22-Jan-2021

Regions Financial Corp. (RF)

Q4 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 would 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' Fourth Quarter 2020 Earnings Call. John and David will provide some high-level commentary regarding the quarter and full-year results. Earnings documents, including forward-looking statements, are available in the Investor Relations section of our website. These disclosures cover our presentation materials, prepared comments and Q&A.

I will now turn the call over to John.

John M. Turner

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

Thank you, Dana, and thank you for joining our call today. Let me begin by saying that we are very pleased with our fourth quarter and full-year results. We achieved a great deal despite a challenging interest rate and operating

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environment. Earlier this morning, we reported full-year earnings of $991 million, reflecting our highest level of adjusted pre-tax, pre-provision income in more than a decade, resulting in adjusted positive operating leverage of 2.6%.

Over the last 10-plus years, we've made significant strides toward our goal of positioning the company to generate consistent, sustainable long-term performance. We've enhanced our credit, interest rate and operational risk management processes and platforms. We sharpened our focus on appropriate risk-adjusted returns and capital allocation. These actions position us well to weather the economic downturn caused by the pandemic and to serve as a strong foundation for growth.

Despite a year of unprecedented uncertainty, we remain focused on what we can control and our efforts are paying off. During 2020, we grew consumer and small business checking accounts by 1.5%. We increased corporate loan production by 6%. We made investments in talent, target markets, technology and digital capabilities and we expanded and enhanced products across the Consumer and Corporate Bank, incorporating changing customer preferences and learnings from the pandemic.

In 2021 and beyond, we will continue to focus on growing our business by investing in areas that allow us to make banking easier for our customers and while continuing to provide our associates with the tools they need to be competitive. We will make incremental adjustments to our business, while leveraging our strengths and investing in areas where we believe we can consistently win over time. We did this by adding mortgage loan originators when rates were still rising, positioning us to better capitalize on mortgage activity. We also expanded our small business platform through the Ascentium acquisition, as well as our enhanced SBA technology platform.

In closing, we're very proud of our achievements in 2020, but none of these will be possible without the hard work and dedication of our 20,000 associates. This year has posed a myriad of challenges. However, our associates took action, providing best-in-class customer service, successfully executing on our strategy and maintaining strong risk management practices in the face of a rapidly evolving operating environment, all of which contributed to our success.

Now, Dave will provide you with some details regarding the quarter.

David Jackson Turner

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

Thank you, John. Let's start with the balance sheet. While adjusted average loans were up for the year, they decreased 2% in the fourth quarter. New and renewed commercial loan production increased 25% compared to the third quarter. However, balances remain negatively impacted by historically low utilization levels.

As of year-end, commercial line utilization was just under 40% compared to historical average of 45%. Commercial loan balances were further impacted by the company's active portfolio management efforts during the quarter. Approximately $408 million worth of commercial loans were either sold or transferred to held for sale.

Additionally, PPP forgiveness began during the quarter resulting in a $415 million reduction in average loan balances. Consumer loan growth, again, reflected strong mortgage production offset by run-off portfolios. Overall, we expect 2021 adjusted average loan balances to be down by low-single-digits compared to 2020. However, after excluding the impact of this quarter's portfolio management efforts, we expect adjusted ending loans to grow by low-single-digits.

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With respect to deposits, balances continued to increase this quarter to new record levels. Full-year average deposits are 17% higher than 2019, with most of the growth coming in non-interest-bearing to core operating accounts across all three business segments. The increase was primarily due to higher balances. However, we are also experiencing new account growth. We expect near-term deposit balances will continue to increase particularly as the second round of stimulus is dispersed.

Let's shift to net interest income and margin, which remain a significant source of stability for Regions. Net interest income increased 2% during the quarter and as expected, remained relatively stable excluding the benefit from PPP forgiveness. Similar to prior quarters, the impact from lower loan balances and low long-term rates was mostly offset by our cash management strategies, lower deposit costs and higher average notional values of active loan hedges.

Net interest margin was stable linked quarter at 3.13%. Deposit growth drove cash we hold at the Federal Reserve to record levels, averaging over $13 billion and reducing fourth quarter margin by 34 basis points. PPP benefited net interest income through the realization of approximately $24 million of fees related to forgiveness. In total, the PPP program contributed 7 basis points to the margin.

Excluding excess cash and PPP, our normalized net interest margin remained stable at 3.4%, evidencing our proactive balance sheet management despite a near zero short-term rate environment. Loan hedges added $97 million to net interest income and 30 basis points to the margin. Higher average hedge notional values drove a $3 million increase compared to the third quarter. Our last four starting hedges began earlier this month.

So going forward, we expect roughly $100 million of hedge related interest income each quarter at current rate levels until hedges begin to mature in late 2023. Our hedges have a remaining life of four years and provide protection through 2026. We continue to look for opportunities to deploy excess cash, balancing risk and return.

Of note, incremental securities currently come with larger premiums, which increased our quarterly premium amortization run rate, but that is factored into the overall net benefit. Total premium amortization was $51 million this quarter and would be in the low $40 million range excluding booked premium increases and elevated Ginnie Mae buy-out activity. Interest-bearing deposit costs fell 6 basis points in the quarter to 13 basis points, contributing $10 million to net interest income.

Looking ahead to the first quarter, PPP-related net interest income is expected to be relatively stable with the fourth quarter. However, the timing of PPP loan forgiveness and participation in the second round of funding remains uncertain. Fewer days will reduce first quarter NII by roughly $12 million. After level-setting for days, net interest income is expected to be modestly lower quarter-over-quarter, mostly attributable to lower average loan balances. The impact of lower – long-term rates will continue to be offset by the benefits from hedging, cash management strategies and lower deposit costs.

Now let's take a look at fee revenue and expense. Adjusted non-interest income increased 7% quarter-over-quarter. We achieved record capital markets income, driven primarily by increased M&A activity. Mortgage delivered another solid quarter and for the full year, generated record production and related revenue. Looking ahead to 2021, we expect mortgage and capital markets to continue to be significant contributors to fee revenue.

Excluding the impact of CVA/DVA, we expect capital markets to generate quarterly revenue in the $55 million to $65 million on average. Service charges increased 5%, but remain below prior year levels. While improving, we believe changes in customer behavior as well as continued enhancements to our overdraft practices and transaction postings are likely to keep service charges below pre-pandemic levels. Although we expect the impact

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of these changes will be partially offset by continued account growth, we estimate 2021 service charges will grow, but remain approximately 10% to 15% below 2019 levels.

Card and ATM fees have recovered compared to the prior year, driven primarily by increased debit card spend. And while credit card spend continues to improve, it remains slightly behind prior year levels. Given the timing of interest rate changes in 2020, combined with exceptionally strong fee income performance, we expect 2021 adjusted total revenue to be down modestly compared to the prior year. But this will be dependent on the timing and amount of PPP forgiveness and loan growth.

Please move on to non-interest expense. Adjusted non-interest expenses increased 5% in the quarter, driven by higher incentive compensation related primarily to record capital markets activities. Although base salaries were 2% lower compared to the third quarter as we remain focused on our continuous improvement process, associate head count decreased 2% quarter-over-quarter and 1% year-over-year. And excluding the impact of our Ascentium acquisition, the associate head count decreased over 3% in 2020. We will continue to prudently manage expenses, while investing in technology, products and people to grow our business. In 2021, we expect adjusted non-interest expenses to remain stable to down modestly compared to 2020. We remain committed to generating positive operating leverage over time, but acknowledge 2021 will be challenging without a stronger economy than currently anticipated.

From an asset quality perspective, overall credit continues to perform better than expected. Annualized net charge-offs were 43 basis points, a 7-basis point improvement over the prior quarter, reflecting improvement primarily within our commercial portfolios. Non-performing loans, total delinquencies and business services criticized loans all remained relatively stable. Our allowance for credit losses declined 5 basis points to 2.69% of total loans and 308% of total non-accrual loans. Excluding PPP loans, our allowance for credit losses was 2.81% of total loans.

The decline in reserves reflects stabilization in our economic outlook and improved credit performance, charge-offs previously provided for and the impact of active portfolio management. The allowance reduction resulted in a net $38 million benefit to the provision. Our year-end allowance remains one of the highest in our peer group as measured against period-end loans or stress losses as modeled by the Federal Reserve.

As we look forward, we are mindful of the uncertainty that exists in the economy due to the pandemic. However, we are cautiously optimistic as we move beyond events before the source of uncertainty in prior quarters. Further reductions in the allowance will depend on the timing of charge-offs and greater certainty with respect to the path of the economic recovery. While charge-offs can be volatile quarter-to-quarter, we currently expect full-year 2021 net charge-offs to range from 55 basis points to 65 basis points. Additionally, based on what we know today, we continue to expect charge-offs to peak in mid-2021.

With respect to capital, our Common Equity Tier 1 ratio increased approximately 50 basis points to an estimated 9.8% inside of our current operating range of 9.5% to 10%. In the near term, we intend to operate at the higher end of this range.

So, wrapping up, on the next slide are our 2021 expectations which we have already addressed. So, in summary, we are cautiously optimistic about 2021. 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.

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QUESTION AND ANSWER SECTION

Operator: Thank you. The floor is now open for questions. [Operator Instructions] Your first question is from Erika Najarian of Bank of America.

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

A

Good morning, Erika.

Erika Najarian
Analyst, Bank of America Merrill Lynch

Q

Good morning. Good morning. David, the first one is for you. As we think about total adjusted revenue, how should we – expectations, how should we think about what you're thinking about PPP 2.0 participation and also whether or not loans originated in PPP 2.0 are going to be forgiven in 2021? And the second part of that question is you have seven times as much cash as you did a year ago – a quarter – year ago and also what your expectations are for where those cash levels level out in 2021?

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

A

Okay. Well, good morning. Let me start with PPP, so we originated about $5 billion worth of PPP loans this year. Now, the rules were changing early on as you know and some of our customers actually gave us money back before we really earned much yield on it. So at the end of the year, as you can see on our page 20 in the supplement, PPP loans amount to $3.6 billion at December 31. We forgave approximately $1 billion worth of loans in 2020 and that was really in the fourth quarter where we generated from the forgiveness piece alone $24 million that we disclosed to you.

As we think about PPP 2.0, we estimate at least at this time that we'd originate approximately $2 billion in PPP loans. Now, the timing and the ultimate amount of that is uncertain as is the forgiveness with the existing $3.6 billion. So we've given you the pieces that you can do some scenario analysis in terms of how you think that may come into income. Clearly, loans that are forgiven quicker come into 2021 and would help from a revenue standpoint.

Your second piece of the question is on cash. So, you're right. We do have quite a bit of cash. Our deposit growth was quite strong during the year both in Consumer and Wealth and also in the Corporate Banking group. So, all three of those had [indiscernible] (00:18:09) growth. We have deployed some of that cash in the securities book as you've seen and we have gotten a little bit of steepening. Of late, the problem is mortgage spreads have tightened out of the way and, therefore, you really don't have a great place to put the cash and we're reluctant to take on duration risk at this time.

Now that being said, we are mindful of more stimulus, could steepen out even further, which would give us a better entry point to put that cash. But until we see that, we really are going to have that cash at the Fed earning 10 basis points, which we understand does weigh on our revenue, but we think that's the most prudent path.

Erika Najarian
Analyst, Bank of America Merrill Lynch

Q

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Got it. And my second question is for John. Kudos to you and your team for trading at 1.5 times tangible book in the middle of a global pandemic. Really speaks to the balance sheet management and the expense management that your team has executed. I'm wondering as you emerge from this crisis stronger, what your thoughts are on using that currency for inorganic opportunities.

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

A

Erika, our point of view on that really hasn't changed. We want to continue to look for opportunities to make nonbank acquisitions, to expand our capabilities, to help us grow and diversify our revenue. We think the acquisitions that we've made over the last few years have proven to be fruitful as evidenced by over the last few years have proven to be fruitful, as evidenced by, as an example, the great quarter that we had in capital markets, largely driven by M&A activity. We also had a good quarter in low-income housing tax credits and syndications of that business. Ascentium Capital, we're excited about what we think it can mean for the future. So that's our primary focus.

With respect to bank acquisitions, our view of that – about that hasn't changed. We think we have a really solid plan if we continue to execute our plan, continue to build a consistently performing, sustainable business that, over time, we will continue to benefit from generating nice returns for our shareholders. Our currency will get stronger. And if an opportunity comes along in the future, we would then have an opportunity to consider it. But our focus is on executing our plan.

Erika Najarian
Analyst, Bank of America Merrill Lynch

Q

Great. Thank you, gentlemen.

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

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

A

Good morning, Ken.

Ken Usdin
Analyst, Jefferies LLC

Q

Hey. Good morning, guys. Just a follow-up on the loan side. You give us that nice adjusted number and reconciliation in the back. But just wondering if you can help us understand also underneath that, the auto book and the runoff that's still happening and the portfolio loan sale that you called out. So it looked like that averaged about [ph] $2.7 billion (00:21:05), the auto stuff in – and what you think that's going to look like as you look forward into 2021?

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

A

Well, I think, again, if you go back to that, you're referring to page 20 in the supplement and we really want to level-set because our point is if you kind of cut to the core of our business, we think end-to-end, we can grow loans. We said we'd grow low-single digits, but we'll still – we're going to continue to have the pace of runoff that you see there with regards to our exit portfolios. You can see just in the quarter, we were down some $140 million on indirect-other and we were down about $200 million on vehicles. And we see that pace continuing that will

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weigh on total loans. But we're trying to see the message, our core business, we're in great markets. We expect there to be somewhat of a rebound, but it'll be towards the back half [ph] the amount of (00:22:03) which really is dependent on the economic recovery.

Ken Usdin
Analyst, Jefferies LLC

Q

Yeah. Understand and that's exactly what I was going to follow up, David. As you look through the commercial books, where would you expect that to be seen the most in terms of that economic recovery starting to show up in that regular way loan book? Thanks.

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

A

Yeah. I think a big part of that is going to be in things like healthcare and would be a big one, financial services, elements of manufacturing we think are also capable of growing. Those will be three areas that we would really point to at this time.

Ken Usdin
Analyst, Jefferies LLC

Q

Got it. And the second question just – on the expenses, you've guys done a very good job holding the line on the cost curve, keeping it close to flat. Some of the peers are starting to talk about extra investments and fronting of things that might have come over time. Just wanted to hear how you guys are strategically thinking about that. Are you putting in enough as you save to keep flat and how do you think about that strategically as you go forward? Thanks.

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

A

Yeah. So, again we've been pretty consistent with our message on investments. We've invested in people, so mortgage loans originators is an example. Wealth advisors being another one. We've had relationship managers. We have to continue to make investments in the people side there. We continue to make investments in technology and cyber and digital. We have to keep doing that to serve our customers. We also are cognizant of the fact that when revenue is challenged, we have to figure out how to pay for that so that we can keep our expenses relatively stable to down as we're indicating. So what we do is we look at things like our head count, it's 55% of our costs. We look at occupancy costs. We look at third-party vendors, furniture fixtures and equipment. We've been really good at keeping that cost down. And we're going to continue to focus on it through our continuous improvement program in those same areas in 2021.

Ken Usdin
Analyst, Jefferies LLC

Q

Understood. Thanks, David.

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

A

Thank you.

Operator: Your next question is from Jennifer Demba of Truist Securities.

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

Good morning, Jennifer.

Jennifer Demba
Analyst, Truist Securities, Inc.
Q

Good morning. Just curious about the loan loss reserve and where you see that going over the course of 2021. Do you think this would go back to your day one people reserve level, or do you think that might occur more in 2022?

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

Yeah. It's a great question and there's a lot of uncertainty with regards to that. You could see our slide that we have that's on page 20 of our deck where we break out the component parts of where the reserve is moving. Jennifer, there's still uncertainty with regards to the economic recovery as evidenced by the federal government stimulus program. So, we need to see more certainty with regards to where we think losses will ultimately be. We think there's a risk that those have been just pushed out a bit, that they're still there. And until we have clarity that they're not, we're going to keep the reserves at an appropriate level.

We are mindful of the fact that timing of charge-offs matter on the reserves. The macroeconomic factors which we have to measure every quarter end is important to us. And so we think ultimately we can get there when times are good. I'm not confident, we are not confident that that can happen in 2021 and the pace of reserves coming down again will be dependent on the things I just mentioned.

Jennifer Demba
Analyst, Truist Securities, Inc.
Q

Thanks, Dave.

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

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

Good morning, Gerard.

Gerard Cassidy
Analyst, RBC Capital Markets LLC
Q

Good morning, John. Good morning, David. How are you, guys?

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

Good. Thank you.

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

Good morning.

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Gerard Cassidy
Analyst, RBC Capital Markets LLC

Q

Good. Maybe we could start off, David, you guys had an interesting slide in the deck, at the back of the deck on the LIBOR transition. The question I have for you is, do you think there's any possibility of that drop dead date being pushed out from the end of the year? And then second, when you look at that slide, what are the top two or three risks that you're focused on to ensure that there's a smooth transition here?

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

A

Well, so to answer your first part of that question is there is a chance that all this gets pushed out a bit. I think what most people are finding is that this is much more difficult than just changing an index. It so – it permeates a lot of our business; obviously our loan book, but our derivatives book and how we transition is really important. How we get our systems updated is a risk that we have to be mindful of. From a competitive standpoint, what index will our customers prefer to go to and we deal with large customers and we deal with middle market and small business customers and a lot of our competitors may use a different index.

And so we need to – transitioning in that front will be important for us. We need to see the term structures continue to develop so that we can effectively hedge our interest rate risk without having basis risk at the same time. So, a lot of contracts. It's just a big body of work, Gerard. And having more time would be helpful.

Gerard Cassidy
Analyst, RBC Capital Markets LLC

Q

Very good. And, John, a bigger picture for – bigger question, big picture question I should say for you is that Regions, obviously, your quarter was quite strong, your peers are putting up good numbers as well. The industry appears to be positioned to benefit from this economic recovery that many people are forecasting that's tied to the vaccine rollout. Can you share with us when you go down the elevator at night, what are the risks that you think about as you look out over the next 12 to 18 months that you don't want to lose sight of?

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

A

Well, as I would say to our team every day, we can't take anything for granted and we continue to see improvement in our business. We've done a great job I think over the last 10 plus months working through a very challenging environment. The industry has done a great job. We're still confronting a number of crises across the country, whether they be health-related, the economy, the political environment we're operating in, social unrest, all those things potentially impact our business.

And so we can't take anything for granted. We've got to continue to focus on the risks in our business, make sure that we are executing well – that we're continuing to recruit our talent internally and externally every day to keep an engaged and active team. And I think if we do those things and stay focused on the things that we can control, which are how we take care of our customers, how we respond to each other. It's about the investments that we make in technology and in our business. If we do those things, then I think we're doing a good job of managing the risks that are in our business and we'll deliver that consistent, sustainable, long-term performance. It's about really focusing on what we can control.

Gerard Cassidy
Analyst, RBC Capital Markets LLC

Q

Thank you.

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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

Good morning.

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

Hi. I just wanted to dig in a little bit on the NCO guide of 55 basis points to 65 basis points for 2021 and just kind of understand how to think about the trajectory among the different asset classes because Consumer tends to be fairly mechanistic with the day calendar roll. But C&I and CRE are obviously a little bit more at your discretion. So maybe you can give us a sense as to how we should anticipate the cadence throughout the year goes.

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

Yeah. So I think as we've guided to 55 basis points to 65 basis points and that we believe charge-offs will peak in the first half of the year, that's really a reflection of the fact that our view is we've got some Corporate Bank or commercial wholesale credits whether they'd be typical C&I or invest in real estate to work through in the first half of the year. On the other hand, Consumer, which has performed exceptionally well, we think will continue to exhibit really good credit quality, particularly with the additional stimulus pumped into the economy. And so if charge-offs rise in the consumer sector, that's likely to be in the second half of the year is the way we think about it.

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

And then these charge-offs are – you've already reserved for them, so we should anticipate a release to manage the charge-offs as they come through?

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

Yeah. I think you got a really – that word release has always bothered me. But the reserve should go down because of charge-offs. And then the question is how much do you need in reserves for the remaining portfolio? And so if your portfolio of loans isn't growing and the credit quality isn't changing and the macroeconomic factors aren't changing, then you wouldn't re-provide because the theory is you already did that. And so that's as straightforward as I know how to make it.

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

Q

Do you like the word match better?

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

A

No.

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

Q

But basically what you're saying is...

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

A

My point, I don't mean to be flippant, but my point is those are two independent thoughts; charge-offs are charge-offs. Then you settle down and you figure out what your reserve needs to be under CECL. And you can't think of it in the context of the old accounting. That's what I'm trying to get everybody to rethink.

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

Q

Are you suggesting though that the economy is getting better, you should have reserve release ahead of the net charge-off recognition and that's also another possibility?

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

A

That's absolutely right. That's why I would give you the analysis we did on that page 20 to show you what the moving parts are on analyzing the reserve. You got charge-offs, you got the change in outlook and then you have other qualitative factors and model considerations that you have to consider. So you're absolutely right. If the economic outlook continues to get better, then you would expect not to need the reserves that you booked and that's a true release.

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

Q

Got it. And when are you making those reserve decisions? Is that at the end of the quarter, like December 31 or is that something you're doing earlier in the quarter?

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

A

Well, we have our teams – this is what they do every day. And – but we're – it's incumbent upon us every balance sheet date to look at the facts that exist at that point in time and make our ultimate determination. So, yeah, as you remember, in the first quarter of last year, one week to the next week was dramatic shifts in the macroeconomic environment. So you can't make a call until you get to the end of a quarter.

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

Q

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Right. Okay. And then just separately on CET1, I know your CET1 range that you've given is 9.5% to 10%. And given that you're at 9.8% currently, how does that impact your decision on timing for repurchases? Can you give us a sense as to – are you waiting until you hit 10% and then commence or anywhere in that range is fair game?

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

Well, we said that for the near term, that's our range. We're probably going to want to operate at the higher end of that range just because as we mentioned a minute ago, uncertainty continues in the economy. But 10% is our number right now. If we continue to accrete over that, then we would be in position subject to the other regulatory tests that we have to have beginning to repurchase our shares.

As John mentioned earlier though, we really want to use our capital to grow, grow organically, to grow – do a nonbank transaction, to pay an appropriate dividend. But we will use share repurchases to keep ourselves, at least today, at that – closer to that 10% level. And it could vary a bit just because of what happens right at month end. But if we get clarity that maybe we don't need 10% and it's something lower than that, then we'll readjust our share buyback based on our new capital number.

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

Okay. All right. Thanks very much.

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.

John Pancari
Analyst, Evercore ISI
Q

Good morning, good morning. I appreciate the net interest income detail you gave in terms of outlook. I just want to see if you can comment a little bit around the margin and how that could trend for your full-year expectation and maybe into next quarter just given the liquidity dynamics as well as obviously the PPP dynamics? Thanks.

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

Yeah. John, so I think from a margin standpoint, we do have a little bit of an anomaly. This first quarter, we have a two-day change, so it'll hurt us by that $12 million on NII, but it'll help the margin a little bit. So you could see that go actually up a little bit. But we think, if you look at it in total for the year, we think our margin will trend down into that 3.30% range. And then we're talking about our core margin now, ex-cash and PPP. We think the full-year margin will be down about 4 or 5 basis points from where we are today. And if we look at with cash and PPP, we think we'll be down 3 or 4 basis points if we look at the full year number. Hopefully that helps you.

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John Pancari
Analyst, Evercore ISI

Q

No, that does, that does. Thank you. And then just on a competitive backdrop, obviously we've seen lot of activity in terms of recent bank deals that are impacting the Southeast. And can you just talk about are you beginning to see any competitive strain show up either in loan pricing or other areas that were not as obvious even a year ago or so? And then separately, are you seeing opportunities potentially on talent or customer acquisition as a result of those deals there in your backyard? Thanks.

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

A

Yeah. I don't know that we're necessarily seeing a change, let's say, in competition. There's still a lot of competition because there's a tremendous amount of liquidity in the market. So, whether it'd be bank competitors, non-bank competitors, when we see good opportunities, they're very competitive. And in fact we recently lost a few, what we would characterize, as good opportunities to pretty aggressive pricing.

Having said that, again, I wouldn't say that's a change as a result of new announcements in the marketplace, bank combinations or anything of that nature. It's just people looking for opportunities to and particularly I'd say community banks in the middle market space looking to acquire assets and get some yield.

With regard to just disruption, I'd say we feel like we've been able to recruit some really quality talent in the market, and that's something that we stay focused on all the time. So, whether there is an announced bank transaction creating some disruption or a stable market, our challenge to our team is to always be looking for the best talent in the markets that we operate in and we have, through the pandemic, I think added a number of bankers and senior leaders that we are excited about, both in our customer facing businesses and in our staff functions. And so I'd say talent acquisition has been good and we expect it will continue to be.

John Pancari
Analyst, Evercore ISI

Q

Well, thank you, that's helpful. I'm sorry if I could ask just one more on the margin front. Would anything really – what would change your view about potentially putting some of that excess liquidity to work in the bond portfolio? I know you indicated a lack of interest there, but would it only be a material move in rates beyond what we've seen, or is there anything else that would make you put money to work? Thanks.

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

A

Yeah. I think that's the primary. Yeah. If we could see a steepening effect occur where we have opportunities to – we'll take a little bit of risk there. If we continue to see deposit growth continuing to grow where we have even more cash than we have now, could be an opportunity. But again, we really don't want to continue. We've grown our securities book fairly strong compared to our peers. Now, some have more cash than we do, but we're all trying to figure this out. We're all trying to figure out what type of risk we want to run and I think for us, it's just – it's more rate-driven than anything, John.

John Pancari
Analyst, Evercore ISI

Q

Got it. All right. Thanks, David.

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

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

Good morning.

David Rochester
Analyst, Compass Point Research & Trading, LLC
Q

Hey, good morning. So you guys have done a great job reducing higher cost borrowings in the last year. I know there isn't much of that left, but was just wondering if you're assuming any further reduction in those this year.

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

Yeah. So your question is, what have we done to reposition the liability management [indiscernible] (00:40:52)...

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

I'd say we've done a good job reducing higher cost borrowings, do we have – what are our thoughts about it? Are there any other opportunities?

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

Yeah. So we're running a little thinner today in terms of opportunities. What we try to do is things that where we don't have liquidity value that we end up taking that out or call it because we have so much cash on hand. We have some marginal opportunities that we're looking at right now, not as many as we had this past year. We had a lot of calls. We're out of FHLB altogether, I think it was over $8 billion we called. But there's some small opportunities still left that we're going to continue to evaluate, including things in the preferred stock arena, too.

David Rochester
Analyst, Compass Point Research & Trading, LLC
Q

Okay. And then maybe just one quick one on the margin. What's the roll-on/roll-off differential at this point in the loan book? And then to the extent that you're buying securities to maybe keep the portfolio stable at this point, I guess, where are you guys seeing those yields currently?

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

Well, let me talk about it in total. So, we have about $12 billion each year of cash flows we have to put to work and the front book/back book piece of that is about 1.15% today. It's up a little bit; it had been about 1%, it's about 1.15% now. And so, we think we've done a pretty good job through our liability management, cash management strategies to neutralize rates even at the long end. But I think, of course, we have our hedges on the short end. So, we think we've neutralized rates and our ability to really grow NII and the resulting margin is really going to be predicated on growing our loan book, the size and mix and then the timing of the PPP program, as mentioned earlier.

David Rochester
Analyst, Compass Point Research & Trading, LLC
Q

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Great. All right. Thanks, guys.

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

Thank you.

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

Thank you.

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

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

Good morning, Matt.

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

Hey, guys. I just wonder if you could remind us the strategy in the capital market business obviously was very strong this quarter, but couple quarters ago was also very strong. So, remind us the targeted customer and just how it's integrated with the overall firm.

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

Yeah. So we've been investing in that business since 2014, made a couple of acquisitions to help build it, been acquiring talent to help build out our capabilities and we're really pleased with the progress. That function was established to really help us leverage capital markets capabilities into our existing customer base and through the creation of some industry verticals, also build a portfolio of new customer opportunities by, again, leveraging capital markets as a mechanism for acquiring new customers.

We're doing that both in our commercial – corporate banking business in particular and in our real estate business. One of the very first acquisitions we made was of a Fannie DUS license and that real estate permanent placement business has been really solid. We had another good quarter in the fourth quarter and expect that we will in the future.

So our objective is to combine our capital markets bankers, working closely with our industry experts and our local bankers to deliver our capital markets capabilities, whether it be debt placement, our capital-raising activities, M&A, derivatives, foreign exchange. All those things are accreting very nicely to us and helping us grow the capital markets business and our expectation is that we'll continue to see that as the business matures.

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

And I guess the commentary about it being in the $55 million to $65 million range in the near term here, is there just kind of a conservative approach being taken on that or were there just a couple of lumpy things that really drove the outsized results in the quarter?

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

A

Yeah. We – it's – the business is episodic, it ebbs and flows and what we found is that over the last six years, as we've been building it, we sort of reach a point of equilibrium where we step up to the next level, so to speak. And so I think maybe a year to year and a half, two years ago, we were giving guidance, said it was a $40 million to $50 million a quarter kind of business. And now we're increasing that guidance because we think there's more recurring sustainable revenue, which will be complemented by the episodic revenue that, things that happened that we weren't anticipating. That certainly was the case this quarter when we had a number of M&A transactions that got completed prior to the end of the year, pulled forward as a result of customers being eager to get something done in 2020. And so don't anticipate that for the second – for the first quarter and we certainly don't plan on that in 2021. So we've guided to sort of a new level of what we would say as more likely consistent performance in that business.

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

Q

Got it. That was helpful. Thank you.

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

A

Yeah.

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

Okay. Well, if there are no further questions, we very much appreciate your interest and participation today and have a good weekend. Thank you.

Operator: Ladies and gentlemen, this concludes today's conference call. Thank you for your participation. You may now disconnect.

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