

Regions Financial Corporation NYSE:RF

FQ3 2023 Earnings Call Transcripts

Friday, October 20, 2023 2:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ3 2023-			-FQ4 2023-	-FY 2023-	-FY 2024-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.58	0.50	▼ (13.79 %)	0.56	2.39	NA
Revenue (mm)	1887.27	1857.00	▼ (1.60 %)	1860.07	7684.74	NA

Currency: USD

Consensus as of Oct-17-2023 10:15 PM GMT

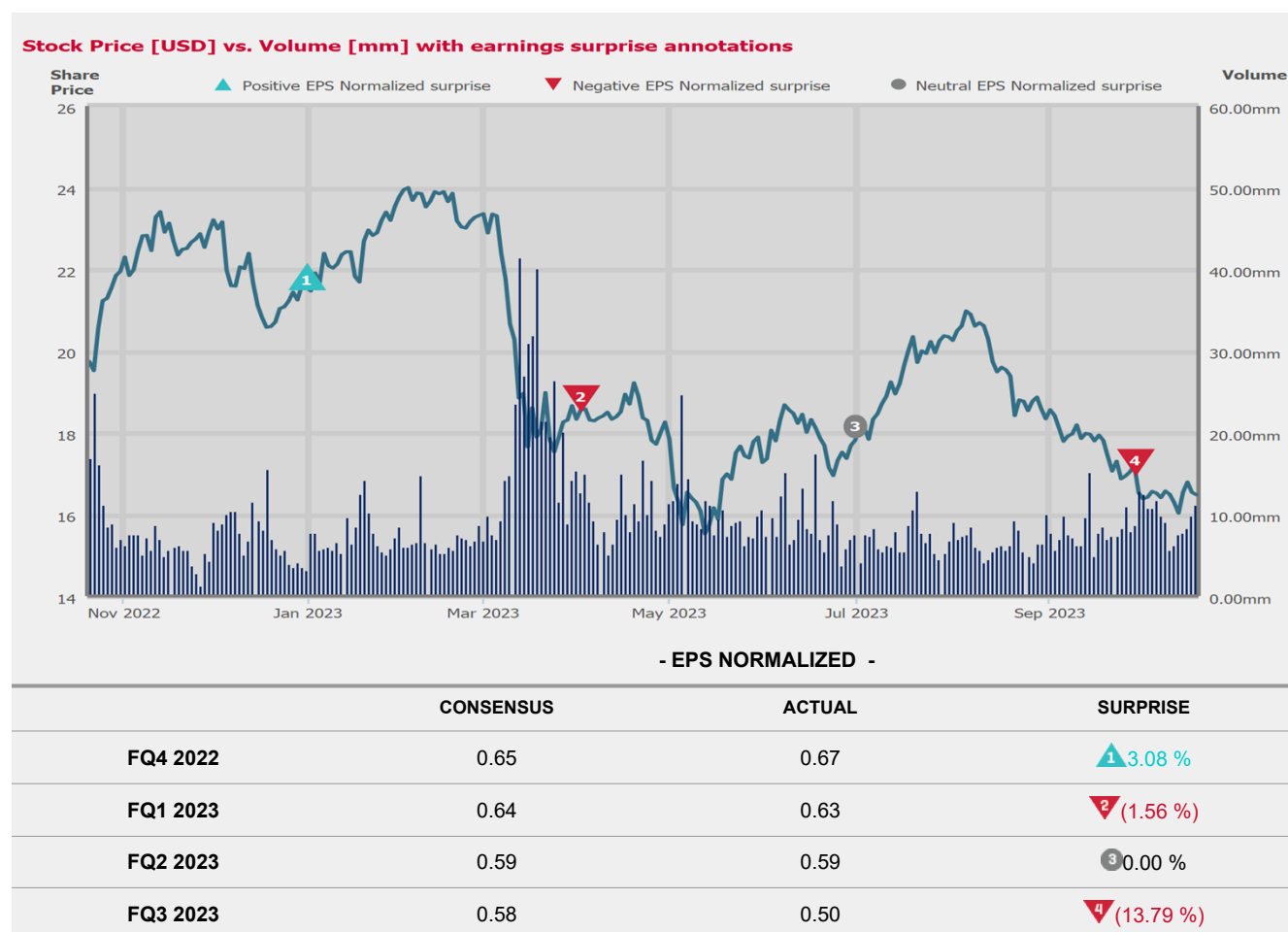


Table of Contents

Call Participants		3
Presentation		4
Question and Answer		7

Call Participants

EXECUTIVES

Dana Nolan
EVP & Head of Investor Relations

David Jackson Turner
Senior EVP & CFO

John M. Turner
President, CEO & Director

ANALYSTS

Ebrahim Huseini Poonawala
BofA Securities, Research Division

Erika Najarian
UBS Investment Bank, Research Division

Gerard Sean Cassidy
RBC Capital Markets, Research Division

John G. Pancari
Evercore ISI Institutional Equities, Research Division

Kenneth Michael Usdin
Jefferies LLC, Research Division

Manan Gosalia
Morgan Stanley, Research Division

Robert Scott Siefers
Piper Sandler & Co., Research Division

Ryan Matthew Nash
Goldman Sachs Group, Inc., Research Division

Presentation

Operator

Good morning, and welcome to the Regions Financial Corporation's Quarterly Earnings Call. My name is Christine, and I will be your operator for today's call. [Operator Instructions] I will now turn the call over to Dana Nolan to begin.

Dana Nolan

EVP & Head of Investor Relations

Thank you, Christine. Welcome to Regions' Third Quarter 2023 Earnings Call. John and David will provide high-level commentary regarding the quarter. Earnings documents, which include our forward-looking statement disclaimers and non-GAAP information 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, CEO & Director

Thank you, Dana, and good morning, everyone. We appreciate you joining our call today.

Earlier this morning, we reported earnings of \$465 million, resulting in earnings per share of \$0.49. And while we have some unusual items in our results this quarter, our core performance remains strong, and we continue to have one of the best return on average tangible common equity ratios in our peer group at 21%.

During the quarter, we continued to experience elevated levels of check-related fraud. Our third quarter results reflect an incremental \$53 million in losses stemming from a second fraud scheme, which also began in the second quarter, but was unknown to us at the time. This scheme manifested itself in delayed returns and as a result, has had a much longer tail.

After adjusting our countermeasures to identify potential fraud instances more quickly, the volume of new fraud claims has slowed. Although difficult to project based on what we know today, we expect quarterly fraud losses to come down significantly and to be approximately \$25 million in the fourth quarter.

Based upon the increases we are seeing in check fraud across the industry, in fact, based on data we have, we indicate losses were up about 40% year-over-year, we expect future fraud losses to normalize in the \$25 million per quarter range in 2024. Although the industry faces headwinds from lingering economic and regulatory uncertainty, we continue to benefit from our strong and diverse balance sheet with solid capital, robust liquidity and prudent credit risk management. Our proactive hedging strategies have positioned us for success in any interest rate environment. And our granular deposit base and relationship banking approach continue to serve us well.

We spent over a decade derisking our balance sheet and are well positioned to manage their proposed regulatory changes without significant impact to our business model. We remain committed to appropriate risk-adjusted returns and now is not the time to stretch for growth. We're focused on supporting existing customers where we have a relationship and a proven history.

We have a great team with a proven track record of executing our strategy with focus and discipline. I'm confident in our ability to adapt to the changing regulatory and economic landscape while continuing to generate top quartile returns through the cycle.

Now David will provide some highlights regarding the quarter.

David Jackson Turner

Senior EVP & CFO

Thank you, John. Let's start with the balance sheet. Average and ending loans remained relatively stable quarter-over-quarter. Within the business portfolio, average loans were stable, while ending loans decreased 1%.

As John mentioned, we are being judicious in reserving our capital for business where we can have a full relationship. Client sentiment varies across industries with some continuing to expect growth, while others have a more muted outlook. Commercial commitments are down 1% compared to the second quarter. Average and ending consumer loans increased 1% as growth in mortgage and EnerBank was partially offset by declines in home equity and runoff exit portfolios.

Subsequent to quarter end, we executed a sale of our remaining GreenSky portfolio of approximately \$300 million, which represents one of our consumer exit portfolios. The economics of the transaction are relatively neutral but will create approximately 14 basis points of incremental charge-offs in the fourth quarter, offset by the related reserve release.

Looking forward, we expect 2023 ending loan growth to be in the low single digits. From a deposit standpoint, the modest deposit declines were in line with expectations, largely driven by late cycle rate-seeking behavior. We continue to experience remixing out of noninterest-bearing or NIB products and ended the quarter with NIB representing 35% of total deposits. Given the current rate environment, we expect the percentage to ultimately level off in a low 30% range.

While some customers find alternatives and other investment channels outside of Regions, many are moving to our CDs and money market accounts. We also continue to provide off-balance sheet opportunities through our wealth management platform and in the Corporate Banking segment via money market mutual fund solutions. In the case of corporate clients, overall liquidity under management has remained stable quarter-over-quarter. Acquisition and retention of high primacy and operating relationships are strong, reflecting our focus to sustain and extend our deposit advantage through cycles.

Looking forward, the higher rate environment, a tightening Federal Reserve and heightened competition will likely continue to constrain deposit growth and pressure costs for the industry through year-end and into early 2024. Accordingly, we expect deposits to be stable to modestly lower in the fourth quarter, and we expect continued remixing into interest-bearing categories.

So let's shift to net interest income. Net interest income declined by 6.5% in the third quarter, reflecting the anticipated normalization from elevated net interest income and margin levels back towards a sustainable longer-term range. The decline is driven by deposit cost normalization, the start of the active period on \$6 billion of incremental hedging, as well as a onetime leverage lease residual value adjustment.

As the Federal Reserve nears the end of its tightening cycle, net interest income is supported by elevated floating rate loans and cash yields at higher market interest rates and fixed rate asset turnover from the maturity of lower-yielding loans and securities. Deposit costs continued to increase through a combination of repricing and remixing, increasing the cycle-to-date interest-bearing deposit beta to 34%.

Historically, this behavior persists for a few quarters after the Fed stops moving interest rates. While we expect the pace of repricing to moderate, a higher federal funds rate over an extended period will cause remixing from low-cost deposits to persist. Ultimately, pushing deposit betas higher than previously anticipated. We now project the cycle-to-date beta to increase to near 40% by year-end.

Regardless, we remain confident that our deposit composition will provide a meaningful competitive advantage for Regions when compared to the broader industry. If the Fed remains on hold, fourth quarter net interest income is expected to decline approximately 5% and driven by continued deposit and funding cost normalization and the beginning of the active hedging period on another \$3 billion of previously transacted forward starting swaps. Net interest income is projected to grow approximately 11% in 2023 when compared to 2022.

As we look to 2024, higher rates for longer likely extends the period of deposit costs and mix normalization. We expect net interest income trends to stabilize over the first half of the year and grow over the back half of the year. The balance sheet hedging program is an important source of earnings stability in today's uncertain environment. Hedges added to date create a net interest income profile that is well protected and mostly neutral to changes in interest rates through 2025.

While we do not anticipate adding meaningfully to the hedging position over the coming quarters, we continue to look for opportunities to add protection at attractive rate levels in out years through the use of derivatives or securities. During the third quarter, we added \$1.5 billion of forward starting swaps and \$500 million of forward starting rate collars.

So let's take a look at fee revenue and expense. Adjusted noninterest income decreased 2% from the prior quarter, as modest increases in mortgage and wealth management income were offset by declines primarily in service charges and capital markets. The increase in mortgage income was driven by higher servicing income associated with a bulk purchase of the rights to service, \$6.2 billion of residential mortgage loans, closed early in the quarter.

Service charges declined 7%, reflecting the run rate impact of the company's overdraft, grace feature implemented late in the second quarter. Based on our experience to date, as well as our expectation for another record year in treasury management, we now expect full year service charges of approximately \$590 million.

Total capital markets income decreased \$4 million, excluding the impact of CVA and DVA, capital markets income decreased 13% sequentially as increases in M&A fees were offset by declines in other categories. We had a negative \$3 million CVA and DVA adjustment during the quarter versus the \$9 million negative adjustment in the prior quarter.

With respect to the outlook, we now expect full year 2023 adjusted total revenue to be up 5% to 6% compared to 2022. Let's move on to noninterest expense. Adjusted noninterest expense decreased 2% compared to the prior quarter and includes the previously noted elevated operational losses.

Excluding the incremental fraud experienced in both the second and third quarters, adjusted noninterest expenses increased 1% sequentially. Salaries and benefits decreased 2%, driven primarily by lower incentives and payroll taxes, while other noninterest expense increased 12%, driven primarily by a \$7 million pension settlement charge.

We remain committed to prudently managing expenses in order to fund investments in our business. We will continue to refine our expense base, focusing on our largest categories, which include salaries and benefits, occupancy and vendor spend.

We expect full year 2023 adjusted noninterest expenses to be up 9.5%. Excluding the \$135 million of incremental operational losses experienced in the past 2 quarters, we expect adjusted noninterest expenses to be up approximately 6% in 2023 when compared to 2022.

From an asset quality standpoint, overall credit performance continues to normalize as expected. Net charge-offs increased 7 basis points to 40 basis points due to elevated charge-offs related to a solar program, we've since discontinued at EnerBank, as well as lower commercial recoveries versus the second quarter.

Nonperforming loans, business services criticized loans and total delinquencies also increased. Nonperforming loans as a percentage of total loans increased 15 basis points in the quarter due primarily to a large collateralized information credit. Provision expense was \$145 million or \$44 million in excess of net charge-offs. The allowance for credit loss ratio increased 5 basis points to 1.70%, while the allowance as a percentage of nonperforming loans declined to 261%.

The increase to our allowance is due primarily to adverse risk migration and continued credit quality normalization, as well as the build in qualitative adjustments for incremental risk in certain portfolios, including office, multifamily and select markets and EnerBank. It's also worth noting the outcome of the most recent shared national credit exam, it is reflected in our results.

The allowance on the office portfolio increased from 2.7% to 3.1%. Importantly, the vast majority of our office exposure is in Class A properties located primarily within the Sunbelt and non-gateway markets. Overall, we continue to feel good about the composition of our office book. and do not expect any meaningful loss in this portfolio.

We expect net charge-offs will continue to normalize, including this quarter's charge-offs, but excluding the 14 basis point impact on our fourth quarter GreenSky loan sale, we expect full year 2023 adjusted net charge-off ratio to be slightly above 35 basis points.

In the third quarter, 2 anticipated notices of proposed rule makings were issued. While we plan to provide feedback through the comment process on both, we are well positioned to absorb the ultimate impacts without major changes to our business.

With respect to Basel III Endgame, as proposed, we estimate a low to mid-single-digit increase in risk-weighted assets under the expanded risk-based approach. In addition, to the phase-in of AOCI into regulatory capital.

Regarding minimum long-term debt, we estimate a need to issue approximately \$6 billion of long-term debt over the course of several years. We view this amount to be manageable, resulting in a modest drag on earnings.

Importantly, the proposal to provide clarity on the evolution of the regulatory environment and support our decision to maintain our common equity Tier 1 ratio around 10% over the near term, as this level should provide sufficient flexibility to meet the proposed changes along the implementation time line while supporting strategic growth objectives.

Despite the current macroeconomic and geopolitical uncertainty as well as the continued evolution of the regulatory framework, we expect that share repurchases will resume in the near term. And finally, we have a slide summarizing our expectations, which we have addressed throughout the prepared comments.

With that, we'll move to the Q&A portion of the call.

Question and Answer

Operator

[Operator Instructions] Our first question comes from the line of Scott Siefers with Piper Sandler.

Robert Scott Siefers

Piper Sandler & Co., Research Division

Wanted to start out just on the NII trajectory. When we start to talk about NII stabilizing in the first half of '24. I guess we might be suggesting that it could continue to compress a bit after the fourth quarter's dip.

So maybe just thinking if you could help us to sort of size the any potential pressure beyond year-end '23? And then additionally, your thoughts on what would allow it to resume growing in the second half of next year?

David Jackson Turner

Senior EVP & CFO

Scott, this is David. So you're right, you will see some pressure in the fourth quarter, in particular, as we see continued remixing of noninterest-bearing deposits going into interest-bearing given higher for longer rates. And due to the fact that we have \$3 billion of notional interest rate swaps that become live in the fourth quarter, that alone cost about \$20 million in NII.

So you'll see an adjustment, not as big as you just saw relative to net interest margin decline, but you'll see some decline in the fourth quarter. When we get to the third quarter, while we do have an additional \$2.5 billion of interest rate swaps that become live then. We think the remixing will start slowing. We think there is somewhere between \$3 billion and \$5 billion worth of remixing of noninterest-bearing deposits into interest-bearing. And that's going back and studying our consumers, in particular and how much they had in their accounts relative to their spend and where's that \$3 billion to \$5 billion gets you back to where they were from a prepandemic standpoint. So we have confidence that we should see this starting to slow after the fourth quarter.

There'll be, like I said, a little pressure in the first quarter because of the new derivatives coming on. That number will affect us about \$10 million to \$15 million in the first quarter, then we don't have any more after that. So we start stabilizing from there. And when you get to the second half of the year, we can start to grow. If I kind of cut to the chase on the end game, we think after all is said and done, we can support -- our margin should bottom out around \$350 million perhaps a bit higher than that.

So you're not going to see the -- you can't take the change that you just saw and continue to extrapolate that all the way through the end of the second quarter. You'll have a bigger change in the fourth, a smaller change in the first and negligible change in the second quarter.

So the balance sheet, what's important in all that is, the balance sheet continues to reprice. We have about \$15 billion worth of fixed rate securities and loans that repriced and the front book back book impacts are about 250 basis points. And we continue to have had that, the problem is it's been overwhelmed by the move of noninterest-bearing deposits into interest bearing. And as I just mentioned that, should start to slow.

And so I think, again, our margin bottoming out kind of in that \$350 million to slightly better than, that is really the relevant point here.

Robert Scott Siefers

Piper Sandler & Co., Research Division

Okay. Perfect. And then I guess just on the notion of deposits and betas. I know we're thinking about a 40% beta through the end of the year, but maybe thoughts on how things could trend into next year if we indeed have just sort of some drag on price. How much more pressure could we see once rates peak? How might that level off?

David Jackson Turner

Senior EVP & CFO

Yes, I think -- so what's baked into what I just told you is that we would have a beta through the end of this year, pushing on 40%, maybe a little underneath that. And then we go into perhaps the mid-40s into next year. And again, that's considering higher for longer.

It starts to slow there, again, because we don't have as much moving out of noninterest-bearing into interest-bearing. So I think the -- again, if we have rates even continue to go up, we're slightly asset sensitive and the repricing of our balance sheet starts to overwhelm the deposit moves. And I think that's the piece that people might not be picking up on.

Operator

Our next question comes from the line of Ryan Nash with Goldman Sachs.

Ryan Matthew Nash

Goldman Sachs Group, Inc., Research Division

Maybe to ask a question on credit. First, maybe just to clarify the implied a little bit above 35 for the year, which I guess implies around 45 for the fourth quarter. So that pushes reported up to about 60 with GreenSky. I just wanted to verify that.

And then can you expand on the comments regarding what you're seeing in office, multifamily and maybe what happened with EnerBank, which I think you referenced higher charge-offs and exiting some parts of the portfolio?

David Jackson Turner

Senior EVP & CFO

Yes. So let me start. So yes, I think that we'll see some increase. So let's keep the GreenSky piece out because that's going to be noise. That's we kind of announced that separate. Go back to kind of core charge-offs, we said it would be slightly higher than 35, call that a couple of points, maybe 37, which implies fourth quarter in that 40 basis point charge-off range.

We will continue to see elevated charge-offs coming through EnerBank for which we provided this past quarter relative to our program that we discontinued. And so we'll see that for a quarter or 2, and that's factored into the guidance that we've given you.

From an office standpoint, our office continues to decline, even in October, I think we put that in our [indiscernible].

John M. Turner

President, CEO & Director

Outstanding is continued to decline, and that quality of the portfolio.

David Jackson Turner

Senior EVP & CFO

Outstanding [charge-offs].

John M. Turner

President, CEO & Director

Maybe I'll speak to that. With respect to office, we've got about \$1.6 billion in outstandings. To David's point, that represents some decline paydowns, refinances over the course of the last quarter. As we said before, about 39% of that portfolio is in credits direct to single tenant credits. And the bulk of that is to investment-grade quality tenants. The balance of our exposure, 61-plus percent are in multi-tenant credits, 63% of that is in the Sunbelt market, 92% is Class A.

We have, in total, about 100 borrowers. So we are very much on top of the portfolio, having ongoing conversations with customers. About 50% of our exposure matures this year and in 2024. So we're actively working that. One of the, I think, good signs about the portfolio is that sponsors have contributed over the course of the last couple of quarters, over \$150 million to the projects, most of them are unguaranteed, so those are commitments that sponsors are making to the continued renewal extension of those projects, the rightsizing of them.

And as a consequence, we feel good about our office exposure. We have one nonaccrual and that credit has been renegotiated and is paying as agreed currently. With respect to...

Ryan Matthew Nash

Goldman Sachs Group, Inc., Research Division

Got it. Yes. I am sorry. Sorry, John. Go ahead.

John M. Turner

President, CEO & Director

The rest of the portfolio, we did see some uptick in nonaccruals. As David said, we're still guiding to 35 to 45 basis points of loss in 2024. We feel good about that. I think the portfolio is performing as we expected as it as it normalizes, and that's occurring.

Within EnerBank, we have a specific program that was associated with a single vendor. And it effectively was -- what I'll call kind of a buy now pay later program, where the customer entered into an agreement to put solar equipment on their house. There was a period of time when that equipment would be installed on the house. The customer did not make any payments.

We exited that program in October of 2022, just based on our analysis of the risk-adjusted returns associated with it. And the profile of the product was just not something we want to continue well. Now we're beginning to see those loans reach a point where customers are having to make payments. And we are experiencing little higher level of losses, but the losses and with EnerBank are still below our expectations, for Enerbank in general, and it continues to perform better than at least consistent with, if not better than we had hoped when we made the acquisition.

Ryan Matthew Nash
Goldman Sachs Group, Inc., Research Division

Got it. David, maybe a follow-up on expenses. I know there's lots of moving pieces in the scenario. I know you've highlighted that you guys have been doing work on for a while.

But just given the revenue headwinds that you're likely to face in the beginning of the year. Can you maybe just talk about what you're doing? And while I know you might not be ready to give '24 guidance, do you think you could potentially hold the line on expenses and keep them relatively flat given the challenging revenue environment into '24?

David Jackson Turner
Senior EVP & CFO

Yes. So I don't think it should be a surprise to anybody that revenue was going to be challenging. That's been out there for a while. We've known it. And as a result, we started working on our expense management and our continuous improvement program throughout 2023.

In this particular quarter, unfortunately, we had some things that -- the fraud, engine settlement, we had some equipment software costs that won't repeat at the level that we had and some professional fees that we incurred that we don't think -- that will be repeated.

That being said, we're going to need to even double down on expense management for 2024. We're not going to give you guidance for that. But I think suffice it to say, our reported number that we have for '20. We should be able to have our number in 2024 to be underneath our reported number for 2023. How much, we'll give you guidance as we get towards the end of the year. But yes, I think we can -- we should be able to be underneath that number.

John M. Turner
President, CEO & Director

And I'd just add, Ryan, we've demonstrated, I think, over time, a commitment to effectively manage expenses, and it's our intention to continue doing that. We realize the importance of it.

Operator

Our next question comes from the line of John Pancari with Evercore.

John G. Pancari
Evercore ISI Institutional Equities, Research Division

On the fraud costs, if you can give us a little bit more color on that. Are they running higher than expected than you had expected when you discussed them last quarter? And why are they -- have they been persistent given the issue that you discovered?

And also that \$25 million per quarter of fraud costs that you flagged for 2024. Is that brand new? Or was that already -- to a degree baked into your run rate expectation as you look at 2024? Or is this brand-new given the longer-than-expected persistence of this issue?

David Jackson Turner
Senior EVP & CFO

Yes. So let me answer the second question first. So the \$25 million per quarter is slightly higher than our historical run rate fraud has increased dramatically in the industry. We seem to be the ones called out. It's hit us very hard.

To your first question, this was a different scheme this time than what we've reported on last quarter. And unfortunately, this scheme that they had, you don't know about until the banks on which the checks are written notify you that that's not a good item. And it takes about 50 to 60 days before you know that.

We can look at when events occurred, and we can kind of see a pattern where we feel reasonably confident that we're not going to see that kind of increase going forward from the schemes that we've seen. And of course, we're putting in new controls, we're putting in new technology, and it's very disappointing. We have the \$25 million, John, a bit higher, call it, \$5 million higher than we historically have had because this is just a big deal in the industry. And so we want to be a bit conservative. We'll give you better guidance on expenses, including fraud when we get to reporting on 2024 expectations later. But -- so it's a tad higher, but...

John G. Pancari
Evercore ISI Institutional Equities, Research Division

Okay. All right, David. And then I guess related to that, any -- I mean, given the second visible fraud issue to come up in as many quarters, are you getting any pressure incrementally from regulators to invest more actively like you said, around these new controls that you're putting in? Or any input there?

And then separately, on the capital front, you talked about buybacks likely to resume in the near term. Can you maybe give us some color on the timing and potential magnitude there?

David Jackson Turner
Senior EVP & CFO

Sure. So we won't talk about our relationships with our regulators, but fraud is our issue. If we have to have our regulators tell us what to do with regards to the fraud or anything else, we'd probably already missed that both. So it's not -- that's not an issue.

We're highly disappointed in it. We're working hard. We have found some people that have committed fraud. They've been put in jail. But it's -- again, the industry report we saw is up from \$17 billion in '22 to \$25 billion of fraud in '24 thus far. So...

John M. Turner
President, CEO & Director

'23.

David Jackson Turner
Senior EVP & CFO

It's -- in '23, sorry. So it's affecting all of us, but it seems to have gotten us in a -- kind of concentrated in these 2 quarters. And again, I feel confident we put in controls, and we'll be putting in more monitoring it going forward.

Relative to capital, yes, so we're at 10.3% on common equity Tier 1. We now have seen the Basel III Endgame proposal. We'll be going through -- providing our comment letter on that as well as the debt NPR. We feel confident in kind of where we are relative to that and the implementation time frame. Hopefully, we get a bit of a reprieve on that. But even if we didn't, we feel that we're in a good place to be able to implement that without too much harm. And there's no need for us to continue to let our capital to continue to increase. We accrete 20, 30 basis points of capital every quarter.

So if we did nothing, we would be pushing on 10.6%, that's just higher than we need. And so we think we can enter into buybacks as soon as we get out of the blackout period, and what we left in our comments was, we would operate close or around that 10% CET1 number.

Operator

Our next question comes from the line of Ebrahim Poonawala with Bank of America.

Ebrahim Huseini Poonawala
BofA Securities, Research Division

I guess, thanks for the color on CRE office. Just was wondering if you can talk about anything beyond CRE office, particularly on multifamily in any of the Sunbelt states. We've read articles about just oversupply in some of these markets like Zale, Austin, et cetera. Just talk to us, one, in terms of exposure and if whether or not you're seeing soft lift for the multifamily.

John M. Turner
President, CEO & Director

So Ebrahim, this is John Turner. Our total exposure, I think in multifamily exceeds just above \$3 billion. It is a very diverse portfolio spread across 137 total submarkets, some number like that. We are -- in terms of concentrations, our top 5 exposures would be in cities that you would recognize Dallas, Houston, Charlotte, Raleigh, Orlando, Miami, places where we have just historically banked and have a presence. We don't have any concentrations at all in any of those markets that would exceed -- I think one exception would exceed 5%, 6%.

So again, good diversity. We are seeing some softening of rents increasing costs associated with interest cost, about a little over 50% of the portfolio is currently still under construction. So we expect that those construction projects to be completed over the next 24 months to deliver out. We're not -- while we're watching it closely, we really haven't seen any adverse movement within the portfolio to speak of.

And again, given the location of our projects, which are in suburban markets, given the diversity of the distribution across geographies and the location, primarily in the Sunbelt, we feel good about our multifamily portfolio.

Ebrahim Huseini Poonawala
BofA Securities, Research Division

Got it. And just a separate question in terms of the deposit beta outlook that you mentioned. How are you thinking -- what's this in terms of the mix of customers? One, are you seeing consumer depleted because of usage in that driving deposit NIB [indiscernible] deposits loans, what's about that to some extent? And then where do you see CDs shaking out in terms of impact from borrowers, from deposit customers and where CD mix could be 12 months from now if we don't get any rate cuts?

David Jackson Turner
Senior EVP & CFO

Yes, you were breaking up there a little bit, but I think you were saying what are we seeing in terms of movement of NIB into CDs. So that's been the big change thus far for us. I think our CDs are right at 10% -- just under 10% of our book -- of our total deposit book. That could grow. We do have money market offers that we're working on. We want to be competitive.

This remix has been really relegated to high net worth customers that are taking excess cash and putting it to work. And the reason we think that, that remix is somewhere in the 3% to 5% to go, is because that customer base gets down to having the amount of cash in their account relative to the spend pattern that they had pre-pandemic. And so I think that happens by the end of next year -- I mean, the middle of next year.

As we think about where CD balances could be as a percentage of total deposits, maybe you pick up another 2% or 3% through that remix. And it really is dependent on how we think about other offers, money market, and we're working on that. So there could be some mix in terms of how that 3% to 5% gets put to work. But specific to CDs, 2% to 3%.

Operator

Our next question comes from the line of Ken Usdin with Jefferies.

Kenneth Michael Usdin
Jefferies LLC, Research Division

David, John, just a quick question on the fee side, clear guidance for the fourth quarter. Just on -- those service charges continue to come in much better \$590 million for the year, obviously an implied lower exit for the fourth quarter.

Any line of sight in terms of like -- are we getting close to the leveling out period here on that service charges line in terms of -- I know cash management has been outgrowing the other pieces, but is this kind of the right level of use going forward?

David Jackson Turner
Senior EVP & CFO

Yes. I think from a fee standpoint, let's break down to 2 big pieces. So our service charge number relative to our 24-hour grace that was implemented in the middle of the second quarter. So we have a full quarter run rate on that. We don't see that changing materially. We've been very proud of our treasury management team. They've done a good job of penetrating our commercial base. And we're seeing that hold up pretty well. So I don't think you should see the kind of decline in service charges that you just saw.

The only thing that can affect us in fees would be, there's a discussion going on with debit interchange and has been percentages thrown out as to what that may mean, just to level set with everybody, we have about \$310 million of debit per year. So whatever percentage change we have, you can do your own math on that. We're not sure that, that will even come out, but that's been mentioned. And so we thought -- I'd just put that out there.

Kenneth Michael Usdin
Jefferies LLC, Research Division

That's fair. And David, can I just come back on the capital point. You're comfortably in that 10-plus zone. And there's obviously not a lot of current growth in the loan book. So just the push and pull of potentially reengaging in the buyback versus just keeping where you are in a less -- bit of more uncertain environment. Kind of just walk us through -- just what would be your thought process there?

David Jackson Turner
Senior EVP & CFO

Sure. So as you know, we do an awful lot of stress testing we do it constantly. We have our CCAR submission. We have a midyear submission. We feel very confident that even if we go into a recession, which we are not calling for, but even if we did, we'd have capital to withstand that.

So it's all about optimization, Ken. And we think that -- we still believe our operating range of 9.25 to 9.75 is the right range for Regions based on our risk profile. That being said, we've had an NPR, we have uncertainty going on. So we added 50 basis points to give us the flexibility to adapt and overcome whatever environment is thrown at us.

We don't see the need to take 10.3 and let it ride up to 10.6, 10.9 and keep going. And so that's what gives us confidence. We don't have a big CRE book like others do. We don't have the risk that some others do. And we have a very good engine.

Our PPNR engine is among the strongest because of our deposit profile that we have. And so we have confidence that our earnings stream is going to get us where we need to be, and we think that we have enough capital right now. So if we generate more, we can buy our stock back.

Operator

Our next question comes from the line of Erika Najarian with UBS.

Erika Najarian
UBS Investment Bank, Research Division

David, my first question is for you. I feel like -- given the reaction of the stock, I think it's probably best to completely derisk consensus numbers, right? So forgive me for asking a super specific question.

But based on the disclosure of the swap book and everything that you're telling us about deposit behavior and higher for longer, it seems like you could hit that sort of \$350 million trough in the first quarter, kind of stay there, maybe go up a little bit and then get towards \$3.6 million if not a little bit over \$3.6 million by 4Q, '23. So that gives you sort of a full year of, let's call it, between \$3.5 million, \$3.55 million before '24. Again, based on the forward curve, based on slow growth, does that feel fair?

David Jackson Turner
Senior EVP & CFO

I think you're pretty good at math. I don't know if that's -- you've nailed exactly...

John M. Turner
President, CEO & Director

We're not giving any guidance.

David Jackson Turner
Senior EVP & CFO

We're not giving any guidance. You've done pretty well. You're understanding exactly how this works in terms of bigger downdraft in the fourth quarter than you'll see in the first part of the year and then be able to grow from there. So directionally, you're exactly right.

Erika Najarian

UBS Investment Bank, Research Division

Got it. And I'll follow up with David [indiscernible] size of the balance sheet later because I do want to ask the second question of John, I think -- I guess what was surprising to me is that you had like a BNPL solar thing to begin with, right?

So Regions has done a great job at not only convincing investors that it's completely changed in terms of underwriting and risk management, but also that in the numbers. And I guess this is a 2-part question.

Number one, as you think about an uncertain [road] ahead, do you feel like you've sort of fully captured like things like that, the BNPL solar that you're now discontinuing that may not be [indiscernible] something that you would normally do under your real risk management profile.

And maybe the follow-up question to that is the 35, 45 basis points, I think a lot of investors are thinking about a mild recession in 2024. Maybe it just feels like for bank investors versus other types of investors. But in that case, where would Regions peak [indiscernible] recession relative to that 35, 45 basis point range for next year?

John M. Turner

President, CEO & Director

I think the answer to your first question is, yes, to anything that we're -- we feel like we've been through our portfolios, certainly been through the new businesses we've acquired in any products or programs that don't meet our risk and return profiles we've exited.

And in the case of this particular program, as I mentioned, we exited it in 2022 because of the structure of it, we've only begun to see some results. And frankly, those results probably are consistent with our expectations when we shut the program down.

So we are continuing to always evaluating the performance of our products, of our capabilities, our businesses, our portfolios to ensure that we're getting an appropriate return on the business that we do. And so I'm pretty comfortable there.

With respect to our guidance of 35 to 45 basis points, in the period of 2014 to 2019, our average charge-offs were 38 basis points. And so I think we feel, and we have contemplated, we believe, what we consider to be the probability of a soft landing versus a mild recession in our projections for charge-offs. And at this point, we still feel good about the 35 to 45 basis points in 2024.

David Jackson Turner

Senior EVP & CFO

I would add to David that -- if you think about recessions probably if it comes, it would be, we think, fairly mild. As we look at consumers and we can look at them through the checking account and activity going in there, we look at businesses, we talk to our business partners all the time. Businesses and consumers are in pretty good shape.

And in particular, for the consumer, if you look at housing prices, those continue to remain strong and a lot of our lending, if you will, in the consumer space is tied to the house -- to the home. So I think that we have a bit of a buffer.

And going back to the history that John just mentioned the 38 basis points between '14 and '19 gives us confidence that even if we did that, we'd be in that range.

Operator

Our next question comes from the line of Manan Gosalia with Morgan Stanley.

Manan Gosalia

Morgan Stanley, Research Division

You noted that higher rates are pushing up deposit betas and also changing the mix in NIB and IV deposits. Some of your peers have been saying we're closer to the end of this. Do you think that there's anything different that you're seeing versus peers? Or is your deposit strategy changing in any way given the increased likelihood of higher for longer rates?

David Jackson Turner

Senior EVP & CFO

I don't think our deposit base, if anything, is a bit better than the peer group. We don't have anything unique to us that would cause our beta to be higher than anybody else in this rising rate environment. As a matter of fact, we did happen to grow more noninterest-bearing deposits during the pandemic than most of our peers, and that's being put to work. So that element of it maybe that piece of it is a bit different.

And that's what we called for in the guidance that we've given you that it would remix into interest-bearing accounts. We still have a low loan deposit ratio. We still have not wholesale funded. So I don't think that whatever the beta is in the industry, Regions is going to be better than that. We're already better than that right now with a beta of 34%, and the peers are at 49% on a peer median basis right now. So I just don't think that if it's coming to the end, it will come to the end for us, too.

Manan Gosalia
Morgan Stanley, Research Division

Got it. And then just a separate question on liquidity. Several of your peers have increased their levels of cash this quarter. How are you thinking about managing your liquidity ahead of any changes in the LCR rules?

David Jackson Turner
Senior EVP & CFO

Yes. So we still have, again, a very liquid balance sheet and access to that. We maintain a good cash position right now. We haven't added to our securities book as much as some others. We think to the extent LCR comes in, we'll be able to be compliant with that without any major changes to our structure of our balance sheet.

Operator

Our final question comes from the line of Gerard Cassidy with RBC.

Gerard Sean Cassidy
RBC Capital Markets, Research Division

John. David, can we circle back to the Shared National Credit exam. I'm curious, obviously, it's changed over the years and if I recall correctly, they examined those books, both in the spring and the fall, which you referenced and we'll get the results early in February or sometime in February.

But can you share with us any color like what was the emphasis? Was it on leveraged loans? Was it an office commercial real estate? Was there greater stress in certain markets over others? Just any elaboration would be helpful.

John M. Turner
President, CEO & Director

Yes, Gerard. This is John. I don't -- we didn't notice anything specific about the most recent exam. It was broad-based, both with respect to product type and business and geography.

Gerard Sean Cassidy
RBC Capital Markets, Research Division

Very good. And then you guys touched a little bit about the economy in your markets, you give us, obviously, the forecast you use and building out CECL reserves. What are you guys seeing down there? There are so many crosscurrents going on in the national numbers. Still -- I'm assuming there's strength, there's employment strength, there's business trends. Any color there would be helpful as well.

John M. Turner
President, CEO & Director

Yes. across the Southeast, which is where 86% of our deposits are in 7 Southeastern states, we had Texas it goes above 90%. We're still seeing a pretty strong economy in 7 of the 8 Southeastern states that we would point to.

Unemployment rates are at or near historical lows. Customers are still -- consumers are still in a very good position. There are plenty of work. There are routinely economic development projects, new jobs being announced across markets, Alabama, Tennessee, Georgia, Florida, Mississippi, and of course, Texas is continue to do really well.

So I'd say customer sentiment is still positive, but cautious given all the things that are going on, both the national and international geopolitical level. But customers are -- businesses are still doing pretty well and the consumer definitely is.

Gerard Sean Cassidy

RBC Capital Markets, Research Division

Actually, John, just to follow up quickly there, putting the geopolitical international issues on the side for a moment, do you have any sense what the customers are looking for to give them more confidence?

Is it a Fed finishing with interest rates -- raising interest rates, do we get to that terminal rate? Or is it better budgeting out of Washington? What are -- because we hear this from your peers as well, so it's not uncommon, but we're -- I'm trying to figure out what the catalyst will be, where businesses really get confident again?

John M. Turner

President, CEO & Director

I think the biggest thing is Federal Reserve and the Fed making a declaration that inflation is now under control and that they're not going to continue to raise rates, don't have to continue to raise rates. I think sending that message and creating a sense that the environment is more stable than others might -- business owners may feel today would be hugely helpful.

With respect to what's going on at the national level politically, I don't know that I have an answer for you there, and I don't expect that to change anytime in the near term.

Okay. That's all the calls for today. I appreciate you participating. Thank you. I'll just say it has been an unusual quarter. It had a number of things going on.

But at the core, our business is really sound and solid. We have spent the last 10 years working to build a balance sheet and income statement that's going to be consistently performing, sustainable and resilient. And we believe we've done that.

We have a lot of confidence in our future performance and appreciate your support. Thank you.

Operator

This concludes today's teleconference. You may disconnect your lines at this time.

Copyright © 2023 by S&P Global Market Intelligence, a division of S&P Global Inc. All rights reserved.

These materials have been prepared solely for information purposes based upon information generally available to the public and from sources believed to be reliable. No content (including index data, ratings, credit-related analyses and data, research, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of S&P Global Market Intelligence or its affiliates (collectively, S&P Global). The Content shall not be used for any unlawful or unauthorized purposes. S&P Global and any third-party providers, (collectively S&P Global Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Global Parties are not responsible for any errors or omissions, regardless of the cause, for the results obtained from the use of the Content. THE CONTENT IS PROVIDED ON "AS IS" BASIS. S&P GLOBAL PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Global Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages. S&P Global Market Intelligence's opinions, quotes and credit-related and other analyses are statements of opinion as of the date they are expressed and not statements of fact or recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P Global Market Intelligence may provide index data. Direct investment in an index is not possible. Exposure to an asset class represented by an index is available through investable instruments based on that index. S&P Global Market Intelligence assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P Global Market Intelligence does not act as a fiduciary or an investment advisor except where registered as such. S&P Global keeps certain activities of its divisions separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain divisions of S&P Global may have information that is not available to other S&P Global divisions. S&P Global has established policies and procedures to maintain the confidentiality of certain nonpublic information received in connection with each analytical process.

S&P Global may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P Global reserves the right to disseminate its opinions and analyses. S&P Global's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription), and may be distributed through other means, including via S&P Global publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

© 2023 S&P Global Market Intelligence.