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Regions Financial Corp. (RF)

Credit Suisse Financial Services Forum

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MANAGEMENT DISCUSSION SECTION

Susan Roth Katzke
Analyst, Credit Suisse Securities (USA) LLC

So, good morning again to everybody. I'm Susan Katzke, I cover the banks. Our next presenting company this morning is Regions Financial. We have with us today from Regions, CFO, David Turner; Treasurer, Deron Smithy; and Head of Consumer Lending, Logan Pichel.

We are going to run this session as a fireside chat, maybe we should be calling a poolside chat here in Florida. We are in to cover ground on three broad topics that really match the overarching goals. Management has articulated for the bank, growing and diversifying Regions revenue stream, practicing disciplined expense management and deploying capital effectively. So, we will use that latter segment to get into regulatory and M&A discussion in a little bit.

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QUESTION AND ANSWER SECTION

Susan Roth Katzke
Analyst, Credit Suisse Securities (USA) LLC

Q

But with that, why don't we start by jumping into growing and diversifying your revenue streams, maybe starting with net interest income and then we'll go on to the fee revenues, but we'll go with where we have the best tailwind.

Let's start, if you will – and why don't we talk about loan growth. Maybe talk first about commercial loan demand, what you're seeing? There is a little bit of drop-off in the back half of the last year. If you look at the H8 data, the year on the commercial side started slowly again. Talk about what you're seeing out there, what the anecdotal evidence about optimism, how that's going to filter through.

David J. Turner, Jr.
Senior EVP, CFO, Executive Council and Operating Committee, Regions Financial Corp.

A

Okay. So, I'll talk a little bit about commercial and then let Logan talk about the consumer side, and Deron could wrap it up with NII expectations. But last year, we spent considerable amount of time looking at our loan portfolios on the corporate side to ensure that we are being paid for the risk that we are taking. We were looking at concentration limits, we were looking at sectors that we felt were getting pretty hot and it manifest itself in not growing loans in that segment. So, more specifically, the Shared National Credit book, pretty thin spreads, and not very profitable when you don't have all the fees and the deeper relationship.

And so, when those were coming up for renewal, we asked the team unless you can [ph] get in more wholesome (02:14) relationship, we're not going to continue to support that type of loan growth because it's working against our return metrics that we have. So, a capital allocation committee was established to ensure that we were charging the teams with getting that type of relationship.

Additionally, we were working on our energy book that obviously came under stress quite a bit during the first part of the year, leveraging off the regulatory examinations that we had. And so, we were focusing on that oil field services in particular, but even on the E&P side making sure we were working our way down on energy lending. So, we were down quite a bit in energy for the year.

And then the third big item that was really a headwind was looking at our multifamily investor real estate segment. We were not comfortable with certain areas in the multifamily sector, in particular, construction lending, multifamily in Houston, Nashville, the Carolinas, Atlanta. We thought those were getting too hot. And remember who we are, we believe this investor real estate – we're experts at that and we're not going to go back and live the dream that we escaped from.

So, we're pretty disciplined with that and we realized all of our peers were growing investor real estate and we were not. And that – and if you do a peer comparison, that's a big differences as to watch some peers grew loans and we do not. We think that was the right answer for Regions. We continue to be disciplined. So as we think about what's going on this year, we're seeing a little bit of a change. Clearly, optimism in the commercial segment has picked up quite a bit.

But I'll tell you, our customers are looking for that infrastructure spend. They're looking – they feel better, we hadn't quite seen the demand pick up. So to your point earlier, it started slow again. But we feel good about

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pipelines and where they are, and we feel good about opportunities to actually [ph] grow will be in (04:27) for the total company in the low-single digit, so growth that's corporate and consumer.

And we're feeling okay about that for 2017. If in fact we get some of the infrastructure spending and some of things that we're hearing out of the new administration, they could be quite nice. But I think we are cautiously optimistic about whether that actually will take hold this year, but we feel good about our guidance we've given you.

Logan, do you want to talk about the consumer?

Logan Pichel
EVP & Head of Consumer Lending, Regions Financial Corp.
A

Yeah. So just kind of set the expectations, if you remember, in 2016, we have about a $31 billion consumer loan portfolio; we increased balances about 4%, $1.2 billion last year in 2016. But I think the story goes back six, seven years ago, in 2010, our production – our consumer loan production was – over 90% of that was real estate, so mortgage and home equity. And we made the decision at that time; we've really got to diversify this portfolio. How do we figure out a way to generate non-real estate loan outside of our branch network. And fast forward to 2016, and about two-thirds of our production in 2016 was real estate, a third non-real estate. So [indiscernible] (05:43) it speaks a little bit to how we've diversified our production capabilities on the consumer lending side, outside of just being real estate focused.

What do I see for 2017? I think the headwinds are what's going to happen in the interest rates, and that's really going to impact primarily our mortgage refinance business, and we're a heavier purchase than most companies. So we're about 70% – in the mortgage space, 70% purchased, 30% refinanced. So the rise in interest rates will have an impact on refinance business, but probably won't impact us as much as many of our peer banks, again, because they are 70% purchased, 30% refinanced.

I think the other headwind we have is, we've looked at the economics of our different portfolios and we've deemphasized in direct auto lending. We had a $4 billion portfolio at the end of 2016, and we've decided to discontinue a third party relationship we have. So we've kind of put that portfolio on runoff and we're still staying in the other piece of the business, but that piece of the portfolio runoff.

The tailwind I see in our space are mortgage purchase environment, the health of the consumer is getting stronger every quarter. That will help drive mortgage purchase business. The industry was up 5%, 10% last year. We expect that to be up another 5%, 10% this year.

I think home equity offers a bright spot for the industry. You've got a lot of consumers who locked in their mortgage rate in the last five years at 3%. They haven't put a lot of money into the home because the home has been devalued. Home values are back up and we're starting to see folks take advantage of that saying, I've got a home, I've locked it in 3%, 3.5%, it needs some work. Home equity is a good product for them.

And then the final item that's a tailwind for us is our point of sale initiative. So items like GreenSky and some other new initiatives that we're doing. What we're seeing is a change in consumer behavior. Consumers are now saying for the smaller dollar loans, not the large purchase money mortgages or home equities. But for the smaller dollar loans, convenience matters. And we can generate a fair amount of loan production to our branch network. What we're also seeing now is partnerships with third parties where consumers are saying, I like the convenience of getting the purchasing, the goods and services and getting the financing there at the point of sale at the same time. And so, as evidenced by the growth you've seen in our GreenSky partnership, we expect that to continue to

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grow, and we're looking at new partnerships to take advantage of those kinds of opportunities just in different verticals.

Susan Roth Katzke
Analyst, Credit Suisse Securities (USA) LLC

Q

So, if I follow-up on the consumer growth for a moment and when you think about the consumer and the strength of a consumer has been building with the employment numbers month-to-month and quarter-to-quarter, how much – when you look at your loan portfolio, do you see the consumer truly re-levering and where are they – I mean, where they came from in a financial crisis, they will never go back to, you won't let them go back there, they don't want to go back there, but where are we on the path of consumer re-levering?

David J. Turner, Jr.
Senior EVP, CFO, Executive Council and Operating Committee, Regions Financial Corp.

A

Yeah. So they've de-levered a lot, right, as they should and took wonderful advantage of loan mortgage rates. And what you saw was a lot of folks take their – took their first mortgage in their home equity and combined into one new mortgage at 3.5%. Now, I think the consumers are being a little bit more thoughtful about matching up their financial product with their need.

Susan Roth Katzke
Analyst, Credit Suisse Securities (USA) LLC

Q

Okay.

David J. Turner, Jr.
Senior EVP, CFO, Executive Council and Operating Committee, Regions Financial Corp.

A

They used to be, let's use a home equity for everything, now if I need to buy a car, I'll use an auto loan; if I need a small dollar loan, I use a personal loan; and if I have a big home improvement project, I use a home equity. So, they're matching that up and they're being more thoughtful about where they're spending their money.

What's interesting is, we've not seen a big decline or increase in line utilization on home equity, so that's been pretty consistent. But I really think, to your point, it comes back to what is the health of the consumer. We're encouraged by the millennials, we think that's a big cohort, age cohort of folks that are now feeling better about their employment conditions. They ever [ph] gauge (09:51) on a home purchase. First time homebuyer is 32 years old. These cohorts are 27, 28, 29 years old, we think there's some more demand coming. We're starting to see them in the personal loan side and I think that will transition into purchase money mortgages and then home equity business and auto loans.

Susan Roth Katzke
Analyst, Credit Suisse Securities (USA) LLC

Q

Okay, great. Let me switch gears into deposit growth and asset sensitivity.

Logan Pichel
EVP & Head of Consumer Lending, Regions Financial Corp.

A

Of course. I'll start with asset sensitivity and really just got to put that in context of our outlook for NII. So we gave guidance back in early December that was a growth – year-on-year growth range of around 2% to 4%. What we're trying to do at the time was bracket and describe what are the conditions that lead you to the lower end of the range or the upper end of the range. At the time, we'd not yet seen the Fed's December tightening and so that

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is – that was a bit of an uncertainty. Although, our expectation was that, that we would get a tightening, but you didn't see that fully manifest as we forecast against the forwards until early – in the first quarter.

But as we think about the conditions that produced the lower end of that range, I would think it's – the tightening we've already gotten and deposit betas that are toward the upper end of our range or call it in the 40% range. What would lead you toward the upper end of the range is you get a little faster movement in rates, which I do believe it looks like that we're probably going to get rates moving a little faster than what we had thought at the time, and you get deposit rates that are relatively stable. So if you think about the December tightening that we got from the Fed, we've not seen much in the way of deposit rate movements yet, a little bit, but not a lot. So I think that that – if that were to hold, then achieving the upper end of the range is more appropriate. And then if the Fed is telling us through their forecast that we might see as much [ph] street (12:02) tightenings this year, obviously more tightenings would produce greater growth. And so, if we were to get one mid-year and then one again late in the year, I think there is an opportunity to outperform the range that we've given, but again I'll caveat it with really the expectations on deposit betas.

Susan Roth Katzke
Analyst, Credit Suisse Securities (USA) LLC

Q

So, if we think about – most banks talk about their deposit betas in aggregate. And if we break down the commercial versus retail, there is a big difference. And you've got a big retail base of deposits which I assume is your very low beta base right now, what are you seeing on the commercial side?

Logan Pichel
EVP & Head of Consumer Lending, Regions Financial Corp.

A

Yeah. So, certainly for those customers where we have the operating account and it's a [ph] full (12:54) relationship, there is a mechanism through earnings credit rates and where we are passing through some of that...

Susan Roth Katzke
Analyst, Credit Suisse Securities (USA) LLC

Q

Right.

Logan Pichel
EVP & Head of Consumer Lending, Regions Financial Corp.

A

...some of that benefit. I think, where you're starting to see a little more sensitivity is in the commercial money market space. And I would say that that is primarily where companies have parked money, if you will. They're finding the best opportunity to place excess. And I will say that's a smaller part of our business, so there is some of that and you're seeing some increased competition across the industry, but it's been limited so far and that's not a big driver for us.

David J. Turner, Jr.
Senior EVP, CFO, Executive Council and Operating Committee, Regions Financial Corp.

A

As you think about, our loan deposit ratio is rather low relative to peers. You touched on our retail deposit base, half of our deposits come from MSA, so less than 1 million people, half of our deposits come from accounts of less than $250,000 in them, so – so a price insensitive deposit book. This has been a competitive advantage of ours that you really haven't been able to see given the low rate environment. So, as we continue to expand rates and spreads, you ought to see that manifest itself in our earnings stream. Our deposit beta was among the lowest

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in the last up-cycle, and that's the reason for this, the nature of our deposit base. And we believe that will be what you see this time.

So, we have a deposit beta baked in and it starts at about 40%, and it terminates at about 60% which was a little higher than what we experienced last year, which was at low-50s. And [indiscernible] (14:41) the chance to outperform. The other thing that's happened from a deposit and liquidity standpoint is TLAC has really caused the bigger players to be flush with liquidity, relatively speaking. And so, the pressure that we might have otherwise seen on pricing and flows not going to be there is strong as it otherwise might have been.

Now, some of the smaller players might bid-up some money and cause us a little bit of [indiscernible] (15:07) but we'll adapt to whatever the market environment is. We think that's – there's a way for us to really outperform and continue to grow NII in this environment.

Susan Roth Katzke — Q
Analyst, Credit Suisse Securities (USA) LLC

That was – I [ph] was going to ask then (15:18) with respect to the loan-to-deposit ratio, you have a very manageable loan-to-deposit ratio, some might say there's more opportunity there. And while the big banks might be flush with liquidity right now and relatively low loan-to-deposit ratio, it's more the mid-sized regional bank and those running north of 90%. And when I look at that against a non-interest bearing deposit base as a percentage of total deposits that is 10 percentage points over the historical average, that to me what I circle and say the deposit pricing competition is coming, so it's less about where your loan-to-deposit ratio is and more about the competitors and your market being north of 90%.

David J. Turner, Jr. — A
Senior EVP, CFO, Executive Council and Operating Committee, Regions Financial Corp.

Yeah. And I think it's a great point. We always have to be competitive.

Susan Roth Katzke — Q
Analyst, Credit Suisse Securities (USA) LLC

Yeah.

David J. Turner, Jr. — A
Senior EVP, CFO, Executive Council and Operating Committee, Regions Financial Corp.

But we don't have to be the first-mover either. So we get an opportunity to sit back and observe. And I do think only in our markets, our deposit markets are critical to us. And you brought up non-interest bearing, if you think about corporate deposits, the question is, how will they react in this cycle, knowing that liquidity squeeze hit them before, I don't think – and we talk to our customers that they're going to take the money out – take the products out and deploy that. We believe that they're going to keep deposits on and then tap it to their lines, because they want that liquidity and they're okay paying for that. We will see if that actually happens.

Susan Roth Katzke — Q
Analyst, Credit Suisse Securities (USA) LLC

Okay.

David J. Turner, Jr. — A
Senior EVP, CFO, Executive Council and Operating Committee, Regions Financial Corp.

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But there is an expectation that's probably where we'll go at least early on.

Susan Roth Katzke
Analyst, Credit Suisse Securities (USA) LLC

Q

Okay. So if we switch gears to non-interest income for a moment, I know the answer in mortgage. In terms of the other – your other businesses, the primary growth engines on the fee income side, just a quick update beyond the earnings call, your prospects for 2017 and how some of the thinking might have changed.

David J. Turner, Jr.
Senior EVP, CFO, Executive Council and Operating Committee, Regions Financial Corp.

A

Yeah. So we feel good about our non-interest revenue sources. We've made a lot of investments over the past couple of years, capital markets and wealth management being two of the areas. We continue to grow customer accounts in the consumer side, which is helping us from a service charge standpoint. We think that's a plus for us. And we outstripped our – our consensus we said would be 4% to 6% last year, we ended up at 7%. And we think we'll have a pretty strong [ph] NIR (17:37) opportunity this year to continue the leverage acquisitions that we made, BlackArch Partners, [ph] Mainone (17:45), First Sterling, a low income housing tax syndicator is another one. We purchased $8 billion of mortgage servicing rights last year and just at a quarter point that's $20 million that we should see this year. So, there are – none of these are homeruns, but all a little bit of incremental steps to help us from that diversification strategy that you led with, and we think it will pay dividends for us in the long haul.

Susan Roth Katzke
Analyst, Credit Suisse Securities (USA) LLC

Q

Okay. We're going to get to the dividend question in a minute, but we're going to go to expenses before we go to dividends. On the expenses, you, like many banks are talking about getting your efficiency ratio sub-60%, so much so that at this point I wonder from a competitive standpoint, is sub-60% even enough? And so, I'd like to start with that and wrap that into a question about scale economies and how you think about scale economies in banking today versus even 10 years ago, 15 years ago?

David J. Turner, Jr.
Senior EVP, CFO, Executive Council and Operating Committee, Regions Financial Corp.

A

Well, I doubt many banks that you go to say, I really want to shrink. Everybody wants to be bigger because of economies of scale and I think there's truth in that to some point. I think to your broader question of where do you really settle, we've worked our efficiency ratio down quite nicely. We said, we'd be at 63% this year. We finished at 63.3%, very close, less than 2% growth and that's after inflation that's baked in for salary increases and the like.

We furthermore have our $400 million expense program. We said we'd grow expenses somewhere between 0% and 1% net and continue to generate positive operating leverage and move our efficiency ratio this year 62%. And – but we do believe that you have to be sub-60%. Where it goes and how deep into the 50s – I think let us get to 60% and then we'll answer that question. But I think at the end of the day, our industry is going to have to become even more efficient than it is today. And I think part of our efficiency ratio is really revenue improvement. So as rates go up and that – and we take advantage of our asset sensitivity, that's helpful, continuing to grow [ph] NIR (20:04). Even though some of those investments are as efficient as others, and we get that, but it's still important for us to get the diversification.

And I think controlling expenses, that's under our control. That's something we can do and we've demonstrated that and we're going to have to keep stepping up each and every year as we become more efficient the next year

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than we were the year before. For us, leveraging technology as a piece, I don't think we've done as well as we can. And I think that's going to be something that you should look forward to. [ph] We've (20:37) obviously done branch consolidations and then a big piece, some reductions in occupancy, third-party spend, and really controlling our head count, being down 1,300 people this year alone, which is about 6% of our workforce – 6.5%, has been the way we've done that. So I think you are right.

Susan Roth Katzke
Analyst, Credit Suisse Securities (USA) LLC

Q

Okay.

David J. Turner, Jr.
Senior EVP, CFO, Executive Council and Operating Committee, Regions Financial Corp.

A

But let us get to 60% and then we'll...

Susan Roth Katzke
Analyst, Credit Suisse Securities (USA) LLC

Q

Okay.

David J. Turner, Jr.
Senior EVP, CFO, Executive Council and Operating Committee, Regions Financial Corp.

A

...you can ask next time.

Susan Roth Katzke
Analyst, Credit Suisse Securities (USA) LLC

Q

Fair enough. Okay. So we're going to switch gears again and head into my personal favorite topic, which is regulation CCAR and capital management. And so why don't we start? I guess the best place to start is really with CCAR, because that's going to guide your capital management. And maybe let's start with your first impressions of the scenarios that came out on Friday.

David J. Turner, Jr.
Senior EVP, CFO, Executive Council and Operating Committee, Regions Financial Corp.

A

Well, let me start with a overarching comment and then let Deron talk about the details. So it's really not CCAR that drives us. What drives us is the amount of capital we think we need to have to run our company.

We start with quantitatively, regulatory minimum 4.5%; we add a buffer. We look at the attendant risk in our balance sheet and that's where we get to a common equity Tier 1 goal of 9.5% today, based on the risk we have today.

We are at 11.2%, so we have, call it a 0.5%, that's a $1.5 billion in just round numbers, of excess capital relative to our target. So we really are working to put that capital to work. And that's the third priority that you've mentioned earlier, and we do that by first considering organic growth. We want to pay an appropriate dividend that's repeatable. We want to look for bolt-on acquisitions to help with diversification of revenue and then we think about, after that retiring the share repurchases, which is what we've done this past year.

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Total return to shareholders was 105% of earnings, yet we accreted capital because we didn't grow the loan book. So, we look at that; we look at our target return on tangible common equity of 12% to 14%. We have to continue to work on the numerator that we just discussed and the denominator and Deron is going to talk a little about that.

Both of those have to work for us to get to our target of 12% to 14% and we are confident we are going to get there, especially after leveraging the qualitative piece of this, it's not there. Although we are going to get reviewed, so it's not a get [ph] agile free card (23:16) because we have to have a robust process, which we do, but I think over time you'll see us work those capital numbers down. You want to talk about it?

Deron Smithy
Treasurer, Regions Bank

A

Yeah, just on the scenarios themselves, relatively straightforward. The differences really that will impact us is not having negative rates in this forecast is a benefit to us or in this set of scenarios and the – I guess the offset to that would be more stress with regard to commercial real estate values and the severe adverse case. So obviously that will have some impact on us, but that has been a increasingly smaller part of our overall balance sheet, so it will have an impact, but don't expect that to be a material driver.

Susan Roth Katzke
Analyst, Credit Suisse Securities (USA) LLC

Q

And how does the change in process for you without the qualitative review, how does that change your process this year?

David J. Turner, Jr.
Senior EVP, CFO, Executive Council and Operating Committee, Regions Financial Corp.

A

So not having an objection to CCAR is really problematic and in particular for CFOs and treasurers – primarily for treasurers first. [indiscernible] (24:32) CFO [ph] is that (24:32) it's a bad outcome. So our goal is really to focus on, first, I also mentioned managing the capital, because it's incumbent upon us. If we have to have a regulator tell us how much cap we need, we probably [ph] sell them (24:44).

So we feel good about what we put in place. But not to be naïve, we know there is – regulators have a job to do as well and they're trying to ensure that there is proper – appropriate processes and the amount of capital that they think needed to be in the industry. Being able to take the top qualitative factor gives us a little bit of confidence that we know quantitatively where we should end up with even the stresses that Deron mentioned.

And so that gives us the confidence that when we put together a capital plan that we believe is appropriate that our board has signed off on that we should not have an objectionable capital submission. So we look at that. We look at last year in terms of what some of our peers did with their capital returns and knowing where they are relative to where we are quantitatively gives us confidence that we can have an appropriate return to our shareholders, again with the idea that we've got to get that denominator to an appropriate level to get our return where it needs to be, but critically important, we know what capital we have to have. And optimizing that capital, both in quantity and the stack in terms of common and preferred and other is really important to us. And that's essentially an efficiency, point two; so everything we do has to be efficient.

Deron Smithy
Treasurer, Regions Bank

A

Yeah, I would just add the – probably the biggest benefit that we get from the elimination of the qualitative component of CCAR is just really around the time spent for documentation. There's not much that changes day-

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to-day in how we approach the stress test. In fact we've integrated the stress testing process and to the way we run the company, and so we are executing that stress testing framework on a quarterly basis because we think it's the right way to do to understand the risks in our business and determining what's the right level of capital for our business.

The CCAR was a once a year test where effectively you had an essay that you had to turn in that had to stand on its own in terms of really conveying the message and speaking to all the details about how you go about your process. And there's a lot of time and man-hours spent putting together that documentation. So that burden is lessened and now it's happening in a real-time day-to-day with our regulatory supervisors, not just once a year.

So, the approach to the stress testing framework is something that we believe in, we've embraced. We think it's the right thing to do for our company. So, it's not a lot that changes day-to-day, but I do think it allows us to focus on what's important and understanding the risks deeper from the process and helping our business leaders make better decisions.

Susan Roth Katzke
Analyst, Credit Suisse Securities (USA) LLC
Q

Okay. And if I go back to this 9.5% capital requirement, to be quite honest, looking at your risk profile that strikes me as, as much as 100 basis points above where I might have thought you would put it relative to peers who are talking 8%, 8.5%.

David J. Turner, Jr.
Senior EVP, CFO, Executive Council and Operating Committee, Regions Financial Corp.
A

Yeah. So that's a great question, and I'll frame it up about like you asked in terms of where the efficiency ratio should be and how low in the 50s. Let us get to 9.5%...

Susan Roth Katzke
Analyst, Credit Suisse Securities (USA) LLC
Q

Okay.

David J. Turner, Jr.
Senior EVP, CFO, Executive Council and Operating Committee, Regions Financial Corp.
A

...and then – and then we'll adjust...

Susan Roth Katzke
Analyst, Credit Suisse Securities (USA) LLC
Q

Okay.

David J. Turner, Jr.
Senior EVP, CFO, Executive Council and Operating Committee, Regions Financial Corp.
A

...accordingly. So it is all about not just the 9.5%; it's about, what do you think you need to have based on your risk profile. We had, going into last year a sizable construction – investor – real estate construction book that was really punitive and CCAR has been for a number of years, based on the tea leaves we're going to read through, was submitted last week, it's going to be pretty challenging again. I mean, we worked that portfolio down. We are changing that product from construction [ph] to term (28:50). It will take time to make that happen.

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As we do that – and that's just one example, but as we get those risk out then that 9.5% goes to some other number. And I would think over time, we could potentially get that number down. But there are also risk that we may take that – where we need to add to that number or we get paid for it. So it's really not about just hitting 9.5%; it's about getting the proper risk adjusted return and capital base to support whatever business you have. And we've grown things like our point-of-sale offering, different risk profile, so different capital. We've grown credit cards; different risk profile, so more capital there, but we've shrunk investor real estate. So there are a lot of moving parts to the number and we know that based on today that we need to get 11.2% down to 9.5%; step one. After that we'll adjust.

Susan Roth Katzke
Analyst, Credit Suisse Securities (USA) LLC

Q

Okay.

Deron Smithy
Treasurer, Regions Bank

A

And I would just add that that 9.5% level is quantitatively derived based on the results of our internal stress test. And so it's not arbitrarian. So, as we remix the balance sheet and continue to find the right risk return profile for our company, it could indeed go down. But it will be what's appropriate for the risk inherent in our business.

Susan Roth Katzke
Analyst, Credit Suisse Securities (USA) LLC

Q

Fair enough. And when we think about the mix within your capital returns and while we were somewhat disappointed ourselves not to see any softening of the language around the 30% dividend payout in the instructions on Friday, I'm sure, yes, with where your stock price is trading today and where you hope that it will trade over time, how you are thinking about dividend versus share repurchase and potentially shifting that mix in the capital return framework?

David J. Turner, Jr.
Senior EVP, CFO, Executive Council and Operating Committee, Regions Financial Corp.

A

Yeah. So we kind of have overall this notion of easing our 30% to 40% of our capital to grow, 30% to 40% for dividend and share repurchases to top it all. As we – and we're in that 30% range on dividends, what we want is a fair reasonable repeatable dividend. As your share price goes up, you can see a slight shift through more of a dividend and less share buyback. You are also thinking in the context of what's earning stream look like, how confident are you that that will continue. So we'll be evaluating our dividend policy as we make our submission in April with the thought that we would consider exactly where our share price is and what's appropriate percentage of earnings that we can have that's a repeatable dividend.

Deron Smithy
Treasurer, Regions Bank

A

Yeah, so I think the key there – and David alluded to it – is sustainability. We are going to determine a level for the dividend that we think even in a normal downturn, so a typical recession that we will be able to continue paying that dividend and be able to sustain that through the cycle. And so that's a key driver for us when we think about what's the right level of dividend. Not a severe adverse...

David J. Turner, Jr.
Senior EVP, CFO, Executive Council and Operating Committee, Regions Financial Corp.

A

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Deron Smithy
Treasurer, Regions Bank

A

...right, so there are conditions at which the dividend may have to be lowered, but our goal is to maintain stability through a normal cycle.

David J. Turner, Jr.
Senior EVP, CFO, Executive Council and Operating Committee, Regions Financial Corp.

A

That make sense. Let me open it up. With the three minutes we have left on the clock, if there are any questions anyone wanted to ask in the audience. Sure. Please.

Q

[Question Inaudible] (32:28-32:34)

David J. Turner, Jr.
Senior EVP, CFO, Executive Council and Operating Committee, Regions Financial Corp.

A

Both. So we want to make sure that we are getting paid for the risk we take and we are going to do business for those customers who give us the a fulsome relationship. We realize we have to be competitive, but being able to control our deposit cost is critical to us. We've done a really good job with that. We think that will be an outperformer relative to peers because of the deposit base I mentioned.

Mix makes a difference in terms, we'll replace [ph] no (33:11) debts in the loan book, which is why we've done some of the – like to grow the consumer side of the house, the non-real estate portion of that. And of course asset sensitivity has helped us continue to improve in terms of NII, lower premium amortization in the securities book, things of that nature that – and the resulting margin should continue to increase. We had a nice increase this past quarter – we've given you guidance as to what we think it will be next quarter, in the low-320s and continuing to [ph] ride out (33:43) there, based on both rate environment and pricing, both loans and deposits.

Deron Smithy
Treasurer, Regions Bank

A

And I would just add, the less obvious contributor is the structure of your balance sheet, how you finance yourself, the rate at which the asset side and the liability side are growing. And so what I mean by that is, if you have a more aggressive loan growth strategy or asset side strategy, then it puts more pressure on growing the deposit base which will challenge you to be more competitive from a deposit rate standpoint and/or to be more active, raising debt to finance those growth plans.

If you have a more balanced, lower growth focus on profitability strategy, not only do you find a better spot from a risk return standpoint on the loans that you're putting on, it allows you to be more patient in managing the deposit book and not have to raise a lot of expensive funding in the capital markets. And so really the asset liability side of the balance sheet are – it's important that they work together to deliver that margin. And so I think rates are a big contributor. What's happening in the competitive environment is a big contributor. But how you finance yourself from the structure of your balance sheet is for us going to be at the margin a bigger contributor going forward.

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Susan Roth Katzke

Analyst, Credit Suisse Securities (USA) LLC

Okay. With 19 seconds and ticking on the clock, I'm going to thank all of you so much for joining us today. You are hosting a breakout session – you are not hosting a breakout session. You are going to meetings following that.

David J. Turner, Jr.

Senior EVP, CFO, Executive Council and Operating Committee, Regions Financial Corp.

Okay. Thank you.

Deron Smithy

Treasurer, Regions Bank

Very good.

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