16-Nov-2016

Regions Financial Corp. (RF)

Bank of America Merrill Lynch Future of Financials Conference

CORPORATE PARTICIPANTS

Scott M. Peters
Senior Executive Vice President- Head of Consumer Services, Regions Financial Corp.

Logan Pichel
Head-Regions Consumer Lending, Regions Financial Corp.

Deron Smithy
Executive Vice President and Treasurer, Regions Financial Corp.

OTHER PARTICIPANTS

Erika P. Najarian
Analyst, Bank of America Merrill Lynch

MANAGEMENT DISCUSSION SECTION

Erika P. Najarian
Analyst, Bank of America Merrill Lynch

All right. Good morning, everybody. So moving right along in bank line, I'm excited to introduce our next speakers from Regions Financial. Regions, as you all know, is a diversified financial institution based in Alabama and they not only have the football teams, they have good banks. They operate 1,600 branches primarily across the South, Midwest and Texas. And over the last few years, they've focused on embracing innovation, announcing partnerships with multiple FinTech companies including GreenSky, Fundation and Avant. And I'm very excited to have Scott Peters, the Head of Consumer Services; Logan Pichel, the Head of Consumer Lending; and Deron Smithy, the Treasurer, to give us more insight on the company.

And with that, I'll cede the stage to you.

Scott M. Peters
Senior Executive Vice President- Head of Consumer Services, Regions Financial Corp.

Thank you, Erika. First thing I'll do is little business, so forward statements are at the end of the presentation, we'll get that out of the way and let's jump right in? As you've heard from us before, our strategic initiatives really haven't changed at Regions. We continue to focus on growing and diversifying revenue, exercising disciplined expense management and optimizing and effectively deploying our regulatory capital.

Now, these strategies really drive the decision making process we have across all of our lines of business and all the decisions that we make within the bank at Regions. But, clearly, the big driver, in addition to these, is keeping the customer at the center of all our decisions. We believe when our customers win, so does the bank.

The retail bank, [ph] as I said (01:38) on the last slide and I won't go back to it though, drives in 2015 roughly $3.5 billion of revenue. To-date, through September, we were up roughly 2% in revenue. If we look at our delivery model and the way we go to market, it's a combination of really sophisticated channel capabilities including digital capabilities, contact center capabilities but also, in combination with local bankers on the ground in our markets. The combination of all of that together delivers against our customers and drives our relationship needs-based approach to banking, allowing us to get maximum penetration with our customers and frankly gather share that we can hold on to and sustain over time.

Let's talk a little bit about our markets. We operate retail banks in 15 states across the country, you see them depicted here. The green states are what we would call core markets to us. These are high share markets that we have. We have roughly 78% of our deposit base, which is one of the strengths of our company's low cost deposit base, in those core markets.

But you'll also see few stars there on what we would call growth and priority markets. In this case, St. Louis, Houston and Atlanta are depicted. Those are markets where we've actually announced and are currently undergoing plans and acquisition of property, et cetera, in order to increase our distribution presence in those markets.

So these are markets that we currently operate in, but we have an underutilized network and we have an opportunity for high growth in those markets while at the same time garnering high share, low-cost deposits from our priority markets. These are the three to-date that we've mentioned; as we go forward, we're going to continue to look at other dense high-growth markets for expansion.

Now, if we think about that last slide, what we're really trying to do at Regions is reshape our retail network. If you look at a lot of those core networks, we're doing a few things there and in some less strategic sites and maybe in some cases rural sites to consolidate, get more efficient but still maintain based on our high share and the number – the amount of presence we have in those markets retain the revenues with them.

So last year about this time, almost exactly, we announced that we'd be consolidating 100 to 150 sites, branch sites going into 2018. We've already identified 90 of those sites and are executing against those. Our sense is we are going to deliver against the high end of that range, maybe go through the high end of that range a little bit. We're well on our way to do that. We're doing it very efficiently and we're retaining a lot of the revenue from the customers, in fact, the vast majority of the revenue from the customers where we're doing consolidation. So we're doing it quite effectively.

At the same time, we are positioning ourselves and starting to make investments in some of these priority growth markets. If you think about the whole strategy and you play it out from a point-to-point standpoint of what we call our retail network strategy, we'll actually be down over 100 branch sites when we're finished with that. But we'll have increased the households within our branch trade area by 12% or between 4 million to 5 million households. So, at the same time, we're getting more efficient and operating more efficiently. We're opening up revenue growth for our company to grow in the future in much more dynamic higher-growth markets.

Some of the components that go into that, you see on this page, you see some new designs. We've squeezed down square footage. Our strategy is around going to what we would call A sites or high-traffic locations with lots of visibility. The branches or the sites are meant to be brand icons, where we can create a network of service, whether it's self-service or modified self-service, all the way up to flagship branches which can effectively cover a market much more efficiently than ever in the past.

A few key implementations we've done recently has been working towards universal bankers in our sites. So when we look at the new sites, we deploy them with technology and full universal bankers where we don't necessarily need tellers. What we're trying to do here is shift our investment in human capital from tellers who are driving simple transactions that frankly the customers don't really get a lot of value out of to actual universal bankers who can have a needs-based conversation, help these customers think about their finances and help them with their financial futures with Regions' products and services.

Just in the last year, we were able to, [ph] using (6:17) a universal banker rollout, reduced roughly 500 tellers and at the same time had about 130 universal bankers who are now revenue producing. The combination of that drove roughly $7 million in annualized savings and if you look at the productivity of the universal bankers drives a run rate of $7 million to $10 million annually of new production, which has a compounding effect based on the revenue that they bring in.

Everything we think about is how we can better serve our customers. We have a good track record at Regions around innovation; a few of them are listed here. Now Banking, which I'll talk about in a couple of moments, but that is our offering, full service offering for underserved or under-banked customers, which by the way, based on studies, would suggest in the markets that we serve is anywhere between 25% and 30% of the population. We were really the first bank to effectively monetize Mobile Deposits by offering advanced availability to our customers. That continues to be extremely successful. We have roughly a 50% revenue growth rate on the payments, the fee income from Mobile Deposits year-over-year.

We've done some very interesting things in consumer lending as well as small business lending, Logan's going to expand on a few of those. He can talk about our GreenSky relationship, as well as Avant, and Fundation is a partnership that we have on the small business side. We've taken that Mobile Deposit revenue opportunity and also have extended that to being able to do check cashing at our ATM, so all that is on a nice growth rate.

One of the things that we do to stay in touch with what's going on in the FinTech space is we are active meeting with FinTech companies, as well as VC firms that are active with FinTech companies on a regular basis. We are meeting with accelerators. Some of them are close to home. Some of them are not as close to home.

And we are also having innovation workshops on a regular basis at our bank. What this does for us is it identifies early opportunities for us, in some cases, to use them for products and services that we want to deliver, but also just keeps us in touch on an ongoing basis with everything new that's emerging out of that FinTech space.

We've got a lot of innovation in the works. This is a small list of some of the things, some that I mentioned like the rollout of the new branch designs. We did just do about a 4.5 million customer online banking conversion which went very well. It was extremely quiet. And those of you who had seen those go on before, sometimes they're not. But it positions us very, very well for new developed in all of our digital offerings across mobile and online banking, and we formed agile development teams which are actively improving that all the time.

Let's talk about Now Banking just for a second. We introduced Now Banking in 2012, and it was really spawn out of customer research. And what we found was there were variety of products, many of them are listed here, like check cashing, reloadable cards, money remittance, bill payment, money orders. The banks weren't really offering anymore, and they were finding other places to go and do that.

We essentially said, listen, we want to meet all of the financial service needs of our customers. So, we embarked on introducing Now Banking, which is really a suite of all these products and services, and not only of these products and services used by many of our customers, some who are fully banked, but it's also opened up a marketplace where we can effectively bank profitably. Some of the part of the market, it is unbanked. And this has been a real good growth engine for us with a good compound annual growth rate, roughly 14% in households per year. We now serve with Now Banking roughly 550,000 households.

You can't talk about innovation without talking about digital. This is just a little bit of an example of some of the things we're working on, and we like to call it digital because it's not just online banking, it's not just mobile banking, it's also frankly a lot of your marketing capabilities as well in order to attract people through the digital environment as they shop.

This shows some of the things currently that we're focusing a lot of energy on. One is optimizing sales and starting to pull through sales through the mobile channel as well as in online banking. That would be continuous effort, not only to make the experience easier but also, to look at products and services that today maybe you can't get online and bringing those to the online environment.

Responsive design, which is more simply said, is it makes screens work for our customers, no matter what kind of device they're coming to Regions for. So, making everything a responsive design is important. We're looking at usability and customer experience. You see Touch ID here. I'll say it out loud that in our mobile offering, the biggest request we get is for Touch ID. So, it's really high on our list of things to offer very shortly for our customers.

And we really can't talk about Regions without talking about advice, education and guidance. That's really what our mission is about. We put a lot of energy into not only our bankers being trained and certified but also our digital environment and all the content we have around that including – well, we've got a lot of success with recently, which has guided selling. So we continue to enhance and add more products for guided selling, and really what that is is a digital environment that helps bring the customers through a questioning process which narrows down what the right product might be for those customers. We're seeing tremendous pull-through as customers engage with that.

This has been a couple-of-year investment here for us to leverage data. So, if you think about retail or consumer banking now, it's very easy for folks not to come and talk to us because we've done such a good job with technology making it easy for us to transact. But we've built an addressable marketing system, which updates both internal and external information on a daily basis, and then interrogates that information and drives contextual messaging to customers whether they're showing up in the digital environment, coming to see one of our bankers calling our contact center. Wherever they might be, we have either offers or messages for customers that are in context and makes sense with what they've either been shopping for or the behavior they have.

This particular investment at this point in time is – and this is internal [ph] speed, (12:59) but it's got a internal rate of return of over 20% and our analytics engines behind this which continue to optimize that are only going to increase those returns. So, what you see here is really the future of being having a relationship with your customers without having to be in front of them all the time is working quite well for us.

One of our biggest strengths that I mentioned before is our deposit base. We have roughly $98 billion in deposit. It's very low-cost deposit base. As of last quarterly release, we were at 12 basis points. So, that's one of the strengths of our company. And a lot of that base, as I mentioned, just under 80% of it is in core and high share markets where we have deep relationships with these customers.

Our projection as we look at interest rates potentially rising as we go forward is that we will probably have a deposit beta advantage over a lot of our competitors. For our projections, we are using something higher than we've experienced in the past. But we clearly think this is a big advantage. And what bolsters this advantage is how strong our retail bank is. So, 56% of these deposits are actually in the retail banks. So, they're very granular. And once again, 92% of them are low cost.

Cards and payments, before I turn it over to Logan. This is definitely a strength of ours. Our debit card portfolio continues to grow as we're seeing nice fee income and purchase increases on that. We are regularly the top of the Visa Power scores with regard to debit. And the Visa Power scores are just looking at things like activation and utilization, usage statistics where we come out number one frequently. And this year, we have pretty much held that spot.

Credit card is a huge success for us. So, we continue to grow credit card, active cards 12% year-over-year, balances 11% year-over-year. We're now up to – a little over 18% of our deposit households hold a credit card with us. When we reacquired our portfolio from BofA a few years ago, we were a little over 12%, I think, at the time. And we feel that there's some good run rate with regard to that to exceed 20% and, hopefully, push up towards 25% over time. It's also a very healthy portfolio with FICOs on average roughly 750.

Payments is something we intend to stay out in front of. We were early adopters on wallets. We're also early adopters of all the Pays, the Apple Pays, the Android Pays, Samsung Pays. And we will be completely chip-enabled by the end of 2017. Currently, our penetration rates on chip are running roughly 20 percentage points ahead of the Visa averages. So, we feel really good about giving our customers the protection of chip cards and the opportunities we have going forward.

And the last component here is our Mobile Deposit, which, once again, something that we're very proud of, that we've been able to monetize Mobile Deposits to the satisfaction of our customers, who are very willing to pay a reasonable fee in order to advance the availability of their deposits with us.

With that, I'm going to flip it over to my colleague, Logan Pichel.

Logan Pichel
Head-Regions Consumer Lending, Regions Financial Corp.

Thank you, Scott, and good morning. Consumer loan product offering really consists of our mortgage home equity business, auto lending and unsecured loans. And you can see on the top of the slide what our two strategies are. And traditionally, we've been heavily concentrated in real estate loans in our portfolio and most of our originations have been to the branch channel.

So, our strategy has been twofold. One is, how do we expand non-real estate loan originations and how do we do it outside of our branch network to complement what we're originating for a branch network. And then, how do we provide a consistent and differentiated customer experience across all consumer products, across all delivery channels.

Let's take a look a little bit about how loan performances has done this year. So, you can see on the slide here, pretty good growth in the portfolio in every category with the exception of home equity. If you take a look at the biggest portfolio, we have mortgage, it's grown year-over-year by about 5%, $13 billion portfolio and we see two opportunities in this space. We originate about $6 billion of mortgages a year. Most of that, 95% of that has done through our 450 originators located in our 15-state footprint. But, there lies the opportunity. Only 5% of our production comes through our home loan direct channel, it's a telephone banking channel. We think that can be 15%, 20% of our production over the next three years to four years. It's 5% today, but it generates 10% of our originations' profitability. So, as we expand that channel, we think we can get more production and more profitability out of that channel.

In addition in the mortgage space, the other opportunity is mortgage servicing rights acquisition. So, this year, we purchased about $6 billion of mortgage servicing rights. It's primarily – it was Fannie, Freddie Mac – Fannie and Freddie product, that's conforming loans, all performing mostly in our 15-state footprint. We now have a $43 billion portfolio, started at $39 billion at the beginning of this year. We think we can get that portfolio up to about $50 billion or north of that, leverage our existing infrastructure, take advantage of our low-cost servicing portfolio, and we can add some more servicing rights and not add a lot of expense.

As we take a look at the portfolio, that's grown the largest for us this year and that is in our GreenSky relationship, this is classified under our indirect other business. We partnered with GreenSky in the fourth quarter of 2014. They're a nationwide home improvement business. We're one of their funding sources. I would tell you the results have been better than expected. Demand has been more than we've thought. Our production with them has been better than expected, and the metrics around average loan size, FICO score, or loss rates have been as we have performed as expected. So, we've made a commitment to lend up to $1 billion in this space.

If the metrics continue to perform as we expect, we'll probably take a look at that and see should we grow this beyond $1 billion. But right now, we're at $660 million through the end of September, and as I said, performing from a demand perspective better than expected. And I think that speaks to point-of-sale initiatives. And that there is an opportunity with customers to take that convenience of providing the financing and the purchase of goods and service and put them in the same spot. So, we'll also look at other point-of-sale initiatives as we see how this expands for us.

I want to talk a little bit about the shift in indirect auto lending. So, this is our indirect lending vehicle space. And we have a $4 billion portfolio. We originate about $2 billion a year in this space. But, it's challenged from an economics perspective, not from a credit perspective, but we like the credit box there. We actually contracted it a couple of years ago, and we've seen our loss rates come down in our dealer space. We think we've got the right expense model there, but it's on the revenue side of this transaction that we're challenged like many lenders in the industry.

So, what we require now is a higher going-on rate. And naturally, as you expect our higher going-on rate were given up some production in this space. And you can see in the third quarter, production went down, balances went down. And as we make sure we're getting the right economics on new loans that we produce out of our dealer network, we'd expect a continued decline in our production. In addition, we elected not to extend our third party flow arrangement and that expires in the fourth quarter of this year, and that generated 50% of our production and 50% of our balances.

Let's take a look at our newest initiative and that's with Avant, one of the leading marketplace lenders and the opportunity here is around unsecured lending. So, on unsecured lending, we have about $1 billion, $1.1 billion portfolio. We originate $600 million to $700 million a year, 98% of those originations are done through our branch channel, and there is the opportunity. The opportunity is we've got a lot of customers that want to get an unsecured loan outside the branch channel. And for us, again, it's 2% of our production.

So, what we decided is, who do we want to partner with to see about expanding our Regions.com experience. And we debated whether we want to build it in-house or partner with one of the leading marketplace lenders, we have decided to partner with Avant. We just opened up the partnership in August, and I'd tell you, results are as expected from a volume perspective, from a metrics perspective, average loan size, FICO score, going-on rate, yield, it's performing as expected. The next step for us now is to drive customers to this space.

What I'd like to tell our team is we built a better mousetrap. The client experience is really good. We need to start driving the right customers to this site, and we think we've got a good marketing plan to be able to do that. And we'll see some growth in this area as we take unsecured loans and complement what we're doing out of the branches with an online lending presence.

So, let's say, in summary, when you add it all up, what Scott talked about and what I talked about, hopefully you can see the linkage between what we're doing in the consumer services side and the consumer lending side and you can see how it links through our three strategic initiatives at the bank; grow and diversify revenue, disciplined expense management, and optimize and effectively deploy regulatory capital.

And with that, Erika, we'll turn it back to you for Q&A.

QUESTION AND ANSWER SECTION

Erika P. Najarian
Analyst, Bank of America Merrill Lynch

Q

So, I thought before I ask you questions, we'll give you some relief and ask the audience questions. There is literally an elephant in the room. We have been grappling during this conference as to what it could really mean for bank earnings because clearly it has been very positive the change in administration to bank multiples.

So, [ph] Bob (23:02), if we could pull up the first polling question. What do you, the investor, think is the biggest impact of the GOP suite to bank earnings; one, interest rates rising faster across the curve due to a stronger dollar; two, tax cuts and infrastructure spending spurring growth, therefore better loan demand; three, lower regulatory burden driving ROEs higher as excess capital is returned back to shareholders or reinvested for growth; or four, no real impact, too early to tell? Five seconds to vote.

And the survey says, 36% of you're very bullish on growth. You chose the tax cut and infrastructure spending will spur growth, therefore increasing loan demand. 32% of you say that it's because of lower regulatory burden, which will help clearly the denominator and the ROE equation. Interestingly, only 20% said it's higher interest rates and 12% of you are – we know how you voted, I'm just kidding.

So, how would you respond to this? Because the one question that all bank management teams have gotten during this conference is, everyone is in the throes of budgeting season. What are you as bank managers on the consumer side as you think of giving your budgets to [ph] David (24:36)? What are you more enthusiastic about looking ahead to 2017? And what are you mainly more cautious about?

Scott M. Peters
Senior Executive Vice President-Head of Consumer Services, Regions Financial Corp.

A

I'll start with that and then let my colleagues comment. But I think the best description is that the previous environment was one of worrying about additional shocks and risks. And we're still very focused on managing our risk effectively. But based on the environment and the low growth environment and the interest rate situation, there were more risks out there to performance than there were sort of tailwinds.

Erika P. Najarian
Analyst, Bank of America Merrill Lynch

Q

Right.

Scott M. Peters
Senior Executive Vice President-Head of Consumer Services, Regions Financial Corp.

A

I think for the first time in a long time, there is a feeling that there are some tailwinds. And when you asked those questions, I was kind of sitting here, thinking, well, three of them sound really good to me and the fourth one is somebody is not paying attention. So, it all bodes fairly well. We'll see how it plays off. But, it certainly gives you a feeling of optimism. We have a fairly optimistic team, who is really controlling what we can control and I think we're well-positioned to do that. But, potentially, we may actually get some tailwinds.

Erika P. Najarian
Analyst, Bank of America Merrill Lynch

Q

On the second most popular response. This morning, we hosted a panel of industry experts, including Rodgin Cohen, and the prevailing thought process on deregulation, did you ever think he would say those, that word, is there are two pieces that could be most fluid. First, they said, we're barking up the wrong tree when we're asking about Dodd-Frank, it's really about supervisory leadership. Second, the panel mentioned that CCAR is fluid by nature and, therefore, can be fluid in a way that's positive for banks. And third, the CFPB is the newest of the agencies. Clearly, it impacts you directly because of the consumer business. Long way of asking you, do you agree that if there is room for deregulation that that panel hit the right spot?

Scott M. Peters
Senior Executive Vice President-Head of Consumer Services, Regions Financial Corp.

A

Deron, [ph] why don't you (26:37)?

Deron Smithy
Executive Vice President and Treasurer, Regions Financial Corp.

A

Yeah. So, I'll start and I'll start with CCAR. I think we've recently – as you're aware, of the NPR that was introduced earlier in the year pre-election, we were already starting to see certainly in the regional bank space that there was some tailoring of regulation with regard to CCAR. And, clearly, it does take the process back more to a fluid day-to-day process rather than a one-time a year test. And so, we're certainly encouraged about that.

The reality is, though, we've built a capital planning process that we leverage every day to run our business. And so, not a lot is going to change day one. We're going to continue to evaluate what's the right level of capital for the risk inherent in our business and continue to execute against that. I think what, though, we will get more real-time feedback from our local regulatory supervisors as to the process and the process will be more fluid, I think that was already underway. And so, I do believe that that is something that has the ability to be incrementally helpful to us in the future.

I'm sorry, what was the other one?

Erika P. Najarian
Analyst, Bank of America Merrill Lynch

Q

CFPB.

Deron Smithy
Executive Vice President and Treasurer, Regions Financial Corp.

A

CFPB, yes. I think it's too early, and I mean the too early camp on that one. When I think really more broadly for regulation, I still think it's very difficult to assess at this point how that's going to play out.

Logan Pichel
Head-Regions Consumer Lending, Regions Financial Corp.
A

Yeah. I think, related regulation, what we have experienced over the last, take it, three years, four years, five years, six years, we have so much technology bandwidth, a lot of that has been used on regulatory initiatives, right? To the extent that backs up a little bit, that provides more bandwidth for things like new product development, better customer experience initiatives. So, I think there's some tailwinds behind this as we see if regulatory change slows or stops, that's just more time that we can spend on new products and a better customer experience.

Erika P. Najarian
Analyst, Bank of America Merrill Lynch
Q

A follow-up to that another question then that management teams have been getting. Is it too early to think about reallocating some of those technology costs that have been dedicated to risk and compliance to revenue-producing initiatives?

Logan Pichel
Head-Regions Consumer Lending, Regions Financial Corp.
A

No, I don't think it's too early. I think we always have the debate about, there's a never-ending demand for what we want to do on the technology side, right? And we're always having a debate about where we're going to spend the next technology dollar. So, I think those initiatives are identified, and now, it's just where you're going to spend the money.

Scott M. Peters
Senior Executive Vice President-Head of Consumer Services, Regions Financial Corp.
A

Yeah. And I would say on that, probably too early to say reallocate. But to Logan's point, it's pretty fluid on where we spend our money and we're having those debates in the kind of environment it's been, it's almost rally been a trump card to, I'm not going to say overbuild, but build as [ph] big as (29:42) solutions possible around the risk management side. And maybe a discussion will just get a little more balanced. We're still very focused and dedicated to having sound risk management, but it might become a little more balanced.

Erika P. Najarian
Analyst, Bank of America Merrill Lynch
Q

So, I wanted to switch subjects to the focus of this presentation which is innovation in the consumer business. And if we could, [ph] Bob (30:02), pull up the next polling question, please? How do you view the impact of new online lending startups in the banking industry; one, revenue growth opportunity as banks partner with these new players; two, potential disruptors that will likely take market share away from traditional lenders; or three, online lending startups don't offer anything proprietary.

A few seconds left on the clock, it's a slow clock. And the – interesting, most of you see value in tech-based lending or marketplace lending. 54% of you say it's a revenue opportunity for banks that they partner with, FinTech, which is clearly your view; 38% of you say that they're potential disruptors. And before I ask you to respond to this poll, I thought I'd pull up the next audience response question. Because clearly David gets 13 out of the 18 questions are on expenses. So I thought this would be appropriate to ask your shareholder base. As a shareholder, what statement most closely aligns with your view on how traditional financial institutions, like Regions, should allocate investment spending on innovation?

One investment spending on innovation should be top priority for financial institutions as leading the charge in innovation will better generate long-term shareholder value than short-term expense management. Two, given the revenue environment, institutions should invest in innovation projects, but be mindful of self-funding these investments [ph] at (31:51) savings elsewhere in the firm. Or three, given the challenging revenue environment, institutions should focus on improving the bottom line for expense management even if this means delaying innovation projects, so the cost coming back?

Well, this is an overwhelming answer. 79% of you say that institutions should invest in innovation projects that'd be mindful of self-funding these investments with savings elsewhere; 13% of you say that they should delay these projects given the revenue environment; and 8% say all gears go for investment. Lots to respond to, I give you the floor.

Scott M. Peters A
Senior Executive Vice President-Head of Consumer Services, Regions Financial Corp.

I'll start. I think our view would probably be where everybody landed in the middle there, the self-funding. Logan mentioned before just from a standpoint of resources in order to do things, a lot of folks [ph] think you (33:01) just throw more money and get things done. But everything is interconnected at a bank and so you have organizational capacity as well. So self-funding the investments makes a lot of sense.

The other thing is it kind of combines with one is if you center some of your investments actually around using innovation to become more efficient, you actually create a lot of the self-funding for innovation and learn a lot through that as well as then grow the revenue base as well. So I think it largely landed in the right place because even if we had all the money in the world to spend on number one, it'd be very difficult to manage it organizationally from a capacity standpoint and your customer base.

Erika P. Najarian Q
Analyst, Bank of America Merrill Lynch

[ph] Okay (33:41).

Logan Pichel A
Head-Regions Consumer Lending, Regions Financial Corp.

And if you want to go back to the previous poll-in question.

Erika P. Najarian Q
Analyst, Bank of America Merrill Lynch

Yeah. If you could just, [ph] Bob (33:47), go back a slide to the previous poll-in question answer.

Logan Pichel A
Head-Regions Consumer Lending, Regions Financial Corp.

And I'll address that one that's around partnering with the online companies. I think – and as you know, we're partnered with Fundation, we're partnered with GreenSky, we've partnered with Avant, as I said in my comments earlier, it was around how do we grow non-real estate outside of our branch network. But we've partnered with these companies for a number of reasons. The first is I think it's less risky. It's less risky to partner with somebody versus building your own sales force and your own technology and your own infrastructure, especially if you don't know which ones of these bets are going to pay off.

So, I think, one, it kind of protects the bank and it's a little bit less risky. The second reason we partner with them is they [ph] come at (34:35) the business a different way. They don't have the historical biases that we do and they look at it from a different perspective and you learned a lot from that, which then brings us to the third point, it allows us to take those learnings and apply them to all of our products and all of our channels. So, I think for those three reasons is why we've decided it's a good opportunity to partner with some of these online companies.

Erika P. Najarian
Analyst, Bank of America Merrill Lynch

Q

So, interestingly yesterday, we had Goldman Sachs here and the first [indiscernible] (35:05) demonstrated this tool called Marcus, which I'm sure you know about. I couldn't believe that I was at a Goldman presentation. So the whole notion of unsecured consumer lending through that channel is certainly picking up. How do you – I mean, clearly you have, as you demonstrated, an opportunity in your market. But how do you differentiate yourself from other banks that will likely partner with other FinTech companies and players like Goldman that are trying to reach out nationally?

Logan Pichel
Head-Regions Consumer Lending, Regions Financial Corp.

A

Yeah. So, I think it depends on what you're trying to accomplish with this initiative. What we're trying to accomplish here at Regions anyway, on the unsecured loans side is this is really an opportunity based on our customer behavior to better penetrate our existing Regions' customer base in the spirit of Regions360, right?

The generator of new customers is really our deposit franchise. And what we do on the lending side is help then deeper penetrate that customer base. So we have a set of customers today that we know go to some of our third-party lenders because they enjoy the online experience and Regions traditionally do not provide a great online experience.

And so what we've said is this is a really good opportunity for us to take our advantages. We've got a really good brand name, low funding cost, low acquisition costs. If we can provide a really good online experience, customer experience, then we ought to be able to provide that to our customer base and deliver those loans online to our customers. So that's how I think we're going to [ph] differentiate (36:37).

Scott M. Peters
Senior Executive Vice President-Head of Consumer Services, Regions Financial Corp.

A

I think the convenience factor is absolutely critical. And even if you look at there is a lot of demand also for smaller loans which traditionally banked on traditional underwriting and coming through your branch channel and all the costs associated with originating that that's why you see a bank has a limit; a loan has to be at least this size in order for us to process it because of those costs. To the extent we can make that more of a straight through process and provide a convenient experience, frankly, you can get a fair margin for that and you lower your expense base in order to provide that while meeting a customer's convenience need of immediacy around borrowing.

And around customer experience, we will over time get all the digital environment parts right, all those customer usability experiences. But clearly, the partnering approach gives us a big accelerator in getting into the game and to Logan's point learning what works and how we can do this better ourselves as well.

Erika P. Najarian
Analyst, Bank of America Merrill Lynch

Q

So you've talked about how you've learned from marketplace lenders in terms of how they underwrite speed, speed to fund. What would they say they were learned from you in terms of credit underwriting? Because clearly the numbers are small today, but, of course, the pushback that you get is it's untested and we haven't been through a credit cycle yet for a while and hopefully that would. We have growth in front of us. How would you respond to that?

Scott M. Peters
Senior Executive Vice President-Head of Consumer Services, Regions Financial Corp.

A

Yes. It's probably better that they respond than us for them. But I think how I would respond to that is what we've decided in these partnerships is we have maintained the Regions' underwriting discipline. So, I think the message we're sending to our partners is, yes, we want to partner with you from a customer experience perspective. But Regions has a long history of underwriting unsecured loans, and we're going to keep that discipline. So, I think that's the message that we're sending to our partners is we have a good way of underwriting loans, it's proven through cycles, and we're going to maintain that discipline.

Erika P. Najarian
Analyst, Bank of America Merrill Lynch

Q

Now, I know during your presentation that you mentioned that your credit box has always been tight in this particular category. But as you can imagine, a concern of this conference is what are the asset classes that have been direct beneficiaries of a low interest rate environment and can, therefore, soften? CRE is one and auto is another. And what are your thoughts broadly on auto and the industry and clearly given your terminated partnership, you have a very – seem to have a strong view on where this is going.

Scott M. Peters
Senior Executive Vice President-Head of Consumer Services, Regions Financial Corp.

A

Yeah. So there's been a lot of press around softening in the auto industry. And again, we have two different ways that we have traditionally originated auto loans, right? One is through that third-party partnership, which we again terminated, and the other is through our 1,500 dealer network and we never gotten it. When we got back into the indirect auto lending business in the fourth quarter of 2010, we did not get back into leasing and we didn't get back – we didn't get into leasing and didn't get into subprime. So, we are a prime lender.

And again two years ago, we contracted that credit box to make sure that we are comfortable with the credit around that space. So, I think what's going to probably happen is that it's going to continue to soften. Do we have an opportunity to improve our credit performance? Sure. We always do, but I think we're well positioned on the credits that we've been putting on the books.

Erika P. Najarian
Analyst, Bank of America Merrill Lynch

Q

Great. And with that, I was going to leave time for the audience to ask you questions. But perhaps before we turn it over, let's pull up, [ph] Bob, (40:27) the last question that we have for the room, which is what do you consider to be the most important catalyst for Regions' stock in 2017? One, achieving positive operating leverage regardless of rate hikes; two, better clarity around the expense outlook; three, strong growth in fee income businesses; four, increasing capital return; and five, rising interest rates.

We have the clock moving.

Q

That's how the clock moves when Alabama is behind.

Erika P. Najarian
Analyst, Bank of America Merrill Lynch

Q

Careful. My colleague here [ph] is about to come as a (41:12) huge Ohio State fan. Not a surprise, 69% say it's achieving positive operating leverage regardless of rate hikes, and [indiscernible] (41:23) very specifically because it's obviously a numerator and denominator. 19% of you say, rising interest rates. None of you picked fee income momentum, and 6% of you are split between better clarity and expense outlook and increasing capital return. I actually think this is interesting not because of the 69% which I thought would be the majority, but the fact that increasing capital return wasn't second given the excess capital that you have. And again, any thoughts here?

Scott M. Peters
Senior Executive Vice President-Head of Consumer Services, Regions Financial Corp.

A

Deron, do you want to talk about that?

Deron Smithy
Executive Vice President and Treasurer, Regions Financial Corp.

A

Yeah. Sure. So, as I'm just processing that, I mean really number one is a veiled way of saying continue to grow revenue while keeping expenses in check. And I think that if you go back to our strategic priorities, grow and diversify revenue expense, good expense management and deploying our capital, those are all consistent with delivering on number one. And the second disciplined expense management, recently, you saw our increase in our commitment from $300 million over the three-year period, 2016 through 2018, to now $400 million over 2019 is recognizing that we have to be good at controlling expenses while we're growing our business.

And so, I think that resonates with us. Rate hikes are clearly helpful. I think we will get modest rate hikes over the next couple of years. And so, it's hard to extract what the impact of that is versus just growing revenue in the absence of it. But I think that's very consistent with our commitment to disciplined expense growth in delivering positive operating leverage.

We've not committed to for expenses, those expense cuts to fall necessarily 100% to the bottom line is that we can continue to grow our business. It's important to grow our business. It's how we will put our capital to work. But we've got to do it in a disciplined way and make sure that expenses aren't growing at too fast the pace as we're doing that. So, I think that's very consistent with our commitment.

Erika P. Najarian
Analyst, Bank of America Merrill Lynch

Q

And Deron, because we have a good proportion of generalist portfolio managers attending this conference, which I think is bullish for a bank stock, could you remind the audience what the impact could be on net interest income if the Fed does move in December? But clearly, what's been a surprise since third quarter earnings is the [ph] steepness. (44:08)

Deron Smithy
Executive Vice President and Treasurer, Regions Financial Corp.

A

Right.

Erika P. Najarian
Analyst, Bank of America Merrill Lynch

Q

So, help – can you walk us through sort of how we should think about sensitivity and the shape of curve and the height of the short end?

Deron Smithy
Executive Vice President and Treasurer, Regions Financial Corp.

A

Sure. I think it's pretty simple. If you just take our most recent disclosure in an up $100 million environment, say – and that's a parallel shift – we would benefit by roughly $175 million, $173 million I think in a plus $100 million. That is two-thirds really driven by movement in the middle and long-term points on the curve. So, call it just over $100 million. So let's say, you've gotten delivered roughly 50% of that since the third quarter, and so, that will help you think about what the benefit is longer term. And that's a persistent benefit, and it comes from – in the investment portfolio, pre-pay is slow, you understand the premium and dynamic there. And so, that's a persistent benefit that we'll maintain.

With respect to a single tightening, I think we've messaged that it's in the $15 million to $20 million annually. But that's assuming that we move consistent with our model deposit betas which are in the 40% to 60% range. I think there is an opportunity for this next one to perhaps outperform that. All of our guidance that we give is around the modeled betas. But I think here in the near term, we can outperform that. It remains to be seen how long you can keep that benefit. But I think in an environment where rates rise more slowly and on a more protracted basis, your opportunities to harvest that benefit are higher.

Erika P. Najarian
Analyst, Bank of America Merrill Lynch

Terrific. With that, any audience questions? Any questions for Regions? If not, that is actually an excellent note to end on. Thank you so much for joining us today.

Deron Smithy
Executive Vice President and Treasurer, Regions Financial Corp.

Thank you.

Scott M. Peters
Senior Executive Vice President- Head of Consumer Services, Regions Financial Corp.

Thank you.