

Regions Financial Corporation NYSE:RF

FQ1 2025 Earnings Call Transcripts

Thursday, April 17, 2025 2:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ1 2025-			-FQ2 2025-	-FY 2025-	-FY 2026-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.51	0.54	▲ 5.88	0.55	2.23	NA
Revenue (mm)	1834.56	1796.00	▼ (2.10 %)	1867.97	7527.04	NA

Currency: USD

Consensus as of Apr-17-2025 1:26 PM GMT

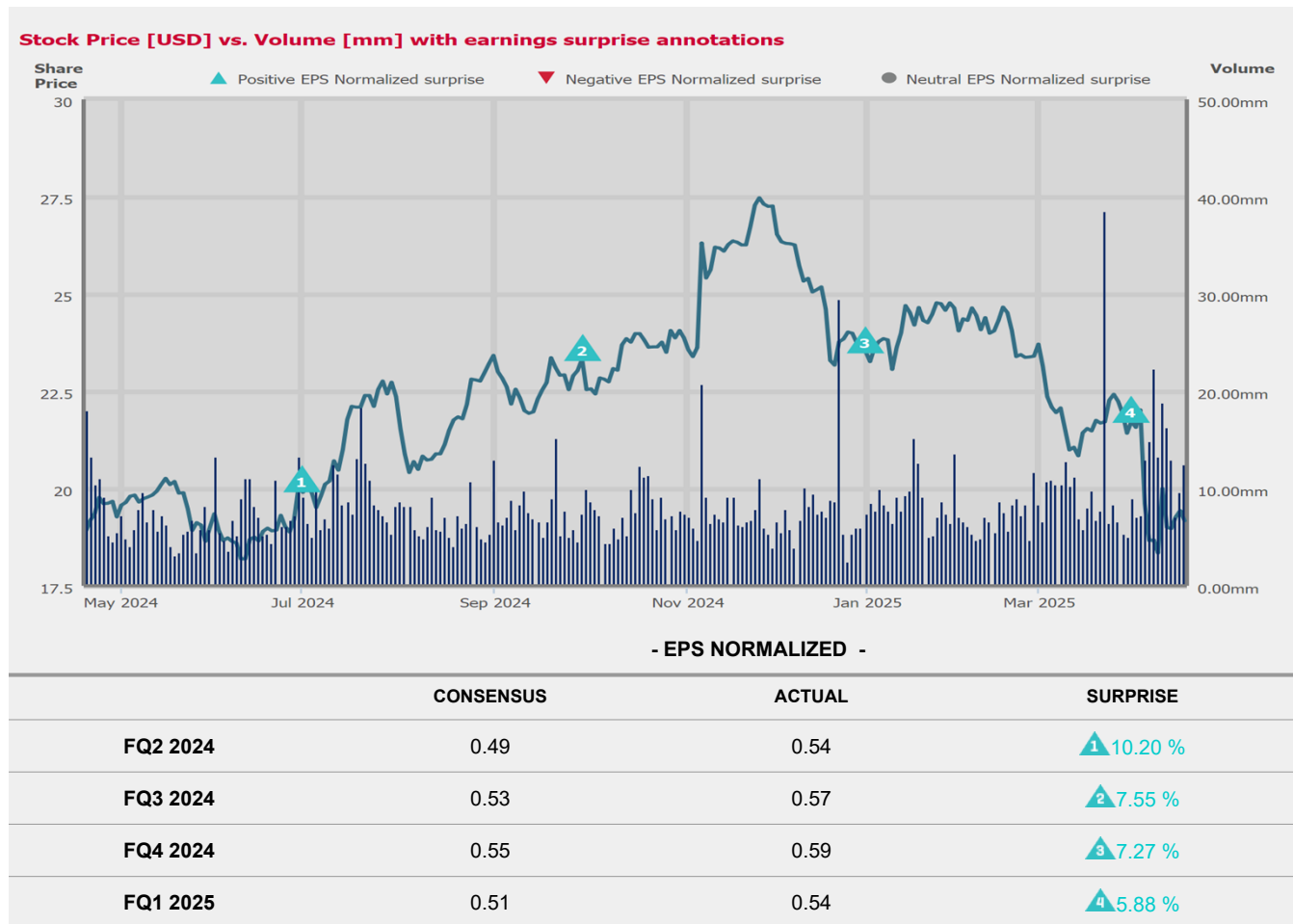


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Call Participants

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John G. Pancari
Evercore ISI Institutional Equities, Research Division

Matthew Derek O'Connor
Deutsche Bank AG, Research Division

Robert Scott Siefers
Piper Sandler & Co., Research Division

Presentation

Operator

Good morning, and welcome to the Regions Financial Corporation's quarterly earnings call. My name is Chris, 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, Chris. Welcome to Regions First Quarter 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. Earlier this morning, we reported strong quarterly earnings of \$465 million, resulting in earnings per share of \$0.51 and adjusted earnings of \$487 million and adjusted earnings per share of \$0.54. We delivered pretax pre-provision income of \$745 million, a 21% increase year-over-year and we generated a return on tangible common equity of 18%.

We're pleased with our performance and believe we are well prepared to face the current market uncertainty. At Regions, we remain committed to our long-standing strategic priorities of soundness, profitability and growth. These priorities support our ability to generate consistent, sustainable long-term performance. They are also the foundation underpinning our decade-long plus journey to transform our bank. Over the last 10-plus years, we have strengthened our soundness through enhancements to our interest rate risk, credit risk and capital and liquidity management frameworks while fortifying our operational and compliance practices to support growth.

We meaningfully improved our profitability through diversifying our revenue streams, focusing on appropriate risk-adjusted returns and disciplined expense management. And over the last 5 years, we have generated top quartile organic loan and deposit growth, while continuing to make investments in talent, technology, products and services to further grow our business. These efforts have contributed to significant improvement in our return on tangible common equity.

In 2015, our return was in the bottom quartile. In each of the last 4 years, we delivered the highest return on tangible common equity among our peers. Additionally, we've generated top quartile earnings per share growth and over both a 5- and 10-year period. Our derisking efforts and best-in-class hedging program have contributed to a strong capital position. This is evident in the most recent CCAR stress test results as our projected post-stress capital degradation was well below the peer median and our pretax preprovision income coverage of projected stress losses was the highest among our peers.

We believe our robust capital balances and strong organic capital generation position us well to perform across an array of potential economic conditions. Our enviable footprint provides us with both a low-cost and granular core deposit base as well as favorable growth opportunities from our high-growth priority markets. This benefit, coupled with our proven strategic plan and experienced team with a record of successful execution leads us to feel good about our positioning for 2025 and beyond.

With respect to 2025, our outlook for unemployment has increased and there is an expectation for a pronounced slowdown in GDP growth. But at present, our base case does not include a recession. Our clients remain optimistic that the economy will improve. The current conditions have created uncertainty, which has caused many of our clients to delay investments. Importantly, we remain well positioned to generate consistent results and support our clients regardless of the market backdrop and economic conditions.

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

David Jackson Turner

Senior EVP & CFO

Thank you, John. Let's start with the balance sheet. Average loans remained relatively stable quarter-over-quarter while ending loans declined 1%. Within the business portfolio, average loans remained stable as customers continue to carry excess liquidity and utilization rates remain below historic levels. Although pipelines and commitments continue to trend higher versus this time last year, it is too early to assess the full impact tariffs will ultimately have on loan demand.

However, as John indicated, customers are delaying investment decisions pending further clarity. Average consumer loans decreased approximately 1% in the first quarter as lower seasonal production contributed to declines in home improvement finance and residential mortgage. Given the near-term economic uncertainty, we now expect full year 2025 average loans to be relatively stable versus 2024.

From a deposit standpoint, average deposit balances grew 1% linked quarter and ending balances increased 3%. The growth is consistent with normal seasonal tax trends and is also reflective of customer preference for liquidity amid the uncertain environment. We've experienced favorable performance in both core and priority markets with good participation in our money market offers, which boosted interest-bearing deposits. Despite this, we remain at our expected mix in the low 30s as a percent of noninterest-bearing to total deposits and believe this profile will remain relatively stable in the coming quarters.

In the second quarter, we expect average deposit balances to be roughly flat, reflecting tax outflows in April, offset by existing relationship deepening and new customer acquisition, particularly in our priority markets. Should cautiousness persist among clients, we could experience somewhat higher commercial balances in the near term. But under our current baseline for the full year 2025, we expect average deposits to be stable to modestly higher when compared to 2024.

This reflects modest growth in consumer deposits, partially offset by some incremental deployment of excess liquidity by corporate clients later in the year. Let's shift to net interest income. Net interest income declined 3% linked quarter, but declined less than 1%, excluding the impact of nonrecurring items and day count. Excluding these factors, the decline in net interest income is mostly driven by lower loan balances and less origination fee activity as customers wait for more clarity in the operating environment.

Additionally, a tight lending spread environment created a modest headwind. The benefits from lower deposit costs and hedging have protected the margin during the falling rate cycle. Our ability to manage funding costs lower while also growing deposit balances in the quarter further highlights the strength of Regions' deposit advantage. Linked quarter interest-bearing deposit costs fell by 11 basis points representing a full falling rate interest-bearing deposit beta of 32%. Further, the March exit rate for the quarter shows our ability for ongoing deposit cost reduction from time deposit maturities and repricing, which imply a mid-30% deposit beta.

Finally, we took advantage of yield curve and spread dynamics that provided for a less than 3-year payback on an additional securities portfolio repositioning. Currently, we have limited remaining repositioning opportunities that meet our interest rate risk and capital management objectives. However, we will continue to evaluate as conditions warrant. After declining in the first quarter, net interest income is expected to grow approximately 3% in the second quarter as the overhang from day count and other nonrecurring items abate.

Additionally, we believe that fixed rate loans and securities turnover in the prevailing rate environment and improving deposit cost trends will drive net interest income higher over the remainder of the year. Full year 2025, net interest income is now projected to grow between 1% and 4% with a reduction in the range driven by the evolving macroeconomic and interest rate environment. While only a small amount of loan growth from here is necessary to support the midpoint of our guidance, a potential for accelerating growth later in the year provides opportunity to achieve the higher end of the range.

Now, let's take a look at fee revenue performance during the quarter. Adjusted noninterest income remained stable linked quarter as growth in most categories, including new records in both treasury and wealth management revenue was offset by lower capital markets.

The decline in capital markets was driven primarily by lower M&A, real estate capital markets and loan syndication activity. We continue to believe that over time and in a more favorable environment, our capital markets business can consistently generate quarterly revenue of approximately \$100 million, benefiting from investments we have made and capabilities and talent. However, we expect that we'll continue to run around \$80 million to \$90 million in the near term. Due to heightened uncertainty and market volatility, we currently expect full year 2025 adjusted noninterest income to grow between 1% and 3% versus 2024.

Let's move on to noninterest expense. Adjusted noninterest expense increased approximately 1% compared to the prior quarter, driven primarily by a 1% increase in salaries and benefits which included 1 month of merit as well as the reset of payroll taxes and 401(k) matching. The seasonal increase in salaries and benefits came in lower than originally anticipated attributable to lower head count and incentive-based compensation. The company's planned investments in talent, primarily in our priority markets remains underway.

We expect second quarter salaries and benefits expense to be up modestly compared to the first quarter. We have a well-established history of prudently managing expenses across various economic conditions. As our outlook for revenue in 2025 has come down, we now expect full year 2025 adjusted noninterest expense to also come down to be flat to up approximately 2%. Despite these revisions, we remain committed to generating full year positive operating leverage in the 50 to 150 basis point range.

Regarding asset quality, provision expense was approximately equal to net charge-offs at \$124 million. The resulting allowance for credit losses ratio increased 2 basis points to 1.81% based on conditions at quarter end. Declines related to specific reserves and portfolio changes were offset by increases associated with economic deterioration and qualitative adjustments reflecting more uncertainty in the economic environment.

Annualized net charge-offs as a percentage of average loans increased 3 basis points to 52 basis points driven primarily by previously identified portfolios of interest. Nonperforming loans as a percent of total loans decreased 8 basis points to 88 basis points, modestly below our historical range, while business services criticized loans increased by 4%. Our through-the-cycle net charge-off expectations are unchanged and remain between 40 and 50 basis points. We continue to 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 elevated in the first half of the year, but importantly, we have reserved for losses associated with these portfolios. Let's turn to capital and liquidity. We ended the quarter with an estimated common equity Tier 1 ratio of 10.8%, while executing \$242 million in share repurchases and paying \$226 million in common dividends during the quarter.

When adjusted to include AOCI Common equity Tier 1 increased from 8.8% to an estimated 9.1% from the fourth to the first quarter, attributable to strong capital generation, and a reduction in long-term interest rates. We continue to execute transactions to better manage this volatility. Towards the end of the first quarter, we transferred an additional \$1 billion of available-for-sale securities to held to maturity. And in early April, we transferred another \$1 billion increasing our current mix of HTM to total securities to approximately 20%.

In the near term, we expect to manage common equity Tier 1 inclusive of AOCI closer to the lower end of our 9.25% to 9.75% operating range. This should provide meaningful capital flexibility 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. This covers our prepared remarks. We'll now move to the Q&A portion of the call.

Question and Answer

Operator

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

Robert Scott Siefers

Piper Sandler & Co., Research Division

John, I was hoping maybe you could sort of give us your sense for the degree to which things -- at least your perception regarding the degree to which things will need to settle down before customers are willing to reengage with things like investments or other strategic decisions? And if there's any difference in how you would look at it for traditional commercial lending versus your capital markets businesses, et cetera?

John M. Turner

President, CEO & Chairman

I don't know that I can put a degree of settling down, so to speak. But clearly, the volatility of uncertainty has customers in sort of a wait-and-see mode. I do think as it becomes more clear what the nature of the tariffs will be, what products they'll be applied to, what countries and to what degree the customers can be more certain about the potential impacts. We're also following and thoughtful about this, but we're also following the changes in immigration policy and changes in regulation and the impact on businesses. We've had the opportunity over the last 6 weeks to visit with more than 60% of our Corporate Banking group customers, non-real estate related and have a pretty good sense of their frame of mind. I would say customers are still optimistic, but very much in a wait-and-see mode.

David Jackson Turner

Senior EVP & CFO

Scott, I would add to the kind of -- you asked the second part of that question on capital markets. We had a little bit of activity that picked up when the 10-year came to the lower 4% actually dipped -- I think we were at 3.88% for a short period of time. And those lower rates is really what you need to help drive a little bit more activity in that space.

Robert Scott Siefers

Piper Sandler & Co., Research Division

Perfect. Okay. And then maybe, David, when you think about the lower expense growth rate for the year, can you maybe put a little more context around how much of that is just sort of naturally lower cost due to less revenue-driven activity and -- versus how much might be actual cuts or delays to investments, things like that? Just I'm trying to get a sense for the balance in there.

David Jackson Turner

Senior EVP & CFO

Yes. So we had the seasonal increase. We were able to offset that a bit because of lower head count. We also had some retirements that happened in the end of the fourth quarter, the very beginning of the first quarter that we benefited from that will be ongoing. That's helping us offset the investments we have already made and will continue to make in terms of the additional hires that we had mentioned for our growth markets. So we have a schedule in the back. I think it's on Page 19 in the deck that shows the investments we want to make in all 3 of our segments to grow, in particular, in our priority markets.

And so our whole point has been we're going to control costs but we -- and we need to make investments to grow. We have to find those savings somewhere else. We've been able to do that by controlling head count in other areas. We've leveraged technology incrementally better. We still have ways to go there. So it's really not -- it's not holding off on investments, it's finding the cost elsewhere in the business.

Operator

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

John G. Pancari

Evercore ISI Institutional Equities, Research Division

To the loan side, I know you bumped your guidance lower, and you just gave a little bit of color just around the customers are in kind of a wait and see mode. Can you give us a little bit more detail there? What are you seeing in terms of line utilization? Was there any pre-tariff drawdown that you saw that could be more of a pull forward? And then separately, are there any areas of growth that you're seeing that could be the main drivers of loan growth here amid this uncertainty?

John M. Turner
President, CEO & Chairman

Yes. So John, we did see during the quarter, I guess, our pipelines are, I'll call them a bit mixed. I think the activity and sort of the upper end of the middle market and smaller corporate customer base is pretty soft. Customers were able to access the secondary market. During the first quarter, we had almost \$800 million in paydowns from customers who went to the bond market, raised capital and reduce their outstandings with the bank. So that sector has been -- and the opportunity there is fairly soft.

Within the middle market customer space and in real estate, we're beginning to see pipelines expanding a bit. And so those customers are more interested in making investments, we think, and that likely will continue. The issue is primarily understanding of what the impact of tariffs will be on cost of projects and other things, but we'll follow that more closely. Line utilization is still flat. We're not seeing any borrowings to facilitate increasing inventories. And in fact, customers are still carrying a tremendous amount of liquidity on their balance sheets. We've seen a significant growth in what I'll call wholesale deposits, both on balance sheet and off balance sheet, and I think until customers begin using that liquidity, it's not likely we see any real increase in borrowings under lines of credit.

John G. Pancari
Evercore ISI Institutional Equities, Research Division

Great. All right. And I guess just separately on the capital front, your CET1 is solid at 10.8% and 9.1%, including AOCI. You bought back about \$242 million this quarter. Can you just help us think about the pace of buyback as we look out through the rest of the year? Do you think that as growth remains muted, that actually facilitate the higher pace of buybacks? Or could the pressure to growth mean still weaker economic outlook, and therefore, you could be more cautious in terms of buybacks longer term. So just want to get that -- how you're thinking about that trade-off?

David Jackson Turner
Senior EVP & CFO

Yes, John, I think it's along the lines of the first thing you mentioned. We have our capital where we need to be right at it. We said, even in -- after AOCI impact, we would be at the lower end of our range. We're generating 40 basis points of capital every quarter. We want to continue to pay our dividend, even be able to increase that appropriately. And then we really use our capital to support our business, support our customers and make loans. And if there's not a lot of demand for loans, then the expectation is we use that capital and buy back.

And so we leaned into that a little bit with the \$242 million in the quarter. And to the extent, we continue to earn what we think we can earn, you should expect us to lean into buybacks until we start to see loan growth. We're confident in the amount of capital that we have to support our business under any economic scenario. So there's no need to be ultra conservative with regards to that. So I think buybacks would be in order for us.

Operator

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

Ebrahim Huseini Poonawala
BofA Securities, Research Division

I guess, maybe, David, just sticking with the capital. So we did some, I think, bond book restructuring this quarter, pay back 2.7 years. Just give us a sense, is there more juice to go there in terms of restructuring more bonds? And like how are you thinking about that today versus buybacks?

David Jackson Turner
Senior EVP & CFO

Yes. So we have mentioned now for 2 quarters that we thought we were kind of at the end of the line in terms of being able to do that. And we really have targeted and it's arbitrary, but we've targeted a payback of 3 years or less. We really didn't think we had much left to do going into the quarter. The rate environment changed pretty abruptly for us and gave us an opportunity to do another small -- fairly small slug of that.

And so we're again going to reiterate, we think we're kind of at the end of the line. But if the market gives us the opportunity to do that, again, we go through the math of looking at what's better for you to do a securities repositioning, take the loss or buy your shares back. And that's really the calculus. We continue to see opportunities to do repositioning that's better than buyback, we will do so. It's just I think that's going to be a harder calculation to come back. We have a little bit left, but not just not much.

Ebrahim Huseini Poonawala
BofA Securities, Research Division

Understood. And maybe, John, just back to we saw, we've seen a dramatic change in customer sentiment today versus January. As we think about customers that are on post right now, we're trying to figure out whether the next move is higher or into a recession. How quickly like do you think activity could pick up, means, what are you hearing from the customers around tariff clarity that they need where you could actually see -- like is it realistic that 30, 60, 90 days from now, growth could be much better than expected? Or is this going to take a lot longer given what we've been through over the last 30 or 60 days?

John M. Turner
President, CEO & Chairman

Well, I think some stability, more likely 90 days than 30 is -- would be important for customers to act. Is it -- maybe 90 more days than that. So 90 days to 6 months is probably more likely. But I do think people are looking for a period of some stability and that probably is a minimum of 90 days.

Ebrahim Huseini Poonawala
BofA Securities, Research Division

And just following up on that, you have markets where you have pretty significant manufacturing plants tied to the auto sector. Any impact you've seen right now either good or bad because of the auto tariffs?

John M. Turner
President, CEO & Chairman

Not yet, not yet. We really have not seen any significant impact associated with the tariffs to date nor immigration policy changes, but we are monitoring all those things, obviously.

Operator

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

Matthew Derek O'Connor
Deutsche Bank AG, Research Division

The service charge line grew nicely year-to-year and then also linked quarter, where normally there is some seasonal pressures. So just talk about that. I think there's both treasury management and the consumer overdraft or some of the big drivers. So if you could touch on that?

David Jackson Turner
Senior EVP & CFO

Yes. I mean we continue to grow customer accounts, customer checking accounts and more accounts are going to have more service charges. We do have a little bit of seasonality that comes in the service charge line item on the corporate side. And that's always a bit helpful in the first quarter. But all of our income lines on the noninterest revenue were very -- were all increasing with the exception of capital markets, which is where we had the biggest challenge. And we expect that noninterest revenue source to be fairly stable to growing throughout 2025, ex the cap markets challenges.

John M. Turner
President, CEO & Chairman

Yes. I'd just add, Matt, to reiterate David's point, growth in consumer checking accounts, growth in small business checking accounts are a driver of service charge income. We grew treasury management relationships about 9% last year, and you're seeing the benefits of that manifested in increased treasury management revenue and we would expect to continue to have that sort of success growing treasury management relationships as we expand our commercial and corporate banking businesses across our growing footprint.

Matthew Derek O'Connor

Deutsche Bank AG, Research Division

Okay. That's helpful. And then just on the consumer overdraft fees, there's obviously been some relief over what could have happened in terms of caps. And just thoughts on that going forward. Obviously, it's been a drag for kind of multiple years for you guys, but opportunities for that to grow maybe beyond the account growth from here?

John M. Turner
President, CEO & Chairman

Well, we've made a lot of changes in our overdraft practices and services that we offer customers, including early pay a 24-hour grace period, established de minimis levels for overdrafts and maximum number of transactions. All those things have had an impact on overdraft revenue, and that's a positive from our perspective. We want to provide that service to customers, but we prefer they not use it. To the extent they do, then we are generating some revenue associated with it. It grew modestly quarter-over-quarter. We're still seeing about the same percentage of customers access overdraft. So it's not a -- we're not seeing a growing number of customers, I guess, would be the point using overdrafts. It really is more a reflection, I think, of the overall number of accounts that we are opening. And as a result, some additional revenues being generated.

Operator

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

Erika Najarian
UBS Investment Bank, Research Division

My first question is, as we think about what the reserve is capturing in terms of unemployment rate, David, could you give us a sense on what the current baseline is and what the weighted average may be?

David Jackson Turner
Senior EVP & CFO

Yes. So we do our calculation a little differently. If you go look at -- and get [indiscernible] to Page 29, it will show you what our unemployment expectations are for the next start with [indiscernible]. about 4.2%, 4.3%. We also have a qualitative component and embedded in that qualitative component is trying to think what that a piece of that is what the unemployment rate could go to. When you weigh all that down, we're in the high 4% range as far as the unemployment that's embedded in our current allowance that we have at the end of the quarter.

Erika Najarian
UBS Investment Bank, Research Division

Got it. Yes, as we think about the allowance going forward, given how you've told us your charge-offs will trend over this year, there are clearly some already identified issues that you're working through, which would imply a release of those associated reserves. But clearly, the macro outlook has -- is murkier given the tariff policy. So how should we think about the potential of modest loan growth coming back the resolution of those previously identified problem credits and then just like a who knows environment as we think about your ACL going forward?

David Jackson Turner
Senior EVP & CFO

Yes. I think -- so if you look on Page 31, where we show our allowance relative to our kind of day 1 CECL back to the fourth quarter 2019, first opening quarter of 2020, we show you kind of what those reserves, that's in a benign environment. We clearly have more reserves today because we have to take care of some of our problem assets in those portfolios of interest. And that's why we expect higher charge-offs in the first half of the year and lower in the back half. And as you see that, you should have an expectation, all the things being equal, and the economy doesn't drift further away that the allowance coverage ought to be coming down. We've given you a pro forma as to what the loss rates would look like with our current portfolio as if it were adopted on the first day of CECL, it's 162.

So what you ought to see is that 181 that we have today is drift down more towards that in a normal environment, the pace of which we can't tell you because we don't know what the economic environment is going to be. But those higher charge-offs coming through this year just directionally, you should expect the 181 to be lower as time goes by unless the economy falls apart.

Operator

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

Gerard Sean Cassidy
RBC Capital Markets, Research Division

I just want to clarify an answer on that last question on Slide 30, your economic outlook with the unemployment rate if I recall, those are the economic statistics for your region, your footprint rather than the country, am I correct in remembering that?

John M. Turner
President, CEO & Chairman

That's correct.

Gerard Sean Cassidy
RBC Capital Markets, Research Division

Okay. Just because your numbers are going to be different than what we're hearing from others. I want to make sure people knew that. Coming back to your CECL comment with the reserves, how challenging do you think it's going to be convincing the regulators and the rating agencies of what you pointed out, the way the math works and the CECL, how those reserves should come down. Any thoughts there?

David Jackson Turner
Senior EVP & CFO

Well, I mean, we think we're pretty expert at -- now what allowance we need to have. Obviously, we get challenged by rating agencies, regulators or independent auditors. But we have a pretty good process in place as consistently applied. And just directionally, what I said has to happen over time. I think your -- what's embedded in your question, Gerard, is a pace. The pace of that improvement and coming down, and I don't think we're going to get to 162 until we see things really settle down and we have clarity and the economy has kind of moved along like it's capable of.

So I don't want to assert that we're going to 162 next quarter or even this year. I'm just saying that with higher charge-offs with an 181 allowance, if you're fully reserved for the charge-off, that number mathematically has to come down, all other things being equal.

Gerard Sean Cassidy
RBC Capital Markets, Research Division

Certainly, got it. And then one other follow-up just on credit. You guys coming out of the pandemic identified some of the ongoing portfolio, surveillant portfolios like transportation, trucking. As we move forward in a slower growth environment, have you identified any other portfolios that you're keeping extra attention to outside of what you've already identified from the pandemic area. Are there any portfolios in particular that you look at?

John M. Turner
President, CEO & Chairman

Yes. I'd say retail trade, manufacturing, particularly related to consumer durables, I think we'll have to watch the consumer and where they're spending or not. And those will be areas that we follow with some interest. Construction would be another area with potential impacts on rising cost above and beyond what we've already experienced.

Operator

Our next question comes from the line of Christopher Spahr with Wells Fargo.

Christopher James Spahr
Wells Fargo Securities, LLC, Research Division

So my question is just a follow-up on the fee drivers and your lower guide, but yet you had like record wealth management and treasury management going into the quarter. So just -- is it all -- you're going to be at the low end of the capital markets kind of \$80 million to \$90 million? Or are there some other things that kind of that led to you to kind of lower your guidance for fees for the year?

David Jackson Turner
Senior EVP & CFO

Yes. Chris, the main driver is exactly what you said is capital markets. All the other categories seem to be doing pretty well. We could have a bit of a challenge in the wealth area just because of the market. We'll see -- they're continuing to grow assets in the wealth management area, which will be nice. But there's also a market component of fee revenue there, too. So the market now makes that a bit more challenging, but the biggest single driver is what is capital market is going to be. And that is driven by more specifically, M&A activity, real estate capital markets and loan syndications. And all 3 of those were down this quarter.

And hopefully, over time, we can get those to rebound, which is why we've given you that business is set up to generate \$100 million a quarter, but it's just not going to happen with uncertainty that's created the rate environment. Those are 2 big drivers of that revenue stream.

Christopher James Spahr
Wells Fargo Securities, LLC, Research Division

Okay. Okay. And then as a follow-up, just -- you've talked in the past about kind of targeting some core markets in your footprint. And just can you just expand on what actions you might be doing, especially if you're not really expanding new branches in those markets.

John M. Turner
President, CEO & Chairman

Yes. It's mostly around just additional focus on the opportunities in the market. So as an example, we -- I think we talked about last quarter, making an investment in bankers specifically skilled to take advantage of the unique opportunities that might exist around the market, small business, as an example. We operate 1,250 branches. The opportunity to bank small businesses is equal across those 1,250 branches. In fact, there are some locations where there's real opportunity, and so placing bankers in those markets, specifically to focus on the opportunities. There is an important investment.

Similarly, we're making investments in commercial bankers and wealth bankers and our our approach to business is a team-based approach. So we're focusing on using all the assets that we have in some of these markets to work together to grow our business, and we're excited about the opportunities that, that presents.

Operator

Your final question comes from the line of Betsy Graseck with Morgan Stanley.

Betsy Lynn Graseck
Morgan Stanley, Research Division

I just want to understand the comment you made earlier around how net charge-offs are expected to be -- do I get it right front-end loaded? And like how should I be thinking about the pace of what we're going to be seeing in the beginning of the year versus the end of the year? And how much differential is there? And then separately, you've reserved all for this, so the provision is neutral. Is that a fair read? Or what did I miss?

John M. Turner
President, CEO & Chairman

Yes. I think the way to think about it, Betsy, is we identified a couple of credits in the portfolios of interest that we've previously talked about, office specifically, senior housing, transportation, where we're in a workout mode. We don't know exactly the timing of those resolutions, but we believe that it would likely be in the first or second quarter. As a consequence, we've signaled charge-offs could be higher in the first and second quarter or the first half of the year than in the latter part of the year.

Having said that, we're still committed to a range of 40 to 50 basis points. So you can draw your conclusions. We recorded 52 basis points of charge-offs in this quarter if we're still going to be within that range of 40 to 50 basis points, you can sort of assume the trajectory from here, we still believe the second quarter will be higher than the third and fourth. So again, based on things that we think we're going to get -- we're going to resolve.

David Jackson Turner
Senior EVP & CFO

From a provisioning standpoint, again, all things being equal, you should expect the provision to be right there with charge-offs. Now if we get some loan growth or we get economic deterioration both of those can drive an increase in the provision over charge-offs. But we just have to wait until we get to the end of the quarter to see.

Betsy Lynn Graseck

Morgan Stanley, Research Division

Yes. Just wondering since you reserve for these workouts you're doing, you write it off and the reserve goes down, right? You released the reserve against it. So that's why I was wondering would that be a neutral impact on provision?

John M. Turner

President, CEO & Chairman

Yes. And you would have seen that in this quarter, but for the fact that we had some economic deterioration. So our -- we did increase our reserves for general in provision as a result of just observations about the market.

David Jackson Turner

Senior EVP & CFO

And your comment about seeing the reserve come down. That was my whole point talking to [indiscernible] now. Erika, maybe and Gerard, that the 181 that we have ought to come down as you see those higher charge-offs.

Betsy Lynn Graseck

Morgan Stanley, Research Division

Right, right. Understood. Thanks so much. Appreciate the time.

John M. Turner

President, CEO & Chairman

Thank you. Okay. Well, that concludes, I think, all the questions we had today. So thank you for participating on our call. Thanks for your interest in our company. Have a great weekend.

Operator

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

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