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Regions Financial Corporation NYSE:RF

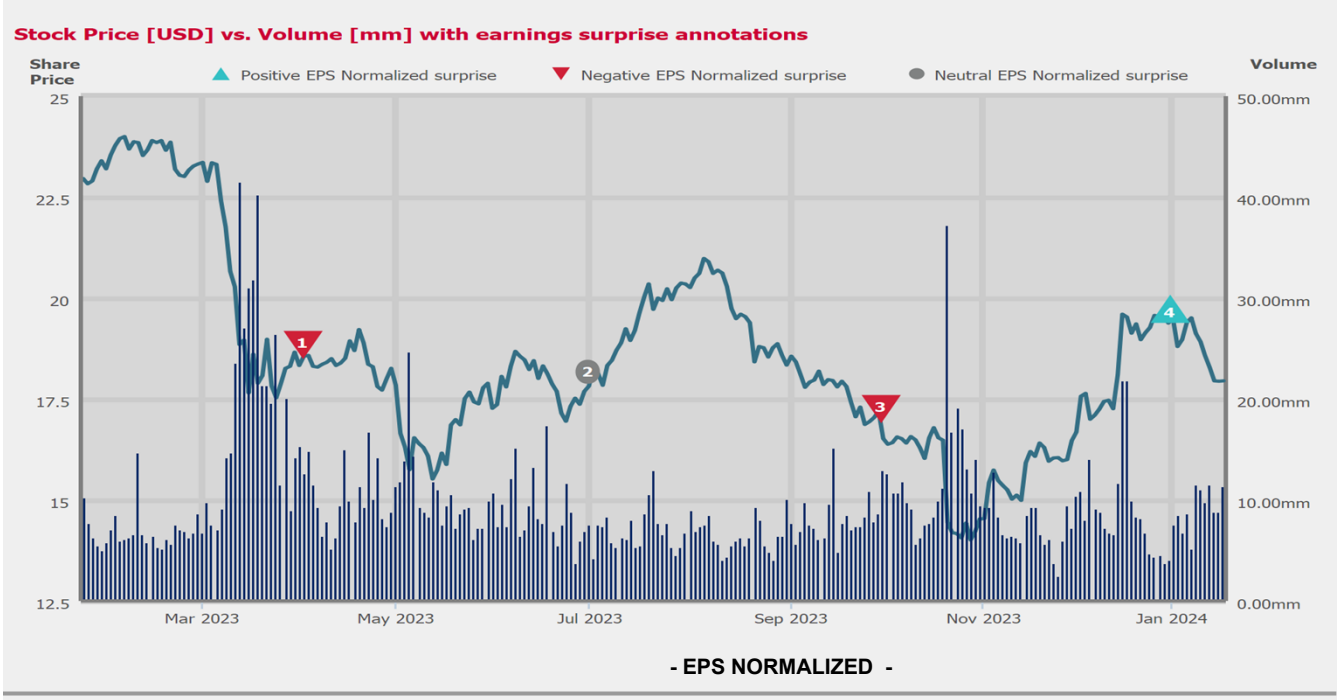
FQ4 2023 Earnings Call Transcripts

Friday, January 19, 2024 3:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ4 2023-			-FQ1 2024-	-FY 2023-			-FY 2024-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS
EPS Normalized	0.48	0.52	8.33	0.47	2.20	2.24	1.82	1.98
Revenue (mm)	1799.29	1811.00	0.65	1767.25	7603.12	7627.00	0.31	7220.46

Currency: USD
Consensus as of Jan-19-2024 12:55 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ1 2023	0.64	0.63	1 (1.56 %)
FQ2 2023	0.59	0.59	2 0.00 %
FQ3 2023	0.58	0.50	3 (13.79 %)
FQ4 2023	0.48	0.52	4 8.33 %

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Presentation

Operator

Good morning, and welcome to the Regions Financial Corporation's Quarterly Earnings Call. My name is Christine, and I'll 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 Fourth Quarter 2023 Earnings Call. John and David will provide high-level commentary regarding our results. Earnings documents, which include our forward-looking statement disclaimer 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. This morning, we reported full year 2023 earnings of $2 billion, reflecting record pretax pre-provision income of $3.2 billion and one of the best returns on average tangible common equity in our peer group at 22%.

Our results speak to and underscore the comprehensive work that has taken place over the past decade to position the company to generate consistent, sustainable earnings regardless of the economic environment we're experiencing. We've enhanced our credit and interest rate risk management processes and platforms while sharpening our focus on risk-adjusted returns and capital allocation.

Although the industry continues to face headwinds from lingering economic and geopolitical uncertainty as well as the continued evolution of the regulatory framework, we feel confident about our positioning and adaptability heading into 2024. We'll continue to benefit from our strong and diverse balance sheet, solid capital and liquidity and prudent credit risk management.

Our proactive hedging strategies continue to position us for success in an array of economic conditions and our desirable footprint, granular deposit base and relationship banking approach will continue to serve us well. Our strategic plan continues to deliver consistent, sustainable long-term performance as we focus on soundness, profitability and growth.

In closing, I'm excited to work alongside the 20,000 Regions associates who put customers and their needs at the center of all we do and focus on doing the right things the right way every day. Now Dave 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 decreased modestly on a sequential quarter basis, while ending loans grew a little over 1% compared to the prior year. Within the business portfolio, average and ending loans declined 1% quarter-over-quarter. We are remaining judicious, reserving capital for business where we can have a full relationship. Loan demand remains soft as clients continue to exhibit cautious behavior. We are seeing clients make long-term investments when they have to, but if they can defer, they're holding off. In general, sentiment varies across industries with some continuing to expect growth, while others have a more muted outlook. Average and ending consumer loans remained relatively stable as growth in mortgage and EnerBank was partially offset by declines in home equity and the GreenSky exit portfolio sale we completed this quarter.

Looking forward, we expect 2024 average loan growth to be in the low single digits. From a deposit standpoint, deposits increased modestly on an average and ending basis primarily due to increases in interest-bearing business products, which we expect will partially reverse with tax season in the first quarter. Across all 3 businesses, we continue to experience remixing from noninterest-bearing to interest-bearing deposits. However, the pace of remixing has slowed.

Within Consumer, we continue to see balanced normalization, but we believe the pace of remixing will continue to slow as short-term market rates appear to have peaked and the relationship of checking balances to spending levels is getting closer to pre-pandemic levels. Our overall views on deposit balances and rates are unchanged. We expect incremental remixing out of low-cost savings and checking products of between $2 billion and $3 billion and total balances stabilizing by midyear.

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This results in a noninterest-bearing mix percentage remaining in the low 30% range. So let's shift to net interest income. Net interest income declined by approximately 4.5% in the quarter driven mostly by deposit cost and mix normalization as well as the start of the active period on $3 billion of incremental hedging. Asset yields benefited from the maturity and replacement of lower-yielding fixed rate loans and securities. Notably, during the quarter, we returned to full reinvestment of paydowns in the securities portfolio and added $500 million over and above that to the portfolio balance taking advantage of attractive market rate and spread levels. Interest-bearing deposit costs were 2.14% in the quarter, representing a 39% rising rate cycle beta. Growth in higher-cost corporate deposits increased our reported deposit betas by approximately 1%, but allowed for the termination of all outstanding FHLB advances.

This and a more pronounced slowing in the pace of rate-seeking behavior by retail customers drove modest net interest income outperformance compared to expectations. As we look to 2024, we expect net interest income trends to stabilize over the first half of the year and grow over the back half of the year. $3 billion of additional forward starting hedges in the first quarter and further late-cycle deposit remixing will be a headwind. However, we expect deposit trends to continue to improve with interest-bearing betas peaking in the mid-40% range. The benefits of fixed rate asset turnover will persist, overcoming the headwinds and driving net interest income growth in the second half of the year. With respect to outlook, we expect full year 2024 net interest income to be between $4.7 billion and $4.8 billion.

Our guidance assumes for 25 basis point rate cuts with long-term rates remaining stable from year-end. However, the path for net interest income is well insulated from changes in market interest rates. The primary driver of net interest income in 2024 will be deposit performance. The lower end of our expected 2024 net interest income range assumes a 25% beta as rates fall, while the higher end assumes a deposit beta similar to what we have experienced during the rising rate environment. In a falling rate environment, we are prepared to manage deposit costs lower to protect the margin. A relatively small portion of interest-bearing deposit balances is responsible for the majority of the deposit cost increase in the cycle. These market price deposits include index and other high beta corporate deposit types that will reprice immediately with Fed funds. The other primary contributor is CDs with a 7-month average maturity.

While these products will lag in a falling rate environment, we are positioned to offset this cost. So let's take a look at fee revenue and expense. Adjusted noninterest income increased 2% during the quarter as a sequential decline in capital markets was offset by modest increases in most other categories. Full year adjusted noninterest income declined 5%, primarily due to reductions in capital markets and mortgage income as well as the impact of the company's Overdraft Grace feature implemented late in the second quarter. Partially offsetting these declines were new records in 2023 for both treasury management and wealth management revenue. With respect to outlook, we expect full year 2024 adjusted noninterest income to be between $2.3 billion and $2.4 billion.

Let's move on to noninterest expense. Reported noninterest expense increased 8% compared to the prior quarter but included 2 significant adjusted items. $119 million for the FDIC special assessment and $28 million in severance-related costs.

Adjusted noninterest expense decreased 5%, driven primarily by lower operational losses. Full year adjusted noninterest expense increased 9.7% or approximately 6%, excluding elevated operational losses experienced primarily in the second and third quarters. We remain committed to prudently managing expenses to fund investments in our business. We will continue focusing on our largest expense categories, which include salaries and benefits, occupancy and vendor spend. We expect full year 2024 adjusted noninterest expenses to be approximately $4.1 billion.

From an asset quality standpoint, overall credit performance continues to normalize as expected. Reported annualized net charge-offs for the fourth quarter increased 14 basis points. However, excluding the impact of the GreenSky loan sale, adjusted net charge-offs decreased 1 basis point versus the prior quarter to 39 basis points.

Full year adjusted net charge-offs were 37 basis points. Total nonperforming loans and business services criticized loans increased during the quarter. Nonperforming loans as a percentage of total loans increased to 82 basis points due primarily to downgrade within industries previously identified as higher risk. Keep in mind, between 2013 and 2019, our average NPL ratio was 107 basis points. We expect to see further normalization towards these levels in 2024.

Provision expense was $155 million or $23 million in excess of net charge-offs and includes an $8 million net provision expense related to the consumer loan sale. The allowance for credit loss ratio increased 3 basis points to 1.73% excluding the loan portfolio sold during the quarter, the allowance for credit loss ratio would have increased 6 basis points. The increase to our allowance was primarily due to adverse risk migration and continued credit quality normalization as well as higher qualitative adjustments for incremental risk in certain higher risk portfolios.

Our average net charge-offs from 2013 to 2019 were 46 basis points. We've seen modest acceleration towards these normalized levels in recent quarters. As a result, we expect our full year 2024 net charge-off ratio to be between 40 and 50 basis points.

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Turning to capital and liquidity. Given the evolution of the regulatory environment, we expect to maintain our common equity Tier 1 ratio around 10% over the near term. This level will provide sufficient flexibility to meet the proposed changes along the implementation time line while supporting strategic growth objectives and allow us to continue to increase the dividend commensurate with earnings. We ended the year with an estimated common equity Tier 1 ratio of 10.2%, while executing $252 million in share repurchases and $223 million in common dividends during the quarter. With that, we'll move to the Q&A portion of the call.

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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

Appreciate comments on the main levers for NII or within NII for your guidance. I was hoping if you could discuss a little more about the deposit repricing thoughts that you had. Maybe specifically thoughts about sort of the bifurcation between commercial and consumer deposits? And then just any opportunities you've seen with the Fed already having sort of peaked out presumably, any opportunities you've had already to maybe take some actions to ease the pressure on costs.

David Jackson Turner
Senior EVP & CFO

Sure. Scott, this is David. One important thing to note is that about 30% of our customer base is really the driver of our interest-bearing deposit beta. If you look at that, little over half of that is related to our commercial book. And those deposits are indexed. So to the extent Fed changes rates those index data changes. So you're talking about rightfully 55%, almost 60% of that will come down as rates come down. The other represents consumer deposits. So these being CDs and money market accounts there where we've seen migration out of noninterest-bearing accounts. The money market piece, both of these have to be competitive. We have to watch what our competitors are doing to some degree. But we have mechanisms to really start working that down. Part of that is making sure we don't go too long on our CD maturities.

So we've been fairly short. I think I mentioned in the prepared comments, our average CD term is 7 months. And so we don't want to extend that much going forward as a matter of we would like to0 shorten that. The coincide was what we think is going to happen with the Fed. Now we have 4 cuts baked in to our guidance -- to hit the midpoint of our guidance, which is on Page 6 of our presentation. And we think that starts probably at the May meeting. And we know that's different than what the market participants believe, but we think that, that's going to -- I think it's going to be slower versus faster.

It's important to note, we're neutral to short-term rates. And so it's all about managing our deposit costs. And I think we have a good plan to do so. We've given you really a range. It's a pretty tight range on NII performance on the Page 6, and we kind of talk about betas. So if our betas kind of follow what we had and as rates have gone up, we're 39 a day. We said we'd probably finish in the mid-40s.

If we have that coming back down, then we'll be at the upper end of our range if we're only at 25% beta as rates come down, knowing things won't match perfectly, then we'd be at the lower end of the range. So our midpoint is a 35% beta, which we think is very doable, in particular, relative to that half of that -- a little over half of that is related to index deposits on the commercial side.

Robert Scott Siefers
Piper Sandler & Co., Research Division

Perfect. And then maybe on the lending side. You noted soft client demand, which is very understandable. Just curious how you expect demand to trend as the year unfolds.

John M. Turner
President, CEO & Director

Yes. Scott, this is John. I would -- our current projections are, we believe economic activity picks up towards the second half of the year and we believe we will experience some growth in core middle market banking and small business banking through our Ascentium platform, asset-based lending, which would be typical of this period of time. And on the consumer side, mortgage and EnerBank continue to contribute to growth. Again, any growth we have will be modest, and that will occur likely toward the back half of the year.

Operator

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

Ebrahim Huseini Poonawala

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BofA Securities, Research Division

Just maybe I wanted to follow up on the fee income guide. Maybe if you can dwell into where do you see growth across fee revenue, particularly what are you assuming in there to capital markets, was it weakish fourth quarter? So would love to hear outlook on capital market income within fees? And then do you expect to do more purchases for mortgage servicing rights as you did in the quarter? And should that boost mortgage income?

David Jackson Turner
Senior EVP & CFO

Yes. So you -- it's David. So your first point on capital markets, we had a pretty tough capital markets finish in the fourth quarter. Been in that is timing. We think some deals, in particular, in the M&A world got pushed into the first quarter. The rate environment has really hampered our real estate corporate banking income line a bit. We think those rebound, both of those rebound, we think M&A has a tendency -- a chance to pick up probably towards the back half of the year actually, we've seen a little bit of rate relief if you will. So we have a pretty good feel about our capital markets rebound for 2024. Relative to mortgage servicing rights, as you know, we have good capital position. We look to support our business to grow our loan book. We think loan growth will be muted. So we look to other ways to put the capital to work, mortgage servicing rights has been one of those.

We feel good about that asset class because we're good at it. We have a low-cost servicing group and we're looking to grow when packages make sense and the economics work to our advantage. There's been a number of those on the market. If we can hit the bid that we have to make sure we get an appropriate risk-adjusted return, we'll do that. We suspect there'll be a couple of opportunities during the year as they usually are. But we have room to grow that without adding a lot of fixed overhead to add people to do the servicing, but we don't have to add a lot of fixed overhead.

John M. Turner
President, CEO & Director

Yes. I'd just add 2 things, Ebrahim. One is we continue to grow consumer checking accounts and consumer households that contributes to growth. Secondly, we had the best year we've probably ever had in treasury management as we see increases in the number of operating accounts that we're originating and services we're providing to customers. And then finally, Wealth Management had maybe the best year it's had certainly in some time, and we expect wealth management fee revenue to continue to grow in 2024.

Ebrahim Huseini Poonawala
BofA Securities, Research Division

That's helpful. And just one other one, David. I guess the one flex on deposit pricing is your loan-to-deposit ratio at 77%, just give us a sense of is this steady state in somewhere in the mid- to high 70s where you see running the bank going forward? Or if rates get cut, you could see this ratio drift into the 80s and that probably provides you some pricing flexibility.

David Jackson Turner
Senior EVP & CFO

Yes. So we really don't run the bank trying to solve for our loan deposit ratio. It's just kind of a result of all of our activities that we have. At 77% we're a little bit lower than the peer median by 2, 3 points. It gives us some flexibility to not have to put a lot of pressure on the deposit base. Remember, my opening comments where we want to be fair and balanced with regards to our customers, making sure that we were competitive but we don't have to push. We don't have to be at the upper end of pricing just to maintain those deposits. We have a good core deposit base and it gives us flexibility to not have to chase with rate. And that's why our deposit costs have tendency to be a bit lower across the board.

Operator

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

Manan Gosalia
Morgan Stanley, Research Division

I think you mentioned earlier on in the call that clients are deferring longer-term investments if they can. Can you talk about what's driving that? Is it just rates and they're waiting for rates to come down? Is part of it the environment and they need more certainty there? So any light on your conversations there would be helpful.

John M. Turner

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President, CEO & Director

Yes. I think probably all of the above, clearly, rising interest rates that have had some impact rising costs, cost of goods, cost of labor has had an impact. And then uncertainty related to the economy, geopolitical conditions, the political environment here in the U.S., all have, I think, created some restraint. Borrowers are, I believe, more optimistic today than they were 60 to 90 days ago, and that's in line with what appear to be improving economic conditions, but still reluctant to initiate long-term investments currently just based upon the things that I described.

Manan Gosalia
Morgan Stanley, Research Division

So as we think about deposit betas when rates go down, I think you and a number of your peers have suggested that okay, loan growth will accelerate as we get a resolution on some of these matters and as rates go down. But then on the flip side, does that mean that deposit competition picks back up? I'm just trying to assess the level of confidence on the high and low end of that range of that 25% to 45% down beta?

David Jackson Turner
Senior EVP & CFO

Well, we still think loan growth for the year is going to be relatively muted. And competition for deposits has always been fairly intense. Which you don't want to have to do is use rate. You want to have a relationship banking model, which is what we do. We leverage off of the checking account of the consumer and an operating account of a business. And with that comes all of the type of funding. For us, we have no wholesale borrowings to speak of, paid off all of our FHLB advances. So we have the ability to lever up there to cover incremental growth without having to reprice our deposit base. So if there's incremental pressure or competition on deposits, I don't think it will be all that meaningful for us in particular.

Operator

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

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

Maybe a question on capital. David, in the slides, you talked about maintaining 10%, your over 8% on an adjusted basis. Maybe just talk about how you think about uses of capital outside of loan growth. I know we had some buyback this quarter. I think in December, we were talking about the potential for securities portfolio restructuring. Maybe just talk a little bit about how you're thinking about incremental uses of capital from here.

David Jackson Turner
Senior EVP & CFO

Yes. So obviously, let me just go through the kind of checkpoints as we think about it. So we want to use our capital to support loan growth. It's going to be fairly muted. As I mentioned, we want to pay a fair dividend, 35% to 45% of our earnings. So we think that's covered. We then have excess capital that we look to put to work in growing our business. We've looked at more searching rights, as I mentioned just a couple of calls ago. And we'll continue to look for businesses that we think can help us grow.

We have talked about the securities repositioning. We continue to evaluate that. We have not made any decisions to do that just yet. And outside of that, we don't want our capital to get too far away from 10%. And the 10% is pegged on the fact that we think we're close enough with our ability to accrete capital every quarter to adapt to whatever the regulatory environment is going to be.

There's a lot of uncertainty with regards to what that's going to look like, and there's no need for us to continue to ramp up capital to an unnecessary level and hurt our return, we think we're in an optimal spot to be able to maneuver and so we think the 10% number is the right thing to do -- the right place to be.

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

Got it. Maybe to come at net interest income and net interest margin from a little bit of a different perspective. You gave us guidance for the first quarter and NIM is expected to be around 350 for the full year. Maybe David, you were daring. Talk about how you see it evolving over the course of the year end. When you look out as we think about the declining rate cycle, where do you foresee the net

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interest margin settling out over time? I know historically, we've talked about a 3.6% to 4% range. Maybe just a little bit of color on where you see it settling out over the course of the next couple of years.

David Jackson Turner
Senior EVP & CFO

Yes. So I think you're going to see that margin pressure a little bit in the first quarter and slightly in the second quarter. The first quarter has another, call it, $3 billion of received fixed swaps that will become effective that will have some negative carry that hurts us a bit in the first quarter. And then things start to change a bit beginning in the second quarter so literally, like after the first month.

So I think you'll see a little bit more of a movement in the first quarter and a tiny movement in second. And then we can start to rebound a bit where we'll finish. We think for the year in the 3.50% range, I think as things settle down, we had talked about 3.60% to 4%. That 3.60% was predicated on rates really going back down to very low levels, and that's the purpose of our whole hedging strategy is because we have lower deposit costs of most everybody. If we're going to protect our margin, we have to do it synthetically. And so we have about $20 billion in any given year of received fixed swaps and some other derivatives to help us manage the net interest margin in the 3.60% to 4% range.

So you're likely over time to be kind of in the middle of that. And we think that that's a possibility in time that things have to settle out. We've got to get deposit costs back to tie up with where rates are. But we can probably exit the year in the 3.60% range.

Operator

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

John G. Pancari
Evercore ISI Institutional Equities, Research Division

On the operating leverage side, I mean, your guidance implies negative operating leverage unsurprisingly for 2024. But as you look at your trajectory on the revenue front, your assumptions there combined with your expense expectations, how do you view the likelihood of achieving positive operating leverage in 2025. And when do you expect that you could break into a more positive trajectory on a quarterly basis.

David Jackson Turner
Senior EVP & CFO

So I have a tendency to look at it on an annual basis. And you're right, we can't generate positive operating leverage in '24, primarily because of our outperformance in the first 2 quarters of '23, where we were having above 4% margin, which is way above most everybody. And so I think that's been acknowledged in the marketplace. I do think we can get back at '25 to generate positive operating leverage, and we'll start trending there towards the back half of the year as we see us bottoming out in terms of net interest income and margin in the second quarter, and then we can start to grow from there.

We'll see what the economy looks like. We'll see what loan growth looks like. We think that picks up a bit. And we think the pressure on deposit betas start to go the other way. And as I just mentioned, we can exit with a little stronger margin. So I think positive operating leverage towards the back half is a possibility.

John M. Turner
President, CEO & Director

And definitely for 2025.

David Jackson Turner
Senior EVP & CFO

And we're going to get there for 2025.

John G. Pancari
Evercore ISI Institutional Equities, Research Division

Okay. Great. That's helpful. And then secondly, around credit. Regarding the NPA increase, I know you've flagged the downgrade -- the risk rating downgrades and some of the higher risk sectors. Maybe can you give us a little bit more color whether -- was it concentrated in any one sector? Was there a broader scrub of the loan book that you completed that led you to the multiple of the --

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multiple downgrades? Or is it just episodic and then, I guess, just separately, can you talk about the reserve? I know you built it a bit here. What's the outlook there if you continue to add from here?

John M. Turner
President, CEO & Director

I'd just say, John, with respect to the increase in NPLs, we've called out portfolios that have been under some stress for a number of quarters now. What we saw in the quarter was some migration from criticized classified to nonperforming, specifically in senior housing, in transportation and warehousing, transportation, specifically and office and then additionally, manufacturing of consumer discretionary items. So that is and that was our expectation.

We have 1 large technology credit that moved in the third quarter. That is episodic, we believe, is something that we can and believe we will manage through. So when you look at the migration, as we pointed out, we are moving back to more traditional sort of historical levels of nonperforming loans, which is somewhere between 80 and 100 to 110 basis points. I think maybe David said the average was 102 or 106, 107 from '14 to '19.

And we've guided to 40 to 50 basis points of charge-offs, which we think is in line with our expectations for potential loss in the portfolio over time. So I think we feel we have good insight into the credits that we're managing as to why, I would say the burden of increasing interest rates, increasing cost, cost of labor, operating costs, all those things have had an impact specifically on the industries that we've historically now called out transportation, senior housing, office, consumer discretionary.

Now with respect to the allowance, we have a process we follow and go through every quarter. And I think we believe -- we currently believe, obviously, that we've provided for potential losses in the portfolio over time, unless we experienced growth in the portfolio or paydowns in the portfolio, some changes in outstandings in the portfolio or in economic conditions. You can assume that our allowance is appropriate and likely won't change -- the trajectory of it will not change unless the economy changes.

David Jackson Turner
Senior EVP & CFO

And the only other thing, John, on that would be if the risk ratings change, that go up or down, that also impacts your provisioning or release reserves. So I add that point with other 2 or 3 that John mentioned.

John G. Pancari
Evercore ISI Institutional Equities, Research Division

And David, I'm sorry, if I could just add regarding that last point, if the risk rating migration negatively assume -- is it now assumed as part of your outlook, just given where we are in this downturn?

David Jackson Turner
Senior EVP & CFO

Yes, that's right. You look at your reasonable and forecast period and think about where the credits are going; if that changes, so to go the other way, that can cause you not to have to provide any more. So we provided what we think we need to have. If things get better, then you don't need the reserves that you put up and you can release those reserves. If things get worse, then you have to provide more.

Generally, loan growth is also a driver of having to add to the provision. If your loans are going the other way, then you don't need the reserves that you had set up for them, so you can have a release related to that. Economic conditions got a little better in the fourth quarter than the third. So that was a positive. But net-net, we're continuing to look at the life of the loan and where that's going to go, and we think we have appropriate reserves for losses that are there.

Operator

Our next question comes from the line of Dave Rochester with Compass Point.

David Patrick Rochester
Compass Point Research & Trading, LLC, Research Division

On the NII guide, I was just wondering how Slide 6 might change if we don't get those cuts you're factoring in for the year. I know you mentioned you're neutral to those, so maybe this range wouldn't change much. Just figured that might change some of the deposit flow and beta assumptions in here and maybe some other stuff.

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David Jackson Turner
Senior EVP & CFO

Yes. So we tried to put that in. If you look at the lower box, on the lower end of that, we say stable, that was trying to address exactly what your question is. So to the extent that we're kind of where we are.

David Patrick Rochester
Compass Point Research & Trading, LLC, Research Division

That was all within this range.

David Jackson Turner
Senior EVP & CFO

That's right. That's right.

David Patrick Rochester
Compass Point Research & Trading, LLC, Research Division

But the lower end?

David Jackson Turner
Senior EVP & CFO

Yes.

David Patrick Rochester
Compass Point Research & Trading, LLC, Research Division

Got you. And then for the $12 billion to $14 billion in the fixed rate loan production and securities investment you mentioned per year. I was just curious what the breakdown of that was for securities and loans and what yields you're putting on today on both the securities investment and new loan production, just on average? I know you've got many different categories and loans you're producing.

David Jackson Turner
Senior EVP & CFO

So I think in total, the kind of the front book back book between those 2 is about 200, 250 basis points of pickup. If you look at that 12 to 15, about 1/4 of that is related to securities. That going on as front book, back book pieces of, call it, 300 basis points in loans, front book back book of probably in the 150 to 200 range.

David Patrick Rochester
Compass Point Research & Trading, LLC, Research Division

Okay. Great. And then just on capital, given your comments on 10% CET1 targeting that unadjusted. What does that mean for the pace of buybacks here? Is the fourth quarter pace a good one going forward for the next few quarters maybe? And then as it relates to your adjusted CET1 ratio, which is just over 8% you've got here, how are you thinking about where you want that to be over time as the new regs kick in?

David Jackson Turner
Senior EVP & CFO

Well, one, we don't know what the new rules are going to be. So we fully loaded it with A2 to show you that, that doesn't impact our stress capital buffer or our absolute minimum. We're in good shape there. We just need to see where the rules come out. By the time all that happens, AOCI is going to be in a different spot than it is today, assuming rates continue to come down a bit. We saw a pretty big move in all of the peers with AOCI this quarter. From a capital standpoint, we think 10% is the right number -- what was?

Unknown Executive

Buyback pace.

David Jackson Turner
Senior EVP & CFO

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The buyback pace. So again, we used the buyback as our last mechanism to help us keep our common equity Tier 1 in that 10% range. And so the pace is do your favorite earnings expectation take out the dividend, use a bit of that with low single-digit loan growth and then the rest is either going to be buying mortgage servicing rights or things of that nature, and then we toggle with share repurchases. So I don't want to comment on whether we stay on the pace because they end up getting your earnings guidance. That's a trick.

Operator

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

Gerard Sean Cassidy
RBC Capital Markets, Research Division

David, can you share with us, you guys have given us good detail on credit quality and John, you pointed out that the nonperforming loan increase was to the sectors of your portfolio that you've already identified as being weak. Could we look at it another way, and you give us good details on Slides 27 and 28 on the leveraged portfolio in the Shared National Credit portfolio, how are those portfolios holding up credit-wise? And when you think back to where we were a year ago, I remember many of the calls, the word recession was used quite often in those calls, we're not hearing that on this fourth quarter earnings call for most or nearly all the banks. So have these portfolios held up better than what you would have thought it from a year ago?

John M. Turner
President, CEO & Director

I would say, yes, Gerard. The leverage portfolio is largely relationship-based credit business. Those are banking relationships that we enjoy, we're close to those customers and we've been close to them throughout this period of elevated rates. There was some risk as rates rose, that we had -- that there may be some softness in the portfolio, but I think it's performed well. The same is true of our Shared National Credit book. And we began to build a capital markets business to help us grow and diversify our revenue and to meet more customer needs. We naturally then began to expand the size of our Shared National Credit book so that we could serve those customers that had need for those products and services. And with that, as you can imagine, comes some tall free risk, single name risk and while I mentioned earlier, we have a technology credit that's fairly substantial. That's an NPL.

That is an example of Shared National Credit exposure that we have good visibility into. We think has very limited risk of loss but still as a nonperforming loan. But overall, I would say, just based upon the reflection on the performance of that book, it's been good. We've enjoyed expanding relationships, growing revenue from capital markets and/or deposits, treasury management that we enjoy with those customers. And so I think we've been pleased with the performance of both the leverage book and the Shared National Credit book.

Gerard Sean Cassidy
RBC Capital Markets, Research Division

Very good. And then coming back to loans, I think, David, in your comments, you talked about loan demand remains soft and you're looking for low single-digit growth for average loans in 2024. I know during our careers, the shadow banking industry has continued its competition against the banks, but it seems today, there's more coverage of the private equity side getting into lending maybe greater than what we've seen in years, how are you guys competing against the private credit markets. And at the same time, are any of those private credit lenders, customers of yours that you have to balance that relationship of a customer competing against you.

John M. Turner
President, CEO & Director

We have very modest exposure to private equity who then is -- we're not lending private equity to, in turn, lend into our customer base. So if we have any exposure, it would be very modest there. Separately, we don't see private equity as a competitor necessarily within our core middle market customer base. I asked Ronnie Smith the question the other day if he could name a customer that we lost to private credit. And we can't think of one. Now it doesn't mean it's not occurring in some of the markets that we're in. But by and large, given our focus on the core middle market business and investment-grade type Shared National Credit exposure, we're just not -- we're not seeing private credit as a competitor today. On the wholesale side now there are lots of competitors on the consumer side that we're seeing in a variety of different ways, including mortgage and home improvement that we compete with.

Gerard Sean Cassidy
RBC Capital Markets, Research Division

Which are nontraditional depositories?

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John M. Turner
President, CEO & Director

Yes. That's right.

Operator

Our next question comes from the line of Christopher Spahr with Wells Fargo. Christopher Spahr, your line is live.

Our next question comes from the line of Brandon King with Truist.

Brandon Thomas King
Truist Securities, Inc., Research Division

So I appreciate the guidance on expenses and expense control there. But I did have a question on just an update on the technology modernization project and kind of what you're baking in for expenses in 2024? And if part of that other expense savings is related to maybe delaying some of that project into further years.

David Jackson Turner
Senior EVP & CFO

Yes, Brandon. So we've given you our overall expense guide to be essentially flat after you carve out operational losses from the past year. We continue to make investments in our business. We call it R2, which is our transformation project in cyber and risk management, consumer compliance, a lot of investment in areas of the bank that we're looking to offset elsewhere. R2 project has come along very well. We spent anywhere depending on the year, 9% to 11% of our revenue in terms of technology costs. We don't expect that to change materially in the short term. We continue to evaluate how we can better leverage technology and I think we have a lot of upside potential to leverage that in our business to continue to improve and to continue to take out manual steps, manual processes and have a technology solution too. So we think our investment in technology is the right thing to do and we're going to have a modern core deposit platform in the not-too-distant future, which we think will be a competitive advantage for us as well. So anyway, that's kind of a spending range, if you will, 9% to 11% for revenue.

Brandon Thomas King
Truist Securities, Inc., Research Division

Okay. And just no delays in the timing of that?

John M. Turner
President, CEO & Director

Yes. No. Yes. To answer your question specifically, that project is on time and on budget, no delays.

Brandon Thomas King
Truist Securities, Inc., Research Division

And then just had a follow-up on credit, and particularly in senior housing. Just wanted to get more details as far as your exposure there? And what are you thinking as far as ultimate loss content, insufficient from a credit loss [space].

John M. Turner
President, CEO & Director

Yes. We're seeing improvement in the senior housing space, notwithstanding the fact that we have a couple of credits we're carrying as nonperforming. Generally occupancy rates are improving over time. Today, we've got about $63 million in -- I'm sorry, $57 million in -- $118 million in nonperforming loans and reserves against those credits of about 3.7%. So I think we've maybe provided information on Slide 20 in our deck. But we are seeing improvement in senior housing as occupancy rates pick up and people become a little more comfortable with communal living again amongst that age group.

Operator

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

Erika Najarian
UBS Investment Bank, Research Division

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Good morning. One follow-up question, Dave. I think very notable what you said to Ryan's line of questioning, the 3.6% exit rate for the net interest margin in the fourth quarter. A lot of investors are now focused on that exit rate. So I'm just wondering if I could ask you sort of what the component pieces is or are rather. So unless you've changed anything on the -- in terms of adding swaps, it seems like you do have $1.6 billion of notional rolling off in the fourth quarter. So I guess it's a good guy.

You also mentioned a terminated swap gain in your 10-Q, but you had like a forward look for 4 quarters. Wondering what that could be for 4Q '24 and then more notably, obviously, you guys have said unequivocally that it's the deposit assumption that's really going to make a difference. I'm wondering sort of what the speed is that you're assuming on that 35% down beta, especially if you think of the first rate cut, I think you said was in May.

David Jackson Turner
Senior EVP & CFO

Yes. So I think all in, the big drivers there are controlling the deposit costs. We do have a headwind of the $3 billion notional for starting swap in the first quarter and then we're kind of in the run rate that the terminated swaps are in the amortization already. Those aren't huge drivers. I think after we get our headwind and if rates start to come down, then, like I said, almost 60% of our beta is associated with index deposits on the commercial side. So they'll start to come down.

And you start then having the loan and security repricing, the fixed maturity repricing, adding 200, 250 basis points that overwhelms that headwind towards the back end of the year and you get a little bit of loan growth in the back end. All that helps you propel you to a much stronger fourth quarter finish than you have at the beginning of the year.

So I think if you really looked at what is the one big thing that you have to get done and it's controlling the deposit cost, and we do that through managing the beta as rates change, like I said, 55%, 60% of an index. The other is decisioning we have to make. And that gets to be a little herky jerky because, as I mentioned, some of that's money market that we can change pretty quickly. The other CDs that were locked in today, it's 7 months. And as things renew this month, next month and going forward, we're looking to be shorter rather than longer so that we are prepared to take advantage to reduce our deposit costs as rates come down.

Erika Najarian
UBS Investment Bank, Research Division

And a follow-up to that, you mentioned 55% to 60% of that down rate coming from these indexed commercial deposits. One of your peers made a differentiation between indexed and contractual yesterday. And I guess just give us some sense of how much of that is contracted versus index? And but really, it sounds like you're confident that either way, you can control that to the downside, especially as you said, loan growth remained soft this year.

David Jackson Turner
Senior EVP & CFO

Yes. So when we say index, we're talking about it's tied to Fed fund; when Fed funds changes through the contract, it changes automatically. There's no -- it's not a contractual number locked in like effectively as CD. It's the day -- just like a loan that's based on SOFR. I mean, SOFR changes, so does loan rate that day. And so that's what we're talking about when we say index deposits.

Operator

Our final question comes from the line of Matt O'Connor with Deutsche Bank.

Matthew Derek O'Connor
Deutsche Bank AG, Research Division

Any updated thoughts on potential regulatory changes to the debit card interchange fee or overdraft fees and thinking about potential [all cuts] to that.

David Jackson Turner
Senior EVP & CFO

Well, so debit interchange going through a discussion to adjust that down. So it was written in the original law and they had to revisit the costs associated with debit interchange. To the extent that does get put into place, that will have a negative impact to us starting, I think that was going to be kicking in, in June. So it's about half a year. And based on our numbers, that's about a $45 million risk item to us in our NIR.

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Relative to the overdrafts, we're a long way from knowing where that comes out, if there are any changes, and I think 2025 date that we mentioned, that just hit the wire. I think there's going to be a lot of discussion on that because we're disappointed in that we think provision of liquidity to our customer base is really, really important. We do charge a fee for that, but we're paying an item for somebody and charging a fee. And to the extent we return that item to wherever it was written or used, that entity is going to charge a fee.

And so it doesn't -- it's not helpful to not be able to provide liquidity to our customer base. And so we're hoping there's going to be further discussion on that point. And I think it would be premature to really talk about the impact of OD until we get further down the road.

Matthew Derek O'Connor
Deutsche Bank AG, Research Division

Okay. And then just separately, good to see the elevated check fraud came down as you expected and the outlook kind of implies but you're confident that you're past this issue. I guess, just wanted to reconfirm that. And then also just any meaningful changes that you made to address it and whether it showed up in expenses overall?

John M. Turner
President, CEO & Director

I would just say that the countermeasures that we put in place, which include talent, technology, process changes, all have been effective. And we believe going forward, the run rate will be $20 million to $25 million per quarter in operating losses and the expenses associated with those countermeasures are embedded in our run rate and in our projection for expenses for 2024.

David Jackson Turner
Senior EVP & CFO

We got to continue to be vigilant with regards to this, just like we are with cyber. So we have bad people attacking us as does every financial institution, and we have to continue to stay ahead of it. We feel good about what we put in place, but we are not sitting idle. We're continuing to push and challenge ourselves to get even better than we are today.

John M. Turner
President, CEO & Director

Okay. Operator, is that the end of the call?

Operator

Yes. I would now like to turn the floor back over to you for closing comments.

John M. Turner
President, CEO & Director

Okay. Well, thank you very much. I appreciate everybody's participation today and interest in our company. Have a good weekend.

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

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