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Regions Financial Corp. (RF)

Q1 2020 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning and welcome to the Regions Financial Corporation's Quarterly Earnings Call. My name is Shelby, and I'll be your operator for today's call. I would like to remind everyone that all participant phone lines have been placed on listen-only. At the end of the call, there will be a question-and-answer session. [Operator Instructions]

I will now turn the call over to Dana Nolan to begin.

Dana W. Nolan

Executive Vice President & Head-Investor Relations, Regions Financial Corp.

Thank you, Shelby. Welcome to Regions First Quarter 2020 Earnings Conference Call. John Turner will provide some high level commentary, and David Turner will take you through an overview of the quarter. Earnings-related documents, including forward-looking statements, are available under the Investor Relations section of our website. These disclosures cover our presentation materials, prepared comments, as well as the Q&A segment of today's call.

With that, I will now turn it over to John.

John M. Turner, Jr.

President, Chief Executive Officer & Director, Regions Financial Corp.

Thank you, Dana, and thank you all for joining our call today. I want to begin the call today by thanking our 19,000 associates who despite tremendous disruption in their personal and professional lives continue to come together as a team to support each other, our customers and communities through the COVID-19 pandemic. The last few weeks have certainly been challenging. However, our top priority is the health and well-being of our associates and customers. In order to do our part to reduce the spread of COVID-19, we were one of the first banks to limit in-person branch activity through our drive-throughs and converted our office services to appointment only.

We also reopened previously closed locations to better serve our customers. Fortunately, due to our footprint the majority of our branches have drive-through capabilities and I'm proud that we've been able to keep 97% of our branches open during this time. Additionally, almost half of our associates are now working remotely. Our teams remain committed to delivering the financial advice and guidance our customers have come to expect from the Regions bankers. These changes will help us do so in a way that minimizes the associated health risks.

We are offering special financial assistance to support our customers who are experiencing financial hardships related to the pandemic. Through Tuesday, we have processed approximately 17,000 consumer payment deferral request, including approximately 4,000 related to residential mortgages. In addition, we've processed requests for approximately 12,000 mortgage loans serviced for others. From a business customer perspective, we processed approximately 4,000 more. Also as the certified SBA lender, we've been working very hard to help customers through the new Paycheck Protection Program and I'm proud to say that through yesterday, we have facilitated assistance to our business customers totaling $2.8 billion. We've recognized the importance to our customers and their employees of access to fund through this program.

In the span of eight days, we established a cross functional team to create an end-to-end digital application, built automation around every feasible point in the process, reassigned several hundred staff from other departments

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and train them to accept and process loan applications for small business owners. We're hopeful Congress will appropriate additional funds as significant need remains.

Importantly, the bank also contained to lend the customers outside of the stimulus programs. During the quarter, new and renewed loan originations to business customers totaled just over $10 billion. Further, through the bank and our foundation, we've committed approximately $5 million toward consumer and small business recovery efforts. We are also donating advertising time originally purchased for promoting bank products and services to food banks across our footprints. These advertisements encourage viewers to finance and support food banks as they strive to help those in need.

As we navigate through this crisis, our teams will continue to come together to identify innovative and meaningful ways to better connect with and serve our customers. For some time now, we have communicated our goal of generating consistent, sustainable long-term performance through every economic cycle. All of our plans are built around this concept. Because of our focus and the deliberate steps we have taken. We entered these challenging times from a position of strength underpinned by robust capital and liquidity. This will allow us to better support our customers as we work together to get through this unprecedented time in our history.

We will incur some stress, that's just a result of the economy we're in as we combat this public health crisis. But unlike the crisis the financial services industry experienced a decade ago, we are providing solutions to meet the needs of our customers during this extraordinary time. We've spent decades strengthening our capital position and risk management framework through an intense focus on risk adjusted returns, client selectivity and robust concentration risk management. We have built a more balanced and diverse portfolio. Our strong capital and liquidity positions combined with extensive de-risking efforts give us confidence that we can weather the pressure from the abrupt economic slowdown.

In addition, two years ago we initiated a significant hedging strategy to reduce net interest income variability and protect us from the impacts of a lower interest rate environment. The benefit from our hedging strategy provides us with a substantial competitive advantage in the current low rate environment. All of this allows us to move forward confidently and remain focused on the things we can control, providing support to our associates and communities and offering first-class advice, guidance and education to our customers.

Although, we're in a time of significant economic stress, it's too soon to estimate its duration or severity. We are encouraged by the actions taken by government and bank regulators to provide relief to individuals and small businesses, while also supporting the smooth functioning of the financial markets. In light of this uncertainty, we are resending our financial targets for this year along with our three year targets previously announced in 2019.

We remain committed to our strategic plan, but acknowledge the need to remain flexible during this time of unprecedented and historic uncertainty. We will provide updates with respect to our financial targets once conditions stabilize, and we have better visibility. We adopted the concept of shared values several years ago, whereby what we do as a business must create long-term value for customers, communities, associates and shareholders. Frankly, I'm convinced that it has never been more important as we work through the current health crisis together with our customers and communities.

Thank you for your time and attention this morning. With that, I will now turn it over to David.

David J. Turner, Jr.

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

Thank you, John. Let's start with our quarterly highlights.

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First quarter net income totaled $139 million, resulting in diluted earnings per share of $0.14. Items impacting our results this quarter includes a significant CECL provision in excess of net charge-offs and a large increase to our CVA associated with customer derivatives as interest rates moved down substantially during the quarter and credit spreads widened, partially offsetting the negative adjustments, our MSR net of hedges performed favorably during the quarter. In total, the adjustment and additional selected items highlighted on the slide reduced our pre-tax results by approximately $280 million.

Let's take a look at our results starting with the balance sheet. Adjusted average loans increased 1% while adjusted ending loans increased 7%. Loan growth was driven primarily by elevated commercial draws activity late in the quarter. Utilization rates increased from 45% at the end of the year to 54% at the end of March. As a point of reference, our utilization rate is typically around 45% and during the global financial crisis peaked around 51%.

In the last week of the quarter, the pace of increase slowed and we expect utilization rates will remain relatively stable for the time being. The draws we experienced have been primarily defensive or cautionary in nature and are broad-based geographically and across all industries. Approximately 60% have come from investment grade companies. So we anticipate a portion of these customers will eventually seek permanent financing through the capital markets. However, it is too early to try and predict timing of any refinancing.

As a result, predicting loan growth is challenging. However, I do want to remind you that on April 1, we closed our purchase of Ascentium Capital, which included approximately $2 billion in loans to small businesses. We look forward to leveraging the technology, speed and convenience that Ascentium is known for in combination with our broad spectrum of banking solutions to meet the needs of small businesses during this difficult time.

Let's turn to deposits, average deposits increased 1% while ending deposits increased 3% as many of our corporate customers drawing on their lines are keeping that excess cash in their deposit accounts. We expect these balances will come down over time, as customers secure financing in the capital markets or customers get more clarity regarding the economic impact of the health crisis.

As we have experienced in previous periods of stress, consumer deposits increased as customers seek the safety and soundness of a regulated and insured financial institution. We expect total deposits will continue to increase both at Regions and across the industry. On an ending basis, corporate segment deposits increased 8% while wealth and consumer segment deposits each increased 3%. These increases were partially offset by decrease in the wholesale broker deposits within the other segment.

Shifting to net interest income and margin, which is a strong story for Regions. Net interest income increased 1% linked quarter and net interest margin increased 5 basis points to 3.44%. As expected, net interest income and net interest margin have been a source of stability under an extremely volatile market interest rate backdrop. Specifically, lower loan yields were offset by lower funding cost and the benefit of forward starting hedges becoming active in the quarter.

Now that most of our forward starting hedges have begun and given our ability to move deposit costs lower, our balance sheet is largely insulated from movement in short-term rates. Low hedges added $10 million to net interest income and 4 basis points to the margin in the quarter. This will increase going forward as the benefits are realized for the entirety of future quarters. Further all of our hedges have five year tenures and a quarter end market valuation of $1.7 billion, another relative differentiator.

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Of note, net interest income was supported in March as LIBOR rates remained elevated at a time when other short-term rate indices which are a large driver of deposit cost moved close to zero. The benefit of elevated LIBOR is projected to normalize by mid-year. Additionally, higher average loan balances increased net interest income, but reduced net interest margin while one fewer day in the quarter reduced net interest income, but increased net interest margin.

Total deposit cost declined 6 basis points compared to the prior quarter to 35 basis points and interest bearing deposit cost declined 9 basis points to 55 basis points. Regions continues to deliver industry leading performance in the space exhibiting the strength of our deposit franchise. Over the coming quarters, we expect deposit cost to migrate back down into the 10 basis point to 14 basis point range.

Looking ahead to the second quarter, let me start by saying these expectations exclude the potential impact from the Fed's Paycheck Protection Program, but are too uncertain to include in the forecast at this time. We expect second quarter net interest income and net interest margin to benefit from the Ascentium Capital acquisition. Net interest margin is anticipated at roughly 3.4%. Excluding Ascentium, a larger average balance sheet in the near-term is anticipated given increased loan and liquidity needs from our customers. While this will benefit net interest income, it will slightly reduce net interest margin.

Let's take a look at fee revenue and expenses. Almost all non-interest revenue categories were impacted by market volatility and economic uncertainty, resulting in a 14% decrease compared to the prior quarter. After experiencing a record quarter in the fourth quarter, capital markets revenue decreased to $9 million. Excluding unfavorable CVA, capital markets income totaled $43 million. We generated record customer derivatives income in connection with lower interest rates, but experienced decreases across all other categories.

Looking forward, M&A transactions, in particular, are likely to remain on hold until markets stabilize and the economic outlook becomes more certain. Mortgage income increased 39% over the fourth quarter, driven primarily by elevated sales and record application volumes associated with the favorable rate environment, as well as positive net hedge performance on mortgage servicing rights.

Lower interest rates sparked a significant increase in year-over-year production. In fact, our first quarter total application volume was more than double our historical first quarter average. Wealth management revenue remained stable despite market volatility. If market conditions persist, however, we could experience a decline next quarter in line with lower asset values.

Service charge revenue and card and ATM fees decreased 5% and 6%, respectively. During the last two weeks of the quarter, we observed a reduction of approximately 30% in consumer spending activity. Looking forward, if current spend levels persist, we estimate total consumer non-interest income will be negatively impacted by approximately $20 million to $25 million per month from pre-March levels. Partially offsetting these headwinds, however, are positive revisions to anticipated mortgage income, resulting from lower interest rates. Mortgage production increased 60% compared to the first quarter of the prior year and pipelines are strong. Full-year 2020 production is expected to increase by approximately 40% versus the prior year.

Let's move on to non-interest expense. Adjusted non-interest expenses remained well controlled, decreasing 5% compared to the prior quarter, driven primarily by lower salaries and benefits, professional fees and marketing expenses. Salaries and benefits decreased 4% driven by lower production based incentives and negative market value adjustments on employee benefit assets, which are offset by lower non-interest income.

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Professional fees decreased 36% driven primarily by elevated legal, consulting and professional fees in the fourth quarter. The company's first quarter adjusted efficiency ratio was 57.9% and the effective tax rate was 20.6%. We continue to benefit from continuous improvement processes as we have completed only 40% of our current list of identified initiatives. For example, since the first quarter of last year, we have reduced total corporate space by almost 900,000 square feet or 7%. While still early, the pandemic is already having an impact on how we interact and communicate with customers and each other.

We've already initiated changes and in many instances are discovering that not all change is bad. For example, we have wealth teams calling on and winning business using Webex and videoconferencing in effective and dynamic ways, whether it's through new ways to interact with customers for increased use of hoteling, we believe there are additional opportunities where corporate space is concerned. So we're going to keep our minds open as we navigate through this disruption.

So let's shift to asset quality. We adopted the seasonal accounting standard as of January 1, 2020. As permitted by the Federal Reserve, we will defer the impact from the seasonal accounting standard on Common Equity Tier 1 capital each quarter until the end of 2021, after which you will be phased in at 25% per year. As of March 31 this amount is approximately $440 million and represents all of our day-one after tax adjustment recorded directly as a reduction of shareholders equity on January the 1, as well as 25% of our first quarter provision in excess of net charge-offs. The related impact to our first quarter Common Equity Tier 1 ratio is approximately 40 basis points.

Under CECL, credit loss provision expense for the quarter totaled $373 million. This amount includes providing for $123 million in net charge-offs as well as $250 million of additional provision, reflecting adverse economic conditions and significant uncertainty within the economic forecast, including uncertainty surrounding the benefits of government stimulus already enacted and potential additional stimulus all occurring since the initial assessment and adoption on January 1, 2020. The additional provision was further impacted by higher specific reserves associated with downgrades, primarily in the energy and restaurant portfolios.

The resulting allowance for credit losses is 1.89% of total loans and 261% of total non-accrual loans. Charge-offs were 59 basis points this quarter and included the impact from our most recent shared national Shared National Credit exam. Non-performing loans increased to $131 million, primarily driven by energy credits. Total delinquencies and troubled debt restructured loans decreased 4% and 9% respectively, while business services criticized loans increased 12%.

Recently, regulatory agencies issued guidance stating short-term modifications to borrowers experiencing financial distress, as a result of economic impacts created by COVID-19 will not be classified as a troubled debt restructured loan as long as their payments were current as of December 31. We do not expect a material increase in TDRs.

In this environment, we are monitoring all of our portfolios closely. However, I want to take a couple of minutes to highlight a few portfolios currently experiencing stress. In most instances, these are the same portfolios we have been discussing for some time now. Energy is a portfolio we continue to monitor. Direct energy balances totaled $2.4 billion or 2.7% of loans outstanding at quarter end. Since 2014, we have worked diligently to remix the portfolio and reduce our exposure to the oilfield services sector, which is where most of our losses have occurred.

During the quarter, we conducted an intensive review of all of our energy clients, including E&Ps, midstream and oilfield services which resulted in a handful of downgrades in both the E&P and midstream space. We have been in the energy business for over 50 years and have always maintained a heavy focus on client selectivity. Our spring borrowing base redeterminations are in process and we are continually reassessing our price deck.

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At current oil price levels, we do expect additional stress, but overall believe the portfolio will perform at least as well as it did in the 2014 crisis perhaps even better given the significant remixing in the portfolio. Within the hospitality portfolio, which includes restaurant and hotels, we are closely monitoring casual dining and quick serve. Total restaurant balances were $1.9 billion at quarter end, casual dining restaurants with balances of approximately $550 million are continuing to experience stress due to higher labor costs, oversupply, digital transformation challenges and general pressure on margins. We expect additional pressure in this space as shelter-in-place orders continue.

In fact we're already receiving requests for mitigation and payment deferrals. Quick serve which represents 63% of our restaurant portfolio seems to be holding up well. Our exposure to hotels is primarily limited to a handful of large well-structured reach, which typically have lower leverage and strong cash positions. Depending on the ultimate duration of the pandemic, we expect most will weather the downturn. However, we have already experienced several requests for relief.

We're also closely watching the transportation, retail and agriculture portfolios as they also have the potential to be adversely impacted by the current business environment. I previously mentioned the approximately $2 billion of small business loans we acquired as part of the Ascentium Capital acquisition on April 1st. These balances will be reported with our second quarter results. But let me briefly remind everyone that under CECL, you will see a sizable adjustment currently estimated to be between $100 million and $120 million, establishing our initial allowance for these loans, which will run through provision expense. This expense will be offset by accretion of the credit discount through interest income over the life of the purchase loan portfolio.

Recent annual loss rates on this book of business have been approximately 2.5%, because they focus on business essential equipment and high FICO guarantors, we believe the business will be resilient through periods of stress. Recall, the average yield on these loans are approximately 10%, and they do include certain prepayment protections. So while losses will increase in the near term due to the economic environment, we continue to feel very good about the acquisition and are looking forward to working together to better support our small business customers.

The extent to which all of our customers are ultimately impacted will be a factor of the duration and severity of the economic impact, as well as the effectiveness of the various government programs in place to support individuals and businesses. There is a lot that is still unknown. However, what we do know is that we enter this environment from a position of strength and are committed to assisting our customers and communities.

As John mentioned, we know we will experience some stress; however, our strong capital and liquidity positions accompanied by a decade long journey to enhance our credit risk management framework and our disciplined and dynamic approach to managing concentration risk have made us better managers of risk and have positioned us well to weather an economic downturn.

So let's take a look at capital and liquidity. During periods of stress, liquidity management is critical. Like the rest of the industry, we experienced a spike in credit line draws late in the quarter. These were primarily from companies being prudent and wanting to ensure they had adequate cash on hand. We did the same thing through additional advances at the Federal Home Loan Bank, which we used to increase our cash at the Federal Reserve.

Liquidity at Regions really starts with our granular and stable deposit base which provides superior liquidity value. Regions has traditionally maintained one of the lowest loan-to-deposit ratios in our peer group. At the quarter end,

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this ratio stood at 88% and includes the impact of increased line of credit draws observed by customers late in the quarter. Further, our risk management and stress testing framework ensure our liquidity positions are prepared to meet customer needs in turbulent times such as these.

Beyond deposits, Regions also has ample sources of additional liquidity, which can be readily used to meet customer needs. Our primary liquidity sources include cash balances held at the Federal Reserve, borrowing capacity at the Federal Home Loan Bank, and unencumbered highly liquid securities. These readily available sources totaled approximately $28 billion at quarter end and when combined with another $15 billion of availability at the Federal Reserve's discount window, total available liquidity stands at $43 billion.

FHLB advances remain the primary tool we use to fulfill short-term funding needs. We have seen great interest in the SBA Paycheck Protection Program loans and we are endeavoring to meet the needs of customers. While we will use liquidity resources on hand to meet those near-term needs, we're also looking at the Federal Reserve's new Paycheck Protection Program [ph] lending facility (00:28:10) as an alternative funding source.

With respect to parent company cash, we also maintain a conservative position. By policy, parent company cash must always exceed 18 months' worth of debt service and dividend payments and current cash forecast remain above our management target of 24 months.

Let's turn to capital. Regions continues to maintain strong capital levels. Our Common Equity Tier 1 ratio is estimated at 9.4%. Our quantitative target for this ratio is derived mathematically and as we have previously discussed is 9%. We believe this is the appropriate level of capital to withstand a severely adverse scenario and still remain above post stress limits. We've also maintained approximately 50 basis points as a strategic management buffer which could be deployed opportunistically. We used a portion of the management buffer on the Ascentium transaction which closed April 1.

As we go forward, future economic performance and its impact on earnings will be the primary driver of near-term capital levels. In addition to the negative implications due to COVID-19, it is also important to keep in mind that we have never seen the volume at which fiscal stimulus and government lending programs have been implemented. The ability of these programs to effectively work to help support the businesses and consumers within the economy will dramatically impact credit performance for us and the industry.

During this period of uncertainty, we will continue to work with our customers to help them navigate these uncertain times. Additionally, we will lean into our early warning and key performance indicators that we have built over the years, which give us a granular view into the performance of our portfolios, where we see indications that a customer will continue to face stress once the short-term relief is over, we will move those credits into more adversely rated categories and we'll continue to review their performance.

As you know, we have a robust capital planning infrastructure and perform a range of stresses on credit performance within our portfolio. Whereas this environment is unlike anything we have ever seen, our stress testing gives us confidence that we have the capital to withstand the stress. During the quarter, the company declared $149 million in common dividends. We had no share repurchases during the quarter and have announced plans to suspend share repurchases through the second quarter, because we established our dividend to withstand adverse conditions, we currently have no plans to reduce or eliminate our dividend. However, we will continue to exercise prudent capital management and monitor the business environment.

So in summary, our robust capital and liquidity planning processes which are stressed internally as well as externally by our regulators are designed to ensure resilience and sustainability. This gives us confidence that we

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can continue to meet the needs of our customers and communities during this exceptional period of economic uncertainty.

As John mentioned, considering the unprecedented environment we are facing, we are rescinding our financial targets for this year as well as our three-year targets previously announced in 2019. We have a good strategic plan and are committed to its continued execution. When the economic outlook becomes more certain, we will provide you with updated targets.

In the meantime, we are focusing our attention on helping our associates, customers and communities navigate through this difficult landscape which in turn benefits you, our shareholders. We believe strongly in the concept of shared value in order for us to thrive the communities we serve also need to thrive. Rest assured during this extraordinary time, Regions stands ready to help and support all of our stakeholders.

With that, we're happy to take your questions. In light of the current environment, we do ask that each of you ask only one question to allow for more participants. We will now open the line for your questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. The floor is now open for questions. [Operator Instructions] We'll pause for just a moment to compile the Q&A roster. Your first question comes from Betsy Graseck of Morgan Stanley.

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

Good morning, Betsy.

Betsy L. Graseck
Analyst, Morgan Stanley & Co. LLC
Q

Hi. Good morning. Hey, good morning. A couple – so my one question is just regarding the decision to pull the medium-term guidance, I totally understand the 2020, but when I see that you're pulling the medium-term guidance, I'm wondering is that because of the concern you have around the depth of how tough 2020 could end up being, or is there some other rationale for that?

David J. Turner, Jr.
Chief Financial Officer & Senior Executive Vice President, Regions Financial Corp.
A

Yeah, Betsy. This is David. I just think given the uncertainty that's in the environment right now, which is prudent for us to just remove it all. There'll be an appropriate time for us to put back and give you our target, long-term targets. I mean, you've known after a couple of [ph] Investor Days (00:33:49), where we strive to get, but it just didn't seem appropriate for us to have those at this time.

Operator: Your next question comes from Ken Usdin of Jefferies.

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

Good morning, Ken.

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Ken Usdin
Analyst, Jefferies LLC

Q

Hi. Thanks. Good morning, guys. So I just – a question on just all the moving parts around your NII forecast. I – understanding that there's the lower PPP, there's the Ascentium. I guess with the persistence of your hedges, do you still believe you've got that general sustainability past 2Q in terms of the ability to support dollars of NII as you look past these – the adds as you get in from first or second, how would you help us understand that?

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

A

Yeah. So, going into the second quarter, we said we pick up NII resulting from our Ascentium acquisition, [ph] I believe (00:34:51) the hedge as you could see our – we have chart in there as to when our hedges continue to more of them kick in latter part of this quarter and into the second quarter. We only had $10 million of benefit in the first quarter from our hedges. You can see we also have $1.7 billion of fair value which comes in over approximately five years. So if we just did some straight lining, you would see an approximate $75 million benefit in each of the quarters and it's not straight line, but that just gives you a ballpark.

So with that, we strongly believe in the support we're going to get from our hedges. We think that's a big differentiator for us. Clearly, the margin will shift down a bit and then kind of stabilize there for the remainder of the year. After the Ascentium impact and you get the hedges rolling in, the growth in NII really will be driven by the balance sheet and what happens from that standpoint.

Ken Usdin
Analyst, Jefferies LLC

Q

Okay. Got it. Thanks a lot, David. I'll leave it up there given your one question request.

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

A

Thank you.

Operator: Your next question comes from Brian Foran of Autonomous Research.

Brian Foran
Analyst, Autonomous Research

Q

Oh, hi. Maybe a follow-up on the hedges, you know it's interesting, [ph] I mean (00:36:11), all the regional banks generally opted out including [ph] AOCI in capital as to be (00:36:16) seen as a form of regulatory release, but now especially for a bank like you where you've got the [ph] outside team that (00:36:24) you kind of understates your capital ratios in a way, so I wonder can you just remind us what [ph] would (00:36:31) the capital ratios look like if the unrealized gains were included, and is there any scenario where the hedges are so valuable you would actually monetize that – invest them some way in an acquisition or a buyback or is that just too far out there?

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

A

Well, so we made our decision to exclude OCI. It was a choice we had. Had we not made that choice, we would have had, just with the hedges that we have, another $1.7 billion that's pre-tax and capital, but once you make the decision, you have to live by it, and that's okay. So, to the extent that we see opportunities to terminate those

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swaps, we would take that gain, it would be deferred and amortized in the income, therefore capital over the remaining life of the swaps which as I mentioned earlier are five-year tenors.

So, that would only be in a case where you solve the probability of rates increasing, and then we'd get ahead of that. That does not seem to be the case at this point in time, but you're asking the right question. There will come a point in time where we do that. Remember that the hedges are to protect net income from being degraded as a result of low-interest rate environment, it's not an incremental. It's trying to protect what we do have. And so, while we're enjoying that protection, there's no need for us to try in front-end gains and use that for capital actions. It's to sustain our profile and our consistency of generating PPNR.

Brian Foran
Analyst, Autonomous Research

Q

Thank you.

Operator: Your next question comes from Matt O'Connor of Deutsche Bank.

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

A

Good morning, Matt.

Matt O'Connor
Analyst, Deutsche Bank Securities, Inc.

Q

Good morning. Can you just talk about some of your expense levers that you can pull while a lot of things are shut down and there's obviously a lot of emphasis on employees. But you've had kind of continuous improvement on expenses for several years and just talk about some of the things that you can look at in the environment here. Thanks.

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

A

Yeah, Matt. So, we've continued to be focused on expense management. I think we've done a really good job there. If you look at our top categories, salaries and benefits, occupancy and furniture fixtures and equipment, the places we've been able to reduce expenses have been attached to our branches. We've consolidated a whole lot more branches than we've opened up. We continue to look at that and continue to have – we have a whole group of people focused on our retail network strategy to make sure that we're optimizing that network from a revenue and growth generation, as well as cost optimization.

So you should expect us to continue there. We have continued to reduce square footage. We're down some 300,000 square feet in the quarter. We'll be down another [ph] 600,000 to 700,000 square feet (00:39:44) for the full year, and we're learning some things working from home, and we really had missed a beat in terms of efficiency and effectiveness. So, I had mentioned in the prepared comments kind of hoteling and maybe there's an opportunity for us to continue to ramp that up even more so.

Our vendors spend, we continue to have programs in place to control and reduce vendor cost, in particular on the demand management side of things. So I think we have 73 initiatives that we've identified in continuous improvement. I'd mentioned we were through 40% of those; actually, we're through about 32 of them. We'll complete another 14 this year. So, John has asked us to figure out how we get better at whatever we do, wherever you are at the bank, how do you do it better tomorrow than you did today. And so, I think you should

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continue to see us look for ways to become more efficient and effective over time. So, we have some ways to continue to work on the expense side.

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

And I would just add, Matt, we've seen a lot of change and improvement over the last four, five weeks as we've accelerated the need to react the way we serve our customers. And so, I think it bodes well for continued process improvement. With process improvement, [ph] we can gain (00:41:11) greater efficiency. We're absolutely committed to – in fact, we're managing expenses all the time, but particularly during this period of some great uncertainty.

Matt O'Connor
Analyst, Deutsche Bank Securities, Inc.
Q

Thank you.

Operator: Your next question is from Jennifer Demba of SunTrust.

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

Good morning, Jennifer.

Jennifer Demba
Analyst, SunTrust Robinson Humphrey, Inc.
Q

Good morning. You mentioned energy and restaurant lending being particularly stressed, what kind of loss content do you think you could see in these two buckets considering a range of possibilities of economic recovery?

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

Barb, do you want to take that question?

Barbara I. Godin
Senior Executive Vice President, Deputy Chief Risk Officer and Chief Credit Officer, Regions Financial Corp.
A

Sure. Good morning, Jennifer. You know, as we look at the energy bucket as an example, we know that right now that there is acute demand dislocation. However, on the other hand, you also have OPEC, which came out and reduced the supply by 9.7 million barrels. And then we combine that with the opening of the economy, which we're [ph] hoping will help (00:42:12) – should happen soon and that's going to help with demand and with some stabilization in prices. I'd also point to this the book that we now have, the fact that majority of it is now midstream and primary E&P in the senior secured position, no second lien positions, et cetera, that you're feeling pretty good about that book.

We actually stressed that, Jennifer, down to $24 a barrel. We also know we're in a contango market, so we do anticipate higher future prices as well. So, we also know that crude storage is an issue. So, we've got our eyes on energy. We're managing again on a day-to-day basis. Are we going to see some more energy losses? Probably, but [indiscernible] (00:42:55) our E&P book, we've only taken $5 million of losses since 2012 for E&P. The one that we have this quarter, we saw the loss numbers. It was roughly $21 million loss to an E&P customer

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[indiscernible] (00:43:13) grouping, but it was a Master Limited Partnership, so not truly E&P per se and [ph] it was a (00:43:17) shared national credit as well. So we do see some of our non-performing loans goal are going to increase and criticized and classified, they're going to increase, but in terms of [ph] surge-offs while we know (00:43:30) [indiscernible] (00:43:31), we think they'll be well under control.

Let me talk to you a second on restaurant, restaurant, it's often said that – primarily for restaurants, it's going to be [indiscernible] (00:43:44) quick serve and fast casual, et cetera, what we know is our quick serve is down 20% to 30%, fast casual is down 30% to 40% right now, [ph] 52% of our restaurant outstandings are well (00:43:57) secured, and we know that the full-service restaurants right now are experiencing the greatest impact. So, again saying that, we know there's going to be [indiscernible] (00:44:10) they're going to be pretty well controlled [indiscernible] (00:44:13).

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

Thank you, Barb.

[indiscernible] (00:44:19)

Operator: Your next question comes from Peter Winter of Wedbush.

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

Good morning, Peter.

Peter Winter
Analyst, Wedbush Securities, Inc.
Q

Hi. Good morning. Good morning. Can you just talk about some of your economic assumptions, what you're assuming, and I'm just curious if you cut it off on March 31, because we've just seen the recent economic forecasts have gone a little bit worse?

David J. Turner, Jr.
Chief Financial Officer & Senior Executive Vice President, Regions Financial Corp.
A

Yeah. So, Peter, given the significant economic volatility associated with COVID-19, we ran several economic scenarios to determine our allowance for credit losses. We also used third-party comparisons, in particular Moody's March 27 comparison. Our models really weren't built for this type of change. So we knew we are going to have to have some overlays on top of that to get to what we thought was an appropriate allowance for credit losses. There has been a lot of discussion in terms of what we think about the recovery and what shape it is and really we think a better question would be not the shape of the curve, but at what pace does it actually recover to pre-recession levels and we'll call pre-recession being the fourth quarter of 2019. So we have pretty severe numbers of GDP approaching that 20% in the second quarter, unemployment approaching the 10%. And while it does, we do expect it to recover, we expect that it's going to be very slow.

If you go back to the financial crisis, it took about 14 quarters before we got back to pre-recession GDP. Our expectation is it's going to be somewhere between 10 and 12 quarters before we get back there, so call it, the latter part of 2022. So we do not think this snaps back, we think it's prolonged. We get better from the second quarter, right. So you start to come up, but you're just not going to come up at the pace that you just went down.

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Therefore, it can't be a V. It's going to be – I don't know what the symbol is, but to call the check mark more so and the slope of that will be the recovery again getting back to GDP in the fourth quarter at 2022.

Peter Winter
Analyst, Wedbush Securities, Inc.

Q

Got it. Thank you.

Operator: Your next question is from Erika Najarian of Bank of America.

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

A

Good morning, Erika.

Erika Najarian
Analyst, Bank of America Merrill Lynch

Q

Hi. Good morning. My question is for Barb, if I could. So the last time Regions went through DFAST, the nine quarter loss rate was 3.9% under severely adverse versus the Fed runs has at 6.5%. And I can see the historical bias in the CRE bucket, but I'm wondering Barb, if you could give us a sense of what the difference is particularly in where they think your C&I loss rate would be in such a scenario versus yours, it's a pretty wide gap there and in the most impacted industries that you outlined for us is a cumulative loss rate over two years of around 6% to 7% like we saw in the GFC fair or do you think there's just strong enough underwriting that would preclude that scenario from unfolding?

Barbara I. Godin
Senior Executive Vice President, Deputy Chief Risk Officer and Chief Credit Officer, Regions Financial Corp.

A

Well, we always know firstly, Jennifer (sic) [Erika] (00:47:54) that we're always going to have increased losses during these times of stress. So I'll start with that and we also know and I feel really comfortable on this thing that is the fact that our underwriting has changed, our risk management is really strong. The entire company is focused on overall risk management, so we are going to perform better than in entire period.

If we look at what our DFAST losses were, I'll just use 2018 maybe as a bellwether and somebody had used that in one of their analysis. And at the time, they said the – that – or turning off – I'm sorry my allowance is $1.665 billion and the 2018 DFAST losses at the time were $3.1 billion. So that's roughly 55% in a severe adverse environment of that. And I think that's pretty good. I think it's going to range somewhere between the high 40s and somewhere into the 50s. So again, generally feeling comfortable with those numbers. Did I answer your question?

Erika Najarian
Analyst, Bank of America Merrill Lynch

Q

Yeah. I guess just wanted to clarify what you think the primary differences are in terms of what the Fed sees in your portfolio, in terms of the worse loss experience. And also trying to figure out the upper bound of cumulative losses in those most impacted sectors that you outlined in your presentation.

Barbara I. Godin
Senior Executive Vice President, Deputy Chief Risk Officer and Chief Credit Officer, Regions Financial Corp.

A

Yeah. I think the biggest difference between what we look at and what the Fed looks at, so even though we take history into account, the Fed models are much more heavily biased towards history, which is the reason I started

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with, we are a change company. We're not going back to 2009, 2010, 2011 outlook areas – those periods, but those were our highest loss histories which are currently filling the models in the Fed model. As you know, they don't disclose how they arrive at their models. So we have to make some assumptions and we know that there's still a fairly heavy weighting on that, whereas we have probably less of a weighting on that especially given all of our performance since then has been much better.

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

Erica, I'd just add. This is John. We've spent a lot of time I think as you know focused on client selectivity, on risk adjusted returns, on balance and diversity, on de-risking. If you look across our portfolios, we don't have any meaningful concentrations in my view anyway in any particular asset classes, we have a rigorous capital planning and stress testing process. We are applying stresses against our portfolio and making observations about it based upon what we know today. The provision and the reserves that we're currently provision – we experienced the reserves we're currently holding reflect our expectation of losses given what we know. If the economic environment that exists currently persists, then it is very possible that we could see some additional provisioning.

But we do believe our loss experience will be much better. As to why our own projections are different from the Fed, we're always trying to figure that out. And we still have I think work to do to better understand, we've been advocating and the Fed is responding to giving us more transparency into their assumptions and their work because we think that'll be helpful. If there's a real difference between what they believe and what we believe we need to understand what that is, so that we can react to it. And so just purely from a standpoint of regulatory relationships, it is something that we continue to advocate for.

Erika Najarian
Analyst, Bank of America Merrill Lynch
Q

Thank you.

Operator: Your next question is from Saul Martinez of UBS.

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

Good morning, Saul.

Saul Martinez
Analyst, UBS Securities LLC
Q

Hey guys. Hey, good morning. I just have a very specific question on Ascentium. So you're taking your CECL through a bond on that loan, or I'm sorry on the loan book. What was the credit mark on that? And by extension how much of an incremental purchase accounting accretion benefit are you going to get on that?

David J. Turner, Jr.
Chief Financial Officer & Senior Executive Vice President, Regions Financial Corp.
A

Yeah. So our day one, we are still working through that. We've given you a range of this adjustment in the $100 million to $120 million range. That will be utilized or setup as to be amortized to margin over the life of the loan and we'll – that's our best estimate for that adjustment at this time.

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Saul Martinez
Analyst, UBS Securities LLC

Q

Okay. And then...

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

A

Just to kind of frame it up as to where that number comes from. So the losses in that portfolio have been about 2.5%, and the duration of...

Saul Martinez
Analyst, UBS Securities LLC

Q

Yeah.

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

A

...that book is under 3 – call it, 2.5 years, and so we will have something in the 2 times to 2.5 times at number that will be recorded in the allowance for the offset and then becoming part of the purchase accounting accretion over time.

Saul Martinez
Analyst, UBS Securities LLC

Q

Okay. Sorry, just getting in the beliefs in the accounting, but my understanding is there's essentially a double hit...

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

A

That's right.

Saul Martinez
Analyst, UBS Securities LLC

Q

Definitely with this and you got the – so you'll have a similar sized credit mark and then over the 2 and 2.5 years you would amortize, you'd have that come back to is purchase accounting accretion and theoretically that should all flow to the bottom line given [indiscernible] (00:53:53) forward?

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

A

That's correct.

Saul Martinez
Analyst, UBS Securities LLC

Q

Okay. Got it. Thank you.

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

A

Thank you.

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Operator: Your next question is from John Pancari of Evercore ISI.

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

Good morning, John.

John Pancari
Analyst, Evercore ISI
Q

Good morning. Question on the credit side, based upon that we got new Moody's data that come out after the quarter close, does that point to a likelihood of an additional reserve build in the second quarter? And then separately, could you give us a little bit of detail what type of loan loss reserve you have against some of those higher risk portfolios that you mentioned on those slides in the back of the deck? Thanks.

David J. Turner, Jr.
Chief Financial Officer & Senior Executive Vice President, Regions Financial Corp.
A

Yes. So from a second quarter standpoint, we did the best we could coming up with what we believe to be an appropriate CECL provision for the life of the loan at March 31st taking in all available evidence. Clearly as John just mentioned, if things persist at this level and the stimulus doesn't work or didn't work to the degree we're saying there is a risk that we provide over charge-offs in subsequent quarters. The question is we just need to wait and see what it looks like at the end of June. We can't – every day is a new day, this is a very volatile environment. So things continue to trend worse at this point in time, but we also have $5.1 trillion of stimulus going into the system, which compares to about $2.1 trillion in the last crisis and that would remind everybody that $2.1 trillion came overtime. This $5.1 trillion has come pretty quickly. And now the government is continuing to look at additional ways to provide stimulus. So what does it all mean? It's just hard to estimate. So, we can't conclude right now that we would have an adjustment over charge-offs but that's reasonably possible given if things trend like this, that's a likely event. What was the second part of your question?

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

The question was...

John Pancari
Analyst, Evercore ISI
Q

Yeah. Just the size of the reserve that you have against some of the higher risk portfolios that you've flagged, including leverage lending?

David J. Turner, Jr.
Chief Financial Officer & Senior Executive Vice President, Regions Financial Corp.
A

Yeah. I don't have that granularity in front of me on those particular portfolios yet. We are going to have some incremental disclosure in our 10-Q of the major components. So, business services, consumer then within that the breakout for mortgage, credit card, indirect auto and so forth. But I don't have that John at that – we can get that to you.

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

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Yeah. We are just [indiscernible] (00:57:00) business versus consumer we're holding 150 basis points reserves against the business portfolio, 260 basis points against consumer to gets you back to the 190 basis points.

John Pancari
Analyst, Evercore ISI

Q

Got it. Thank you.

Operator: Your next question is from Dave Rochester of Compass Point.

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

A

Good morning.

David Rochester
Managing Director, Assistant Director of Research, Compass Point Research & Trading, LLC

Q

Hey, good morning guys. Appreciate all the color on the energy in the restaurant books. Just maybe digging a little bit deeper, I was just wondering, how far along you are in that borrowing base redetermination process at this point, if you have a sense for where the new deck is, how much lines have contracted for those customers? And then just on the restaurant book, if you've been able to do a full review of that book as well, and if you have a sense for how many customers may no longer be operating at this point and just how you project [indiscernible] (00:57:51) should be for that, if you assume some of those guys come back into business? Thanks.

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

A

Yeah. Barb, you want to respond to that question?

Barbara I. Godin
Senior Executive Vice President, Deputy Chief Risk Officer and Chief Credit Officer, Regions Financial Corp.

A

Yeah. For the energy book, we are roughly a quarter of the way through the borrowing base redetermination for the season. So far we've seen that for borrowing bases the [indiscernible] (00:58:11) down about 12.5%. So we know that there's clearly some impact there. We should be through the rest of our books in the course of the next month, month-and-a-half, so we can always give more color at that point in time.

On the restaurant book, we've also looked at each client individually, because there aren't that many clients, and so we are talking to them on a regular basis: daily, weekly, monthly right now; make sure we have our handle on that. We do see some continued pressure on full service in particular. As I said quick service is a lot better, but the full service portfolio which has got, as I said the most impact is really because the restaurants are closed. So until the economy opens up, we're going to continue to see some pressure there and we're going to continue to see some losses there; albeit, we believe they're very manageable and containable.

David Rochester
Managing Director, Assistant Director of Research, Compass Point Research & Trading, LLC

Q

So what portion of that book would be closed right now, and then do you just assume they come back later on in your reserving process?

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Barbara I. Godin
Senior Executive Vice President, Deputy Chief Risk Officer and Chief Credit Officer, Regions Financial Corp.
A

Yeah. I don't have the exact number that are closed at this minute, but in the restaurant book, we have 3,600 customers in total; and of that it would be somewhere, a portion of that obviously. And in terms of close, it's hard to count. Do I count each individual shop in terms of someone who's got multiple units and they've only closed one or two, et cetera, so that becomes a little bit of a tricky answer to that question. But, yes, there are a handful probably in the nature of 10 to 20 right now.

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

Yeah. The only thing I would add just sort of points you to our slide number – on page 23, I think, as Barb says the bulk of the casual dining portfolio represented by about 34 customers is just over $0.5 billion in exposure, 21% of that portfolio is currently criticized and that reflects our view of the risk in that portfolio today based upon what we know.

David Rochester
Managing Director, Assistant Director of Research, Compass Point Research & Trading, LLC
Q

Yeah. All right. Great. Thanks, guys.

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

Yeah.

Operator: Your next question is from Stephen Scouten of Piper Sandler.

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

Good morning, Steve.

Stephen Kendall Scouten
Analyst, Piper Sandler & Co.
Q

Hey guys. Good morning.

David J. Turner, Jr.
Chief Financial Officer & Senior Executive Vice President, Regions Financial Corp.
A

Good morning.

Stephen Kendall Scouten
Analyst, Piper Sandler & Co.
Q

Hey, wanted to dig down a little deeper maybe into some of the impacts from some of the government programs, and I know it's kind of hard to say. But in regulatory release and maybe specifically on the payment deferrals if you have a percentage amount of your loans that are in deferral currently and how you think those pan out maybe 90, 180 days down the line if those do become TDRs down the line, and then with the Main Street Lending Program in particular how might that impact your syndicated loan book and those people's ability to kind of borrow additional fund if they don't refinance yet?

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

A

So maybe I'll work backwards. I think there's a lot of interest in the Main Street Lending program; we have a team working on better understanding the guidelines and how it will apply. I don't know that we have a real good feel yet for how many customers will awfully be interested and how that might affect our customer base; but clearly one of a number of programs that the government and/or Congress have made available to customers that will be helpful over time. I can't remember the first part of your question now.

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

A

Payment deferrals.

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

A

Oh, payment deferrals. So with our business customers and we've now granted about 4,000 deferrals, 3,000 to small businesses, about 1,000 to middle market customers. So our approach there is to treat those customers on a case-by-case basis to evaluate the ongoing [indiscernible] (01:02:02) of their business. And if prior to the pandemic starting they had a viable business and were doing well, we're a good customer then we'll typically grant them a deferral and in some instances that might be for up to six months. Generally, they're 90 day deferrals, interest only typically and then we revisit those at the end of that period, but that is specific to customers who were in good standing prior to the pandemic beginning and they clearly appear to have what we believe to be a viable business after the pandemic whenever that is.

On the consumer side, we're generally offering deferrals for 90 days to customers. At the end of that 90 day period, we'll think as I mentioned we've granted 4,000 deferrals in our own balance sheet mortgage book, another 12,000 deferrals for the mortgage portfolio that we service for others and about 13,000 deferrals of other consumer credit whether it be credit cards, installment loans, home equity lines, et cetera, which is roughly a little less – on the mortgage portfolio, a little less than $900 million and that's a $14.5 billion portfolio. I think I got the number right? So that gives you some perspective.

Barbara I. Godin
Senior Executive Vice President, Deputy Chief Risk Officer and Chief Credit Officer, Regions Financial Corp.

A

Yeah. And this is Barb, just to give you some percentages based on what John said, on the mortgage portfolio for our own book, it's about 7.5% of our accounts have been deferred on the commercial corporate book at 6% and the consumer book is 2.2% just given the large number of consumers.

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

A

And I think on our mortgage book, Barb, half of the loans that have been deferred, the loan to value is less than 50%.

Barbara I. Godin
Senior Executive Vice President, Deputy Chief Risk Officer and Chief Credit Officer, Regions Financial Corp.

A

That is correct.

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

Yeah.

Stephen Kendall Scouten
Analyst, Piper Sandler & Co.
Q

Great. Thanks for the color, guys. Appreciate it.

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

Hope that's helpful.

Operator: Your next question is from Bill Carcache of Nomura.

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

Good morning.

Bill Carcache
Analyst, Nomura Securities
Q

Hi. Good morning. My main question is on how much you think the Payment Protection Program will really benefit credit performance on the consumer side of your business? I'm curious because employees who are participating in PPP are getting those benefits in lieu of what would otherwise be unemployment insurance which suggests I think that PPP may be understating the level of initial claims. I was curious to hear your thoughts on that and since we know historically high level of initial claims are associated with elevated consumer credit losses, I just wondered whether you had any perspective on whether the payment behavior of employees participating in PPP help you guys minimize credit losses on the consumer side of your business?

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

Yeah. It's completely anecdotal. As I talked to customers some have furloughed employees that they intend to bring back if they get funding out of the PPP program, and so those employees likely went and applied for unemployment, but may get an opportunity to come back at some point. And so you have that subset versus the group that have been maintaining their workforce on an ongoing basis and are hopeful to get PPP funding in order to continue to employ those teams.

As you know the funding is typically for about an eight-week period. And so, I think as we look at the program, we think it is very helpful. In the short run, there's a tremendous amount of interest in the program, way more interest in need for funding that has been appropriated to-date. We're very hopeful that Congress will appropriate some more money to help small business. I would say that in the short run, I do think that it will have a positive impact, both on consumers small businesses and as a result the corresponding credit that we have. But I don't think it's a solution three or four months from now if they're not – [indiscernible] (01:06:15) other funding that comes behind it in some way shape or form.

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Bill Carcache
Analyst, Nomura Securities

Q

That's super helpful. Thank you.

Operator: Your final question comes from Christopher Marinac of Janney Montgomery.

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

A

Good morning.

Christopher Marinac
Director of Research, Janney Montgomery Scott LLC

Q

Thanks. Hey, just wanted to ask about the CECL forecast period. If Barb could walk us through that. Does that work against you with the new numbers on unemployment or was that already factored at the end of March?

Barbara I. Godin
Senior Executive Vice President, Deputy Chief Risk Officer and Chief Credit Officer, Regions Financial Corp.

A

Yeah. For CECL, we did the nine quarter losses. We have a two year reversing period. So we looked at nine quarters as compared to CCAR which was nine quarters, so it's not a lot of different. And really what we did and I can quickly talk about that.

As we look at several different internally developed economic forecasts that we did as well as industry stress level analysis where I've included Moody's critical pandemic that came out recently and then both of those looking at those gave us a range of potential losses due to what's going to happen in COVID. And then, we took those outlook which included again both acute economic stress in the immediate term as well as in the general recession type outlook.

And our analysis reflected the key economic variables to our models for our base forecast as well as an abrupt recession and typical recession et cetera. So again a lot of different inputs to help inform us for a potential range of future charge-offs and then we performed specific stresses on sectors we believe would be most impacted. So as an example, when these are included but not limited to energy, restaurants, hotels, manufacturing, retail trade. And again came up with what we felt was our best number, this was the $250 million over charge-off. By the way this is the process I just walked through that we rely on when we're doing our CCAR and doing our capital planning, which is why we feel good about the process given we've been doing capital planning now for years and years and have a very strong, very solid profit there, and again it incorporates what we're seeing here coming out of CECL, – coming out of what's happening with the COVID environment.

Christopher Marinac
Director of Research, Janney Montgomery Scott LLC

Q

Great. Thank you, Barb, and thank you, John.

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

Thank you. Okay, that's the last question we have. Well, thank you all for your answers. These are very unusual times. We're awfully proud of the work that our team is doing to take care of our customers and to focus on their own health and safety. Hope you all will do as well and appreciate your interest in our company. Thank you.

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Operator: This concludes today's conference call. You may now disconnect.

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