

Regions Financial Corporation NYSE:RF

FQ2 2026 Earnings Call Transcripts

Friday, July 17, 2026 2:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ2 2026-			-FQ3 2026-	-FY 2026-	-FY 2027-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.63	0.68	▲ 7.94	0.67	2.62	NA
Revenue (mm)	1947.23	1921.00	▼ (1.35 %)	2006.40	7877.50	NA

Currency: USD
Consensus as of Jul-17-2026 1:02 PM GMT

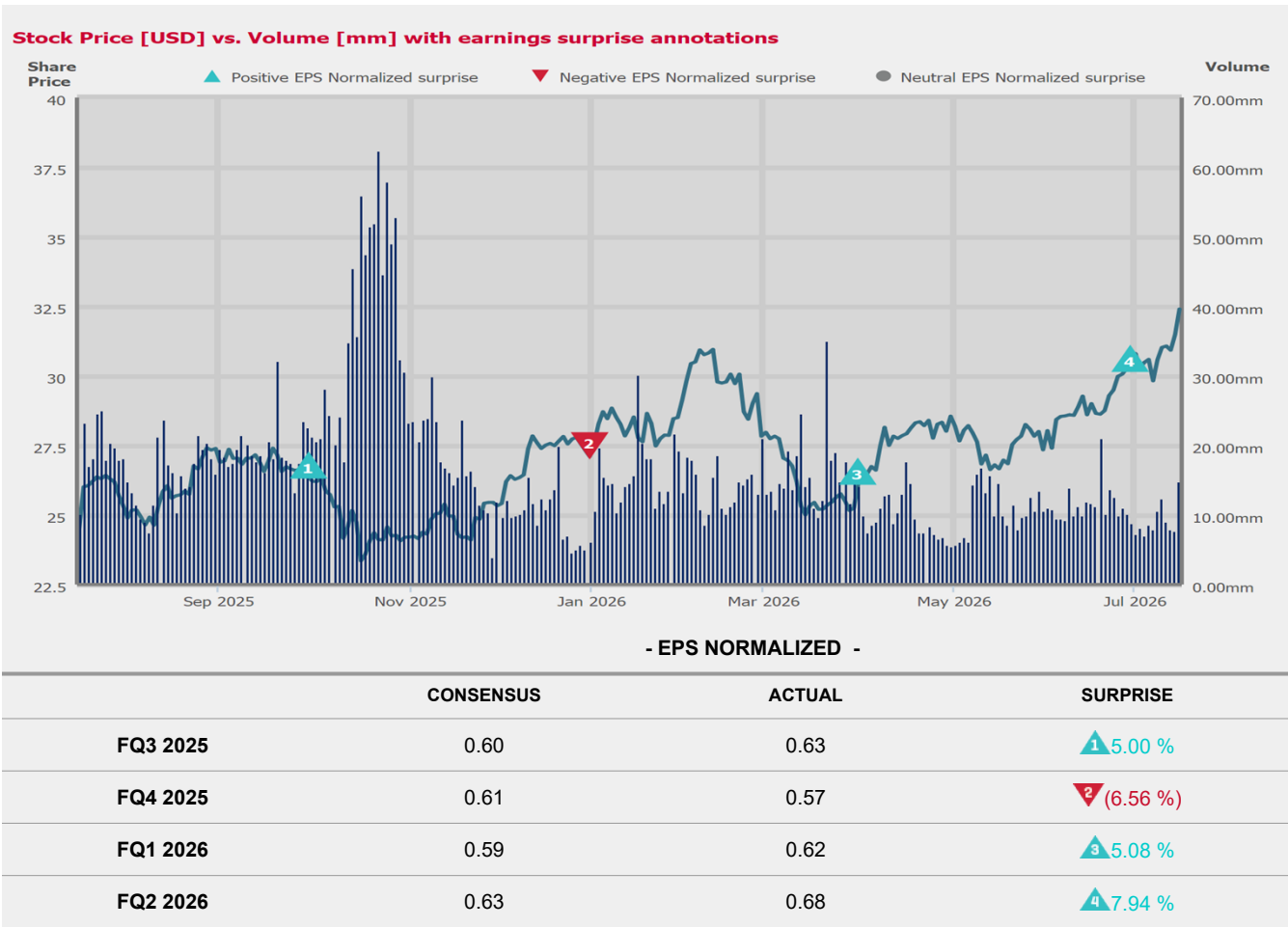


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Call Participants

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Presentation

Operator

Good morning, and welcome to the Regions Financial Corporation's quarterly earnings call. My name is Chris, and I'll be your operator for today's call. [Operator Instructions]

I will now turn the call over to Tom Speir to begin.

Tom H. Speir

Head of Strategy, Investor Relations & Corporate Development

Thank you, Chris. Welcome to Regions' Second Quarter 2026 Earnings Call. John and Anil will provide high-level commentary regarding our results. We ask that you review the cautionary statements included in our earnings documents, which are available in the Investor Relations section of our website.

These materials contain information regarding the use of non-GAAP measures and reconciliations to the GAAP results as well as forward-looking statements about Regions' performance. These statements speak only as of today, and we undertake no obligation to update them.

I will now turn the call over to John.

John M. Turner

President, CEO & Chairman

Thank you, Tom, and good morning, everyone. We appreciate you joining our call today. Earlier this morning, we reported earnings of \$549 million, resulting in earnings per share of \$0.64. On an adjusted basis, earnings were \$583 million or \$0.68 per share. We delivered adjusted pretax pre-provision income of \$831 million and generated an adjusted return on tangible common equity of 20%. Overall, we're pleased with our performance for the second quarter reflecting disciplined execution across the franchise and the benefits of investments we've made to position the company to deliver sound and profitable growth.

As we look across our footprint, we remain encouraged by the overall operating environment. Economic activity is solid, and despite ongoing uncertainty, businesses are generally well positioned, and we continue to see steady levels of investment and job growth across our markets. On the consumer side, spending trends remain healthy and customers maintain solid account balances and liquidity buffers relative to their spending levels with overall financial conditions remaining stable. This is supporting continued momentum in our core businesses.

Loan growth has strengthened, driven by new originations and expansion within existing client relationships as pipelines continue to build. Average deposits grew modestly, including over 1% growth in noninterest-bearing deposits, supported by household and operating account growth. While activity in capital markets and residential mortgage has been impacted by the higher interest rate environment, we continue to see solid performance across our other fee businesses, including another record quarter in wealth management income.

Credit performance has continued to improve with lower net charge-offs in the quarter and reductions across business criticized and nonperforming loan categories, reflecting further progress resolving previously identified portfolios of interest. Based on these trends, we believe credit has largely normalized, and we remain committed to our disciplined approach to credit risk management.

Turning to our strategic priorities. We've made meaningful progress this quarter advancing our key initiatives that are central to our long-term strategy. We're proud to once again be recognized by J.D. Power as the #1 regional bank in online banking satisfaction, along with a significant improvement in our mobile app ranking to #2. These results reflect the work we've done to enhance the client experience, deliver more intuitive digital capabilities and make banking easier for our customers.

We also reached an important milestone in our core modernization efforts with a successful implementation of our new commercial lending platform. This represents a significant step forward in enhancing our technology infrastructure, improving speed to market and elevating the experience we deliver to our clients and bankers. We're also making good progress on our core deposit transformation with testing underway and a pilot expected later this year, keeping us on track for full conversion in 2027. In addition, we're seeing solid results from our strategic investments across each line of business.

Within our consumer bank, reskilled small business bankers have helped generate a 7% increase in year-to-date small business checking account production versus 2024 levels, while small business balances contributed just over 30% of the company's quarter-over-quarter growth in average noninterest-bearing deposits.

In Commercial Banking, over the past 18 months, we've added more than 60 bankers, helping drive an almost 40% increase in new commercial logos through the first half of 2026. Within Wealth Management, we have also seen strong momentum with advisers hired over the past 3 years, growing client assets by almost \$6 billion. Finally, subsequent to quarter end, we announced the acquisition of the Frazer Lanier Company, a full-service investment banking firm with strong capabilities in municipal securities. We believe this transaction expands our capital markets platform, enhances our municipal finance expertise and allows us to broaden the solutions we provide to the public sector and institutional clients.

Consistent with our strategy, this is a targeted investment that builds on areas where we've demonstrated strength and positions us to continue growing our Capital Markets business over time. We feel good about our performance for the quarter and believe we're well positioned to continue executing our strategic plan and deliver consistent, sustainable long-term performance.

With that, I'll turn it over to Anil to provide more detail on the quarter.

Anil D. Chadha
Senior Executive VP & CFO

Thank you, John. Let's start with the balance sheet. Average loans increased approximately 2% during the quarter, while ending loans grew 1%. Growth was driven by broad-based commercial and industrial lending categories, including power and utilities, manufacturing, government and public sector and retail trade. While off of a smaller base, investor real estate also generated solid growth, led by multifamily.

This performance was supported by strong production and increased bridge financing for maturing credits. Results reflected both new client acquisition and expanded relationships with existing customers. Importantly, this growth remained very high quality with over half consisting of investment-grade credits. While utilization rates continued to improve during the quarter, the majority of growth was driven by new loan production and increased commitments.

As John noted earlier, we continue to be encouraged by the overall operating environment across our footprint. Lending activity continues at a healthy pace and loan pipelines remain strong, up roughly 15% from a year ago and remain diversified across industries, markets and client segments. Consumer loan balances remained relatively stable as new production approximated paydowns, primarily in residential mortgage and home improvement financing. We continue to expect full year average loan growth to be up low single digits versus 2025.

Turning to deposits. Average balances increased modestly, while ending balances declined approximately 1%, reflecting normal seasonal patterns associated with tax refunds and payments. Consumer deposits continued their strong performance as checking balances grew despite healthy underlying consumer spending trends. Our noninterest-bearing deposit mix remained in the low 30% range, consistent with our target and reflective of the operational nature of our deposit base.

We continue to experience a shift in deposits from CDs into money market accounts across both consumer and wealth management segments, driven by our intentional product management strategy. Average deposit balances grew while total deposit costs remained controlled, supported by our strong deposit franchise and focus on customer acquisition and retention. As a result, we continue to expect 2026 average deposits to be up low single digits versus the prior year.

Let's shift to net interest income. Net interest income increased 2% linked quarter, driven by multiple factors. As in prior quarters, favorable repricing dynamics and disciplined deposit cost management continue to provide a strong foundation for growth with loan balance expansion further contributing to second quarter momentum. The net interest margin of 3.66% continued to evidence our profitability and deposit funding advantage. During the second quarter, interest-bearing deposit costs fell 3 basis points to 1.69%. We anticipate a largely stable deposit cost over the second half of the year, assuming a constant Fed funds rate.

As expected, over the entire falling rate cycle, the interest-bearing deposit beta has been 37%. To the extent the Fed moves rates, we would expect a similar mid-30s beta, resulting in a neutral interest rate risk position. Low levels of unsecured borrowings will continue to provide future funding flexibility as evidenced this quarter, while helping insulate deposits from potential repricing risk in a higher rate environment.

Net interest income also benefited from fixed rate asset turnover with elevated long-term rates supporting pricing on new term loans and securities, along with the securities repositioning transaction executed earlier in the quarter. At current rate levels, we

would expect balance sheet repricing to support margin expansion over multiple years. Third quarter net interest income is expected to increase approximately 2%, progressing toward the middle of our 2.5% to 4% full year outlook. And based on our current expectations for loan growth, we expect our net interest margin to exit the year at approximately 3.7%.

The interest rate environment is highly uncertain with multiple competing forces influencing current and expected levels. Our balance sheet is positioned well for the environment, indifferent to short-term rate movements with the ability to benefit from elevated long-term rates. Hedging activity in the quarter was largely focused on extending interest rate protection.

Now let's turn to fee revenue performance for the quarter. Adjusted noninterest income increased 7% on a linked-quarter basis as growth in several core fee categories was partially offset by lower bank-owned life insurance and commercial credit fees. Wealth management income increased 6% and delivered another record quarter driven by higher production and favorable market conditions. This business continues to be a consistent contributor to fee revenue growth.

Card and ATM fees increased 8%, driven primarily by seasonally higher transaction volumes. Market value adjustments on employee benefit assets increased \$29 million during the quarter. As a reminder, these market value adjustments are largely offset within salaries and benefits expense. Capital markets income, excluding CVA, increased modestly compared to the prior quarter as improvements in loan syndications, M&A advisory fees and real estate capital markets were offset by lower commercial swap income.

As John mentioned earlier, higher long-term interest rates have impacted overall capital markets income, however, we continue to expect quarterly revenue to increase within our \$90 million to \$105 million range, trending towards the lower end of the range in the third quarter and moving higher thereafter. For full year 2026, we continue to expect adjusted noninterest income to grow between 3% and 5% versus 2025. Based on our performance through the first half of the year, we currently expect results to trend toward the lower end of that range.

Let's move on to noninterest expense. Adjusted noninterest expense increased 4% compared to the prior quarter, driven primarily by higher salaries and benefits. Salaries and benefits increased 6%, attributable primarily to higher revenue-based incentives, the impact of a full quarter of merit and expenses offsetting the positive employee benefit asset valuation adjustments. As we continue to invest in the franchise to support long-term growth, we remain focused on maintaining a disciplined approach to expense management. For full year 2026, we continue to expect adjusted noninterest expense to be up between 1.5% and 3.5%, and we expect to deliver full year adjusted positive operating leverage.

Regarding asset quality, annualized net charge-offs as a percentage of average loans declined 12 basis points to 42 basis points. Results during the quarter continued to reflect progress on previously identified portfolios of interest that have been reserved for in prior periods. Business services criticized and nonperforming loans both declined during the quarter, with the business services criticized ratio declining 14 basis points to 5.01% and the nonperforming loan ratio declining 4 basis points to 67 basis points.

The allowance for credit losses declined \$34 million during the quarter. The reduction was driven primarily by continued resolution of previously reserved-for charge-offs, partially offset by reserve builds related to high-quality loan growth. As a result, the allowance for credit losses ratio declined to 1.63%. We continue to expect full year 2026 net charge-offs to be between 40 and 50 basis points.

Let's turn to capital and liquidity. We ended the quarter with an estimated common equity Tier 1 ratio of 10.7%, while executing \$59 million in share repurchases and paying \$226 million in common dividends during the quarter. Earlier this week, the Board of Directors approved an increase in our quarterly common stock dividend to \$0.30 per share, representing a 13% increase from the prior quarter and continuing our strong track record of returning capital to shareholders.

Over the last 10 years, we've increased our dividend at a 16% compound annual growth rate, ranking within the top quartile among our peer set. In addition, we recently received our 2026 supervisory capital stress test results from the Federal Reserve. Regions delivered outstanding performance, generating the highest level of pretax pre-provision net revenue as a percentage of average assets among our defined regional bank peer group, reflecting the strength of our core earnings profile. Importantly, our pre-provision revenue fully offset projected credit losses over the 9-quarter stress horizon with a coverage ratio of 101.4%, the second highest within that same peer group.

As previously communicated by the Federal Reserve, our Stress Capital Buffer will remain at the regulatory floor of 2.5%. Overall, these results reinforce the resilience of our earnings profile, balance sheet and capital position under severely adverse conditions. Likewise, liquidity remains stable and robust with total liquidity sources well above required levels and ample capacity to support future loan growth. Including the impact of AOCI, our CET1 ratio is estimated at approximately 9.5%, which remains within our targeted operating range of 9.25% to 9.75%.

Our capital priorities remain unchanged, and we expect to continue managing capital within this range, providing flexibility to support growth, navigate evolving regulatory requirements and return capital to shareholders. We're pleased with our performance this quarter and believe we are well positioned to continue to deliver strong results.

With that, we'll open the line for your questions.

Question and Answer

Operator

[Operator Instructions] Our first question comes from the line of Ken Usdin with Autonomous Research.

Unknown Analyst

This is [Moksha] jumping in for Ken. Could you talk about the operating leverage expectations for this year, just given the first half fee trends are tracking towards the lower end of the guide?

Anil D. Chadha

Senior Executive VP & CFO

Sure. I'd be glad to. So just to remind everyone of our guide. So for net interest income, we expect to grow that at 2.5% to 4%. Noninterest revenue 3% to 5%, and we're pointing to the low end of the range. And then for noninterest expense, 1.5% to 3.5%. So if you put all that together, that will generate positive operating leverage. When you think about the math in terms of where we are midyear versus where we expect to perform in the second half of the year, I would look at the year-over-year comparables. There are some kind of relatively unfavorable comparables, if you will, just from a pure math standpoint in the first half of the year.

But we're confident as we look in the second half of the year, particularly when it comes to revenue and our expectations for where we expect to grow revenue that we'll be able to deliver positive operating leverage as we continue to focus on good expense management as we believe we have for the first half of the year.

Unknown Analyst

Okay. Great. And in terms of loan growth, what are you seeing out there? Just talk us through the dynamics in terms of demand from clients? And also just talk through the loan spread commentary or trends that you've been seeing?

John M. Turner

President, CEO & Chairman

Just maybe I'll comment broadly about the environment. It's constructive, very good. We feel like businesses are well positioned, and there is broad-based demand across industry sectors and across the geographies we bank. We're seeing continued growth in pipelines. And again, that is generally across the business. About 100 basis point increase in line utilization over the quarter, which again reflects, I think, ongoing investment.

There's good job growth. Consumers feel confident as well. Their deposit balances have remained consistent with historic levels. Spending is up. And so I'd say, generally, we feel good about the prospects for continued loan growth and our ability to meet our targets for the year.

Do you want to comment on spread?

Anil D. Chadha

Senior Executive VP & CFO

Sure. Glad to. And just for the quarter, our loan yields were down 1 basis point. That's an improvement over what we saw in the first quarter. So if we really break it into 2 buckets, about half of our loan growth this quarter was in investment-grade credits. So as you'd expect, those have tighter spreads reflecting the better credit quality of those credits. The other half was in good middle market lending, where we're getting good returns on the spreads we're seeing in that business.

I'd say, broadly speaking, the market is competitive, but our competition is remaining rational. We're staying disciplined to get returns on what we're putting on our balance sheet. But we did talk a bit about tightening credit spreads last quarter. We saw that this quarter to a lesser degree, and you see that in our loan yields being relatively flat quarter-over-quarter.

Operator

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

Ryan Matthew Nash

Goldman Sachs Group, Inc., Research Division

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Anil, you noted that fixed rate asset repricing should support the margin over multiple years. I know the bank historically talked about a 3.60% to 3.90% NIM over time. I guess based on the current environment, where do you see the margin going over the medium term? And what are the key drivers of that in this rate environment? And I have a follow-up.

Anil D. Chadha
Senior Executive VP & CFO

Sure. Yes. So we exited the quarter with a 3.66% margin, down 1 basis point. When we look out to the third quarter, we expect to be flat to slightly up. And so the key drivers there is we'll have, as you mentioned, fixed asset turnover again. So just to remind everyone, we have about \$3 billion. We expect to receive 75 to 100 basis points of a pickup in that repricing. We also have a hedge rate increase of about 7 basis points. You can see that on Slide 16 of our presentation. So that will benefit the margin.

Then we have one additional day in the quarter, which will impact the margin in the third quarter. And from there, we expect to continue to grow into the fourth quarter. We'll see another bit of fixed rate turnover in the fourth quarter. And then just a reminder, we also have a dividend on our HR assets that will occur in the fourth quarter as well. That will get us to the 3.70% -- approximately 3.70% that we guided to. The pace of loan growth will be dependent in terms of where we ultimately exit the quarter, but we're confident in getting to that 3.70% level as we exit the year.

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

Got you. And I guess maybe as a follow-up, Anil, so the buyback slowed a bit this quarter. I know that you were in the lower part of the range. You may have used this quarter to catch up a little bit and you also had the restructuring. But as you look forward, based on John's comments before regarding loan growth, what are your expectations for buyback from here? Can we see it move back to the higher levels where you had been operating at?

Anil D. Chadha
Senior Executive VP & CFO

Yes. You alluded to it. So we exited last quarter with a common equity Tier 1 inclusive of AOCI of 9.4%. That increased about 10 basis points. That's, call it, \$125 million of share repurchases just there. So each quarter, we'll generate between 45 to 50 basis points of capital. Dividend will be -- it was 18 basis points this quarter based upon our new Board-approved dividend, that will tick up a bit to 20 basis points.

To your point, we'll always focus on growing good quality loans. We saw nice growth this quarter, and we expect to see that into the future. But given where we are at 9.5% in terms of the Basel III common equity Tier 1 ratio, we would expect share buybacks in the third quarter to pick up a bit given we're kind of at the midpoint of our 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 -- I appreciate the color on the loan spreads. On the deposit pricing side, maybe if you could just give us an update on what you're seeing there. We're hearing quite a bit about the competitive environment, particularly in the Southeast and particularly coming from banks expanding more actively in the Southeast. So I want to get what you're seeing there on the ground in terms of pricing pressure?

Anil D. Chadha
Senior Executive VP & CFO

Sure. I'd remind you that this competitive pressure has existed for 12 to 18 months. So what we're seeing today is much of what we've seen historically. We're very proud of how we've defended our deposit base and our deposit costs. As expected, our interest-bearing deposit cost declined 3 basis points to 1.69%. We had the benefit of about \$5 billion of CD maturities this quarter, in the second quarter, we're able to pick up about 30 basis points on those.

Going forward, based upon our performance, we expect deposit costs to stay approximately where they are now. We do have continuing CD maturities, but where we're putting those back on is about an equivalent rate. But this is a place where we're really

proud of our overall performance. And this is not something that we just accidentally have. This is a phenomenal asset that we have, which is our deposit base.

We spent a lot of time making sure that we're making the right investments in terms of having the right products and services for our customers, having great branch locations for them to come into, having great bankers to deliver those products and services. And importantly, we spend a lot of time investing in great data and analytics to really make sure we understand the nature of our deposit base, how we expect them to perform. That gives us confidence both to take risk management strategies around that, but also to be confident in our guidance to you all in terms of how we expect deposit costs to perform over time.

And so this is something that we have a great deal of confidence in. And it's something as we look forward, we're confident that we'll be able to deliver the deposit costs that we've guided you all towards because of the investments we've made and how well we understand the nature of our deposit base.

John G. Pancari

Evercore ISI Institutional Equities, Research Division

Great. Okay. And then secondly, just on the credit backdrop, I wanted to see if you're seeing any signs of incremental stress. I know in the -- over the past few quarters, you've been working through some of the portfolios of interest and you took a few bumps on charge-offs as you work some things out, but you saw good improvement in your losses this quarter. So any newer developments, any update there or incremental work out that you're working on at this point?

John M. Turner

President, CEO & Chairman

Yes. John, thanks for the question. Obviously, credit has continued to improve, and we would say normalize as we've seen nonperforming loans continue to come down, level criticized loans coming down. The business office portfolio is down 35% year-over-year, trucking down 25% year-over-year and communication, an area where we've had some challenges down 50% year-over-year. That's about \$1.3 billion in outstandings in those 3 portfolios of interest that have exited the bank, and that certainly has helped as we think about credit quality.

And those portfolios are continuing to improve. We are seeing a little softness in the multifamily in a couple of markets we're following, but nothing to be particularly concerned of. And I'd say otherwise, we feel really good about the credit and the positioning of our portfolio and expect it to perform in a normal sort of way as the next few quarters develop.

John G. Pancari

Evercore ISI Institutional Equities, Research Division

And just related to that, if I could ask one more. On the reserve front, you released about 6 basis points on the reserve ratio this quarter. How should we think about the outlook from here?

Anil D. Chadha

Senior Executive VP & CFO

Yes. I think we've been talking about getting back to an equivalent CECL day 1, which today is basically -- it's 1.62%, so pretty much where we're at now. As you look forward, there's a couple of things that we'll keep our eye on. There is still some uncertainty in the market right now. And so as you'd expect, we are keeping some reserves back just for that. We'll continue to monitor credit performance. We had a great quarter this year. We're expecting that to continue into the future.

We talked a lot about the originations that we're putting on our balance sheet, about half of them being investment grade. And so we'll continue to track that. But right now, we think the 1.63% coverage ratio that we have right now is indicative of where we'd expect to be absent new information over the next several quarters. We'll continue to monitor both the macroeconomic uncertainties that are still out there also our overall credit trends as we go through time.

Operator

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

Manan A Gosalia

Morgan Stanley, Research Division

N

So it looks like you saw some nice consumer deposit growth in the quarter. Corporate deposits were down slightly. Is that just seasonality? Or are you seeing some element of corporates investing in their own business, spending more of their own cash? Which is when I look at the loan side as well, right, like the utilization rate is up quite nicely.

John M. Turner
President, CEO & Chairman

A little bit of both. I'd say predominantly seasonality, but we are seeing customers use some of their excess cash balances. And similarly, to your point, we're also seeing customers use their lines of credit a little more than they have been, line utilization up 100 basis points, which is positive.

Manan A Gosalia
Morgan Stanley, Research Division

Is the trend you expect to continue?

John M. Turner
President, CEO & Chairman

Say again?

Manan A Gosalia
Morgan Stanley, Research Division

That's a trend you expect will continue through this year?

John M. Turner
President, CEO & Chairman

Yes, it is.

Manan A Gosalia
Morgan Stanley, Research Division

Got it. Okay. And then if I look at Slide 6 and I look at the range around the NII assumption. On the lower end, am I reading it right? Like if all of this happens, the 10-year goes below 4%, asset spreads tighten, loan and deposit balances decline, et cetera, you would still get to that low end of the NII guide?

Anil D. Chadha
Senior Executive VP & CFO

Yes, you're reading that correctly.

Operator

Our next question comes from the line of Dave Rochester with Cantor Fitzgerald.

David Patrick Rochester
Cantor Fitzgerald & Co., Research Division

Just back on loan growth, it looks like even if average loans are flat in 3Q and 4Q on a quarter-over-quarter basis that you landed in the middle of that average loan growth guide range for the low single digits. So just if we can just talk about maybe your outlook for the back half of the year, with pipeline is stronger now, are you thinking that, that back half could actually exceed growth in the first half? How are you thinking about that?

Anil D. Chadha
Senior Executive VP & CFO

We had really good loan growth in the first quarter. Good growth in the second quarter as well, but really started off strong, as we talked about before, some of that were draws that we saw late in the quarter. So we'd be cautious to extend too much of that into the second half of the year. I think what we delivered this quarter, we feel good about in terms of closer to being a run rate. But I wouldn't just extrapolate out what we've seen in the first half as potentially occurring in the second half, given we did see some higher draws in the first quarter that may not occur as we go into the second half of the year.

David Patrick Rochester

Cantor Fitzgerald & Co., Research Division

Okay. And then just given the reduction in the more problematic portfolios that you just talked about earlier despite the softness that you mentioned in multifamily, as you look ahead beyond some maybe incremental improvement you could see in the back half of this year, are you thinking that maybe that net charge-off range could step down to something that's more of a sub-40 basis points level, assuming the economy remains resilient?

John M. Turner

President, CEO & Chairman

We're continuing to debate and talk about that just based upon the composition of our portfolio, which has changed a little over the last 12 to 24 months or so. Today, we're still guiding to 40 to 50 basis points. And as we begin thinking about 2027, we'll contemplate whether or not that range changes looking forward.

Anil D. Chadha

Senior Executive VP & CFO

And I think we have to take a look at across all the portfolios and look at where more normalized charge-offs could be. We continue to benefit on the consumer side from new recoveries on the real estate side. So being thoughtful in terms of how long does that continue into the future will also impact how we think about our guidance going forward.

David Patrick Rochester

Cantor Fitzgerald & Co., Research Division

Sounds good. Any steps you're taking on the multifamily front?

John M. Turner

President, CEO & Chairman

Just continuing to watch that. And I'd say there's just a couple of discrete markets where we see absorption rates being a little slower than we might have expected and/or rising interest rates potentially impacting the refinanceability of some of those projects. So -- into the permanent market. So just watching that, nothing to be particularly concerned about today.

Operator

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

Erika Najarian

UBS Investment Bank, Research Division

Just wanted to double-click on sort of the funding strategy from here. If lending growth continues at a pretty solid pace for the rest of the year, Anil, take us through the trade-off in terms of how you're thinking about maybe using some short-term borrowings, FHLB advances as funding versus you mentioned that deposit costs, you'd like for it to stay where they are now. So take us through sort of the thought process in terms of defending your core deposit cost base versus looking at other avenues to fund loan growth if we don't see deposit growth materializing in the second half of the year.

Anil D. Chadha

Senior Executive VP & CFO

Sure. So first and foremost, over the long term, it is our strategy to ensure that loans and deposits grow at a similar rate. Now to your point, at any one given period of time, you could see that loans grow faster than deposits. The key for us is to continue to make sure we're investing in the right products and services and bankers to grow our operating accounts for small business and core consumer checking accounts. We saw nice growth this quarter in that. You saw noninterest-bearing account balances for us grow about \$500 million on average. And so we'll continue to make those investments to make sure we have that pace of growth continue into the future. That's the key to our profitability advantage and we'll continue to do that.

Now to your point, you'll have periods of time where you may have opportunities to grow loans faster than deposits. So yes, we will utilize FHLB advances to fill that gap in a short-term basis. We'll do what you saw us do this quarter was issue \$1.5 billion of unsecured debt, very good pricing, treasuries [plus 68]. So we'll do that from time to time as well when we have opportunities to fill gaps. But that will be our strategy going forward. But make no mistake, our long-term strategy is still to make sure we're growing deposits commensurate with loans.

Erika Najarian

UBS Investment Bank, Research Division

Got it. And in terms of just on deposit pricing again, obviously, you have -- have always had an enviable deposit base. How should we think about pricing and betas if we do get that rate hike? And going back to the earlier question, as you talked about this more intense competitive dynamic in deposits over the past 12 to 18 months, like has it been on promo pricing? Has it been on sort of cash incentive to open DDA accounts elsewhere? Maybe talk us through sort of what you have been up against over the past 12 to 18 months.

Anil D. Chadha

Senior Executive VP & CFO

Yes. Over the past 12 to 18 months, we've consistently seen competitors issue promotional pricing in markets where they're looking to grow. That has been consistent. I'd say what we've seen over the past, call it, 6 months is that pricing has not dramatically changed as you've seen the outlook for rates change. And so I've talked about this before. All banks are trying to manage -- thread this needle in terms of growing deposits, but also protecting their deposit costs because they're trying to drive profitability. So that's been unchanged in the market.

We continue to benefit from -- and historically, our ability to reprice our CD portfolio. Going forward, our ability to manage the mix of our deposit base is the key advantage for us. I just talked about being able to grow noninterest-bearing deposits. It's being patient in terms of being able to meet short-term funding needs with alternative funding sources, having a 76% loan-to-deposit ratio is a huge advantage that we have over our peers. So these are advantages that we can pull upon to not feel the pressure to have to use rate to grow funding as others may have to do.

Erika Najarian

UBS Investment Bank, Research Division

Got it. I'll follow up offline on the 25 basis points.

Anil D. Chadha

Senior Executive VP & CFO

Yes. On beta, we expect our guidance, and we expect to maintain a mid-30s beta, should the Fed increase, we still expect that to hold.

Operator

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

Gerard Sean Cassidy

RBC Capital Markets, Research Division

John, you touched upon the deposit system conversion expected in 2027. A 2-part question. Is it the beginning of '27, do you convert all the deposits onto the new system or the middle end of the year? And then the second question is, what kind of capacity? And when you convert everything over, what kind of growth capacity do you have with this new system? Could you increase deposits 50% before you have to do another systems or add capacity or something like that?

John M. Turner

President, CEO & Chairman

Yes. Great question. So Gerard, we will begin a pilot family and friends, so to speak, sometime in September or October with the idea that we would begin to convert some discrete section of customers likely in the first quarter of 2027. This will not be a big bang type conversion. So we have the ability to migrate customers to the new system over time. And it's our expectation that we will do that in 2027 and be complete by midyear to sometime in the third quarter of 2027.

Once it is complete, and we'll have a contemporary platform, we think it gives us a lot of capabilities, the ability to bring products to the market much faster, provide a much better customer experience to keep our systems updated and current much more easily because of the API layers that we will depend on -- and generally, because it's a cloud-based platform. And then generally, we -- in terms of capacity, we think we have tremendous capacity. I can't tell you how much that will be, but we think it will give us quite an advantage in terms of our ability to grow on that system with the partners that we have.

Gerard Sean Cassidy

RBC Capital Markets, Research Division

Very good. Those fire trucks in the background, your building is not on fire.

Anil D. Chadha
Senior Executive VP & CFO

No, it's not.

Gerard Sean Cassidy
RBC Capital Markets, Research Division

Because I heard John pause there for a minute. Okay. And then as a follow-up question, you guys have always -- and you did it again this quarter, give us good color on these portfolios that may have weaknesses in the transportation, for example, commercial real estate office, which, of course, now are on the mend. So my question is, when you guys look out into the future, one of the areas that I'm wondering about is the success that the AI industry has had on this country's economy, which has been very powerful and the boom is incredible.

But we know as in past periods, like the dot-com period where we had all those fiber cables built, eventually, it was a bust. And I'm not suggesting AI is going to be a bust. But how do you guys do the second derivative analysis? Because I know you're not financing for the most part, the data center construction. But your customers that might be connected to this ecosystem. How do you keep an eye on that? So that 2 years from now, it's the portfolio that everybody has kind of watch out for?

John M. Turner
President, CEO & Chairman

Yes. I think we're trying to have discussions on a routine basis just in terms of understanding what's in our portfolio, what the connectivity is and doing some just different kinds of analysis, stress analysis to say, if this particular sector has some weakness, how does that affect us? What companies, what industries are connected, what interconnectedness is there here that we need to be concerned about.

Part of that is, I think, fundamentally just embedded in our concentration risk management analysis and the conversations that we have about that generally. But as we think about portfolio, we think about credit risk, we're having ongoing conversations about the connectedness of exposure, interconnectedness of exposure throughout that sector.

Anil D. Chadha
Senior Executive VP & CFO

I think we add to that, we bring our discipline of being cautious as to how quickly we would grow anything until we get all those learnings back. And so soundness, profitability and growth in that order matters, especially when you're thinking about industries like this, where there could be change. And so we don't want to get too far ahead of ourselves and growing ahead of that as we gather this data that John was alluding to.

Gerard Sean Cassidy
RBC Capital Markets, Research Division

Very good. And then just a real quick one, John. You mentioned about the multifamily market, a couple of bespoke markets that you're keeping an eye on. Can you -- is that Charlotte or is that Nashville? What's...

John M. Turner
President, CEO & Chairman

In Texas.

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 dig into some of the traditional banking fees. Slide 7, you split out the consumer and corporate service charges, both growing really nice year-over-year. And I guess I'm wondering, I think the corporate stuff is the treasury management investments

you've made, but maybe comment on how sustainable that is? And then on the consumer side, I think a big chunk is overdraft. So I guess I always wonder, is that like good or bad when overdraft is [indiscernible] so much?

John M. Turner
President, CEO & Chairman

Yes. Maybe I'll speak to -- initially to your question about treasury management in general. We've improved our penetration rate in terms of the number of customers -- percentage of customers to whom we're delivering treasury management products. It's grown from 57% to over 66% over the last 5 years or so. It's really been a focus of ours. We've improved our product offering. We've improved our sales capabilities and is generally how we think about making recommendations to customers to meet their specific needs. That has created a lot of momentum in treasury management, and I would expect that to continue.

Similarly, the wealth business, we reached another record in terms of the amount of revenue we're generating, and that's based on investments in talent. It's based on expansion of our capabilities and just generally a good working relationship across our businesses. So we're ensuring that we're making appropriate referrals and helping customers meet their needs. Again, I think that business will continue to grow, and it's one that we feel really good about from that standpoint.

On the consumer side, we're growing consumer checking accounts, and we're seeing increased consumer activity. So I mentioned debit spending, credit spending, on a transaction basis, up 8% on a dollar of transaction or amount of spend up 8%. So we're seeing good activity across the consumer book. Overdraft fees were up modestly this quarter, I guess, and that would be somewhat seasonal. And -- so I think -- well, go ahead.

Anil D. Chadha
Senior Executive VP & CFO

Yes. No, we also look at that in particular on a very granular basis. So we look across different cohorts so we understand the drivers of the increase because to your point, it can be a leading indicator of risk, if not monitored appropriately. So we look across each cohort to see how it's performing. We also look how it tracks into any potential charge-off risk. We're not seeing that yet.

So what we're seeing now is that consumers to make -- continue to make themselves available to that service that we provide for them. But as of what we're seeing now, they're curing that, and so we're not seeing much roll to charge. But to your point, it's something that we monitor as a potential early sign, but we don't see any issues with that just yet.

Matthew Derek O'Connor
Deutsche Bank AG, Research Division

Okay. That's helpful. And then within Capital Markets, how big is this muni deal in terms of revenue impact? Or is it just kind of a rounding error? And then just kind of long-term ambitions to, call it, both grow capital markets and maybe diversify it a little bit in some of the businesses?

John M. Turner
President, CEO & Chairman

Yes. Initially, it will have a modest impact. Longer term, I think we'll have a meaningful impact on our ability to meet customer needs in particular and will be another catalyst to help us grow the capital markets business. It was a very targeted acquisition. We have a really good government and institutional banking business, generating deposits and making direct loans. What we didn't have was the capability to offer municipal underwriting and securities products.

And so this will allow us to do that, and again, specifically meet some needs that we were otherwise unable to meet since the sale of Morgan Keegan back in 2012. So it complements the business. It's really a good one for us. And I think over time, we'll make a reasonable contribution to additional earnings.

Matthew Derek O'Connor
Deutsche Bank AG, Research Division

And then just interested in kind of further expanding this business over time and also kind of diversifying into areas that you're underweight.

John M. Turner
President, CEO & Chairman

Yes. I mean we have a stated objective to continue to grow the percentage of noninterest revenue as a percentage of total. And one of the ways we do that is to invest in expanding our capital markets capabilities and business. If you go back to 2014, it was a \$60 million to \$70 million business, and we should end the year somewhere between \$360 million and \$380 million, I think, and we hope to be a \$400 million business over time. We've said it ought to be an \$80 million to \$100 million kind of business every quarter. And so we'll continue to make investments to ensure that we grow and diversify our revenue and that we increase the percentage of noninterest revenue as a percentage of total.

Operator

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

Christopher James Spahr
Wells Fargo Securities, LLC, Research Division

I just like to follow up on the capital markets question. Just you bought ClearSight in 2021, and you had a little bit of a bump in revenue. But really, revenues really haven't grown much on a core basis over the last 4 or 5 years, and we're having record capital markets this year. So what do you think you need to do? If your stated goal or you've said in the past to be an industry-leading middle market investment bank, what do you need to do? And in between then also, you've also done some lift-outs and tactical hires? So is it just the mix? Is it just a matter of execution? Just like what is going to help drive that fee line?

John M. Turner
President, CEO & Chairman

Well, I would -- it has grown. Again, since 2014 from \$60 million to \$70 million to levels that we've reached today. We have not increased revenue much over the last 2 years, and some of that's just been a function of the interest rate environment that we are operating in. M&A activity is up 1 quarter. Next quarter, we see our real estate capital markets activity up and M&A down.

So I think we've sort of reached a place where it's time to begin to move to the next level. We think the investments we've made in talent will help us do that. I believe that over time, we continue to work with our customers to develop the opportunities that we think exist to meet some of their needs. We'll see more growth in capital markets. But in general, we're very happy with the investments that we've made and the role that Capital Markets plays in helping us deepen relationships and grow and diversify our revenue.

Christopher James Spahr
Wells Fargo Securities, LLC, Research Division

Okay. Great. And my follow-up is on wealth actually, it's grown really well, at least in prior years. So just most of your disclosures have been mostly on the deposit side. Like what are the underlying assets under management, net new assets that you're acquiring? Like what is driving that fee line?

John M. Turner
President, CEO & Chairman

Yes, we've made the point in our -- maybe our earlier comments over the last 3 years, the wealth bankers that we've added have themselves generated over \$6 billion in new assets under management. And we're seeing growth in -- across the wealth platform, whether it be in our retail brokerage business or in our private banking business, our institutional wealth business. All of those are growing. And that's really a function, I think, of both good activity in the market, but more acquisition of customers and customer assets, which are driving increases in fees.

Christopher James Spahr
Wells Fargo Securities, LLC, Research Division

And can you put that \$6 billion into context like on the base of what?

John M. Turner
President, CEO & Chairman

\$60 billion, yes.

Operator

Our next question comes from the line of Chris McGratty with KBW.

Christopher Edward McGratty

Keefe, Bruyette, & Woods, Inc., Research Division

Getting back to the buyback question, the importance of the rating agencies and the TCE ratio is getting a little bit more airtime. I guess how does that affect how you're thinking about buybacks, not only near term, but also the Basel III reform?

Anil D. Chadha

Senior Executive VP & CFO

Yes, it will impact us over the long term. So first, we'll wait to see for the final Basel III rule to come into effect. Just to remind everyone, kind of on a fully phased-in Basel III end game, we expect to be probably around 10.5% based on current capital levels. To your point, we are having discussions with the rating agencies around how they will think about this through their lens.

As of right now, we're still holding to our guide of 9.25% to 9.75%. We'll evaluate that once we kind of get better clarity from them. But the opportunity ahead of us is still there. Where we ultimately land is still subject to further conversation, but we still have an incredible opportunity to deploy capital back into our business and look forward to doing that once we get the final rule.

Christopher Edward McGratty

Keefe, Bruyette, & Woods, Inc., Research Division

Okay. And then secondarily, does the commentary before related to the pilot and the conversion and the timing in the middle of next year, -- does that at all influence or change prior comments about inorganic focus for the foreseeable future?

John M. Turner

President, CEO & Chairman

No. I mean I think we're still -- I would say we're not interested in depository M&A. That is an issue or a topic we continue to visit. But I think you can expect us to stay focused on deposit conversion that we have right now. It is super important to us. It's a complex project, one that's going very well. We have a lot of optimism about our ability to execute it, and that's where we'll primarily be focused that just the execution of our business, which I think we're doing really well.

Christopher Edward McGratty

Keefe, Bruyette, & Woods, Inc., Research Division

Okay. And then just last, if I could, on the preferred. Could you just help us with any back half expectations for the preferred dividend?

Anil D. Chadha

Senior Executive VP & CFO

Yes. As of right now, it kind of goes hand-in-hand with common equity Tier 1. So when we're managing the higher levels of common equity Tier 1 than we may ultimately need, we won't feel the need to kind of pre-issue any preferred ahead of them. And so I'd say we're going to wait and see where the rating agency conversation lands that will determine kind of the first part of the capital stack. If we feel like we want to add preferred through time, we'll do that, but we don't feel the need to do anything in the near term based on what we're hearing right now.

Operator

Our final question comes from the line of Vivek Juneja with JPMorgan.

Vivek Juneja

JPMorgan Chase & Co, Research Division

Just a follow-up on the earlier question on deposit betas. Your CD costs, do you have room to bring those down further? You seem to have brought it down. What are the maturities you have there? I'm trying to understand this -- your ability to be able to keep betas at mid-30s.

Anil D. Chadha

Senior Executive VP & CFO

Yes, we're confident in being able to keep betas in the mid-30s. When we look at the upcoming CD maturities, that is declining to about \$3 billion a quarter. We think we'll basically bring on the repriced CDs about at an equal cost. So that's what gives us confidence in our guide that we think the overall deposit pricing will be flattish from here.

Vivek Juneja

JPMorgan Chase & Co, Research Division

So you're able to keep that at current rates even with all the promo pricing. And is that more in your metropolitan markets? Or is it in the rural areas given the competition from newcomers and also the online competition...

Anil D. Chadha

Senior Executive VP & CFO

So first, I would really kind of more target the discussion around where we're doing any type of promotional. Because we're in all these markets, we don't have to do broad promotional pricing to try to enter the market. We're already there. So going back to my earlier comments on understanding our customers, understanding how they behave, we're able to bring all this information together to be incredibly targeted with any customers that we want to do promotional pricing to. We don't have to do it on a broad scale.

So we do it in a very targeted way for particular customers that we feel like we may want and need to do that. But for us, it's not a meaningful headwind in terms of deposit costs because, one, we don't need it from a funding standpoint. Two, we're already in these markets. And so three, we can be very focused in terms of where we want to deploy that.

Vivek Juneja

JPMorgan Chase & Co, Research Division

Okay. And you said you don't need internal funding despite loan growth doing a little bit better.

Anil D. Chadha

Senior Executive VP & CFO

Yes. Look, our long term, we're not going to fund loan growth with high-cost promotional deposits. If we have loan growth that exceeds deposit costs in any one given period, we'll look to other funding sources that we have available to us and our debt footprint is roughly half of the peer average. So we'll pull on those things first. We'll continue to invest in growing our noninterest-bearing and low-cost deposits to ultimately catch up. But our business model is not built around using high-cost deposits as a funding source.

Operator

Thank you. I would like to turn the call back over to John Turner for closing comments.

John M. Turner

President, CEO & Chairman

Okay. Well, thank you, everyone. We appreciate your interest in Regions and your interaction with us today. Have a great weekend.

Operator

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

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