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Regions Financial Corporation NYSE:RF

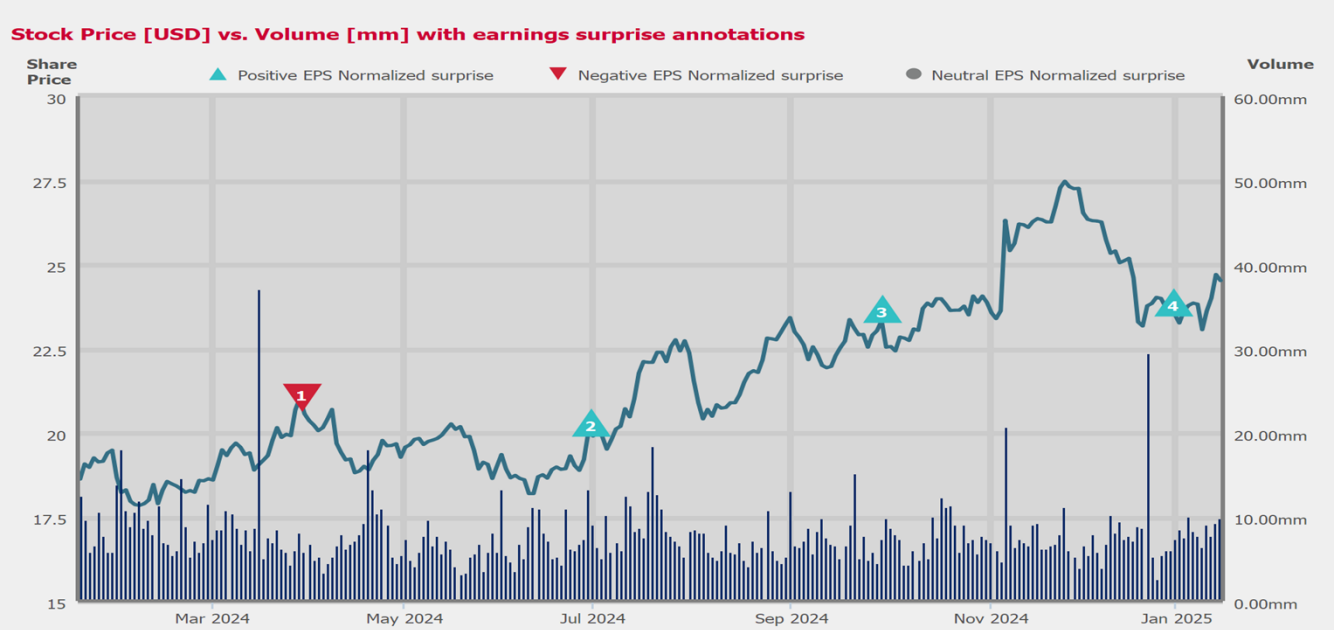
FQ4 2024 Earnings Call Transcripts

Friday, January 17, 2025 3:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ4 2024-			-FQ1 2025-	-FY 2024-			-FY 2025-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS
EPS Normalized	0.56	0.59	▲5.36	0.48	2.10	2.13	▲1.43	2.29
Revenue (mm)	1861.13	1815.00	▼(2.48 %)	1849.95	7248.27	7083.00	▼(2.28 %)	7624.86

Currency: USD
Consensus as of Jan-17-2025 2:06 PM GMT



- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ1 2024	0.46	0.44	▼1 (4.35 %)
FQ2 2024	0.49	0.54	▲2 10.20 %
FQ3 2024	0.53	0.57	▲3 7.55 %
FQ4 2024	0.56	0.59	▲4 5.36 %

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Call Participants

EXECUTIVES

Dana Nolan
EVP & Head of Investor Relations

David Jackson Turner
Senior EVP & CFO

John M. Turner
President, CEO & Chairman

ANALYSTS

Betsy Lynn Graseck
Morgan Stanley, Research Division

Christopher James Spahr
Wells Fargo Securities, LLC, 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

Matthew Derek O'Connor
Deutsche Bank AG, Research Division

Peter J. Winter
D.A. Davidson & Co., Research Division

Robert Scott Siefers
Piper Sandler & Co., Research Division

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

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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 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 for staying. Welcome to Regions Fourth Quarter and Full Year 2024 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 reconciliations are available in the Investor Relations section of our website. These disclosures cover our presentation materials, today's prepared remarks and Q&A.

I will now turn the call over to John.

John M. Turner
President, CEO & Chairman

Thank you, Dana, and good morning, everyone. We appreciate you joining our call today. This was a year of records at Regions, with our performance driven by consistent focus on superior service as well as soundness profitability and growth. Our capital markets and wealth management businesses as well as our treasury management products and services all generated record revenue in 2024.

This morning, we reported strong full year earnings of $1.8 billion, resulting in earnings per share of $1.93 and a top quartile return on average tangible common equity of 18%. We continue to benefit from our strong and diverse balance sheet, solid capital liquidity positions and prudent risk management.

Additionally, our proactive hedging strategy, investments in fee-generating business, desirable footprint and granular deposit base support our ability to deliver consistent, sustainable long-term performance and position us for growth in 2025 and beyond.

We are fortunate to be in some of the best markets in the country. Our core markets are foundational to our deposit advantage and have supported growth that exceeds the rest of the U.S. And we've achieved this growth while maintaining peer-leading deposit betas and a top 5 market share in 70% of our core markets throughout our 15-state footprint. We also have a presence in some of the fastest-growing markets in the country. Investments across these priority markets create significant future growth opportunities for Regions. Population growth across our footprint is expected to more than double that of the U.S., but it's even more pronounced within our priority markets, with expectations of growth of more than 3x the national average.

Importantly, we've already established a pattern of success in these markets, growing deposits by $12.5 billion since 2019 and outpacing the market. We plan to build on this success with incremental investments further supporting growth and extending our advantage. We believe we are uniquely positioned to leverage these advantages as they are underpinned by our long-standing presence across our footprint, where in many areas, we've operated for more than 100 years.

This rich history has allowed us to invest in the communities we serve and build a strong brand and a loyal customer base. So you'll see us continue to strategically invest in talent technology and markets over the next several years to drive growth and generate efficiencies.

We're excited about our growth prospects. However, we'll continue our track record of judicious expense management. Over the next couple of years, we expect to invest in bankers across all of our segments: Corporate Banking, Consumer Banking and Wealth Management. Specifically, we plan to add approximately 140 bankers across our product sets. treasury management bankers, mortgage loan officers, commercial relationship managers as well as wealth management associates. These additions are expected to focus primarily within our 8 priority growth markets.

Additionally, within the consumer bank, we'll lean into our demonstrated successes with regard to capital allocation to better align resources throughout the branch network, specifically focusing on priority markets and branch small business. We'll also invest

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in enhanced online and mobile capabilities to take better advantage of the deposit opportunities presented by the 12 million small businesses located within our footprint.

We've already experienced branch small business deposit growth of $2.6 billion or 30% since 2019, and $1.1 billion or 41% growth occurring in our priority markets. We believe these enhanced capabilities and focus will allow us to capture additional market share over time.

Putting this all together, we're excited about the momentum we have going into 2025. We have a solid plan for growth, a highly desirable footprint and a leadership team with a proven track record of execution, setting us up, we believe, for top quartile results in 2025 and beyond.

Before I hand it over to David, I want to thank our 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. They are the driving force behind the successful execution of our strategic plan, and I'm proud to call them teammates.

With that, I'll hand it over to David to provide some highlights regarding the quarter and the year.

David Jackson Turner
Senior EVP & CFO

Thank you, John. Let's start with the balance sheet. Average and ending loans declined modestly on a sequential quarter and full year basis. Within the business portfolio, average loans decreased modestly quarter-over-quarter as our customers continue to carry excess liquidity and utilization rates remain below historic levels.

However, client optimism is improving and further clarity surrounding tax reform and tariffs is expected to be a catalyst for business activity and lending. As a result, it will probably be the second half of the year before we see the impact filter through to the economy.

As John noted, our footprint provides us meaningful advantages. For example, within our footprint, there is $77 billion of federal infrastructure spending already approved and allocated at the state level, which will benefit customers in infrastructure and infrastructure adjacent industries. We're also encouraged that pipelines and commitments are trending up. As a result, we expect a notable pickup in C&I lending in 2025, but this will be partially offset by continued softness in commercial real estate originations.

Average consumer loans remained stable in the fourth quarter as modest growth in credit card was offset by declines in other categories. For full year 2025, we currently expect average loan growth of approximately 1% as we continue our focus on risk-adjusted returns. From a deposit standpoint, both ending and average deposit balances grew modestly quarter-over-quarter, consistent with normal year-end seasonality. Noteworthy growth occurred in commercial due largely to year-end tax inflows to state, county and municipal customers.

Despite modest growth in interest-bearing commercial deposits during the quarter, we remain at our expected mix in a low 30% of noninterest-bearing to total deposits. We continue to believe this profile will be relatively stable in the coming quarters.

In the first quarter, we typically see a moderate reversion of the year-end commercial balance increase offset by some growth in consumer deposits, driven by tax refunds. After the first quarter, overall balances normally grow modestly through the year, which aligns with our baseline expectation.

For the full year of 2025, we expect average deposits to remain relatively stable for 2024 as modest growth in consumer deposits is expected to be offset by declines in commercial deposits as customers draw down their excess liquidity.

Let's shift to net interest income. Net interest income grew 1% in the fourth quarter, demonstrating a well-positioned balance sheet profile amidst Fed policy easing. The benefits from lower deposit costs and hedging fully offset the pressure on asset yields from lower interest rates. Linked quarter, interest-bearing deposit costs fell by 21 basis points, representing a falling interest rate-bearing deposit beta of 34%. We believe our ability to manage funding costs lower even after exhibiting industry-leading performance during the rising rate cycle further highlights the strength of our deposit advantage.

Growth in interest-bearing deposits added cash balances and negatively impacted the reported deposit beta, but had little impact to net interest income. Net interest margin increased 1 basis point to 3.55%, overcoming the pressure from elevated average cash balances, which negatively impacted net interest margin by 3 basis points.

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Finally, we took advantage of a steepening yield curve in the fourth quarter, executing the repositioning of $700 million of securities and a $30 million pretax loss and resulting in a 220 basis point yield benefit. Today, we have a few bonds that can be replaced and meet our interest rate risk and capital management objectives. However, we will continue to reassess going forward.

In terms of full year 2025, net interest income is expected to increase between 2% and 5% on the growth momentum established in 2024. In the near term, net interest income will decline modestly in the first quarter due mostly to 2 fewer days. After this, growth is expected to come from fixed rate loan and securities yield turnover in the prevailing higher rate environment and improving loan and deposit growth backdrop and the ability to protect net interest income from uncertainty as the path of the Fed rate evolves.

Now let's take a look at fee revenue performance during the quarter. Adjusted noninterest income declined 5% from a strong third quarter. Our full year adjusted noninterest income increased 9%, driven by record capital markets, treasury management and wealth management income. Over time and in a more favorable interest rate environment, we expect our capital markets business can consistently generate quarterly revenue of approximately $100 million, benefiting from investments we have already made in capabilities and talent, but we expect it will run around $80 million to $90 million in the near term.

Within mortgage, due in part to our experience and cost advantage, we will continue to look for opportunities to acquire additional mortgage servicing rights, building on the $56 billion we've acquired since 2019. We expect full year 2025 adjusted noninterest income to grow between 2% and 4% versus 2024.

Let's move on to noninterest expense. Adjusted noninterest expense declined 4% compared to the prior quarter, driven primarily by declines in salaries and benefits and lower Visa class B shares expense, reflecting the third quarter litigation escrow funding that did not repeat.

Full year 2024 noninterest expenses decreased 4% on a reported basis and 1% on an adjusted basis. We have a demonstrated track record of managing our expense base over time and 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 2025 adjusted noninterest expense to be up approximately 1% to 3%, and we expect to generate positive operating leverage.

Regarding asset quality, provision expense was approximately equal to net charge-offs at $120 million, and the resulting allowance for credit loss ratio remained unchanged at 1.79%. Annualized net charge-offs as a percentage of average loans increased 1 basis point to 49 basis points, driven primarily by previously identified portfolios of interest.

Full year net charge-offs were $458 million or 47 basis points. Nonperforming loans as a percent of total loans increased 11 basis points to 96 basis points, modestly below our historical range, while business services criticized loans remained relatively stable. Our through-the-cycle net charge-off expectations are unchanged and remain between 40 and 50 basis points. As it relates to 2025, we currently expect full year net charge-offs to be towards the higher end of the range, attributable primarily to loans within our previously identified portfolios of interest. We do expect losses to be more elevated in the first half of the year, but importantly, losses associated with these portfolios are already reserved for.

Let's turn to capital liquidity. We ended the quarter with an estimated common equity Tier 1 ratio of 10.8%, while executing $58 million in share repurchases and paying $226 million in common dividends during the quarter. When adjusted to include AOCI, Common Equity Tier 1 decreased from 9.1% to an estimated 8.8% from the third to fourth quarter, attributable to the impact from higher long-term interest rates on the securities portfolio. We continue to execute transactions to better manage this volatility.

Near the end of the fourth quarter, we transferred an additional $2 billion of available-for-sale securities to held to maturity as we prepare for new regulatory expectations. In the near term, we expect to manage Common Equity Tier 1 inclusive of AOCI closer to our 9.25% to 9.75% operating range. This will provide meaningful capital flexibility going forward to meet proposed and evolving regulatory changes while supporting strategic growth objectives and allowing us to continue to increase the dividend and repurchase shares commensurate with earnings.
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 Ryan Nash with Goldman Sachs.

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

Maybe to start off with the outlook on expenses, the 1% to 3% growth inclusive of investments. David, maybe just talk about where you're getting efficiencies from to create capacity to make these investments?

And then second, just given the investments that you're making combined with the comments you made about expectations for C&I loan growth to pick up, what do you think that means for your ability to generate incremental positive operating leverage over time? And I have a follow-up.

David Jackson Turner
Senior EVP & CFO

Yes. So from an expense standpoint, we mentioned kind of the key categories, 60% of our expense base are salaries and benefits. So we watch our head count very carefully, making sure that we deploy the right number of the right people in the right places. And I think we've done a pretty good job of that. That never ends. We continue to look for opportunities to streamline processes and leverage technology, which I think we do okay, but there's more opportunity there. So managing that head count is important.

Occupancy cost for us is one of our largest categories, and we've done a pretty good job of reducing square footage over time, both in the branch footprint, but more so in the office footprint, and that's helped us quite a bit.

And the third is we have a pretty good effort on our vendors, making sure that we use vendors appropriately, whether it's third-party consultants or software vendors or whatever to make sure that we're getting what we paid for and only getting what we need to have to run the business.

So that's allowed us to make investments in other parts of technology. We're in the middle of putting in a new deposit system and loan system. And so we've been able to pay for that. And we're going to make investments in people, as John mentioned in his comments. So if we do all that, we do -- we're going to generate positive operating leverage. Where we end up on that, Ryan, we'll just have to see.

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

Got it. Maybe to ask about capital. So David, you talked about managing to the 9.25% to 9.75%. Obviously, that's a bit of a moving target with rates. Maybe just talk about what you think that means for the reported capital ratio that you're targeting? And given the limited amount of growth, maybe just talk about how you're thinking about uses of capital and what it means for the amount of capital that you can return over 2025?

David Jackson Turner
Senior EVP & CFO

Yes. So first and foremost, we want to use our capital to grow our business, in particular, loan growth and -- but we don't want to force loan growth. We want to have it there at the ready. We think loan growth will be fairly slow in the front half of the year and pick up in the back half, has more clarity with policy, regulatory policies as well get clarity.

After loans is really dividends. We want to target somewhere between 40% and 50% of our of our earnings to be paid out in the form of a dividend. So call that 45% in the middle. As we think about AOCI. we believe we need to be within a striking distance of our post AOCI capital number. So that's 9.25% to 9.75%, at the end of this quarter, we're at 8.8%. That can move quite a bit based on the 10-year. And so we've kind of pegged the 10-year at 4.50% as our base case, by the way.

So we don't have to get to 9.50% immediately, but we want to be close enough to the extent that AOCI does become part of the capital regime. We don't know what the rules are going to be, but we believe that's a high likelihood, and therefore, we want to continue to build that, which means our reported CET1 will continue to increase at some level.

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We do have buybacks baked into our plan. And it just really depends on what loan growth ultimately ends up being. If we have more loan growth than we have baked in, which is, call it, approximately 1%, if we have more than that, we'd have fewer buybacks. If we have less loan growth, we'll have more buybacks.

I do want to remind everybody, and I haven't seen many talk about this, but we have the last year of the CECL amortization that goes into the Common Equity Tier 1 ratio this quarter. And that's, call it, 8 to 10 basis points. So that needs to be a piece, which means the first quarter buybacks will necessarily be lower than they otherwise would have been, if that makes sense.

Operator

Our next question comes from the line of Scott Siefers with Piper Sandler.

Robert Scott Siefers
Piper Sandler & Co., Research Division

David, I was hoping to get your thoughts on how you see deposit pricing evolving. I know that you're sort of full through the cycle, beta expectations are on the way down. But just curious about any updated thoughts if we, indeed, sort of stay higher for a while?

And then maybe just sort of within the context of the pros and cons that you hopefully listed on Slide 8 there. Just given that a good chunk of your NII momentum this year is kind of programmatic, where are you most focused if you were to sort of stack rank sensitivity to either rates or the shape of the curve versus things like deposit pricing, stuff like that?

David Jackson Turner
Senior EVP & CFO

Yes. So I'm glad you referenced Page 8, that's our good guide in terms of how we're thinking about our base case and what could drive NII up or down.

Deposit pricing is very important to us. A couple of things there. One, we want to be competitive. We want to be fair to our customers and make sure we're giving them a fair price on their deposits. We want to continue to grow deposits. That's why we're making investments in priority markets where we can grow checking accounts, noninterest-bearing checking accounts for operating accounts of the business.

And so as we do that, we'll continue to lower our deposit costs. Our base case is a 35%, call it, 35% down beta, which is about where we are. Now others had more of a move on that because they had a higher beta on a cumulative basis through the cycle. So ours is necessarily going to be lower, but we also have our hedging that's in place to help protect us. We do have some high-cost CDs that are maturing that will help us from a deposit standpoint. But we do continue to have promotional rates out there in some markets where we're looking to grow, and we think that's going to benefit our deposit growth over time.

So it's really a combination of primarily you're really watching your deposit costs and the shape of the yield curve does help us just a bit, too. So a steeper yield curve is better.

Operator

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

John G. Pancari
Evercore ISI Institutional Equities, Research Division

Just on -- if I go to the loan commentary a little bit again, and you mentioned the loan growth about 1% expectation as you look at 2025. And I know that, that's relatively conservative. It looks like relatively low. And you did cite that you're considering risk-adjusted returns in that outlook.

Where are you seeing pressure on returns today that are influencing the pace of growth? Is it like I should look at it by loan type or by geography? Where are you seeing the pressure on returns?

John M. Turner
President, CEO & Chairman

John, I would say it's as much about just generally the portfolios. We're always evaluating our loan portfolio and the relationships that we are able to establish with customers or are not able to establish with customers. Oftentimes, we originate credit with an expectation

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that we'll earn other business opportunities. And over the course of a 2-year to 3-year period, we don't generate the kind of ancillary business that we thought we would. We don't build a relationship. We thought we might, and as a result, we choose to exit those.

Much of what we have been doing, I think, as you know, over the last 7, 8 years is continuing to focus on capital allocation, remixing our business, exiting certain portfolios, relationships that don't generate appropriate risk-adjusted returns to us and reallocating that capital in the business. And that is a discipline that we have. We think it has served us really well and is a primary reason why we're able to generate consistent sustainable returns today.

David Jackson Turner
Senior EVP & CFO

John, I'll add to that, your opening comment on the 1%. There are a couple of different stories there. So our C&I growth is quite robust, I think, given the market of a little over 3%.

It's the investor real estate that will be more challenging this year, and then consumer will have some pluses and some minuses. Credit card will grow a bit. We can have mortgage up a little bit. But others, the other parts of the consumer business will be going the other way.

So net-net, it's 1%, but there's different stories in there that we think are reasonable. We want to make sure we lay out our capital but we get the appropriate return on it.

John G. Pancari
Evercore ISI Institutional Equities, Research Division

Got it. Okay. Great. That's helpful. And then on the expense guide of 1% to 3%. Can you -- does that incorporate an increase in your IT budget? I believe it's currently 9% to 11%, but you had signaled that it might be moving higher. So does that up 1% to 3% incorporate an upward revision to that budget?

David Jackson Turner
Senior EVP & CFO

It does. We've continued to make investments. As you know, maybe better than most. We are investing in a new deposit system and loan system, loan system will go in, call it, the second, third quarter of this year and deposit systems a couple of years away.

But we're -- we've been spending money on that. We're going to continue to invest there. And over time, we do believe that, that 9% to 11% range will be higher. We haven't committed to a given percentage right now. But the guide that we have does contemplate those investments already.

Those are the things that I'm talking about earlier when I said we would have to make investments to grow, to continue to have best-in-class technology, and we have to figure out how to pay for that. And we have to look at salaries and benefits and occupancy and vendor spend as a way to get there.

John M. Turner
President, CEO & Chairman

I would just say, John, two things about the deposit system conversion. One, it's on track, it's on time, it's on budget. And two, while David indicated, we may, in the future, spend more money on technology, that's with the assumption that we're going to reduce expenses somewhere else.

Operator

Next question comes from the line of Peter Winter with D.A. Davidson.

Peter J. Winter
D.A. Davidson & Co., Research Division

Just sort of follow-up on expenses. Just if I think about, John, in your opening comments, you outlined a series of investments you plan to make in terms of bankers and future revenue growth. The expense guidance is 1% to 3%. So the question is, would you pull back on these investments if revenue growth comes in a little bit weaker than expected given this focus on positive operating leverage?

John M. Turner

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President, CEO & Chairman

Well, we're committed to generating positive operating leverage. We believe that we will make the investments in people primarily, although we also indicate we're making investments in technology along the way, enhancing our mobile platform as an example.

We'll make those investments in a measured way, and we expect to generate revenue associated with those investments. So I don't anticipate having to necessarily address your question because we do think the revenue growth will come given the investments we've made and the track record we have in making investments like this, which generate positive operating revenue. We are very much committed to positive operating leverage over time. We expect we'll absolutely deliver that in 2025. And if we get the revenue growth, we believe we will, that will continue in '26 and beyond.

David Jackson Turner
Senior EVP & CFO

Yes. Peter, just to add to that. Your question is coming at, at what point would you abandon positive operating leverage? And sometimes you need to do that because you need to make investments that you can't get paid back for today. That's not what 2025 is going to be about.

2025 has some built-in tailwinds for us in terms of just front book, back book. And the investments we're going to make, we're going to be all over making sure they generate the revenue that we've pro forma. And so the question isn't about whether we have positive operating leverage. The question is how much. And so I kind of came at I think Ryan's original question.

So we're very committed to that this year. And very committed to making investments to grow our business in areas where we think we'll have disproportionate growth relative to the rest of the United States.

Peter J. Winter
D.A. Davidson & Co., Research Division

Got it. That's helpful, really helpful. And then just on credit. You mentioned net charge-offs will be elevated in the first half of the year and then down and lower in the second half. Do you think net charge-offs come in above the upper end of that 40 to 50 basis points in the first half? I understand that it's reserved for.

And then secondly, would you expect the ACL ratio to drift lower from 1.79%, which has been pretty consistent in '24?

John M. Turner
President, CEO & Chairman

Well, the charge-off ratio could drift a little higher than the 40 to 50 basis point range in a given quarter, given that we have a handful of large credits primarily in office and senior housing and in transportation, which we've signaled. In fact, roughly half of our nonaccruals are in those 3 portfolios.

And so as you think about resolutions, they might be somewhat episodic. We could experience a quarter when charge-offs were a little higher than the range. We are, we believe, obviously, appropriately reserve for losses in those credits. And so assuming they get resolved, I think you could also see absent loan growth with an improving economy that our coverage ratios would begin to come down.

Operator

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

Matthew Derek O'Connor
Deutsche Bank AG, Research Division

I was hoping to get some details. Sorry if you covered it earlier, but just on some of the other fee categories besides capital market. I don't know if there's seasonality or unusually strong 3Q levels, but service charges, cards, investment management were all down? And just any thoughts on what drove it 4Q and then the outlook on some of those categories.

David Jackson Turner
Senior EVP & CFO

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Yes. I think what's baked in to see some numbers that are baked in for next year that others have, we have this HR asset where we adjust benefits for certain individuals, and we have a trust that funds that. So as assets in the trust go up, NIR goes up and so do expenses. And that's why we have this little bit of noise in our numbers. That's about $15 million.

If you look at Page 14 in our supplement, you can see it quarter-to-quarter. It's about $15 million. We think people put in our run rate that really distorts NIR of the -- as you get to the fourth quarter, the things that are a little bit more episodic are capital markets, as you mentioned.

So M&A Advisory had a good finish for the year. It depends on what's in the pipeline in any given quarter. So you're not going to get a nice, smooth quarterly run rate on that cash on a loan, which is why we -- while we finished at $97 million, $98 million in the quarter for total capital markets, we're signaling more $80 million to $90 million, which should be baked into expectations. If we close more deals, it will be higher than that.

If we don't close many, we'll be at the lower end. So M&A is a bit, like I said, episodic. You have swap income, swapping, people just aren't entering into interest rate protection right now given the rate environment. So that's not much of a contributor. Syndication revenue was up in the quarter. That has been a little bit episodic, but it had a good finish to the year. And then we have real estate capital markets, that's really been our strongest, a more steady contributor But it can be even better than it was in the fourth quarter depending on rates. If we get rates coming down just a little bit, it actually could have even a better quarter.

So net-net capital markets, I think, $80 million to $90 million for the time being, and we're going to work to get it to $100 million, but we need a little help from the rate environment.

Service charges are fairly predictable. There is no real noise in anything. Wealth Management continues to grow at double digits, partly due to markets, but partly due to just growth in customers and balances. And we're making investments in wealth advisers to continue on that path. So we're happy with that.

Probably the biggest negative would be in the card and ATM fee line. That's where we have our rewards liability. We started identifying to our customers real time what the rewards liability was when you log on because we thought that was helpful to them, and we believe it's helpful. But as a result of that, people are using the rewards more. So we had to adjust our reward liability, and that was a little bit of a deduct in NIR for the fourth quarter that shouldn't repeat as we go forward into 2025.

Operator

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

Erika Najarian
UBS Investment Bank, Research Division

Just going back to Slide 8, David, thank you for all the color on beta in different mix scenarios. I'm just wondering, it's been such a long time since investors have seen a neutral rate that wasn't 0.

And as we think about your experience as Regions, given your deposit base, how should we think about sort of what you've seen in different rate environment with regard to DDA growth? And I guess I'm wondering how we -- it seems like we've completely lapped the impact of excess COVID liquidity in terms of pressure on deposits. And just I guess, wondering what is the environment where Regions can see itself growing DDA again?

David Jackson Turner
Senior EVP & CFO

Yes. I think it's a great question and a very important one because DDAs, consumer DDA and operating accounts of a business are the fuel that make our engine work. And we've done a pretty good job of continuing to grow checking accounts.

But we're doubling down on investments on our consumer side, our branch small business and our small business in the commercial side and reinforcing to our relationship managers to grow new logos so that we can get the operating account. It's not about making the loan, it's about getting the relationship, which is evidenced by an operating account of a business. And if we'll continue to do that, we will continue to have more than 30% of our total deposits in noninterest-bearing, which is very valuable to us from a margin standpoint.

So it's not really the rate environment that's the driver of that. It's about us just getting out boots on the ground and getting after it. And that's kind of the challenge that John has put to the businesses, and we're looking forward to seeing what we could do by making the investments at our priority markets that we listed in our material.

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Erika Najarian
UBS Investment Bank, Research Division

Got it. And the second question, maybe just investment, continued investments in fee income.

David, you mentioned investing in more mortgage servicing assets in 2025. And as you think about perhaps where you could service your clients even better, what is sort of -- what are your priorities in terms of sort of fee income investments in '25? And how should we think about that trajectory over the medium term?

David Jackson Turner
Senior EVP & CFO

Well, so we ask all of our businesses to take a look at what products and services that our customers need and value that we don't provide. And there's not a whole lot, but you've seen us invest in businesses like Sabal and Clearsight and in the business side that have been helpful to us.

We don't have a robust fixed income sales and trading platform. That would be nice if we could find something that made sense for us there. You mentioned MSRs. We love to buy RIAs in the wealth group, but they're too expensive. And so we have to continue to chip -- we have the capital to invest in those nonbank-type acquisitions, so we come up with a product or service that we don't have. We're all over it, but we have to make sure we pay an appropriate price for it.

Operator

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

Gerard Sean Cassidy
RBC Capital Markets, Research Division

John, you started your presentation with some very impressive economic data and population data and demographics in your core footprint. And at the same time, you and your peers continue to struggle to really achieve good loan growth. Good loan growth, I guess, you could define as the rate of growth of nominal GDP in the area in which you operate.

What is it going to take do you think, because I know you guys have been talking about modest loan growth for some time, particularly on the commercial side. What do you think it's going to take to bring loan growth into, let's say, mid-single digits for you folks over the next couple of years?

John M. Turner
President, CEO & Chairman

Well, there are some natural headwinds, Gerard. One is there's just a tremendous amount of liquidity in the marketplace. Customers have shrunk their balance sheet, their operating -- their working capital needs are less than they were pre-COVID, customers have figured out how to operate with less inventory, receivables turn potentially more quickly and they just have a lot of cash. And so we believe that customers have to put that money to work before we'll see an increase in activity.

Having said that, we do continue to expect our commercial lending activity to be pretty good. David talked about 3% projected loan growth. We saw a really nice increase in production year-over-year, But line utilization is still at historically low levels.

All that said, we also have to see growth in other portfolios. So we have some headwinds that are generated by the fact that the real estate business is not growing today, largely new originations due to cost of insurance, cost of borrowing money, cost of supplies and construction, all those things have been a headwind to new originations within real estate. So that naturally offsets growth in C&I.

And then the consumer book is fairly stable. Consumers are still spending money, but probably a little more cautiously than they were. And so while we're seeing some growth in our card portfolio, our other consumer businesses are fairly stable. I think we have to see some other things beside C&I loan growth in order to experience real overall loan growth in the portfolio.

Gerard Sean Cassidy
RBC Capital Markets, Research Division

And John, just tying into those comments. Can you give us any color, or maybe David, the acquisitions you guys did a couple of years ago on EnerBank and Ascentium. How are they doing in terms of growing their loan books relative to when you bought them and what you expected they were going to produce?

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John M. Turner
President, CEO & Chairman

Yes. I think we've been really happy with both acquisitions. I would say, Ascentium, which is the older of the two is a small business loan originator, their focus has been on business essential equipment.

They've been growing that business nicely, but have, over the course of the last, call it 12 to 18 months, ran up against some pressure as small businesses are feeling the pressure of increased cost, increased borrowing costs, et cetera.

So they haven't grown as much over the last 12 months as we would expect. We are, however, having really good experience integrating that platform into our branches so that our branch bankers can use the capabilities that we have within Ascentium. As an example, Ascentium can approve a loan within about 75 minutes. They have really good technology. We can close that loan quickly. And so we're happy and excited about what that means for growth in small business lending within our branches.

With regard to EnerBank, the home improvement finance business, we have a bit of a runoff portfolio there and that we had some slower originations, that business that we've decided not to continue to grow. And so as we're remixing our portfolio, so to speak, or our portfolios within EnerBank.

We don't anticipate a lot of growth there in 2025, but that will come over time. We've been really happy with the quality the credit in both Ascentium and EnerBank, and we believe that those are portfolios and capabilities, frankly, given the technology that they have that we can continue to grow over time.

David Jackson Turner
Senior EVP & CFO

And I'd add to that, Gerard. While your question was about balances, both of those portfolios that John just mentioned, protect us. They're a natural hedge on lower -- a lower rate environment because they're fixed rate lending with much more spread than is typical. Now it has higher risk, but we get paid and compensated for that risk, which is why we really like both of those businesses.

Gerard Sean Cassidy
RBC Capital Markets, Research Division

Very good. I appreciate that. And then, David, you guys, obviously, you and Dana put together some really good slides for your earnings call, and we all appreciate that. And I found Slides 20 and 21, very interesting about your securities portfolio and the information that's provided there.

On the held-to-maturity section of the securities portfolio, you show it represents about 14%. And if we assume that -- and we all don't know all of the details of the Basel III end game when it is finalized, hopefully, later this year. But assuming that the available for sale unrealized losses will go through regulatory capital, as you alluded to in your comments, where do you think the HTM portfolio goes to? Or are you comfortable just keeping it at the current level?

David Jackson Turner
Senior EVP & CFO

Yes. So Gerard, you saw that we over -- this past year, we've increased that quite a bit. We were at about 3%, I think, at the beginning of the year. We're at 14% today. We have an interim plan to get to about 25%. We realize that's lower than the peer median, still.

But we do think that to the extent AOCI does become part of the regime that reducing the volatility of capital relative to changes in interest rates is important for us. So we think 25% is comfortable enough. You start getting into higher percentages, you really have to think about the interplay with LCR and liquidity risk management.

So you don't want to hamstring yourself by putting too much in HTM. It's all one problem and create another one for you. So we think 25%, just about any regime, is a pretty good starting point. And once we get there, we'll reevaluate and come back to all of our investors and analysts and update that percentage if need be.

Gerard Sean Cassidy
RBC Capital Markets, Research Division

And I know you've been very active in the repositioning, as you point out in Slide 21. Should we assume in '25 and maybe '26 to reach that targeted number you just gave us, that repositioning is likely to be part of that strategy to get there?

David Jackson Turner

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Senior EVP & CFO

I would say our repositioning, you're not going to see the magnitude of the repositioning in '25 that you saw in '24, primarily because the -- we just don't have the securities out there that are -- that help us make sense for that. We've been trying to take losses with a payback period under 3 years. I think our last one was about 2.7 years. And we really don't want to go much over that.

So if we have a steeper curve, maybe that makes some sense to us. Our baseline is 4.50% on the 10. We start pushing on 5%, then maybe we have a different answer in either case, so I don't think we're going to have the magnitude of the repurchases that you saw in '24.

Operator

Our next question comes from the line of Betsy Graseck with Morgan Stanley.

Betsy Lynn Graseck
Morgan Stanley, Research Division

Couple of follow-ups here. One, on the expenses, you were indicating that the loan system will go into place this year, what was it, 2Q, 3Q?

David Jackson Turner
Senior EVP & CFO

That's correct.

Betsy Lynn Graseck
Morgan Stanley, Research Division

So my question -- okay. Is there -- will there be expense roll off as it relates to system unwinds? Or is that more of a '26?

David Jackson Turner
Senior EVP & CFO

Yes. I don't think that you'll see any appreciable pickup from that when we get to the third quarter, okay? That's kind of baked into our run rate. So I don't think there's any change from that going live.

Betsy Lynn Graseck
Morgan Stanley, Research Division

Right. But once it goes live, you test it, wait a couple of quarters and then you get to turn off the old system, right?

David Jackson Turner
Senior EVP & CFO

We do, but I don't think there's appreciable savings there. I think the new system really gives us an opportunity to serve our clients better. That's what that's all about. And it's a cloud-based system. And I think that it will help our relationship managers, in particular, serve our customers better.

Betsy Lynn Graseck
Morgan Stanley, Research Division

Okay. Super. And then just a follow-up on the question around the bankers. I know you mentioned at the beginning of the call, 140 bankers that you're looking to bring in over the course of the year, I'm assuming that's the time frame. But can you give us a sense of how does this number, 140 compared to prior years? I'm trying to get a sense of what kind of ramp you are driving in the business.

As I'm sure you know, head count times productivity is revenues. So looking to understand those ramping here. And is this a 1 year? Is this a multiyear? That would be very helpful to understand.

David Jackson Turner
Senior EVP & CFO

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Well, you got to the answer at the very end. It's -- that's a multiyear. That's a, call it, a 2-, 3-year ramp. That's not -- we're not hiring 140 people in 1 year. I'm not sure we could hire 140 people in 1 year. You'll see that really coming on throughout the year, probably towards the middle of the year and the back of the year, that's baked into our 1% to 3%.

And so you shouldn't see this big cliff effect of having all this expense with no revenue. We're going to feather it in so that it makes sense for us. Again, we're committed to positive operating leverage. At the same time, we're committed to growth. So how we do that and the pace that we do that is going to have to be very measured, so you're not going to see just all of a sudden a bunch of people show up on our doorstep.

Betsy Lynn Graseck
Morgan Stanley, Research Division

Got it. And I'm just wondering, I'm sure you've been hiring people into this business along the way as well and you're indicating that you are going to be accelerating the pace of hiring into this space. I'm just wondering, is this a doubling of prior pay, tripling?

John M. Turner
President, CEO & Chairman

Yes. I mean depending on the business, Betsy, it would be a 10% to 20% increase in head count depending upon the business or function just by range.

Operator

Our final question comes from the line of Chris Spahr with Wells Fargo.

Christopher James Spahr
Wells Fargo Securities, LLC, Research Division

So this is a kind of a [indiscernible] of the strong footprint and outsized growth you expect, and yet obviously, loans and deposits to you. It's a lot of recent points, growing much. What do you think the organic growth rate should be in a more normal environment for both?

John M. Turner
President, CEO & Chairman

Yes. Well, we've consistently said we think we ought to grow -- in our core markets, we ought to be growing with the economy plus a little where we have significant market share and presence.

We acknowledge that there are a number of new competitors in the marketplace or indicating they want to come into the marketplace, which makes the business more challenging, but we have a high degree of confidence in our ability to continue to protect our markets, our core markets and grow in those markets. And at the same time, we're excited about the growth markets that we have an opportunity, we've called them priority markets where we have an opportunity to grow our business at maybe a little faster rate relative to our current position there.

Christopher James Spahr
Wells Fargo Securities, LLC, Research Division

And I know this was kind of asked a little bit already, but just can you just be a little more specific on the tech progress like what's the timeline when you think you'll be done? And what are kind of the ancillary benefits you may expect to see, both just on an operating standpoint, but also an opportunity standpoint?

John M. Turner
President, CEO & Chairman

Yes. David mentioned, we'll convert to our new loan system later this year and then begin running a pilot on the deposit system in the second half of 2026 with in implementation in the likely the second quarter -- first to second quarter of 2027.

In terms of benefits, so we think it gives us a good bit more capabilities, faster product launches. We can bundle products. We'll have just -- we think more interesting capabilities, It's a cloud-based system. It will allow us to upgrade the system much more easily quickly. And all in all, we think they give us a competitive advantage.

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Okay. That's all the questions. Thank you all very much for calling in today. We appreciate your interest in Regions. Have a great weekend.

Operator
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