I still believe it's going to be greater than the national average across the footprint. But maybe some states get disproportionately more than others. But you know what, they're still in our footprint. And so I can't think of -- and there may be one.

So excuse me, if there is, I can't think of maybe a beneficiary from Tuesday that's not in our footprint. And so there could be some shifting. But net-net, I think all the markets we've been focused on for growth will still be growth drivers, the degree of which potentially could change. But the Southeast, I still believe is going to be an area of outsized growth. And if we need to adapt our investment, we will, but it's not like we have to expand. It's still within our footprint. So that's the way I think about it based on kind of what we've seen over the past 4 days, but they reserve the right to change my opinion as things emerge.

Unknown Analyst

I was thinking we should do a contest to see when Lauren Boebert is going to be invited on advance of the stars and how many days from now. But I didn't expect that. Credit, yes, credit -- I guess, credit, can you just talk a little bit about -- I mean, obviously, commercial real estate performed better than maybe people expected. How are you thinking about that portfolio? You talked about growing it. Net charge-offs going forward. Overall, like what are you concerned about right now other than the data center?

Anil D. Chadha
Senior Executive VP & CFO

Yes. And again, data center is not a big exposure for us. But we had a really strong third quarter. I'd caveat that as that's when everything goes right, you get a quarter like that. As we look forward, we guided towards the low 40s or the low end of our 40 to 50 basis point range for the full year. That's still what we expect.

We have a portfolio of credits that we've been monitoring that are fully reserved for, whether they charge this quarter or '27 is TBD. But again, the reserves are sufficient there.

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We really haven't seen any new signs of stress across our portfolio. A reminder on the consumer side, we're prime, super prime. So that's performing as you'd expect to see it. So we feel really good about our performance so far to date, feel good about our reserve coverage.

And so sitting here right now, I don't see any signs. But clearly, this is an area we need to stay attentive to as things emerge. But this is where our concentration risk management improvements over the years is really paying off. As we look at our portfolio, there's really no areas of outsized concentration.

And so where that -- if you look back over the past several years, you could argue that's been a headwind to growth. In periods like now where there's greater uncertainty, it's an asset to us to not have any areas where we feel like we have heightened exposure. And so making those tough decisions along the way, now is the time when we get to sit back and be a little more comfortable because of that.

And specific to CRE, we had some ratings migration, but that we don't feel like there's any material risk of loss in those portfolios. So we feel good about that.

Unknown Analyst

Mike has a follow-up question.

Anil D. Chadha
Senior Executive VP & CFO

You may want to make a boat on the Lauren [indiscernible]

Michael Lawrence Mayo
Wells Fargo Securities, LLC, Research Division

When it comes to acquisitions, buy or build and -- When it comes to acquisitions, buy or build, you already talked about the build. So I guess, buy and what's your sales pitch if you want to buy somebody? What do you bring to the table for, say, a smaller bank that you might want to acquire? Why haven't you seen more deals in the bank industry generally?

Anil D. Chadha
Senior Executive VP & CFO

Yes. So when it comes to acquisitions, we like the non-bank bolt-on stuff. I know that's not a glamorous answer, but I think it's really important. I think The Frazer Lanier acquisition, even though it's very specific to an area, it shows an ability to grow revenue.

One of the things that I am concerned about after Tuesday is revenue headwinds. And so the fact that we've continued to add bolt-on businesses is one of the reasons we've been able to generate an additional $1 billion of revenue since the great financial crisis, while we've lost $600 million. And so those bolt-on acquisitions, I think, matter and they kind of build up through time. With respect to why haven't we seen more bank acquisitions, may need to ask someone else who's kind of more focused in that space because that's not an area that we're focused on right now as we've indicated. But for us, it's really focusing on non-bank acquisitions. That's where we spend our time and think they provide great benefits for us in terms of revenue diversification.

Michael Lawrence Mayo
Wells Fargo Securities, LLC, Research Division

And what's progressing the headwinds? Are you thinking about [indiscernible] policy?

Anil D. Chadha
Senior Executive VP & CFO

I think, from a policy standpoint, some of the early concerns that people have voiced, I don't know which ones are going to win out. But if there is concerns around certain revenue streams that could be at risk from a regulatory standpoint, I think it's always good to have diversification. And that's what we think these non-bank acquisitions provide for us.

Unknown Analyst

We have one final quick question. You can just carry on.

Stephen Kendall Scouten
Piper Sandler & Co., Research Division

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Stephen Scouten from Piper Sandler. Can you talk a little bit about [indiscernible] What that means for you in terms of efficiency, commercial offset and [indiscernible]

Anil D. Chadha
Senior Executive VP & CFO

Yes. So deposit system, we actually put our first account on it in the past couple of weeks. So we're actively starting to test it. I still believe that's mid next year to maybe third quarter next year time line. Really excited about the possibilities of being on the first true modern core platform.

You mentioned a couple of them, product velocity development, incredibly important. Think about what could come in the way of tokenized deposits being able to deploy that, being able to have more of bespoke product offering and pricing strategies across markets.

Today, it's a very inefficient way to do that. That platform will allow us to do that in a far more efficient way. And so when we think about meeting evolving customer needs and expectations and pricing for that, we think this platform really allows us the opportunity to do that.

And look, when you put in something like this, you are converting yourself onto a new platform. And so it's a skill set that I think is just good hygiene for us to learn. And so that's the skill set we'll have after we put in place the system, and that will help us on a go-forward basis.

Unknown Analyst

Thank you very much. We really run out of time, but we really appreciate Regions coming back to the conference.

Anil D. Chadha
Senior Executive VP & CFO
We appreciate it. Thank you all for being here.

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