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CORPORATE PARTICIPANTS

List Underwood *Regions Financial Corporation - Director of IR*

Grayson Hall *Regions Financial Corporation - Chairman, President, CEO*

David Turner *Regions Financial Corporation - Senior EVP, CFO*

John Asbury *Regions Financial Corporation - Senior EVP, Head of Business*

Matt Lusco *Regions Financial Corporation - Senior EVP, Chief Risk Officer*

CONFERENCE CALL PARTICIPANTS

Kevin St. Pierre *Sanford C. Bernstein & Co., LLC - Analyst*

Paul Miller *FBR Capital Markets - Analyst*

Keith Murray *ISI Group - Analyst*

Eric Wasserstrom *SunTrust Robinson Humphrey, Inc. - Analyst*

John Pancari *Evercore Partners - Analyst*

Ken Usdin *Jefferies & Company - Analyst*

Betsy Graseck *Morgan Stanley - Analyst*

Ryan Nash *Goldman Sachs - Analyst*

Brian Foran *Autonomous - Analyst*

Matt Burnell *Wells Fargo Securities - Analyst*

Marty Mosby *Guggenheim Securities LLC - Analyst*

Sameer Gokhale *Janney Montgomery Scott - Analyst*

Gaston Ceron *Morningstar Equity Research - Analyst*

Steve Duong *RBC Capital Markets - Analyst*

Vivek Juneja *JPMorgan Chase & Co. - Analyst*

Christopher Marinac *FIG Partners - Analyst*

Matt O'Connor *Deutsche Bank - Analyst*

PRESENTATION

Operator

Good morning, and welcome to the Regions Financial Corporation's quarterly earnings call. My name is Paula, and I will be your operator for today's call. (Operator Instructions).

I will now turn the call over to Mr. List Underwood to begin.

List Underwood - *Regions Financial Corporation - Director of IR*

Thank you, operator, and good morning, everyone. We appreciate your participation this morning on our call. Our presenters today are Grayson Hall, our Chief Executive Officer; and David Turner, our Chief Financial Officer. Other members of management are here, and available to answer questions as appropriate.

Also as part of our call today, we will be referencing a slide presentation that is available under the Investor Relations section of Regions.com.

Finally, let me remind you that in this call, and potentially in the Q&A that follows, we may make forward-looking statements which reflect our current views with respect to future events and financial performance. For further details, please reference our forward-looking statement that is located in the appendix of the presentation.

With that said, I'll turn it over to Grayson.

Grayson Hall - *Regions Financial Corporation - Chairman, President, CEO*

Good morning. We appreciate your interest in Regions and participation in our first-quarter 2014 earnings call. Today we reported earnings of $311 million, or $0.22 per diluted share, a solid start to 2014. During the quarter, we grew loans, grew deposits, and we grew our number of quality households, all while effectively managing expenses.

On an ending basis, total loans increased $1.1 billion over the previous quarter, and $1.7 billion over the first quarter of last year. Total new and renewed loan production was up 2% year-over-year. Importantly, loan growth was more broad-based across our product lines and across our markets. Business lending momentum continued, led by growth in commercial and industrial loans.

After years of deliberately de-risking the investor real estate portfolio, we achieved linked quarter growth. On the consumer side, loans continue to be impacted by the residential mortgage market in the first quarter, but were somewhat offset by the growing demand for automobile loans. In light of an improving but still challenging economic backdrop, we remain focused on things that we can control, such as providing high-quality customer service.

In that regard, we were recently recognized by the Temkin Group as a top-rated bank in the 2014 national customer experience rankings, scoring 10 points ahead of the banking industry average. Our team members work hard every day, listening to our customers, and understanding and meeting their needs, which ultimately will result in greater customer loyalty.

We divide in our markets across 16 states into 19 different areas, and in this quarter we achieved net checking account and credit card growth in all areas. In addition, we grew quality households in all areas, including consumer, business, and wealth management. By adhering to our strategy at Regions 360 to serving our customers, we are also deepening customer relationships.

We want to be the first choice in our markets when it comes to meeting customers' financial needs, whether it's through quality customer service, superior competitive products, or enhanced alternative delivery channels. As part of our effort to further improve efficiency and better serve our customers, we continue to rationalize our delivery channels, with recent focus on our branch channel.

As you may recall, we consolidated a number of offices in the first quarter, while at the same time we invested in new technology and new service formats. We continue to look for opportunities to improve the customer experience at our branches with innovations and technologies. By adapting our delivery channels to how our customers want to bank, we will be able to meet more of their needs, deliver better value, and enhance loyalty.

We remain committed to continuously enhancing our risk management infrastructure. It's an important part of our culture, and it's essential to the strength and stability of the organization. As such, our asset quality continues to improve, and our balance sheet is strengthening. Our net charge-off ratio was 0.44%, the lowest level since the third quarter of 2007. In addition, our non-performing loans continued to decline.

We have an ongoing and robust capital planning process that is designed to ensure the efficient use of capital while maintaining a long-term approach to capital allocation and distribution. During the first quarter, we were pleased to receive no objection to our planned capital actions from the Federal Reserve. Our top priority in capital deployment continues to be reinvesting in our business to achieve organic growth, followed by regional dividend payouts and appropriate share repurchases. At some point, we may consider strategic opportunities consistent with the Company's risk tolerance.

To sum up, our first quarter's results reflected a solid start to 2014. We obviously still have plenty of work to do, but continue to successfully execute our business plans to create long-term value for our shareholders.

With that, I will turn the call over to David to discuss first quarter's results in more detail. David?

David Turner - *Regions Financial Corporation - Senior EVP, CFO*

Thank you, Grayson, and good morning, everyone. Since Grayson has already covered overall earnings, I'll jump right into the details. We'll start with loans. We achieved a solid quarter of growth, with loans up $1.1 billion, as ending balances were $76 billion. Loan growth continues to be driven by business lending, which increased 2% from the end of last quarter. A majority of this growth was attributable to commercial and industrial loans, which increased 4%. This was led by general industry middle-market commercial lending across many of our market areas.

In addition, we also achieved growth by our specialized industry and asset-based lending teams. And, furthermore, our commercial line utilization increased 170 basis points, and commitments for new loans increased 2% to $39 billion. Investor real estate loans increased $242 million from the end of the fourth quarter, which marks the first time we achieved growth in this portfolio in over four years. And this portfolio had been declining as a result of our de-risking efforts.

This growth was primarily attributable to an increase in new homebuilder and multifamily projects, providing more opportunities to lend within the parameters of our risk appetite. And we expect modest growth in this portfolio over the remainder of this year.

Indirect auto lending achieved another solid quarter of growth, as we increased the average number of loans per dealer by 13%. Production increased 4%, and loans increased $178 million, or 6%. We expect this portfolio to grow as the demand for automobiles continues to rise, and due to our efforts to increase pull-through rates from the dealers.

As expected, credit card balances declined following a seasonally high fourth quarter. However, we achieved the highest level of sales for new credit cards, with sales up 14% in the first quarter. Also, we recently expanded our offering of credit cards to non-Regions customers residing within our geographic markets.

Our home equity portfolio declined, linked quarter, as the pace of customer deleveraging within the home equity lines of credit was only partially offset by the new production in the home equity loan product. This fixed-rate home equity loan product continued to grow, and balances increased 5% over the previous quarter.

Looking ahead, based on what we know today and our economic forecast, we continue to expect 2014 loan growth to be in the 3% to 5% range.

Let's take a look at deposits. Average deposits increased $874 million or 1% from the fourth quarter, and deposit mix continued to improve in the first quarter, as low-cost deposits increased to 90% of total average deposits. Deposit costs remain at a historical low of 12 basis points, and total funding costs declined to 33 basis points in the first quarter. And we continue to expect 2014 deposit growth to be in the 1% to 2% range.

Let's take a look at how all this impacted our results. Net interest income on a fully taxable equivalent basis was $831 million, a decline of $15 million or 1.8% from the previous quarter. The decline was attributable to fewer days in the quarter, and the impact of the low interest rate environment on loan yields. However, the net interest margin remained steady from the previous quarter, at 3.26%, largely reflecting the offsetting impacts of higher cash balances, and declines in premium amortization in our investment portfolio.

We remain asset-sensitive and would expect to benefit from increases to both short-term and long-term rates, primarily due to our adjustable rate loan portfolios. Further increases in long-term rates would continue to benefit the margin, but at a somewhat reduced pace, given the pre-payments and premium amortization have already slowed considerably.

Recently, declines in deposit costs, liability management actions, and increases in long-term rates off their mid-2013 lows, have more than offset margin pressure due to a continued low rate environment. These offsets, however, will have a lessened impact going forward. That said, with rates remaining at approximately their current level, and with our expectation for balance sheet growth, we expect to maintain a relatively stable margin in 2014.

Let's move on to non-interest revenue. First-quarter non-interest revenue was down $88 million from the previous quarter. However, as a reminder, the fourth quarter included benefits of $56 million related to leverage lease terminations and the sale of investments in low income housing that were not repeated at the same magnitude in the first quarter.

Service charges were down 7%, linked quarter, and were driven by lower seasonal trends and continued changes in customer behavior. As expected, mortgage income was lower, linked quarter, as production was down 22% and the mix of new mortgages continued to be driven by new home purchases.

Capital markets income declined in the first quarter to $13 million and was primarily attributable to a slowdown in demand for customer derivatives and loan syndications, which were seasonally high in the fourth quarter.

Our wealth management group delivered strong results for the quarter. Revenue was up 6% over the last quarter, led by higher investment services fees, our insurance commissions, and solid increases in investment management and trust income. We continue to add high-quality wealth investors, financial consultants, and insurance brokers to help uncover and meet the needs of our clients.

Let's take a look at expenses. Adjusted non-interest expenses totaled $846 million in the first quarter, down 4% linked quarter. The fourth quarter included a $58 million regulatory charge, and $5 million of expense related to branch consolidations. Additionally, as you are aware, last quarter we transferred $686 million of primarily accruing first lien residential mortgages, classified as troubled debt restructurings to held for sale. We finalized the sale of these loans during the first quarter, and actual expenses were $35 million less than originally estimated.

Salaries and benefits declined $9 million, or 2% linked quarter. In the first quarter, payroll taxes were seasonally higher, but were more than offset by lower employee benefits and headcount. Our staffing levels have declined from the end of last year due to branch consolidations and other efficiency initiatives. Additionally, legal and professional fees declined $11 million, or 24% from the previous quarter.

And you may remember that last quarter we announced plans to consolidate 30 branches and incurred a $5 million related charge. An additional $6 million of expense was reported this quarter with respect to that effort, related primarily to leased branches. So overall expenses remain a constant focus, and internally receive a great deal of scrutiny. As a result, we continue to expect full-year 2014 adjusted expenses to be lower than 2013's adjusted expenses.

Let's move on to asset quality. We continued to make good progress in the first quarter, as all credit metrics improved. Net charge-offs totaled $82 million, which represent 0.44% of average loans. This is the lowest net charge-off ratio we have experienced since the third quarter of 2007. The provision for loan losses was $2 million, or $80 million less than net charge-offs. Our non-performing loans declined 1%, linked quarter, and inflows of non-performing loans remained steady.

At quarter-end, our loan loss allowance to non-performing loans, or coverage ratio, was 118%. Notably, criticized and classified loans continued to decline, with commercial and investor real estate criticized and classified lands down 1% for the quarter, from the fourth quarter. Additionally, total delinquencies decreased 9%, linked quarter. And based on what we know today, we expect favorable asset quality trends to continue. However, at this point in the cycle, volatility in certain metrics can be expected.

Let's take a look at our capital and liquidity. Our capital position remains strong, as our estimated Tier 1 ratio at the end of the quarter stood at 11.9%. Our estimated Tier 1 common equity ratio was 11.4%, an increase of 20 basis points from the fourth quarter. We estimate our fully phased-in Basel III common equity Tier 1 ratio to be 10.8%, well above the minimum threshold.

Liquidity at both the Bank and holding company remained solid, with a loan deposit ratio of 81%. And lastly, based on our understanding of the proposed rule, Regions remains well positioned to be fully compliant with respect to the liquidity coverage ratio. As Grayson mentioned, we were pleased with our overall CCAR results, and the Federal Reserve having no objection to our planned capital actions.

So, in summary, we're off to a good start in 2014. And, importantly, our first-quarter results demonstrate that our focus on identifying and meeting more customer needs is generating steady and sustainable growth over time. Consistent with our Regions 360 approach, we believe that if we remain focused on our customers, have an engaged workforce, and continue to make positive impact to our communities, then ultimately we will drive long-term shareholder value.

And with that, I will turn it back over to List for instructions on the Q&A portion of the call.

List Underwood - *Regions Financial Corporation - Director of IR*

Thank you, David. We are ready to begin the Q&A session. In order to accommodate as many participants as possible this morning, I would ask that each caller please limit yourself to one primary question, and one related -- related -- follow-up question. Let's open up the line now for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Kevin St. Pierre, Sanford Bernstein.

Kevin St. Pierre - *Sanford C. Bernstein & Co., LLC - Analyst*

It would appear, with your current loan growth guidance and the current dividend and the share repurchase that's been approved, that capital will continue to grow this year, beyond that 11% Basel III Tier 1 common. And it looks like your total payout ratio is going to be in the 55% to 60% range. Do you anticipate, if things go as planned, that you would get more aggressive with next year's CCAR? Or how should we think about that?

David Turner - *Regions Financial Corporation - Senior EVP, CFO*

Yes, Kevin, this is David. We put together our capital plan, based on what we believe to be the right thing to do. We laid out our priorities. I think we've spoken about that a number of times, of first wanting to use our capital to generate organic growth and to support our businesses. We believe that's what the capital was given to us for, and the generation of new capital should be used for organic growth.

We also, then, want to get our dividend up some, and more consistent with the peer group, and you've seen the movement there. Our next priority is really to use the capital in the business the smartest way we can. And that includes transactions like growing portfolios. We acquired a credit card portfolio. We've looked at, and continue to look at, acquisition opportunities, whether they be banks or non-banks, when the market and the environment is right for that. And when we don't use our capital for those items, is to return it to the shareholder, so that the capital doesn't continue to pile up on the balance sheet.

So, we continue to look at it in that order, and we constantly go through capital planning. We do this every quarter. This is not a CCAR exercise. We do it once a year; we do it every quarter. And we'll make adjustments as deemed appropriate.

Grayson Hall - *Regions Financial Corporation - Chairman, President, CEO*

Kevin, this is Grayson. I wouldn't characterize our capital plan as either aggressive or conservative. We tried to put together a plan that we believe is appropriate for the opportunities we see in the market. To the extent that the economy outperforms our forecast, or to the extent that some of the opportunities we believe that exist don't prove out, and we accumulate more capital than we had anticipated, then we will make a different but also still an appropriate decision for next year's capital plan.

So, as the economy matures and see what happens, we adjust. But we're hopeful that we have some opportunities to deploy our capital effectively this year.

Kevin St. Pierre - *Sanford C. Bernstein & Co., LLC - Analyst*

Thanks. And just a related follow-up, so assuming at some point you're going to have some reasonable buffer over a 7% Tier 1 common minimum -- so, say, 8%, 8.5% -- do you anticipate a time when you are able -- I don't know if this is 2015, 2016 -- when you are able to manage your capital ratios down with either a special dividend or some sort of payment -- a total payout in excess of 100%? Or are we in a situation where you're going to have to organically grow into those new ratios?

Grayson Hall - *Regions Financial Corporation - Chairman, President, CEO*

No, I think that capital planning process improves each and every year. We're working on our processes continuously, improving the quality of our data, the quality of our models, the quality of our forecasts. And as we build confidence internally, and confidence and externally, I think the opportunities to deploy our capital more effectively will occur naturally.

We think we made the appropriate call this year on our capital plan. And as things mature, we will adjust that call as appropriate. And I do think that, to your point, if things continue along the path they are on, we will continue to strengthen our capital position and be afforded opportunities to consider how we deploy that.

Kevin St. Pierre - *Sanford C. Bernstein & Co., LLC - Analyst*

Great. Thanks very much.

Operator

Paul Miller, FBR.

Paul Miller - *FBR Capital Markets - Analyst*

Yes, thank you very much. On the loan growth, can you talk about, a little bit, what are you seeing from your customers? You talk very positively about continued loan growth. But what areas are you seeing the most interest, and what are your customers telling you?

Grayson Hall - *Regions Financial Corporation - Chairman, President, CEO*

Paul, let me describe it this way. I think that what's different this quarter from last quarter is that we saw more diversity of loan demand, both from a product perspective and from a geographic perspective. I would still say that on the commercial side of our balance sheet, we are still seeing more demand in the upper end of the middle market and in large corporate lending. That still is more demand there than elsewhere.

The lower middle market and the small business customer, still, to a certain extent, is still recovering. And the demand there is still softer than we would hope at this point in the cycle. On the consumer side, the consumer has strengthened quite nicely over the last several quarters, and deleveraged. We see demand there in both -- as we mentioned a moment ago -- in credit card and indirect auto lending, and in increases in home purchases in mortgage.

We have seen a big shift in our mortgage production; production is down, but home purchase is actually up. So, we're probably in a mix of about 70% purchase and 30% refinance, at this juncture. We're seeing that on the indirect auto side, still good growth. We're having to obviously be much more disciplined from a credit perspective in that space, but still see opportunities there.

The credit card, we're offering a lot of new card accounts to customers. Balances are seasonally a little low at this juncture, but we're pleased with the progress we're making. I think when you look at overall loan demand, we would still like to see the diversity of that demand improve further yet, but I would say that it made a very strong, progressive move in the past quarter. We are more pleased with how broad it is today than we were the last time we spoke.

Paul Miller - *FBR Capital Markets - Analyst*

And then one quick follow-up on the auto side. You said that you expect to increase the pull-through. Do you think that area is getting very over-competitive? Because you hear some banks saying that it could be getting overheated.

Grayson Hall - *Regions Financial Corporation - Chairman, President, CEO*

Well, I think, clearly, that growth in that market -- all of our teams in risk management, when they see a particular product growing rapidly, then risk management disciplines require you to start looking at that particular product segment more closely. There's a lot of participants in the auto lending space, and you are seeing growth of loan demand in that particular category.

I think you have to -- as an individual institution, you have to do decide what part of that market you want to participate in. We've drawn some pretty bright lines about where we participate. We believe we can do that, and still show growth. And we're still very confident in the production we're placing on our balance sheet.

David Turner - *Regions Financial Corporation - Senior EVP, CFO*

Paul, this is David. I'll add to do that. That one of the things we think about in indirect is who we're doing business -- the dealership that we're doing business with. We have, today, about 2000 dealers that we do business with of the 8000 that are actually in our geographic marketplace, so only about 25% of those that we're banking in today. And I think that dealer selection is very important for us. We're building the relationship that we need, the speed of answer that we need, and we feel very good about that credit.

Paul Miller - *FBR Capital Markets - Analyst*

Hey, thanks a lot, guys.

Operator

Keith Murray, ISI.

Keith Murray - *ISI Group - Analyst*

Just touching on the C line items for a second. If you look at the service charge on deposits were down 6% year-over-year; you guys talked about you had pretty good growth in checking accounts. Could you just talk about the dynamic that's going on there on a year-over-year basis?

Grayson Hall - *Regions Financial Corporation - Chairman, President, CEO*

Yes, I'll make a couple of comments, then asked David to comment on it as well. Clearly, what we're seeing is, from a service charge perspective, first quarter is typically seasonally soft. And if you compare it against the same time last year, this year was softer than last year. We do believe part of that was weather-related, but we also believe that part of that is shifts in consumer behavior.

The consumer is in much better shape, from a financial perspective, than they were a year ago. And we're seeing much more discipline on the part of the consumer in terms of how they manage their accounts, both from making sure they maintain balances necessary to override any service charges that might occur, as well as discipline around overdrawing those checking accounts. And so we've seen a real marked improvement in how customers are managing their checking accounts.

That being said, we still are encouraged by the number of new, quality accounts that we are adding to our balance sheet, and believe that there is an opportunity for us to continue to grow that part of our business going forward.

David Turner - *Regions Financial Corporation - Senior EVP, CFO*

Yes, so I think Grayson is right on the -- growing the number of customers, I think, is going to be important to us. As we look at our customer base and really want to build deep relationships with those customers, we offer advice, guidance, and education to these customers to help them with all of our banking products. And we think that we have seen a change in the customer behavior, not only in the industry -- because service charges are down in the industry -- but we see it at Regions as well, which we think is a good thing.

We think we have a good quality customer base. And we're looking to develop those new products that will serve our existing customer base, as well as those new households that we're growing. So, all in all, we see a decline in fees like overdraft fees, but looking to gain on different service charges and different products that we're offering.

Keith Murray - *ISI Group - Analyst*

Thanks. I was just going to ask a follow-up along those lines. So, the deposit advance product -- would you be willing to give us a revenue number that you might be giving up, and give us more color on the traction? We've seen articles in American Banker, et cetera, you guys are making progress on [many] consumers, on tiered pricing, et cetera. Just how much traction you're seeing there on the replacement type products.

Grayson Hall - *Regions Financial Corporation - Chairman, President, CEO*

I think that clearly what you've seen is that we're transitioning away from that particular product. Since the first of the year, we've not been adding any new customers to that particular product, and we're seeing normal customer attrition out of that product. Over the next couple of quarters, we will be offering a number of different transitional alternatives to our customers.

It's a little early for us to give you a definitive number on what the revenue impact will be, because we need to see how some of these transition strategies, how effective they are. We are hopeful that we can transition a number of these customers to more traditional, credit-based products, but that's yet for us to prove.

Keith Murray - *ISI Group - Analyst*

Thank you.

Operator

Eric Wasserstrom, SunTrust Robinson Humphrey.

Eric Wasserstrom - *SunTrust Robinson Humphrey, Inc. - Analyst*

Good morning. In terms of the credit experience, was there anything interesting or unusual going on with respect to recoveries, particularly in the commercial space?

David Turner - *Regions Financial Corporation - Senior EVP, CFO*

Nothing unusual that we've seen. We went into de-risk a lot of credit during the tough times, and we sold some credit, too. So the recovery opportunities on what we sold clearly aren't there, but we're seeing some recoveries. But nothing unusual that's cropped up that we've seen.

Unidentified Company Representative

We actually look at the recoveries on a year-over-year basis. Recoveries are relatively flat on a dollar basis. And given our lower non-performing loan base, on a percentage basis, recoveries are actually up. Pretty broad-based amongst all of the categories; particularly in commercial is where we're seeing those recoveries coming from.

Grayson Hall - *Regions Financial Corporation - Chairman, President, CEO*

But nothing unusual this quarter on recoveries. It's tracking about as we would have expected.

Eric Wasserstrom - *SunTrust Robinson Humphrey, Inc. - Analyst*

And then just my related follow-up just steps back for moment. If, on a core earnings basis, we annualized the quarter to about $0.85 of earnings, but with virtually no provision, presumably as that number moves back towards some side of normalized range, what offsets the impact of the higher credit loss experience range for the P&L?

David Turner - *Regions Financial Corporation - Senior EVP, CFO*

Well, the increases that we see coming -- it's a timing issue, right? So, we continue to have a little higher reserve coverage then our peers; so a little more credit leverage left, relative to the peers. We see economic expansion coming at some point in time, a higher rate environment at some time. So that overall general increase in economic activity will lift our NII, and will lift our NIR.

And execution on our Regions 360, which is a needs-based program to bring the entire bank to our customer base -- those are the main areas we see, in terms of growing our revenue stream to mitigate what a normal provision would be, the amount of which we can't tell you today because credit that's going on the books today is some of the most pristine credit we've booked at Regions, and in an industry, over time.

So it's really a timing issue, that's hard to tell you exactly how, and what dollar amount the offset will be.

Grayson Hall - *Regions Financial Corporation - Chairman, President, CEO*

So, the credit quality continues to improve, and continues to improve at a pace that generally outpaces our internal projections for that. So we've been pleased by that, and encouraged by it. The portfolio, as David said, our loan portfolio today is a much stronger, much better-diversified portfolio than we've had in the past.

To your point is that if you assume no growth, and that credit leverage goes away, you've got a huge gap to fill. But you do have to recognize the growth, on one hand, that we're trying to achieve; and, at the same time, the expense management disciplines that we put in place to continue to try to drive towards a good earnings result, as credit leverage dissipates.

Eric Wasserstrom - *SunTrust Robinson Humphrey, Inc. - Analyst*

Thanks very much.

Operator

John Pancari, Evercore.

John Pancari - *Evercore Partners - Analyst*

On that same topic, can you just remind us what you think is an adequate long-term loan-loss reserve ratio, as we get into the improving or (technical difficulty) environment?

David Turner - *Regions Financial Corporation - Senior EVP, CFO*

Yes, John, this is David. So, it's a great question. We tried to -- we've given a range before that we thought the reserve would be, in that 1.5% to 2% range. Clearly, credit has been more pristine; better, longer, than we had originally anticipated when we put that out. I think we're at 44 basis points worth of loss today.

We see that range drifting south. It's hard to peg the exact terminal point on the low end. And I think our best guidance we can give you is, we have a pretty good model that we feel comfortable with. And we've got to let that model work, each and every quarter. And it will be what it is. But that being said, if you look at the credit metrics, we see it going south of that range, and where it ends up is your guess from there.

Grayson Hall - *Regions Financial Corporation - Chairman, President, CEO*

Credit quality is going to drive that number. And we stay focused on our methodologies, our process, modeling credit losses. And we've got to make sure that those processes have a lot of rigor and a lot of discipline around them. I'm like David; it's hard, at this juncture, to definitively peg where those ratios might eventually land.

John Pancari - *Evercore Partners - Analyst*

Okay, all right. And then, separately, want to see if you can talk a little bit about the very modest decline in loan yields that we saw in the quarter. Specifically, if you can give us some color on the new money yields, where you are booking new loans at this point, versus the current portfolio yield.

And then, separately, how that comes into play in terms of your margin outlook for a relatively stable margin. Does that imply that you expect loan yields to hold in there, if not head higher here at all? Thanks.

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David Turner - *Regions Financial Corporation - Senior EVP, CFO*

Yes, John. So, as you mentioned, we expect our margins to be relatively stable for the remainder of the year. We define that as 1 or 2 points, either side of the 3.26% that we have today. Obviously a prolonged low interest rate environment puts more pressure on loans, as old loans, higher-priced or fixed-rate loans mature, and new loans go on the books.

From a pricing standpoint, clearly there's pressure on pricing in the loan portfolios, in particular on the commercial side. But we believe that pricing has been -- for what we're booking, relatively stable there. You saw a slight decline in loan yields for us. Mix changes with loans can make a difference, whether it's a consumer loan or commercial. And, clearly, we grew -- most of our loan growth was in the commercial space.

But those spreads have been in a 2.25% to 2.50% range. They are kind of holding in there, depending on the credit that you're putting on the books. So I think you should expect, with the rate environment where we are right now, that you'll see some modest compression on loan yields. We have had, as you know, deposit and liability management strategies to help offset the funding costs. We're down to 33 basis points of funding. And so all that has been taken into account on the margin guidance that we give you.

With all that said, if the rate environment stays lower, longer than we expect, we will have margin compression. Right now, we still are confident enough to give you the guidance on a stable margin going forward -- 4.14%.

John Pancari - *Evercore Partners - Analyst*

Okay, thank you.

Operator

Ken Usdin, Jefferies.

Ken Usdin - *Jefferies & Company - Analyst*

Can I ask you guys a question about extensions and efficiency? This quarter was another good result for expenses, and even included a FICA balance. So I'm wondering if you can help us understand -- how much was that elevated first-quarter bump? And then also how you expect the trajectory of both dollars and/or even the efficiency ratio, as we go through the year.

David Turner - *Regions Financial Corporation - Senior EVP, CFO*

Ken, so if you look at our efficiency ratio, our efficiency ratio actually ticked up just a bit in the quarter. I would tell you that's more of a revenue side of the equation than the expense side, although we focused pretty intensely on expenses during the quarter. That being said, I believe that, as you think about the remainder of this year on the efficiency ratio -- I mentioned that last quarter we're sticking with it.

We believe the efficiency ratio will tick down from where it is today, and we think it will finish in the year in the lower 60% range. So, we had a lot of pluses and minuses. We had incentives, we had pension, we had FICA -- all that is taken into account in terms of that go-forward guidance, in terms of the lower 60% range for efficiency this year.

Ken Usdin - *Jefferies & Company - Analyst*

Okay. And as my follow-up on that, then, can you help us understand then approximately what was at least a FICA [balance]? I would presume that tension was a helper, so I would presume that $846 million adjusted included that seasonal spike. I'm just wondering if you could help us understand how much that would've been. And do we then presume that we trail off of that from here?

David Turner - *Regions Financial Corporation - Senior EVP, CFO*

I think in total if you look at dollars, it would be in that $11 million to $12 million range for payroll.

Ken Usdin - *Jefferies & Company - Analyst*

Okay, got it. Thanks, guys.

Operator

Betsy Graseck, Morgan Stanley.

Betsy Graseck - *Morgan Stanley - Analyst*

Couple questions; one on the loan growth. I know you gave the 3% to 5% guidance. And that seems like a relatively wide range as you're sitting here, given what you saw into March, and what you are booking right now. Is there a reason why you can't tighten that range a little bit from what you gave previously?

Grayson Hall - *Regions Financial Corporation - Chairman, President, CEO*

That's it, I think that as we look at it right now, we've given guidance on the 3% to 5%. Clearly, we are one quarter into the year. We think we had some encouraging growth in the first quarter. Our pipelines are healthier today. We've seen some real optimism in the last, say, six weeks or so, as some of the weather-related issues have dissipated.

I would say we're not at the point yet that we feel comfortable in tightening up that forecast. Clearly, as the year progresses, we will gain confidence in that. But at this juncture, we still believe the 3% to 5% range is appropriate.

Betsy Graseck - *Morgan Stanley - Analyst*

Okay. And then I'm just thinking about it in the context of how it impacts the NIM, in line with the prior question. As you are looking out on the NIM -- you talked a bit about the loan yield impact, but what about the cost of funds? Are there things you could do incrementally on that side, as well? You've got some high-cost debt outstanding, some sub-debt. Is there anything that you could do there to lower the funding costs?

David Turner - *Regions Financial Corporation - Senior EVP, CFO*

Yes, Betsy, we continue to look for opportunities, when it's economical, to rationalize our funding side. You've seen the actions we've taken up to now on prepaying some of our debt. So when the math really has to hold up for us, so we look at it every day. We realize we have some expensive debt out there. It is on our radar screen, but we do want to make sure that it's economical when we do it. And that's probably been the biggest holdup there.

Betsy Graseck - *Morgan Stanley - Analyst*

Okay. And by economical, you're talking about impact of whatever swaps, hedges?

David Turner - *Regions Financial Corporation - Senior EVP, CFO*

Or a reasonable payback, in terms of the cost that we're going to incur; the one-time charge to capital, in income statement and capital -- and how quickly do we get paid back for that?

Betsy Graseck - *Morgan Stanley - Analyst*

Okay. In other words, not refinancing it, but just taking it down?

David Turner - *Regions Financial Corporation - Senior EVP, CFO*

Or refinancing it cheaper.

Grayson Hall - *Regions Financial Corporation - Chairman, President, CEO*

Either way, either way.

David Turner - *Regions Financial Corporation - Senior EVP, CFO*

(multiple speakers) or taking it out completely. Either way.

Grayson Hall - *Regions Financial Corporation - Chairman, President, CEO*

The math is still the same.

Betsy Graseck - *Morgan Stanley - Analyst*

Yes, okay. Thank you.

Operator

Ryan Nash, Goldman Sachs.

Ryan Nash - *Goldman Sachs - Analyst*

If I can ask two unrelated questions -- first, when I look at the capital market side, it was down over 50% in the quarter. And you did call out a slowdown in syndicated loan lines and customer derivatives, post a strong 4Q. But even beyond that, it does look like the slowdown was beyond prior quarters. So how should we think about the bounce-back from here? Do you expect that we should run at a similar rate to the current quarter? Or do you think we should move back towards the higher level we were running pre-4Q?

Grayson Hall - *Regions Financial Corporation - Chairman, President, CEO*

No, I think at this juncture, when we look at this, Ryan, we had a strong -- to your point, we had a strong fourth Q, and then we hit softness in the first quarter. It was a little softer than we had anticipated, but nice recovery in the latter part of the quarter. And we still are pretty optimistic about where it goes from here.

That being said, I think the biggest change we saw was how much broader loan demand was, across markets and product. And, in particular, we pivoted on investor commercial real estate, which has been a declining portfolio for a number of quarters, and actually had some reasonable growth this quarter in that segment.

So I think that as you look out in upcoming quarters, we still believe that there's an opportunity for us to continue to grow our loan portfolio. Our goal is to do that in a diversified and prudent manner.

David Turner - *Regions Financial Corporation - Senior EVP, CFO*

Yes, Ryan, I'll add on, specific to the capital markets, with regards to what was happening. If you go back to the fourth quarter, you'll see a very different rate environment, one where the 10-year was increasing; people were using derivatives a lot more than they did in the first quarter. So the first quarter rates declined quite nicely.

And as that happened, people were not -- were willing to run a little more interest rate risk than they would otherwise. So I think all things being equal, as we expect rates to continue to climb -- the pace of which is uncertain -- that as that expectation of a rate increase is coming, you would expect clients to demand more use of derivatives; and, therefore, a big driver of our capital markets revenue going forward.

Ryan Nash - *Goldman Sachs - Analyst*

Got it. And then you did a nice job earlier on outlining how you think about capital allocation and capital return. But if I could just dig a little bit deeper -- Grayson, can you share your philosophy or priority, in terms of how you are thinking about your risk tolerance for strategic transactions? And what, in particular, is it that you are looking for? Is it improving density across certain MSAs, building out the wealth management channel?

And you guys obviously haven't done big deal since AmSouth. Just be helpful if you could just refresh what are your parameters, in terms of return hurdles and risk parameters.

Grayson Hall - *Regions Financial Corporation - Chairman, President, CEO*

Well, when you look at capital allocation, and what we're looking at in terms of growing the Company, we are looking for a diversified strategy that doesn't place huge bets on any portion of our capital, but actually places incremental bets in different parts of our business. You've seen as allocating not only capital, but resources, to our wealth management sector to try to grow that sector out; to try and create a more diversified revenue stream for the Company, but also create new revenue streams that we weren't previously enjoying.

I also think we look at that, philosophically, the same way. We have a number of markets that we are very dominant in. But we also have a number of markets where our franchise is limited, that we'd love to see, over time, us garner the ability to expand the density of our franchise in those markets. I do think that we are looking for incremental opportunities that add up to be material, as opposed to looking for transformational kind of opportunities.

Ryan Nash - *Goldman Sachs - Analyst*

Thanks for taking my question.

Operator

Brian Foran, Autonomous Research.

Brian Foran - *Autonomous - Analyst*

I wondered if I could come back to the loan yield question, and maybe come at it from the other side, which is -- if I look back two years ago, your loan yields were materially below the industry average, about 40 bps, at least on the way I measure it. And if I look today, you are kind of in line -- and especially over the past year. While there has been price compression, it's just -- with every bucket except credit card, your price compression has been a lot less than the industry.

How much of that is conscious repricing efforts on your part? How much of that is the markets or the borrower mix shift? Or just why aren't you seeing the same magnitude of price compression on the lending side that some of your peers are?

Grayson Hall - *Regions Financial Corporation - Chairman, President, CEO*

Well, I think I'll answer it a couple of ways, and then I'll ask John Asbury, our executive in charge of Business Services, to add to it. I would say when you look at our portfolio, that generally going into the recession, we had more variable rate notes then we did fixed rate, as relative to peers. And I also think, if you looked at our portfolio on the consumer side, we had an equity line portfolio that was priced materially below peer.

And so, as you look at us today, you are seeing, on the consumer side, generally speaking, loans that are going on our portfolio are priced higher than loans that are maturing off of our portfolio.

On the business side, we've had to make some very specific decisions about in which markets and which products that we will compete, both on price and structure. We believe we have been rigorous and disciplined in that regard. But generally speaking, corporate balance sheets are in better shape. And so corporations that we are providing banking product today can demand appropriate pricing, given the risk characteristics of their company, which have improved dramatically.

And so I do think we feel pricing pressure in our markets. We see that, and we're trying to compete against that by competing on value of relationship, as opposed to competing on price. That doesn't mean that we aren't subject to pricing pressure. But that does mean -- and I think that going into the recession, we didn't have as much discipline around pricing as we should have.

We think we have largely corrected that. And we believe we're in a better place today, in terms of what we're adding on to our books.

But I'll ask John Asbury to speak to that.

John Asbury - *Regions Financial Corporation - Senior EVP, Head of Business*

Grayson, you summed it up very well. The first thing I'd point to was your first point, which is we don't run a large fixed-rate book. We're about three-quarters variable rate. And so we did not have to deal with runoff of higher-yielding fixed rates to the same degree as many of our peers did, we believe, over the course of the past couple of years. So that would be one issue.

The second is there's no question that we put pretty powerful disciplines in place, in terms of incenting and holding bankers accountable for pricing the loans. We do not have a price-driven strategy. That is not how we choose to compete. So, yes, we need to be competitive. We use third-party benchmarking services. We have a lot of mechanisms that cause the bankers to want to make sure that we are paid appropriately for the extension of credit.

And, honestly, I think those are the two big drivers, from the business services perspective.

David Turner - *Regions Financial Corporation - Senior EVP, CFO*

I'll add two other things, because you framed it up, Brian, in terms of how we compare to our peers. Two things. One, the use of derivatives, interest rate swaps, to hedge that risk that John just talked about in terms of being variable.

We paid the price for not having those hedges in place, and that's why our margin -- and I forgot which caller had referred to our margin -- had been lower for some period of time. So the maturing of the swap is more prevalent at some of our peers than it is for us. And so as that gets unwound for them, you can see the margin is working towards us.

The second big thing is purchase accounting in several of the peers also works its way through the pipeline. And while there is still some more of that accretion, if you will, inuring to the benefit of the margin line for some, we didn't have that.

So we had those two things, swaps and purchase accounting, are big drivers of why we don't have that downward pressure as much as the peers do.

Brian Foran - *Autonomous - Analyst*

Thank you so much. That was a really thorough answer.

Operator

Matt Burnell, Wells Fargo Securities.

Matt Burnell - *Wells Fargo Securities - Analyst*

Just two questions on the loan portfolio. First of all, you mentioned the utilization rate was up about 170 basis points. I don't remember you saying what the ratio was at the end of the quarter? And I'm curious if you would provide us what you think your long-term target, or long-term average would be, and what benefit that might generate to net interest income?

David Turner - *Regions Financial Corporation - Senior EVP, CFO*

Yes, we'll get you the where -- from/to; but, historically, if we had been over 50% in terms of utilization. And if I recall, we were in that 45% range today in terms of utilization. So we still have room to go in terms of what it ultimately gets to. So, I guess, a 45 minus 170 is where we were. Whatever that math is.

Matt Burnell - *Wells Fargo Securities - Analyst*

Fair enough. And then just a bigger-picture question for Grayson. Your consumer loans at this point are about 38% of total loans. Those would come on -- presuming there was normal levels of demand -- at higher rates than you would normally see for a commercial loan. How are you thinking about the dynamic over the next couple of years of growing the consumer loans, and what benefit that might have to the margin over time, and how the portfolio ultimately balances out between consumer and commercial?

Grayson Hall - *Regions Financial Corporation - Chairman, President, CEO*

I think that David and I have publicly stated a number of times we'd love to see the mix of commercial to consumer loans more in that 50-50 range. Since we've been saying that over the last three or four years, it has hardly moved.

Matt Burnell - *Wells Fargo Securities - Analyst*

Right.

Grayson Hall - *Regions Financial Corporation - Chairman, President, CEO*

And today, the consumer portfolio is about 38%. And that's in spite of the fact that we re-entered the dealer indirect business and we repurchased back our credit card portfolio, and reentered that business. But I do think we are encouraged by some of the progress we are making. Quite frankly, the loan demand in the consumer sector still is less than in the commercial segments. But we're still very much committed to growing that consumer portfolio.

We think that, clearly, the consumer is taking a much more disciplined approach to credit today. We think that's a good thing. So we do believe we have almost 4 million consumers who bank with us; and we do believe the penetration into that book of credit products is still low, relative to what we see at other peers.

And we do believe, over time, that we will be able to move the mix of consumer and commercial loans on our book. It's just given, in this market, with where loan demand is at today, that's become particularly challenging. But we do believe, over time, that our efforts will prove to move that number directionally towards that 50-50 basis. But that's going to take some time, and it's going to take a stronger, consumer-driven market to do that.

Matt Burnell - *Wells Fargo Securities - Analyst*

Thanks for taking my questions.

Operator

Marty Mosby, Guggenheim.

Marty Mosby - *Guggenheim Securities LLC - Analyst*

Wanted to ask you, David, a little bit about the net interest margin and the two factors that we haven't talked about yet, which are the higher cash balances in liquid assets that you accumulated quietly. Over the last year, you've accumulated about $1 billion; which, in my calculation, is about 2 basis points on the margin that you have in your back pocket, that you could use whenever you so deemed necessary.

So, how do you think about that, and what plans do you have to deploy some of that?

David Turner - *Regions Financial Corporation - Senior EVP, CFO*

Marty, you're right. Our average cash balance did go up during the quarter. And a big driver of that is our continued growth in deposits, which we are always out there looking for good customer deposits. We realize that we need to put that cash to work more efficiently, which we will do. We would like to be down in that maybe just less than $2 billion range, in terms of cash balances today, given the lack of an efficient, functioning overnight market.

So you should not see us continue to pile up cash at the Fed, and to see it --continue to see the increase that you did this past quarter.

Marty Mosby - *Guggenheim Securities LLC - Analyst*

And that's a positive that you didn't get this quarter that you could get in the future. And the positive that you did get this quarter was the decline in premium amortization, which although rates went lower, I guess cash flows and prepayments stayed slow enough that you were able to reduce that amortization this quarter.

David Turner - *Regions Financial Corporation - Senior EVP, CFO*

Yes, that amortization was helpful to us. It was a positive in terms of our net interest margin. The benefit that we see going forward from the slowing of premium amortization is less and less, but still some positive there. So we just have to think efficiently of how we put the cash to work. You're spot-on. It's just where do we put it that it's the most meaningful to us?

We'd love to have loan growth, and to fund loan growth -- appropriately priced, appropriately risk-weighted loan growth. That's what we're here for. And if we can't do that, we put it in the investment portfolio while we wait. And I think Betsy asked a question about deleveraging. We look for opportunities there ourselves when the economics make sense.

So there are a couple of different places we can use the cash. We just have to find the most efficient means of it.

Marty Mosby - *Guggenheim Securities LLC - Analyst*

And, Grayson, a big-picture question. When you're looking at the risk management practices that you're investing so heavily in, there's one thing which says you have to comply with all the regulatory requirements. But what is going to make Regions different? How do you see the actual, tangible benefits of having better risk management? Are all the things you're doing just meeting compliance, or are we really making our risk management better?

Grayson Hall - *Regions Financial Corporation - Chairman, President, CEO*

Well, Marty, it's a great question, and it's one that the entire industry is asking ourselves. If it's compliance for compliance sake, I think you miss a great opportunity. In this organization, we're trying to grow risk management all the way down to the front line, making sure that our first line of defenses, from a risk standpoint, are solid; our second lines are solid; and our third lines are solid.

And we're driving a very strong cultural change to the Company around risk management. At the end of the day, the investment we're making in risk management has to make sense from a business perspective. It has to improve not only quality of our earnings, but the consistency of our earnings. I think that we're trying to strike a healthy balance. We are in the business of taking risk, but we're in the business of taking prudent risk.

And so I think that the question we ask ourselves every day is not how we invest in risk and compliance and audit, just for the sake of being in compliance, but really for -- how do we really change our Company to make it a better company? To make it a company that is a better long-term investment for our shareholders, and a better long-term place for customers to bank, and for our team members to be employed.

And I'd just ask Matt Lusco -- Matt is our Chief Risk Officer, right here. I think it's a great question Matt ought to comment on.

Matt Lusco - *Regions Financial Corporation - Senior EVP, Chief Risk Officer*

Hey, Marty. I'll add to that a little bit. I think first, I think Grayson hit it spot on, but I think we're doing a lot to track the cost of non-compliance. If you look at the industry, the cost of non-compliance over the last six months alone was $59.2 billion. And that's really just more fines. It really doesn't consider operational loss. It's consulting costs; work back our lost revenues from opportunity cost. That's an incredible number compared to net charge-offs for the industry, which were only $20.7 billion.

So you really do have to have an infrastructure command and savvy. We've got an initiative in Regions, which we talked a little bit about in the annual report this year, called Regions ROA, which stands for Risk, Ownership, and Awareness. And that really is ensuring that we're building out a strong partnership between first and second line of defense.

And as Grayson said, not compliance for the sake of compliance sake, but to ensure that we are getting the maximum benefit out of all of our processes. We are identifying some internal costs of non-compliance that we want to track down with these initiatives and really measure. So we see it as really a comprehensive quality assurance initiative.

Grayson Hall - *Regions Financial Corporation - Chairman, President, CEO*

Thank you, Marty.

Marty Mosby - *Guggenheim Securities LLC - Analyst*

Thank you.

Operator

Sameer Gokhale, Janney Capital.

Sameer Gokhale - *Janney Montgomery Scott - Analyst*

I just had a couple of questions. The first one was, you provided some good commentary around loan growth being somewhat broad-based. And I was just curious in terms of your loan commitments, it looks like last quarter they increased by $500 million. And if I'm doing my math correctly, it looks like this quarter, loan commitments grew by $750 million to $800 million. And I was curious if that increase in loan commitments this quarter, and indeed the loan commitment themselves -- the $750 million to $800 million -- if you could speak to the mix of those commitments.

Where are you seeing, perhaps, increased demand? I know you had some growth, finally, in industrial real estate. Is that a significant chunk of the loan commitments this quarter? Or any other specific areas you might point to, as far as the loan commitments go.

Grayson Hall - *Regions Financial Corporation - Chairman, President, CEO*

I think if you look at the loan growth this quarter, while it was one of the first quarters in a long time we saw net growth on industrial commercial real estate, the good news on that growth was that while still multifamily is the largest single product out of that production, we did see strong production out of other parts or other categories of commercial real estate. About 40% of our production was in multifamily; 60% of our production was elsewhere, scattered between single family, industrial, office, and retail.

Retail still continues to be the smallest part of that production, but there was more growth there than we've seen in previous quarters. I think when you look at the commercial and industrial, we really see growth in a lot of our specialty lending groups; in particular, energy and healthcare. And if you look across markets, the markets in Texas and South Louisiana are growing particularly strong. But also we had some pretty decent growth in Georgia and in north-central Alabama.

And of course Florida, while Florida was -- probably had the most challenging time coming through the recession, we're seeing some really positive signs coming out of certain markets in that part of our franchise.

John Asbury, would you like to add to that?

John Asbury - *Regions Financial Corporation - Senior EVP, Head of Business*

Again, good summary, Grayson. Commercial continues to be strong for us; pretty well-diversified. One thing I liked to see this quarter is that the general industries, geography-based commercial effort, was actually the single-largest driver of commercial loan growth, which is good. And so we still had very good performance out of specialty lending areas, but it's nice to see more of a broad-based general industries.

You already spoke to the geographic areas from where that came. No question, we have been increasing commitments on the real estate side. To your point, pretty well diversified, not just by product type where we are seeing improving diversification, but also we're seeing improvement in diversification of where we're financing those products on the real estate side as well. So, good to see that coming online.

Sameer Gokhale - *Janney Montgomery Scott - Analyst*

Okay, thank you. And then just here in terms of the auto business, you talked earlier about dealer penetration. And you mentioned that you are in 25% of the dealers that are really in your footprint, so there's an opportunity out there. Do you have a metric? How high do you think that 25% could go in the next 12 months, like some sort of target?

And in terms of the average loans per dealer, I think in 2013 the average loans per dealer grew by more than 50%. And I think you referenced, in Q1, that increase was more like 13%. So is that the run rate we should expect over the course of this year as well, as far as average loans per dealer? Just to get a sense for a couple of metrics there, and how you're thinking about the next 12 months. Thank you.

David Turner - *Regions Financial Corporation - Senior EVP, CFO*

So, as we think about indirect, you're right: we're in 25% of the dealers in our geography. We aren't looking. While we have 6000, obviously, that we could go after, we really want to be particular with the dealers that we do business with. So our strategy now is less about increasing that number as it is penetration of our existing dealers.

You referenced the increase in the number of deals; per dealer, per month increasing. We had been at one, so the average was one deal per dealer, per month. And that is up quite nicely. The reason it was only one is -- remember, we re-entered the indirect market. You have to go back and build a relationship. That takes time.

And as we've proven ourselves, and proven our technology and our service to our dealers, we see penetration increasing at the existing 2000 dealers that we have today, versus growing that number. And we do that by the service. We do that by the speed of answer that we get back to the customer, which is driven by enhancements to technology that can help us determine an underwriting decision much quicker than manual intervention. So that's really the strategy going forward.

Grayson Hall - *Regions Financial Corporation - Chairman, President, CEO*

Yes, our goal is not to have -- we're not going to measure, necessarily, the numbers of dealers we have signed up, but the quality of those relationships. And we want to sell deeper into those relationships and have a more meaningful banking relationship with them. And so what you should expect to see this year is more transactions on a per-dealer basis, and less emphasis on just growing numbers of dealers.

Sameer Gokhale - *Janney Montgomery Scott - Analyst*

Okay. Great. Thank you.

Operator

Gaston Ceron, Morningstar Equity.

Gaston Ceron - *Morningstar Equity Research - Analyst*

Just wanted to go back to expenses for a second. Just two quick things. One is on occupancy. So, with the number of branches coming down, how should we think about that line going forward?

David Turner - *Regions Financial Corporation - Senior EVP, CFO*

Occupancy is one of our top three costs that we continue to look at. And you're right to point out that a lot of our occupancy costs is in our branch infrastructure. We have right at 1700 branches. We continue to evaluate all of those. We consolidated 30 offices last quarter, and completed that this quarter. So there are ways to tighten that up some. I would not expect dramatic changes in our occupancy costs as a result of that, but we'll continue to chip away at that line item.

A lot of that cost of occupancy is fixed cost; depreciation on places that we have, leases or whatever. So the ability to drastically move that, without exiting leases and taking a one-time charge, is less for us. But we continue to look at that closely.

Gaston Ceron - *Morningstar Equity Research - Analyst*

Okay. Great, that's very helpful. And then lastly on expenses, you really held the line here on the salaries and benefits, in looking at the five-quarter trend. How should we think about that line, assuming that eventually you move into a higher revenue environment? How much pent-up pressure is there for increases and things like that?

David Turner - *Regions Financial Corporation - Senior EVP, CFO*

Well, there are some of the salary and benefits that are tied to revenue. So as revenue increases, you should expect to see an increase in salary and benefits to pay for that revenue. We are down in headcount through the first quarter. Some of that is just timing-related. But we focus on making sure we rationalize our total headcount, which we will do, over time, this year.

There was some benefit that we received through our pension accounting during the year. And so you'll see that continue to play out through 2014. Our commitment, as we stated up front, was really to ensure that we're shooting for generating positive operating leverage. And so we aren't as concerned about the increases in salaries and benefits, or any other expense line, as long as the revenue generation is there to take care of whatever increase that we have. So there is some variability with those expense levels tied to revenue.

Gaston Ceron - *Morningstar Equity Research - Analyst*

All right. Thanks for the color.

Operator

Gerard Cassidy, RBC Capital Markets.

Steve Duong - *RBC Capital Markets - Analyst*

Hi. This is actually Steve Duong in for Gerard. Thanks for taking our call. Just a quick question regarding your loan portfolio. Your commercial real estate mortgage owner-occupied, that continues to decline. Is that still part of the de-risking of your portfolio, or is there more that we can take from there?

Grayson Hall - *Regions Financial Corporation - Chairman, President, CEO*

No, that's really not part of the de-risking. If you look at the owner-occupied real estate, it really performs pretty close correlation to the C&I portfolio in general. And so it -- but what you're seeing there is just a continued maturity of those notes in the face of still what's soft demand for that particular product. I think as economic courage returns on the part of us some of our business customers, you'll see that improve. But right now, that is still a softer part of our lending segments.

Steve Duong - *RBC Capital Markets - Analyst*

Great. So we should -- as the environment improves, we should expect that to eventually reverse course, I take it?

Grayson Hall - *Regions Financial Corporation - Chairman, President, CEO*

That's correct.

Steve Duong - *RBC Capital Markets - Analyst*

Okay, great. Well, I appreciate it. That's all for us. Thank you.

Operator

Vivek Juneja, JPMorgan.

Vivek Juneja - *JPMorgan Chase & Co. - Analyst*

Thanks. A couple of quick questions. Pardon me if I missed this one in the call. Your consumer advanced product, what is the dollar amount of outstanding in the yields on those loans?

David Turner - *Regions Financial Corporation - Senior EVP, CFO*

Vivek, We haven't disclosed our total outstandings, or revenue, I should say, generated from Ready Advance. And the reason for it, is we're in the process of transitioning out of that into different products that we are testing as we speak. And we want to make sure we give the investors the best information on what that revenue change, if any, will be as a result of those new products that we are transitioning into. That will take through 2014 to transition. And so if we get more clarity on that, we'll be happy to share that with you.

Grayson Hall - *Regions Financial Corporation - Chairman, President, CEO*

And clearly there's going to be revenue adjustment. We're working through what that means for us, and what our transition plans are. We've not been adding customers to this product since the first of the year. We're seeing just normal attrition of that customer base, and within that product.

But our transition strategies are yet to be proven out. And as we get a little more maturity around that transition process, we will be able to give you a little more clarity on what we think the impact will be.

Vivek Juneja - *JPMorgan Chase & Co. - Analyst*

Okay. One more question. LCR -- ultimately to get to -- I know you don't need to get to 100% right now, but ultimately to get to that -- will you need to shift the mix of securities a little bit towards more of the level 1? Or where do you stand, especially if you bring the cash that you've got sitting at the Fed now?

David Turner - *Regions Financial Corporation - Senior EVP, CFO*

We were trying to address that a little bit in the prepared comments -- that we believe, based on the rules today and our interpretation of those rules, we will be compliant with LCR when it is implemented. So, relative to others, we don't have a lot of changes, in terms of portfolio changes, that will affect us.

That being said, we need to continue to see how the rules change over time, and we'll make corrections. But based on what we see today, you should not see a big change in our portfolio makeup.

Vivek Juneja - *JPMorgan Chase & Co. - Analyst*

Okay. Thank you.

Operator

Christopher Marinac, FIG Partners.

Christopher Marinac - *FIG Partners - Analyst*

Grayson, you'd mentioned earlier in the call about the smaller markets you have, and the interest in trying to expand over time. I was curious if any of these small markets are popping up today, as pockets of good loan growth and opportunity, in terms of what you are already realizing.

David Turner - *Regions Financial Corporation - Senior EVP, CFO*

We have all kinds of different markets in our 16-state footprint. Each market offers a different competitive advantage, or different opportunity, I should say, for us. So some of those smaller markets, we have products and services that fit that customer base. And many of those small markets, the stability of deposits is really important.

Going back to a question that was asked earlier -- what happens when rates increase and economic activity starts occurring, and deposits become far more important as your funding source than perhaps today? We'll count on these small markets, where we have some really dense small markets that we think are really beneficial to us.

That being said, we have markets where we've tried to get that density that we need, or to get our product set sold through the market. If that can't happen, then we will consolidate, like you've seen us do. And we'll look to continue to rationalize our footprint over time as a result, if we can't get the revenue streams that we desire from them.

Christopher Marinac - *FIG Partners - Analyst*

Great, David. Thanks for the color here.

Operator

Matt O'Connor, Deutsche Bank.

Matt O'Connor - *Deutsche Bank - Analyst*

I realize the credit card book is only about $1 billion, but what's the thought process for offering credit card to non-customers?

Grayson Hall - *Regions Financial Corporation - Chairman, President, CEO*

Matt, if you recall, we -- it's not been that long ago that we repurchased our credit card book. And then it took a few quarters to get that book converted over to our systems and to get processes in place. And so we really have been focused since that time on really penetrating our book of business. And, today, about 14% of our customers have our credit card. We'd love to see that come up to a more appropriate level where you see some of our peer groups, in the 20% to 25% range.

We've been doing that, and doing that more effectively, each and every quarter. We've seen, most recently, some numbers where we obviously are getting much more proficient at selling into the financial needs of our customers and offering that product. We have been also trying to determine how best to grow the number of customers that bank with Regions. And so within our footprint, we elected to test the market to see if there was a way to use our credit card product offering to attract new customers into our offices.

We are early in that process. There's no intention, on our part, to be a heavy solicitation bank in terms of card; but very targeted, very selective in markets that we dominate, where we have strong brand name recognition. We are trying to experiment to see whether we can really drive some customer traffic into our branch offices for new accounts.

Matt O'Connor - *Deutsche Bank - Analyst*

Okay, that makes sense. And then just as we think out over the next few years, I want to say, at one point, you thought the card portfolio could get up to a $2 billion handle. Is that correct, or is that the thought process in terms of how big it could get over time?

Grayson Hall - *Regions Financial Corporation - Chairman, President, CEO*

Your math is just as good as mine. We're at 14% penetration. If we can get into that 20% to 25% participation rate, we ought to be able to double the size of that portfolio. But more importantly is that we can offer our customers a more full financial relationship, because all of our customers are going to carry one or more credit cards. We'd love for one of those to be ours. And our goal is to be able to manage that customer relationship, which we think it gives us a better chance of creating more customer loyalty and a better retention rate, long-term, for that customer base.

Matt O'Connor - *Deutsche Bank - Analyst*

Okay. Thank you very much.

Grayson Hall - *Regions Financial Corporation - Chairman, President, CEO*

Thank you. I think that ends our questions. And we appreciate your interest and your time today on this conference call, and we look forward to speaking to you next quarter. Thank you.

Operator

Thank you. This concludes today's conference call. You may now disconnect.
