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Regions Financial Corp. (RF)

Q3 2020 Earnings Call

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CORPORATE PARTICIPANTS

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

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

David Jackson Turner
Chief Financial Officer & Senior Executive VP, Regions Financial Corp.

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

OTHER PARTICIPANTS

Ken Usdin
Analyst, Jefferies LLC

Michael Rose
Analyst, Raymond James & Associates, Inc.

John Pancari
Analyst, Evercore Group LLC

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

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

Stephen Kendall Scouten
Analyst, Piper Sandler & Co.

Peter J. Winter
Analyst, Wedbush Securities, Inc.

Erika Najarian
Analyst, BofA Securities, Inc.

Gerard Cassidy
Analyst, RBC Capital Markets LLC

Saul Martinez
Analyst, UBS Securities LLC

Bill Carcache
Analyst, Wolfe Research, LLC

Jennifer Demba
Analyst, Truist Securities, Inc.

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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' third quarter 2020 earnings call. John and David will provide some high-level commentary regarding the quarter. Earnings documents, including forward-looking statements, are available under the Investor Relations section of our website. These disclosures cover our presentation materials, prepared comments, and the Q&A segment of today's call.

With that, I'll now turn it over to John.

John M. Turner

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

Thank you, Dana, and thank you all for joining our call today. Before we get started, I want to mention that we're taking a slightly different approach to our call today. Rather than walk you through our results in detail, we will speak to key highlights we think are most important and then open it up for your questions. Hopefully, you'll find this approach to be a little more efficient use of your time.

We are very pleased with our third quarter results. We reported earnings of $501 million, resulting in earnings per share of $0.52, a 33% increase over the prior year. We continue to experience nice revenue growth while prudently managing expenses, generating the highest adjusted pre-tax, pre-provision income in over a decade.

Our core banking operations remain strong. We achieved record levels of deposits with growth across all three business segments. We continue to see growth in consumer and small business checking accounts. And despite the uncertain environment, our customers appear to be relatively healthy and are appropriately adapting their spending habits. As a result, most credit metrics improved and we've been very pleased with a significant decline in loan deferrals. Our customer assistance program appears to have worked as intended with the vast majority of customers who previously received deferrals now return to normal payment schedule. Our results also reflect the success of Simplify and Grow, our continuous improvement initiative. We continue to carefully manage expenses while making strategic investments to grow our business.

Our third quarter adjusted efficiency ratio was the lowest in 12 years and our investments in mortgage and digital are paying off. Year-to-date, mortgage production is more than double that of last year. Our focus on enhancing the digital experience is also resonating with customers. Digital log-ins are up 22%, mobile deposits are up 50%, and digital account openings are up 24%. And our recently redesigned iPhone app currently has a 4.7 star rating.

Thus far, the southeast seems to have fared generally better economically during the pandemic than other areas of the country. States across our footprint were among the last to shelter-in-place and the first to reopen. As a result, the unemployment rate has generally been around 200 basis points below the national average, contributing to a relatively stronger GDP. We remain cautiously optimistic about the pace of economic recovery

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and our footprint and client sentiment continues to improve. As a result, given what we know today, we believe the credit risk in our loan portfolio is appropriately reserved and losses will be manageable.

Before I turn the call over to David, I want to recognize Barb Godin. Earlier this quarter, Barb announced her plan to retire by the end of the year. So this will be Barb's last earnings call. Barbara will retire after 45 years in banking. She joined Regions in 2003 and was named Chief Credit Officer during the height of the financial crisis. Over the last 10 years as Chief Credit Officer, Barb has done a terrific job leading our credit risk organization through a period of tremendous change. Over that time, Barb's contribution was recognized by the American Banker as one of the most powerful women in banking. She's truly done a great job for Regions, and we'll miss her presence every day. I hope you all will join me in thanking Barb for all she's done and congratulating her on a well-deserved retirement. Thank you, Barb.

With that, I thank you for your time and attention, and we'll now turn it over to David.

David Jackson Turner

Chief Financial Officer & Senior Executive VP, Regions Financial Corp.

Thank you, John. Let's start with balance sheet. Average adjusted loans decreased 3%, while commercial pipelines remain healthy, business customers continue to deleverage and repay their defensive draws taken earlier in the year. While commitments have not changed appreciably, line utilization is at historic lows. Consumer growth was driven by very strong mortgage production, which has been more than double year-to-date versus the prior year.

With respect to deposits, balances increased record levels again this quarter. Growth in Corporate Bank deposits was driven by clients consolidating their liquidity as well as increased benefit from supply chain efficiencies and declines in working asset levels. Consumer deposits also increased as we continued to grow consumer checking accounts, and customers have adjusted spending and savings behaviors.

Let's shift to net interest income and margin which remains a source of stability for Regions despite a challenging market interest rate backdrop. Linked quarter net interest income increased 2% aided by our hedging program, the deployment of excess cash into securities and a number of items that may not repeat which are described on the slide. These benefits were offset by lower loan balances. Elevated cash levels impacted net interest margin which declined to 3.13%.

Strong deposit growth drove cash levels at the Federal Reserve higher, averaging roughly $10 billion. This coupled with $4.5 billion of average low spread PPP loans reduced the margin by 28 basis points within the quarter and 9 basis points linked quarter. We continued to work on reducing elevated cash levels and added approximately $3 billion of agency, mortgage backed securities and agency commercial mortgage backed securities.

Additionally, we reduced wholesale borrowings through a $1 billion bank debt tender and the early extinguishment of approximately $400 million of FHLB advances. Given that the majority of our hedges are now active and our ability to further reduce deposit cost, our balance sheet is largely insulated from the low, short-term rate environment. In fact, additional income from lower short-term rates helped to offset some of the long-term rate degradation.

Loan hedges added approximately $94 million to net interest income and 30 basis points to the margin. Recall, our hedges have roughly five-year tenures and at quarter end pre-tax unrealized market valuation of $1.8 billion, an important differentiator and source of regulatory capital in the coming years. Lower long-term interest rates

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negatively impacted net interest income and net interest margin for an increase in securities premium amortization and the continued reinvestment of our portfolio of fixed-rate loans and securities. Premium amortization was $46 million and included the impact of Ginnie Mae buyouts that aren't likely to repeat at the same level.

Looking ahead to the fourth quarter, uncertainty about the timing of PPP loan forgiveness and the related fee acceleration may create volatility in net interest income. After level setting for third quarter items that may not repeat and excluding PPP loan forgiveness, we expect net interest income to be relatively flat to modestly lower as hedging benefits and further declines in deposit cost will help to offset continued pressure from long-term rates, asset remixing and runoff.

Excluding PPP and excess cash, our core net interest margin is expected to stabilize in the 3.30s. Notably, our shift to deploy $3 billion of cash into securities will reduce the normalized margin by 6 basis points but benefit net interest income.

Now, let's take a look at fee revenue and expense. Adjusted noninterest income increased 6% quarter-over-quarter, repeat record mortgage income and had another solid quarter in capital markets. Service charges increased 16% but remained below prior-year levels. While improving, we believe changes in customer behavior could keep service charges below pre-pandemic levels. We estimate consumer service charges will remain approximately $30 million to $35 million per quarter behind prior-year levels. Card and ATM fees have recovered compared to the prior year, primarily driven by increased debit card spend. However, credit card spend continues to be slightly behind prior-year levels.

Let's move on to noninterest expense. Adjusted noninterest expenses were $889 million and represented a 1% decrease quarter-over-quarter. Excluding COVID-related expenses and the impact of changes in market valuation on employee benefit accounts, adjusted expenses were $872 million. We have a proven track record of prudent expense management. Since announcing our Continuous Improvement initiative in 2016, we've held adjusted expenses relatively flat while continuing to invest in technology, products and people to grow our business.

Continuous Improvement is ingrained in our culture. We have completed approximately 50% of the current list of initiatives and are continuing to identify new opportunities every day. We are facing an uncertain operating environment. And to the extent revenue is challenged, we will look for additional efficiency opportunities.

And from an asset quality perspective, overall, credit remains generally in line with our expectations from the second quarter. The credit loss provision totaled $113 million, resulting in an allowance equal to 2.74% of total loans and 316% of total non-accrual loans. Excluding PPP loans, our allowance for credit losses increased to 2.9% of total loans.

Nonperforming loans increased 19 basis points to 0.87% of total loans, primarily attributable to downgrades in retail, investor real estate and energy. Business services criticized loans and total delinquencies decreased 12% and 11%, respectively, while troubled debt restructured loans increased 3%. The improvements in criticized loans were generally in retail where we noted improvements due to strong anchor tenants. Additionally, some improvements were experienced in aspects of energy and manufacturing.

Annualized net charge-offs were 50 basis points, a 30 basis point improvement over the prior quarter. We are cautiously optimistic about the pace of the economic recovery in our footprint; however, we also recognize we remain in the highly uncertain environment. Assuming positive trends continue, we do not believe further increases to the allowance are necessary. Reductions in the allowance will depend on the timing of charge-offs

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and greater certainty with respect to the path of the economic recovery. While charge-offs can be volatile, we currently expect the fourth quarter to range from 55 to 65 basis points. This range reflects the historical pattern of elevated consumer charge-offs in the fourth quarter.

Predicting the timing of net charge-offs depends on many variables including any additional stimulus. However, based on what we know today, we would expect charge-offs to peak around mid-2021. We continued to refine our view of high-risk portfolios through ongoing conversations with customers and market observations. The portion of our portfolio considered to be at the highest risk of potential loss due to the pandemic declined from $8.4 billion at the end of last quarter to $6.6 billion at September 30. A roll forward of the high-risk portfolios is included in the appendix. Wrapping up the capital, our common equity Tier 1 ratio increased approximately 40 basis points to an estimated 9.3% and capital ratios are expected to continue increasing over the next several quarters.

So, in summary, we feel really good about the quarter. Pre-tax pre-provision income remains strong. Expenses are well-controlled. Credit quality is showing resilience. Capital and liquidity are solid. And we are optimistic on the prospect for the economic recovery to continue in our markets.

With that, we're happy to take your questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. The floor is now open for questions. [Operator Instructions] Your first question is from Ken Usdin of Jefferies.

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

A

Good morning, Ken.

Ken Usdin
Analyst, Jefferies LLC

Q

Hey, good morning, everyone. I was wondering if you could – and congratulations and best of luck to Barb I should say on behalf of everyone. Just on the loan side, obviously customers as you mentioned building liquidity, you saw the C&I continue to decline as the industry did, can you just talk to us about when you make the point about the footprint acting better relative to other parts of the country, what you see as far as that delicate balance between customers holding liquidity and then starting to see activity and the need for borrowing increase especially as you think about the C&I portfolio? Thanks.

David Jackson Turner
Chief Financial Officer & Senior Executive VP, Regions Financial Corp.

A

Yeah. Ken, this is David. So, as we think through, generally, our bank in terms of loan growth, we've been kind of a GDP plus a little bit, has been our expectation. Clearly with the liquidity sitting in the hands of customers, they're going to use that first before they'll tap into committed lines of credit if you're a business or spending – or borrowing money if you're on the consumer side.

What we're looking at is our production. Our production continues to be robust on the commercial side, but our utilization is very low and it is low for everybody. We don't know when that will bottom out. Some have called it already. We're not real sure, but we think given the commitment there that it is just a matter of time. You start

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getting infrastructure spending, you get a little momentum going in the economy, we could see loan growth picking up in 2021. We're probably not going to see that in our fourth quarter, which is why we've given you the guide on NII that we have.

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

Yeah. I would just add, Ken. I think we get past the election, I think we get a little more sense about the direction of the economy. There are a number of our customers who are – have adapted their operations to the COVID environment, are doing fine and are thinking about potentially expanding their business or they are seeing a need to increase inventories because they are at generally low – all-time low levels and yet they're not in a hurry to do that until there's a little more uncertainty about what happens post-election. So I think it'll be, as David said, early in 2021 before we have a better feel for whether we see loan growth exceeding GDP.

Ken Usdin
Analyst, Jefferies LLC
Q

Okay. Got it. And a follow-up question on the swaps portfolio. Just looking back at a slide you showed last quarter, there's still like $1.25 billion to still come online, correct, that aren't live yet. So versus the $94 million that you saw in NII this quarter, how much more increment add do you still expect to come from the additional swaps that haven't gone live yet? Thank you.

David Jackson Turner
Chief Financial Officer & Senior Executive VP, Regions Financial Corp.
A

Yeah, Ken. So the – you're right, the last tranche will come due in the fourth quarter, getting the full run rate from what we did last quarter and benefiting the next slug coming in in the fourth quarter. We think that $94 million goes to 97-ish – $95 million, $97 million. So we'll get $2 million, $3 million more per quarter. And, of course, all these are five-year tenors from the date they become active. So couple million dollars I guess is the answer.

Ken Usdin
Analyst, Jefferies LLC
Q

Okay. Got it. Thanks a lot.

Operator: Your next question is from Michael Rose of Raymond James.

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

Good morning, Michael.

Michael Rose
Analyst, Raymond James & Associates, Inc.
Q

Hey. Good morning. Can you hear me?

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

Yes, we can.

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Michael Rose
Analyst, Raymond James & Associates, Inc.

Q

Hey. How are you? Yeah. So I'm sorry if I missed this. I got on a little bit late, but can you walk through some of the deposit re-pricing opportunities you may have in coming quarters? And how should we think about the loan to deposit ratio as we move into a more normalized backdrop hopefully later next year? Is there a certain level that you guys would want to run at? I know excess liquidity tends to stick around in these zero interest rate environments, but just looking for ways that you can potentially deploy some of that excess liquidity. Thanks.

David Jackson Turner
Chief Financial Officer & Senior Executive VP, Regions Financial Corp.

A

Sure. So, our deposit growth continues to be very strong. That's coming through the growth in consumer checking accounts, operating accounts for businesses. It's businesses bringing cash back to Regions and so I would say our deposit growth has been a little quicker, little faster than we had anticipated. And that could persist into the fourth quarter.

I think you're right to point out that our deposit cost while 11 basis points, now we believe there's still running room to take that down a couple, 2, 3, 4 basis points over time. If you look at our interest-bearing deposit cost at 19 basis points, I think we have running room there, more so than we probably have in the past. We've – if you look at the peers that are released thus far, everybody is bringing that down quite a bit. We probably could pick that up a bit. We're going to challenge ourselves as we go into the fourth quarter and into 2021.

Was there another part of the question?

A

Loan to deposit.

David Jackson Turner
Chief Financial Officer & Senior Executive VP, Regions Financial Corp.

A

Oh, loan to deposit ratio, Mike. We really don't solve for that. That's kind of an outcome. We've historically run a lower loan to deposit ratio than our peers because of our deposit franchise which is really our competitive advantage. If we could be perfect deploying it, I think being in the low 90% range would be great. But we've kind of been in that middle 80% for a long time. Of course, everybody is lower today. And so we have the liquidity to make all the loans to creditworthy borrowers today. We're excited about that. Just loan growth – good loan growth is hard to come by at this point, but we're like a cold spring ready when we believe that infrastructure spending happens.

Michael Rose
Analyst, Raymond James & Associates, Inc.

Q

That's very helpful. Maybe just as one follow-up. The deposit service charges came back a little bit further than I would have thought this quarter. I think some of that obviously has to do with some of the deposit growth. But can you just give us an update on how the normalization of service charges and maybe credit card usage has ramped up here and how you expect it to play out into next year? Thanks.

David Jackson Turner
Chief Financial Officer & Senior Executive VP, Regions Financial Corp.

A

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Yeah. So, our service charges did come back a bit. We're seeing strength still in the consumer. We're seeing spending pick up a bit. Our debit card spend is ahead of where we were last year. Not so much on credit card spend, it's still 2, 3 percentage points behind where we've been in the past. Right now, our run rate, and we've put in our comments, probably $10 million to $12 million a month behind pre-pandemic levels which is $30 million, $35 million per quarter. We don't forecast that improving appreciably at this juncture. We'll have to see. We got a new potential wave of stimulus which will continue to put that pressure and maintain that pressure at that run rate level. So I would not count on that at this point coming back to the pre-pandemic level.

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

Yeah. We're seeing change in customer behavior which I think ultimately is a good thing. So we are depending upon growth in consumer checking accounts as real catalyst for driving additional fee income. And the good news is that consumer checking accounts are growing. And as a result of that, we're seeing a pickup in fee income associated with those accounts.

Michael Rose
Analyst, Raymond James & Associates, Inc.
Q

Exactly. Okay. Thank you so much for the color.

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

Yeah.

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

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

Good morning, John.

David Jackson Turner
Chief Financial Officer & Senior Executive VP, Regions Financial Corp.
A

Good morning.

John Pancari
Analyst, Evercore Group LLC
Q

Good morning. On the credit front, I know your guidance and you indicated that losses are likely to continue to rise here. And given that expectation, if you do see charge-offs continue to rise, you do expect that given what you know now that that could lead to incremental reserve releases from here?

David Jackson Turner
Chief Financial Officer & Senior Executive VP, Regions Financial Corp.
A

Well, let me start and I'll let Barb kind of weigh in. Want to be careful about the word reserve releases. We clearly believe we have our allowance established at the appropriate math to cover losses in our portfolio through the life of the loan. As we go forward, we're going to have charge-offs. If we did it right, those charge-offs are completely reserved for. And so you'll see reductions in the reserve as a result of that event. The question is then what do

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you do with the remaining reserve and how does that reserve – what's the adequacy of that reserve for what's left and right now, we think we have it.

We'll have to continue to evaluate that at the end of each quarter looking at all the variables which include loan growth or not, how the portfolio mix may have changed with the macroeconomic variables, there's a host of things that go into that. When you say the word reserve release that contemplates I reserved $100 today and tomorrow I figured out I only need $90, so I take $10 into income. We don't anticipate that movement at this juncture. There's still uncertainty out there. We need to be real careful about that and make sure we've established loan loss reserves at the appropriate level which we believe we have done.

John Pancari
Analyst, Evercore Group LLC

Q

Got it. Thanks, David. That's helpful. Yet I'm just – I should have really said all else equal. So, barring a change in the outlook and aside from reserves for new loan production, just as charge-offs go against what you've reserved at that should imply that you've already reserved for that and there could be reductions for that like you said, so that's fine. My other question on the credit front was your – does the reserve already factor in some – the likelihood of incremental credit migration into criticized assets? In other words if we do see a continued upward trend there that – do you expect that that could drive incremental additions or is that factored in?

David Jackson Turner
Chief Financial Officer & Senior Executive VP, Regions Financial Corp.

A

Yeah. So, when we look at life of loan, we obviously have a lot of migration studies and analysis we've looked at, so we can tell you when things start to age, what's going to happen and they'll go into special mention and substandard, doubtful, loss. And so we contemplate that as we establish our reserve levels. So unless there's a change of what we've already estimated, we wouldn't have incremental reserves for that migration.

John Pancari
Analyst, Evercore Group LLC

Q

Okay. Got it. All right. Thank you. And then if I could just ask one more, sorry. On the loan growth front, does your comment to Ken regarding the loan growth outlook near term, does it imply that we could potentially see some incremental declines in loan balances near term or do you expect more stable?

David Jackson Turner
Chief Financial Officer & Senior Executive VP, Regions Financial Corp.

A

I think that for – in the short term, we're doing a couple of things. Question is has the repayment of the lines bottomed out yet or not. Some have called that it has. We're not so sure. So that's a piece of the risk that we have on loan growth. Our production is nice. We do have some runoff portfolios, as you know. And I think net-net probably not going to see a lot of loan growth to maybe some downward, and that's what equates to the maybe we have NII flat to modestly lower. So all that's baked in together.

John Pancari
Analyst, Evercore Group LLC

Q

Got it. All right, David. Thank you.

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

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

Morning, Matt.

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

Good morning.

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

Good morning.

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

I just want to follow up on the comments about the timing of net charge-offs peaking maybe mid next year. We've heard kind of a similar theme from other banks mid next year or back half next year. Is that more just like a placeholder since you don't expect a material increase in the near term, or is there something kind of in the kind of what you're seeing in the commercial and consumer side that gives you confidence in that mid next year?

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

Hey, Matt. It's Barb. I'll take that question. Yeah, the reason that we say mid next year is given all of the deferral programs that are out there, and again we have a uncertainty as to what's going to happen, will we get a second set of relief from the government or not relative to the programs they have, etcetera. But based on what we know and just the way that things roll through the various delinquency buckets, we would think that mid next year, sometime in the second quarter, probably toward the end of the second quarter, could even push into the third quarter. So there's just a lot of uncertainty and volatility. And that's the reason we think based on all of that it's probably a midyear event next year.

David Jackson Turner
Chief Financial Officer & Senior Executive VP, Regions Financial Corp.
A

Barb, is it fair to say the C&I book it's more – potentially more predictable. But even there, with small business, because of the relief that's in – currently circulating through the economy, it's still hard to predict, so more a placeholder than necessarily a...

[indiscernible] (00:28:23)

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

...that's right.

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

And then on the commercial real estate, does that end up being longer tailed than maybe traditional C&I and consumer just given some of the dynamics with real estate, and I think a lot of the commercial real estate out there is kind of pretty low LTV, so there should be some patience on the part of the banks to help work that out?

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

A

There is and we're spending a lot of time with our customers on a one by one basis, making amendments where we need to helping them get through what is a rough period. We don't want to be fair weather bankers by any stretch. But we are taking a very prudent approach in our discussions with our customers. If we see that at the end of the day there isn't a light at the end of the tunnel, then we're having those hard discussions with them now. But in general, the discussions have been very – very good relative to all of us working together to get through the other side of this.

David Jackson Turner
Chief Financial Officer & Senior Executive VP, Regions Financial Corp.

A

And I would say the thing that comes through in our commercial real estate portfolio is since the financial crisis, we've remade that business. We've significantly reduced the amount of exposure we have. We've rebuilt the teams that are originating commercial real estate loans. We're banking very experienced regional and national developers that have good access to capital, a lot of liquidity. They're involved in quality projects and really solid markets, strong loan to values. A combination of all those things comes together and we feel good about our investor real estate portfolio.

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

Q

Okay. Thank you.

Operator: Your next question is from Betsy Graseck of Morgan Stanley.

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

A

Good morning, Betsy.

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

Q

Hi. Good morning.

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

A

Hey.

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

Q

First, Barb, congratulations. It's been great working with you all these years, so really appreciate it. One question for you. Maybe I missed it in the prepared remarks but you've got the NCO guide for 3Q – I'm sorry for 4Q in the 55 to 65 bps range. And I thought last quarter was looking more for 80. So I'm wondering is this step down in expectation for NCOs something that you think is temporary given everything we've discussed with the stimulus or do you feel like there's – the run rate is going to be a little bit lower than what you had been anticipating before?

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

A

Thank you very much, Betsy. Firstly, I thought growing old would take a lot longer than it did but I guess it's common. Secondly, relative to your question, yeah, we started off the quarter. We had a different view of the quarter. We thought that things would not turn out as they did with our customers. Our customers made a lot of changes to the way in which they're managing their finances, etcetera. They seem to be holding up better than what we thought. Having said all of that, there's still a lot of volatility and so our issue is more one around timing. And so as we look at that and we look at what the impacts of these deferral programs and other things are, we do think that there's still going to be an impact but it's just going to be pushed out sometime into 2021 now.

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

Q

Okay. No, that's helpful. Thanks. And then just follow-up is just a question about the footprint and what you're seeing. You're in a warmer part of the country. I'm wondering if you're seeing any kind of in-migration, are you seeing business trends in the Southern regions accelerate a routine, faster speeds than what you see in the Northern part of your region and maybe you could give us some color on that? I'm just asking the question with the backdrop of when you could start to see some loan growth pickup as well and should you be advantaged given your footprint, maybe you could speak to that. Thanks.

David Jackson Turner
Chief Financial Officer & Senior Executive VP, Regions Financial Corp.

A

Yeah. It's a great question. I would say specifically about the states in the Southeast where 86% plus or minus of our deposits are, those states were some of the last to shelter-in-place and the first to reopen their economies. In fact, 7 of the 10 states we operate – 7 of the states we operate in were amongst the first 10 to reopen their economies. And as a result of that, generally speaking, the unemployment rates in those states was 200 basis points less than the national average. While the totals were still high, number of small businesses that closed were more like 50% to 60% of small businesses versus a higher number for the national average. And I'd say, today, we anticipate 85% to 90% of small businesses have reopened.

So the economies seem to be a little better than, let's say, the Northeast where it's my impression anyway based upon what I hear, the number of small businesses there reopening hasn't been as – has occurred as quickly as it has, let's say, in the South or even in the Midwest markets that we operate in. And we're cautiously optimistic, recognize that the economy still is fragile, there are health issues, there are social issues, there are economic issues, unsure about the political environment, but based upon what we see, there is an in-migration of people into the Southeastern markets in particular, leaving some of the larger cities in the North and Midwest and coming to the South. And so real estate values while increasing are solid. We don't see a real imbalance there or run-up in pricing but a lot of demand and there's availability for jobs, workers here in the South. And so I think, again, we feel pretty good, cautiously optimistic about the economy recognizing there still is a lot of uncertainty.

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

Q

Okay. Thank you.

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

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

A

Good morning.

Stephen Kendall Scouten
Analyst, Piper Sandler & Co.

Q

Yeah. Thank you, guys. I wanted to follow back around maybe thinking about the loan loss reserve and the kind of CECL methodology, appreciating not wanting to call it releasing reserves. But I'm wondering how we could think about what's maybe elevated due to the pandemic and what would be a more normalized level if we didn't have maybe some elevated allocations to expected losses here in the near term and where that could kind of normalize over time?

David Jackson Turner
Chief Financial Officer & Senior Executive VP, Regions Financial Corp.

A

Well, I do think one of the things you can look at as we show you an allocation in our Q of our allowance by major loan category and you can see how that compares to the allowance that existed pre-pandemic. And that'll give you an indication of where we're seeing elevated loss expectations. The problem with CECL is you're having to guess through the entire life of the loan. We use a two-year reasonable and supportable period of time. We're in the middle of a pandemic. There's a lot of volatility with macroeconomic variables. There's a lot of volatility with certain industries, quick serve restaurant, energy, transportation – certain elements of transportation, hospitality. All those things require a lot of input to try to figure out what the allowance should be.

So, if you looked at our high-risk areas and you started seeing that improvement which we improved $8.4 billion of the high-risk category to $6.6 billion, you could look at those categories, go back and look at the allocation of the reserve and that'll give you some idea as to where that reserve exists for us today and where those improvements over time might come from. Until we see more clarity with regards to the economy, we don't see any need to change the reserves that we have already calculated. And that can change from quarter-to-quarter.

Stephen Kendall Scouten
Analyst, Piper Sandler & Co.

Q

Right. Okay. But if the pandemic weren't occurring, instead of 2.70 in a CECL environment, would you think your reserve would warrant maybe 1.70 sort of range or is that just too difficult to say?

David Jackson Turner
Chief Financial Officer & Senior Executive VP, Regions Financial Corp.

A

Well, it's too difficult to say. But an indicator if you want to is go back and look at our pre-pandemic levels that we had, our adoption of CECL 1/1 of this year, and that will give you an idea of what we think because at that time, the pandemic hadn't happened at least not in the United States.

Stephen Kendall Scouten
Analyst, Piper Sandler & Co.

Q

Got it.

David Jackson Turner
Chief Financial Officer & Senior Executive VP, Regions Financial Corp.

A

So, that's what we thought the actual reserve level ought to be.

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Stephen Kendall Scouten
Analyst, Piper Sandler & Co.

Q

Perfect. Helpful. And then one last question just on the excess liquidity, you talked about you might see additional deposit growth this quarter, but how are you guys, I guess, thinking about that and the stickiness of that excess liquidity maybe over the next year and what you might do in the fourth quarter and beyond in terms of uses of that liquidity much as you did this quarter?

David Jackson Turner
Chief Financial Officer & Senior Executive VP, Regions Financial Corp.

A

Yeah. That's kind of centered on an earlier question. But I think that the growth in our deposits have come from growth in checking accounts and operating accounts, in addition to existing customers that had cash that was off balance sheet looking for better return, a better yield than we were paying at the time. And because rates have gone down, there's really no place to go. So, the cash has come back to us in the form of deposits.

Also, our customers are generating income. Our commercial customers are generating income, and they're not spending that at the pace they had before. So, the cash is piling up on their balance sheets. They've worked on their working capital. They're turning receivables and inventory much faster. All that improves the cash cycle which ends up as deposits on our balance sheet.

So, the question is at what point will they start using that, and I think it's when we get back to feeling much better about the economy, they start spending fixed capital investment, whatever the case may be, to utilize that excess cash, if you will, first and then it gets into loan growth for us after that.

Part of the reason we're not spending or putting to work the excess cash we have at the Fed which is about $10 billion in round numbers is because to take the duration risk today, you don't get paid a whole lot, incrementally more than 10 basis points at the Fed. But we think there is prospects for steepening of the yield curve regardless of who wins the election, and with that and higher inflation can give us a better opportunity to deploy that excess cash than we have today. If we see deposits continuing to grow at a faster clip, then we'll step up our investments into the securities book as you just saw us do with the $3 billion this past quarter. So, it's a very – it's a balancing act that we're trying to take with, obviously our liquidity is very good, but trying to get yield and opportunity or opportunity costs to make sure we can deploy that best we can.

Stephen Kendall Scouten
Analyst, Piper Sandler & Co.

Q

Thanks. That's a lot of really good color. Appreciate the time.

David Jackson Turner
Chief Financial Officer & Senior Executive VP, Regions Financial Corp.

A

Okay.

Operator: Your next question is from Peter Winter of Wedbush Securities.

Peter J. Winter
Analyst, Wedbush Securities, Inc.

Q

Good morning.

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

A

Morning, Peter.

Peter J. Winter
Analyst, Wedbush Securities, Inc.

Q

You guys have obviously done a great job managing expenses such as the Simplify and Grow and still invest. I know it's early but would you expect to hold expenses relatively flat again next year, and what are some of the things that you're looking at for additional expense initiatives?

David Jackson Turner
Chief Financial Officer & Senior Executive VP, Regions Financial Corp.

A

Yeah. So, it's a great question. We've done, we think, a really good job of holding our expenses relatively stable up over the past several years, a few years, less than 1%. We're going to continue to work on that as we get into 2021. And we'll give you better guidance as we get towards the end of the year. But the things that we look at we're certainly wanting to leverage our continuous improvement process that John Turner put in – had us put in that really forces us to get better at whatever we're doing every day, process improvement, leveraging technology.

The drivers of our cost base, clearly, number one is salaries – are salaries and benefits. It's people cost. It's still 55% of our expense base. So, how do we control our head count matters and as we think about that, clearly, there's a lot of people – almost half of our people are in our branch network and we've consolidated an awful lot of branches over time. We continue to look at branch consolidations. We think that's been a big driver of our cost savings. We have now got it down path. We know when we consolidate a branch what that means for revenue and customers. And so, our Consumer team's doing a great job of evaluating every one of our branches to see how tight we can continue to make that.

And as we do, we'll save in terms of head count there. We're looking every area has to look at spans and layers and the commitment to head count. How can we leverage technology so that when we have attrition, we have technology that can take place and we won't have to backfill that person. Occupancy is another area. Again, that's tied to both branches and the back office. We've continued to work on consolidating square footage and we're happy about that.

As we get our head count down, furniture, fixtures and equipment, which are computers that people have also comes down. Third-party spend, we have a Head of Procurement that's pretty tough on our vendors. And he's also pretty tough on all of us, because it's a demand management approach where we think we might need a consultant, and he says, are you sure about that? And that goes for all of us in the company. I know he's smiling at that. But we really have to watch that spend. We have to watch travel and entertainment, and that's coming down because of COVID.

So we have places and levers to pull on expenses. It's really hard because we have to make investments in technology, in digital, in people to continue to grow revenue and grow customers for our company. So, while we're doing that, how do we keep our expenses flat and it's all the things we just mentioned are areas that we're focusing on.

Peter J. Winter
Analyst, Wedbush Securities, Inc.

Q

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That's great. Thanks. And if I could just ask one more. Can you guys just give an update on your thoughts around bank M&A when we get a more certain environment?

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

Yeah. Our views about M&A haven't changed, Peter, to this point. I mean we will continue to focus on bank M&A. We've made a number of successful acquisitions of smaller firms that provide additional capabilities in wealth management and capital markets and the mortgage business acquiring mortgage servicing rights, low income housing tax credit syndicator, M&A advisory firm, things that you're aware of. And we continue to have aspirations to do that.

Having said that, we believe that we are still in an environment where it's in our best interest to just focus on executing our plan with respect to bank M&A. If we do that, then we believe that our shareholders will benefit. That will be reflected in our share price, the multiple that we trade at. And then we can talk about whether or not we have some interest in bank M&A. But today, our focus is still on executing our plan.

Peter J. Winter
Analyst, Wedbush Securities, Inc.
Q

That's great. Thanks for taking my questions.

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

Erika Najarian
Analyst, BofA Securities, Inc.
Q

Hi. Good morning.

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

Morning.

David Jackson Turner
Chief Financial Officer & Senior Executive VP, Regions Financial Corp.
A

Morning.

Erika Najarian
Analyst, BofA Securities, Inc.
Q

So, David, just one follow-up question for me. As we think about a starting point on the net interest margin ex some of the nonrecurring items of 3.11%, how should we think about [audio gap] (00:45:05) origin of 3.3%? Clearly, you're doing a great job in terms of defending the margin. And I guess how should we think about the excess cash and what you need to see in the marketplace to more aggressively deploy that excess cash so that your gap NIM more reflects that core NIM that you point out?

David Jackson Turner
Chief Financial Officer & Senior Executive VP, Regions Financial Corp.
A

Yeah. So, it's a good question. It's a balancing act that we're trying to make with regards to being paid for duration and putting that excess cash to work there or waiting for the yield curve to steepen a bit, which we think if we're

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just a little bit patient, we can actually have a better earning asset. We understand every day we wait though, we're trading off 1% change for 10 basis points. We did put some of that excess cash to work as we mentioned, and kind of perversely that when we give you our core NIM, right, anything that's sitting at the Fed, and the Fed account we're carving out from our margin.

But when we deploy some of that, as we did our $3 billion that's earning 1%, that weighs on our core NIM. It helps us on NII, but it hurts our NIM. So, whereas, we were in the high-330s before we decided to deploy the cash, we think we're going to be in that 330-ish range. So that deployment actually cost us 6 basis points of NIM, but it helped our NII. So, I wouldn't get too wound up on the NIM calculation just yet. I would look at the ability to grow net interest income and having the dry powder to deploy and better loan growth when that comes along or steeper yield curve when that happens.

Erika Najarian
Analyst, BofA Securities, Inc.

Q

Got it. Thank you. Congratulations, Barb.

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

A

Thank you.

Operator: Your next question is from Gerard Cassidy of RBC.

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

A

Morning, Gerard.

Gerard Cassidy
Analyst, RBC Capital Markets LLC

Q

Good morning, John. Good morning, David.

David Jackson Turner
Chief Financial Officer & Senior Executive VP, Regions Financial Corp.

A

Morning.

Gerard Cassidy
Analyst, RBC Capital Markets LLC

Q

Maybe you guys can share with us – and, Barb, congratulations on your retirement and your insights over the years. And the first question is about credit. I mean we all understand what the government has done has been pretty impressive in terms of the stimulus relief. The Federal Reserve has obviously aggressively moved to bring in spreads in the open market. And we have the forbearance program.

Can you guys share with us what had been the big differences between credit because the economy collapsed and all the metrics we became accustomed to like the unemployment rate leading to higher consumer – net charge-offs, those relationships haven't held up in this downturn? And I'm wondering what other than the programs I mentioned maybe that's the answer, what's so different about this downturn do you think versus what we saw in 2006 and 2007 going into 2008, 2009.

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

A

Yes, Gerard. I'll take that. It's Barb, and I do think the stimulus relief is really the linchpin here, it's the largest thing. But also our consumers and our businesses have changed their habits as well. For example, for consumers, what we're seeing is they're not spending their money on things like the $10,000 vacation. That money is now just going into the bank and putting it away for, I put quotes around the word, "a rainy day". The rainy day is here. But they're being very prudent with their money. Of course the stimulus has really helped with that to make sure they build a bit of a nest egg for themselves as they work their way through to better times. But we're seeing that on the consumer side most definitely.

And I thought perhaps maybe we would therefore see a lot of drawdowns in things like, on the consumer side, our home equity lines. We haven't seen that. Or cash out refis on our mortgages. We haven't seen that neither. So they're being – consumers are being very, very good about the way they're going about spending their money.

On the business side, it's the same thing. Businesses have sat back, and they've enjoyed several years of good profitability. They too are looking at what does this mean for them, what does this mean for their business, what do I have to do to make the changes now. So I've been pretty impressed with the resiliency of our economy particularly here in the south where we are where we've seen a lot of businesses and the consumers make the appropriate changes.

So that's what's really different than last time. As well last time around as we all know, Gerard, it was a meltdown in the mortgage, the housing market. That's not happened this time. If anything, the mortgage market is a little bit on fire relative to purchase as well as refi and that's all because of the low rates. So that too is something that we're also keeping our eye out for.

David Jackson Turner
Chief Financial Officer & Senior Executive VP, Regions Financial Corp.

A

Gerard, let me to add that. So as you think about the Southeastern regions in particular, commercial real estate is nothing like it was. One, we don't have near the commitment to it that we had at that time. Second is the real estate values haven't collapsed to Barb's point. That was a massive change in values on not only consumers and mortgages but on homebuilders and things of that nature. We don't have that today.

If you go look at disposable income, disposable income for consumers continues to grow. As you look at the financial obligation ratio, so the percentage of payments – of disposable income that's been used for debt payment is very low. And a part of that is the leverages. While the total leverage is actually higher in consumer, the ability to pay is much lower because the rate environment is so low.

And then the last thing would be unemployment isn't all that even either, so you have to think about where is that really happening. As John mentioned, the unemployment rate for us in our markets is a couple hundred basis points lower than other parts of the country. So it's the major metros that seemed to have fared worse on that unemployment than kind of second-tier markets where we happen to operate a lot of our business.

Gerard Cassidy
Analyst, RBC Capital Markets LLC

Q

Thank you. I appreciate the color. And then as a follow-up, David, can you share with us your margin and your net interest income? You guys have done a very good job in managing it as you described for us. What kind of interest rate environment in, let's say, 2021 or 2022 would be less favorable to the way you're positioned today?

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What are you kind of on the lookout for in terms of rates going forward that could be less favorable than what you're seeing today?

David Jackson Turner
Chief Financial Officer & Senior Executive VP, Regions Financial Corp.
A

Well, I think not just for us but for most banks, a flat yield curve is pretty – is problematic. We have no expectations of short rates moving either way. And frankly, we really don't care where they go because we're virtually insulated on the low rates. Our biggest risk is kind of in the middle to the end of the curve where we're having to redeploy our maturing fixed rate loans and securities. And for us, that's about $12 billion over a 12-month period of time.

So taking those cash flows and reinvesting them in this kind of rate environment where the 10 year's at lower – at 70-whatever basis points today, it's tough to make money. And so if we can get a steepener going, which we think we can with infrastructure spending, again it doesn't matter who really wins the election on that, maybe the Democrats do it quicker but we'll see. But I think a steepening yield curve is what we'd like to see, but flat is bad.

Gerard Cassidy
Analyst, RBC Capital Markets LLC
Q

Very good. And Barb, I hope on your going-away party, they'll order you some main lobsters, David and John.

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

Thanks, Gerard.

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

Saul Martinez
Analyst, UBS Securities LLC
Q

Hey.

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

Morning.

Saul Martinez
Analyst, UBS Securities LLC
Q

Good morning. Good morning. Couple quick follow-ups. First, I know you're not assuming any acceleration in PPP forgiveness income in the fourth quarter, but can you just tell us what your best guess is currently for forgiveness rates, and what the timing of that forgiveness could be over the first half of 2021 and maybe even into the second half of 2021? If you could just kind of give us what your best estimate is right now?

David Jackson Turner
Chief Financial Officer & Senior Executive VP, Regions Financial Corp.
A

Yeah. So, as we think about the fourth quarter, early on, we thought we would see a reasonable amount of forgiveness in the fourth quarter. We've had some, but it hadn't been enough to really talk about. We think that's

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been pushed into the first quarter. I think we get through the election. Maybe we get a little bit more clarity. They have come up with a forgiveness form that's fairly tight that I think could be helpful. We'll see.

What we haven't seen is the borrowers actually calling and saying, I'm ready for my forgiveness. They're kind of hanging out because it's not really costing them anything at this point. So, we need – if we get a little bit of pressure there, maybe we start getting a little more requests for forgiveness. Is it the first quarter, second quarter, third quarter, I mean, we don't know. Today, we earn a little less than 2% off of the PPP loan and that is the rate plus a portion of the fees that we have to recognize on the effective interest method. So it weighs on our margin which is why we carve it out for the analysis. And we've given you the dollar amount now, right, at $30 million. So I don't know when that could happen, but probably the middle of 2021.

Saul Martinez
Analyst, UBS Securities LLC

Q

Right. But just to be absolutely 100% clear, your guidance for the fourth quarter, that's not assuming any acceleration in PPP fee income...

David Jackson Turner
Chief Financial Officer & Senior Executive VP, Regions Financial Corp.

A

That's correct.

Saul Martinez
Analyst, UBS Securities LLC

Q

...and – okay. All right. And then if I could just pivot and ask you about your reserving and kind of go into the waterfall – your ACL waterfall. I mean, your reserve levels were flat and so essentially what you term as portfolio risk imbalances, one for one offset charge-offs and I guess an improved economic outlook. And I'm just curious what that portfolio risk imbalances entails because in an environment where you had falling loans and it's not clear that your mix became riskier and more tilted towards high loss content loans, that effectively keeping reserves flat effectively means that you're reserving more on your back book and you're estimating higher loss content on your back book?

So I'm just curious if we should view that more as sort of a mindset where you don't think it's appropriate yet to reduce reserves, and note that I didn't use reserve releases but see falling reserves or is there something else? And I guess the adjunct to that is what would make you confident enough to the point where you actually start to see falling ACL levels and lower absolute dollar sort of levels?

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

A

Yeah. That would be, right now, we – there's a lot of uncertainty as we talked about already in the call relative to what we think what's going to happen in the economy. We really don't know. And so, with that heightened level of uncertainty, it doesn't give us a warm feeling that we should go ahead and start releasing reserves. We just don't know it's going to happen. A lot of volatility that comes with uncertainty, of course the two go hand-in-hand. And so, we just don't think it's prudent or appropriate at this point in the economic cycle that we're in for us to go ahead and start releasing less or providing less. So that's what the thinking is behind that.

David Jackson Turner
Chief Financial Officer & Senior Executive VP, Regions Financial Corp.

A

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Yeah. And we do have production of new loans every quarter. Even though the gross number may not change, we do have a production. We do have some of our, as you mentioned bad book. We do have some that we've increased reserves on. We have certain loans, we look at loan by loan, some we'd look at portfolios and there are certain of those that we added to this particular quarter and as I said, it's just hard to tell what will happen next quarter. We have to get to the end and see what the facts and circumstances are at that time.

Saul Martinez
Analyst, UBS Securities LLC

Q

Yeah. I mean it's just simply a function of you just feeling confident that the economy is on a more sound footing and at that point, you would feel comfortable reducing reserves because effectively, it almost seems like reducing reserves is almost calling the end of the credit cycle right now. And so I'm just, like, curious if that's the way you look at it. Is it just really simply a function of having a more clear outlook on the glide path of the economy and feeling more strongly about it?

David Jackson Turner
Chief Financial Officer & Senior Executive VP, Regions Financial Corp.

A

Yeah. To the extent you ignore the reduction in reserves that come through charge-offs because that's a given, the rest of it – yeah, reducing reserves after that, we'd have to have more clarity with regards to the economy and the performance of our portfolios over their remaining life of the loans. That's exactly right.

Saul Martinez
Analyst, UBS Securities LLC

Q

Got it. Okay. Thanks.

Operator: Your next question is from Bill Carcache of Wolfe Research.

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

A

Good morning

Bill Carcache
Analyst, Wolfe Research, LLC

Q

I wanted to ask about the return on tangible common equity trajectory when we pull all of the pieces together that you've all discussed on the call. So putting up the lowest efficiency ratio in over a decade in this environment obviously stands out. Layering in the expense savings that you discussed from branch optimization and everything else. And then the NII benefits from noninterest bearing deposit mix rising to the highest level we've seen at 42%. And it seems like we can kind of see your ROTCE continue to rise to all-time highs as we look ahead. Feels a little bit unusual to be talking about high ROTCEs in a recession where we haven't even seen losses rise yet. I was hoping you could give a little bit of color around when we pull all the pieces together and think about ROTCE, how you see that trajectory?

David Jackson Turner
Chief Financial Officer & Senior Executive VP, Regions Financial Corp.

A

Yeah. I think if you were to look at, generally, commercial banking in this environment normalize provisioning for this environment, it is a low rate environment. So we think returns are in that 12% to 14% range. You can get a given quarter that would be outside of those boundaries. But if you kind of look all in, we think that's a reasonable

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return. I think banks can earn their – more than their cost of capital and generate shareholder value. Just not at the level we would have if we had a much higher – steeper yield curve where we could have margins that are in that 350 basis points to 375 basis points range. We talked about at our Investor Day some years ago that drove returns much higher than that 12% to 14%. So I think that's probably where we are at the moment, but we're continuing to work hard to make it better and that's what our continuous improvements are all about.

Bill Carcache
Analyst, Wolfe Research, LLC

Q

Understood. And following up on your earlier comments about a steepener and the benefits there, can you give a little bit more color on your exposure to the short versus the long end of the curve, and any sensitivities in terms of benefit to NII would be really helpful?

David Jackson Turner
Chief Financial Officer & Senior Executive VP, Regions Financial Corp.

A

Along the short rates, we really don't have any exposure there. We're pretty much mitigated there. It's the long and kind of the middle of the curve that pose most of the risk to us. And again, it's because we have $12 billion of cash flows coming out of our fixed rate loan and securities portfolios that we have to reinvest that caused the biggest challenge to us there. And the front book, back book if you want to call it that, is about one point different – difference between what's rolling off and what we can put it to work at in a reasonable way today. That's where the risk is.

Bill Carcache
Analyst, Wolfe Research, LLC

Q

Very helpful. Thank you for taking my questions.

David Jackson Turner
Chief Financial Officer & Senior Executive VP, Regions Financial Corp.

A

Okay. Operator, do we have any more questions? Do we her on?

Operator: I'm sorry. Your final question is from Jennifer Demba of Truist Securities.

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

A

Okay. Great. Thank you. Morning.

David Jackson Turner
Chief Financial Officer & Senior Executive VP, Regions Financial Corp.

A

Morning, Jennifer.

Jennifer Demba
Analyst, Truist Securities, Inc.

Q

Good morning. Congratulations, Barb. I'm going to miss working with you.

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

A

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Thank you so much, Jennifer.

Jennifer Demba
Analyst, Truist Securities, Inc.

Q

My question is on mortgage banking fees. They've obviously been at record levels for a couple of quarters. What are you guys seeing in terms of production trends in the fourth quarter and beyond as this home buying frenzy continues?

David Jackson Turner
Chief Financial Officer & Senior Executive VP, Regions Financial Corp.

A

Yeah. So we've been very pleased. We hit a record this quarter in terms of mortgage. If you go back to a list of these earnings calls where we say mortgage is strong and it should be strong next quarter, it got even stronger and really benefiting from the consumer banking group's decision to hire mortgage loan originators couple years ago in preparation for a low rate environment like we anticipated. So we're benefiting from that.

We think the fourth quarter based on what's in the pipeline is going to be strong. Whether it can be as strong as the third quarter, don't yet know. But we think it's set up for a very strong 2021. And a big reason for that confidence is that as you know historically we've been a purchase shop and mainly 70% to 30%. Today our mix is about 50/50 in terms of refinance and purchase. Both of them are strong. Refis won't continue forever, we understand that, but we've been a pretty strong purchase shop unlike others who had actually 70% refi, 30% purchase. So we think the fourth quarter will be good. We think all of 2021 will be pretty good too. Whether we meet the levels we're at right now, don't know.

Jennifer Demba
Analyst, Truist Securities, Inc.

Q

Thanks very much.

David Jackson Turner
Chief Financial Officer & Senior Executive VP, Regions Financial Corp.

A

Okay.

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

Well, I think that's the last call we had. So really appreciate your interest and thank you for participating in the call today.

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

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