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Regions Financial Corp. (RF)

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MANAGEMENT DISCUSSION SECTION

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Perfect. Staying on schedule, next up, very pleased to have Regions Financial. The agenda originally listed Grayson Hall to be presenting, but given the turn of events in Florida with the hurricanes, his time is probably better off spent there. From the company, very pleased to have David Turner, Chief Financial Officer; and Bill Horton, who runs the commercial bank; and Dana Nolan from Investor Relations. With that, let me turn it over to David.

David J. Turner
Chief Financial Officer & Senior Executive VP, Regions Financial Corp.

Good afternoon. Thank you, Jason, and good to be here to present at the Barclays Global Financial Services Conference this year. Jason introduced Dana and, also, Bill Horton, our pinch hitter and head of our commercial banking. He is standing in for John Turner, who had surgery today on the shoulder, so – or this week, so Bill is with us. Glad to have him.

Let me remind you that our disclosure related to forward-looking statements is located in the appendix of the presentation. Please take time to read that. We've prepared a short presentation and then we'll have – be happy to take any questions which you might have.

But before we get started, I really want to talk – take a few minutes and talk about the recent devastation in Texas and Louisiana, brought about by Hurricane Harvey, and I'll touch on Irma. In Houston, Regions has 25 branches and 275 associates; our focus remains helping customers, associates and communities begin to recover and we're reaching out to all those affected customers and associates, offering relief assistance wherever we can, including waived fees, payment extensions or deferrals and other debt restructuring options. Unfortunately, we have experienced dealing with these types of catastrophic events and we'll do what's right by our customers and associates.

With that said, we have isolated our loan exposure within the Texas counties, classified by FEMA as federal disaster relief areas, at approximately $3.2 billion, the vast majority of which is in corporate and commercial loan categories, and based on current modeling results, we estimate potential losses to be in the $10 million to $20 million range.

Let me frame that up for you a little bit. In Katrina, we had over 1 million homes lost. We originally thought our loss estimates were going to be about $100 million, and we lost less than $10 million; thus far in Texas, Houston in particular, about 126,000 homes loss and so our range of $10 million to $20 million is just our best guess right now. We will refine that over time, but just trying to put a little bit of perspective there.

We continue to watch Irma. It has been downgraded from a hurricane. It could have been much, much worse, but it's pretty devastating thus far. We have about 2,600 associates in Florida. They're all safe. We've reached out to every one of them. However, the storm is affecting not only Florida but Georgia, Alabama, and South Carolina. Currently, we have approximately 460 branches that are closed. To frame it up, that's about 1/3 of our franchise that are closed. Most of those closures are in Florida, about 320-ish and 100-plus in Georgia.

There are approximately – last time I looked at it, and this changes every hour, so I may be behind, but approximately 6 million people in the State of Florida are without power. So the point is, this is going to take some time to work through. What we do know is, there's some pretty good – pretty bad flooding in Jacksonville. I understand the speaker before me, he was from Jacksonville, so the need to stay home but – so we'll continue to watch that and we'll frame it up for you and give you better numbers as we can determine it.

So let's now turn and take a quick overview of our strategic position that we laid out at Investors Day approximately two years ago. No change here. Three strategic pillars of grow and diversify revenue, disciplined expense management, as well as optimize and effectively deploy our capital.

As we think about growing and diversifying revenue, we continue to focus on making necessary investments to grow revenues through expanded products and services. Second, we remain disciplined in managing expenses while still making prudent investments and remain committed to generating positive operating leverage and finally, we continue to focus on optimizing and deploying our capital.

We believe that our capital position is sufficient to support organic growth, that's our first priority, as well as strategic investments, primarily non-bank additions, as we've seen over time, and an appropriate return to our shareholders from a capital distribution standpoint, whether it'd be a dividend or share buyback. So let's see what our results look like.

We've highlighted [ph] certain (05:26) 2017 year-to-date results that, we believe, demonstrate the successful execution of our strategy. We remain focused on the areas of our business that we can control and to that end, we continue to grow checking accounts, households, credit cards, wealth relationships, as well as total assets under management, and importantly, we experienced this growth while providing some of the best customer service in the industry. This is really important to us at Regions.

The Temkin Group recently ranked Regions as a top-rated bank, and the fourth overall highest-rated company in customer experience. The only companies ranked ahead of Regions are Publix, Chick-fil-A and H-E-B supermarkets. So, we're in pretty good company to be associated with that group. In addition, Javelin Strategy & Research recently recognized Regions as a trust and banking leader, and Gallup awarded Regions the Great Workplace Award for the third straight year.

With respect to financial results, year-to-date net income increased 13% over the prior year and diluted earnings per share increased 20%. We continue to benefit from our assets since the balance sheet, as interest rate increases drove a 2%-increase in year-to-date net interest income, and the resulting net interest margin increased 11 basis points to 3.28%. Expenses remained well-controlled as our year-to-date [indiscernible] (07:00) adjusted efficiency ratio was 63%.

Turning to capital deployment; as you're aware, we successfully completed the annual CCAR process and received no objection to our plan, and we began executing on that plan. As a matter of fact, in the third quarter, we've repurchased $500 million worth of stock, which was built into our plan. We will execute our fourth quarter plan, which will start after we release earnings in the fourth quarter.

So, let's move to the balance sheet. With respect to loans, we continue to execute our deliberate and intentional diversification strategy focused on achieving appropriate risk adjusted returns. Our recent termination of a third-party arrangement within the indirect auto lending portfolio was an economically based decision. Our decision to pull back on multi-family is risk-based, and we were one of the first companies in the industry to express caution with this asset class.

We've also reduced exposure to energy lending, lowering balances more than $850 million or 30% since the end of 2014, and finally, our remixing efforts within investor real estate, shifting production to a more appropriate mix between term or an owner, operator or customer, versus a construction merchant builder, as well as our efforts to reduce credit-only relationships in our Corporate and Commercial banking groups, have improved economic returns for the company.

While this strategy, coupled with customer uncertainty has negatively impacted reported loan growth in the short term, we are convinced it is the appropriate long-term strategy necessary to build a consistent and sustainable business.

I do want to highlight areas where we are experiencing or expect to see loan growth pick up in the coming months. Portions of the C&I portfolio continue to grow, particularly in certain specialized lending categories like technology and defense, financial services, powered utilities and asset-based lending. In addition, we continue to see solid consumer loan growth across most categories including mortgage, credit card and indirect lending.

We have experienced solid loan production increases across most loan portfolios during the second quarter. However, we've witnessed an increase in pay-downs and payoffs through much of the third quarter. That's has been more unusual than we've seen in the past. Given the favorable credit environment, several large corporate clients have access to capital markets and pay down on their existing lines. A number of multi-family projects have also paid off earlier than expected, reflecting the impact of low capitalization rates and significant amounts of liquidity in the marketplace.

In addition, we've seen a modest pickup in M&A activity. These line utilization reductions and payoffs have tempered our expectation for net loan growth in the third quarter. However, our expectations for full-year average balances remain unchanged.

Let's take a look at deposits. We continue to believe our deposit base has a competitive advantage for our franchise. Our top market share in core states positions us well for future growth, and we expect continued benefit from lower deposit bases relative to peers. Similar to loans, we continue to execute a deliberate strategy to optimize our deposit base. We expect full-year average deposits to remain relatively stable with the prior year, but the composition of that deposit base is expected to continue improving.

The table on the bottom left reflects our average deposits by segment. The amounts in blue represent our Consumer segment, which includes our core retail deposits. As you can see, that category continues to experience solid quarterly growth, which is a testament to the unique strength of our retail franchise and the overall health of the consumer. This strong core deposit growth continues to be offset by strategic reductions of collateralized and brokered deposits.

Let's take a closer look at the composition of the deposit base. Second quarter deposit cost remained low at 15 basis points. Total funding cost was 34 basis points, further illustrating our deposit advantage. Our deposit base is more heavily weighted toward retail customers at approximately 67%.

Approximately 74% of average interest-bearing deposits and 53% of average interest-free deposits represent retail balances. We also have a loyal customer base as 44% of our Consumer low-cost deposits have been deposit customers at Regions for more than 10 years and finally, approximately 50% of our deposits are from MSAs with less than 1 million people and 35% of our deposits are from MSAs with less than 500,000 people, both in the top quartile versus our peer group.

So let's spend a few minutes highlighting our liability funding composition and look at recent deposit pricing performance. Regions has predominantly deposit funded with an attractive mix of low-cost deposits which provides a competitive funding advantage versus our peers. 91% of our liability funding is comprised of deposits, which is the highest in the peer group. 34% of our liability funding is via non-interest-bearing deposits, which is the third highest in the peer group.

And you could see on the top left chart, Regions' current deposit data is approximately 10% versus 14% which is the peer median. So as interest rates increase, we expect Regions' deposit beta to outperform the peer group just as it did in the last rising interest rate cycle.

So let's shift to net interest income growth expectation and net interest margin. As noted earlier, we continue to benefit from our asset-sensitive profile despite lower loan balances. NIM continues to outperform and was 10 basis points above the peer median in the second quarter.

Looking forward to the third quarter, we expect continued growth in net interest income. Net interest margin is expected to be stable to up modestly, and this includes the negative impact of one additional day in the quarter and the impact of $1 billion in senior holding company debt that we issued in the third quarter. Our full-year net interest income guidance remains in the 3% to 5% range.

Adjusted non-interest income increased $9 million or 2% in the quarter. Our adjusted totals include $12 million in operating lease impairment charges recognized this year and although these charges were not anticipated in our original guidance, they are still considered part of our core operations and therefore are not adjusted.

Looking forward, we expect to pick up in capital markets revenue, along with modest growth in service charges, wealth management, card & ATM fees to contribute to the modest growth in adjusted non-interest income during the second half of the year. However, largely due to lease impairments, we now expect 2017 adjusted non-interest income to be relatively stable with 2016.

So let's move on to expenses. Adjusted non-interest expenses increased 3% during the second quarter compared to the first quarter. Total salaries and benefits increased $19 million and included $10 million associated with the pension settlement. Excluding this charge, salary and benefits increased only 2% and included a full quarter's impact of merit increases, as well as increases in production-based incentives. Looking ahead to the third quarter, we expect total expenses to decline, driven by a reduction in salaries and benefits, as well as modest improvements in professional fees and furniture and equipment expense.

The second quarter adjusted efficiency ratio increased 50 basis points to 63.2% and included the impact of the pension settlement and the operating lease impairment charges and these charges negatively impacted the adjusted efficiency ratio by 100 basis points. Despite the negative impacts of these charges, we continue to expect the full-year adjusted efficiency ratio to approximate 62%. In 2017, adjusted non-interest expense is to be flat to up 1% compared to 2016.

So let's take a look at some of our growth initiatives. We continue to invest in our digital strategy. Recent examples include enhancements to our mobile and online platforms, e-signature, enhanced virtual customer support, streamlined digital account opening, and customized marketing capabilities across all channels. We also continue to invest in fee income growth initiatives, as well as opportunities to reduce ongoing expenses.

Recent investments include our partnership with GreenSky, Avant, and Fundation for point-of-sale and online lending, as well as the purchase of BlackArch Partners, our boutique M&A advisory firm, and First Sterling, our low-income housing tax credit syndicator.

Expense reduction efforts to-date include branch consolidations and additional staff reductions at remaining branches associated with our universal banking model.

Additionally, we continue to invest in technology including the use of artificial intelligence and robotics, and capabilities to help us further increase efficiencies throughout our company. We have several use cases for this technology in process and expect those to begin going into production in the fourth quarter of this year.

With respect to asset quality, our disciplined approach to credit continues to deliver positive results as we reported improvements in almost every credit metric during the second quarter. Net charge-offs were down 32% compared to the first quarter, and non-performing loans were down 18%.

Further, business services criticized loans were down [ph] 7 (18:56) and these improvements resulted in a 3 basis point decline in our allowance for loan losses to 1.3%. We continue to characterize overall credit quality as stable. However, volatility in certain credit metrics can be expected, especially as it relates to large dollar commercial credits.

Let's move to capital real quick. We believe that our capital position is sufficient to support organic growth, certain strategic opportunities and appropriate return of capital to our shareholders. When we think about capital deployment, it's in this order. First and foremost, we're focused on prudent organic growth. We also evaluate certain strategic investments that provide opportunities for revenue growth or reducing ongoing expenses. And we also want to maintain an appropriate dividend; and with the capital that's left over there, return it to our shareholders through share repurchases.

So let's take a look at our recent capital returns. We targeted dividend payout in the 30% to 40% range of our earnings. Our latest capital plan places Regions firmly in that range. However, we believe the target range related to dividends will increase in our industry from 30% to 35% to 45% over time. Through the first-half of the year, we've returned $437 million to common shareholders through the combination of dividends and share repurchases, and pursuant to our CCAR plan, our board has authorized a return of $1.47 billion to take place over the next four quarters. Through September 8, our third quarter share repurchases have totaled $500 million.

So regarding expectations, while 2017 has been challenging in many respects, we still expect to meet our overall profit targets for the year. We've been able to do this because of our asset-sensitive balance sheet, benefiting from increasing interest rates, including the benefit of our core deposit base, as well as through solid expense management. And I'll provide an update on each of the targets you see on previous pages, but here they are summarized for you.

In closing, we are working diligently to strengthen our financial performance and thereby build sustainable franchise value. Despite the challenges we have faced in 2017, we remain committed to achieving our long-term performance targets. Our road to achieving these targets may be somewhat different from what we originally planned, but our level of commitment has not changed. We will provide you with additional detail as it relates to 2018, later this year.

However, as we look forward, we believe our disciplined balance sheet optimization strategies positions us well for future growth. We expect positive loan and deposit growth, our rebound and non-interest revenues and well-controlled expenses. And with that, I'll stop and Bill and I will be happy to take your questions. Jason?

QUESTION AND ANSWER SECTION

Jason M. Goldberg Q
Analyst, Barclays Capital, Inc.

I guess, David, a couple of follow-up questions. I guess, maybe just given your experience with Katrina and some others, maybe just remind us how it typically pays out in terms of – I guess initially, you probably have like fee waivers and maybe loan growth a bit softer and then you get the positive inflows from the insurance proceeds and maybe loan growth acceleration, maybe just kind of take us through kind of the lifecycle we should expect over the next several quarters with the impact of these hurricanes.

David J. Turner A
Chief Financial Officer & Senior Executive VP, Regions Financial Corp.

Yeah. So generally speaking, what happens is, so we have fee waivers and we help people get back on their feet, that's the most important to us. That really costs us a little bit of money. It's usually not that much. And then after that, you see reinvestments. So, economically what happens is, you'll have a dip in the areas affected in a short-term. Short-term is defined differently depending on the catastrophe. But eventually what you see is a rebound and more infrastructure spending, so that you can recover fees and interchanges and those kinds of things.

Clearly, from a financial standpoint, long-term, we can recover what we'll pay in the short-term. But we also have to think about the people, the customers, and the associates that are going through this. It's pretty devastating for them. So, our main thing is to be there for them and help them with whatever needs we can, and then we'll be there to help reinvest over time.

Jason M. Goldberg Q
Analyst, Barclays Capital, Inc.

And then you mentioned a lease impairment in the third quarter. Maybe just expand in terms of what were the drivers of that?

David J. Turner
Chief Financial Officer & Senior Executive VP, Regions Financial Corp.

A

Yeah. So we have some operating leases you can see on our balance sheet. The ones we've had impairment and the ones we have risk of impairment are related to energy, more specifically, oil field services. We point those out. They're currently part of our core operations. They don't happen all the time, which is why we call them out. But, the accounting for that is unique. We record that as a reduction of revenue. And when we believed we had risk of that happening, then we thought the right thing to do would be to adjust that guidance as soon as we knew.

Jason M. Goldberg
Analyst, Barclays Capital, Inc.

Q

Helpful. Helpful. Maybe we'll do a couple of quick ARS questions and then we'll open up to the audience. So as we've asked others, do you own a stock? And same answers – or same choices as before. Interesting opportunity.

And then the next question we've also asked all the companies, which factor you're kind of most focused on? And the same six choices.

And then profitability metrics. Okay. And then another question is what do you believe is the best way for Regions to accelerate growth, maintain current growth strategy; expand underwriting; three, de novo; four, additional fee-income acquisitions; five, loan portfolio acquisitions; and six, bank acquisitions?

So half, maintain current strategy; followed closely behind – interesting – bank acquisitions and fee-income acquisitions. I guess, I'm going to come back to that. Let's go to the next ARS question, then we're going to come back to the acquisition front. But what is the best incremental use of capital per Regions, ex-organic growth: retain bank acquisition, non-bank acquisitions, increase dividend or buyback?

So, not pretty evenly distributed with the exception of non-bank deals being less. But I guess, David, you showed the slide earlier of your capital ratios, and clearly [ph] even though in this (27:01) 14, 15 banks, you guys were the second highest. I guess how do you think about getting that capital back to shareholders? Obviously, with this [indiscernible] (27:12), stepped up the buyback, you've increased the dividend, but still more capital they need to be.

Given the other question, so a big focus on profitability metrics. And then you showed in your kind of slide, you're kind above where you wanted to be in terms of revenue growth or in terms of earnings growth but kind of still work to do on ROE metric. So I guess in terms of return of capital, is acquisitions the way to go? You saw TCOR and Huntington go that route to kind of bring down their capital and improve their ROE, rightly or wrongly. Can you further step up the buyback? Just how – what's your approach to kind of helping the denominator?

David J. Turner
Chief Financial Officer & Senior Executive VP, Regions Financial Corp.

A

Yeah. So, it's interesting that this chart here shown on slide 29 (sic) [slide 28], and the other in terms of metrics, we believe that return on tangible common is important metric. It's not the only one. It's just one of the most important ones we think. And we worked hard to make sure we optimize our capital in terms of dollar and the stock. We have more common equity, which is really expensive for us.

And – so we clearly want to use our capital to grow organically. We think that's what it's for. And so we're doing that. But we are not going to put a suboptimally returning asset on our books just to get loan growth. And that's what all of the discussion I had, was how do we look for the right kinds of loans and the right kind of growth. And we share the assets like indirect auto and that particular contract we had that didn't give us a return. So we think organic growth is number one. We think bolt-on acquisition with non-bank, number two. We've done some of that mortgage servicing rights and the other – the First Sterling low-income housing tax credit syndicator in Florida.

And then you get the dividend. We have robust dividend. We think that will be somewhere in the 35% to 45% over time. And then we have share repurchase. Acquisitions right now with our valuation and which targets what, that math doesn't work for us right now, so it's not a focus for us. And I think share repurchase, clearly, you can't do that forever.

But, we've got 11.5% common equity Tier 1, 11.5% – and we're trying to get to 9.5% based on the risk profile that we see today, and that's a lot of capital. If you're not using up organically, then you have to return it to the shareholders which is why we had the robust return built into our CCAR. We're trying to get to that 9.5% by the end of next year. We won't quite make that. We'll get close, but we're going to have to still go to that – towards that goal.

And getting the denominator on the return on tangible common is important for us because our goal, if you go back to the Investor Day, is return on tangible common between 12% and 14% by the end of next year and that's a piece of how we get there. We still need to focus on growing revenues and managing expenses, but that denominator management is important as well.

Jason M. Goldberg
Analyst, Barclays Capital, Inc.

Q

Let me look to the audience for questions. I think [ph] Mike (30:19) had one.

Q

Thanks. Curious about your NII guidance. If we look back on what's happened so far this quarter, industry loan growth is below expectations, including your own – given your comments. The rate structure is more unattractive today than it was two months ago. So I'm curious what gives you confidence in reiterating the full year target, given that implied an acceleration already in the second half? And could you maybe parse out Q3 NII growth versus Q4? Thanks.

David J. Turner
Chief Financial Officer & Senior Executive VP, Regions Financial Corp.

A

So, when we put together our plan, we're in the 3% to 5% range and we had certain loan growth opportunities there. Baked into that was a beta, a deposit beta that started about 40% and ended up terminating at about 60%. Our deposit beta in the last cycle was about 53%, if I remember. And what we – expansion is about 10% of the deposit beta. So we're outperforming on that. It gives us confidence that we actually can have a higher growth rate than we thought we could have.

Clearly, with the rate environment staying low, the probability of a rate increase in December is fairly low. We don't expect that to happen. And the 10-year coming down and the curve getting flatter is not helpful either. But we've been able to watch our costs on the funding side that has helped to mitigate a little bit of that pressure that's coming.

We've had nice deposit growth from our core deposits, so we have a little bigger – larger securities book than we otherwise would have. So we're getting some carry that helps us from NII, puts a little more pressure on NIM, but that's why we think we can get NII growth. Clearly, if we stay in the low 2s on the 10-year, we're going to have more pressure to grow NII and resulting margin into 2018. But we think we have a little bit of run room still to have slight growth in both NII and margins throughout the rest of 2018, each quarter.

Jason M. Goldberg
Analyst, Barclays Capital, Inc.
Q

Other questions from the audience? Yes. Jimmy in the front.

James H. Hanna
Portfolio Manager, North Reef Capital LLC
Q

Hi, David. It's Jimmy Hanna with North Reef Capital. Just the self-inflected loan growth being slower than peers right now, self-inflected, I said it, carries a bad connotation, but it's responsible growth or responsible management of the balance sheet. Some of the things that have – you've been successfully managing down or managing the slower growth such as auto, commercial real estate, you can name all four of them. But are we getting closer to inflection points on those what I'll call risk mitigation strategies and when do you think we'll hit an inflection point, so to speak?

David J. Turner
Chief Financial Officer & Senior Executive VP, Regions Financial Corp.
A

Yeah. So great question. I left you with expectations for 2018 outlook; we'll hone it on in December, at the next conference. But we think we'll have loan and deposit growth and NII growth next year. Okay. So – that we think we'll inflect. Now, we will still have some headwinds next year. Our auto portfolio will continue to be a headwind as we're working down the balances there. You said self-inflected, like it's a wound. It's actually the right thing. We believe it's the right thing to do. We believe there's better places for our capital in that asset class, and we knew we were going to have to be challenged on the loan growth, but we'd still think it's the right thing to do.

We have things like energy lending that we didn't focus on, in particular, oil field services where we're down 30% since 2014. That start – we really have about a little over $600 million left in oil field services. So that's going to abate.

We've repurposed about $4 billion in our corporate bank, that is, we had $4 billion of credit-only relationships with suboptimal returns we asked our folks to get out of. They rebooked about $4 billion and improved the return 250 basis points. It's hard for you to see that because you're just looking at the loans, but those are the things that make us better over time.

We still have some headwinds that we will continue to face and – but our bread and butter is kind of that commercial group where our production has been really nice. So I'll let Bill talk about what we're seeing in commercial lending.

William E. Horton
Senior Executive Vice President & Head of Commercial Banking, Regions Financial Corp.
A

Yeah. Year-to-date, production has been very positive, growth over prior year. We continue to be very disciplined in pipeline management. It's important that we're not going to do every deal, but there's about $2.5 billion worth of transactions that we elected not to do because of pricing or very liberal structures. And so, we don't want to trade off short-term for long-term. And so, it's very important that we do the right things.

Now, credit commitments and line of credits have been pretty stable. Utilization continues to drop and that's a problem. But, we'll have something from an economic standpoint that will create the need for businesses to do more. And then, what I would add is that we're all doing the right kinds of things and I feel very confident in terms of what we would expect to happen.

But we had these surprises, the paydowns. And I can point to roughly 20 relationships. We still maintain those relationships, that represents over $700 million in liquidations. Some of that went for capital markets role. Others, companies just decided that I'd rather pay down the debt as opposed to the higher interest rate costs. So we've got to be disciplined. We've got to be well managed this process. But I feel very confident and optimistic about the future.

David J. Turner
Chief Financial Officer & Senior Executive VP, Regions Financial Corp.

A

I would also add that on a consumer basis, we are growing consumer. We have almost every category growing and we feel very good about that. Home equity, lines of credit of the – we are not growing. There are more paydowns here as consumers have continued to deleverage that asset class.

James H. Hanna
Portfolio Manager, North Reef Capital LLC

Q

I appreciate that. Thank you.

Q

Can you talk about your view with the future product distribution and how brick-and-mortar may continue to fit in with that or whether there's more branch optimization to be made?

David J. Turner
Chief Financial Officer & Senior Executive VP, Regions Financial Corp.

A

Yeah. That's a great question, and one way to challenge ourselves on constantly. We certainly made investments in online and mobile technology. We're seeing adoption rates there skyrocket. But our customers, a disproportionate amount of those, want to go into a branch today. Now, that's how they've been banking with us. 80% of our sales today go through our branch. 60%, actually 59% of our customers will walk through a branch in the next 30 days where we are. And so that channel is very important to us.

With that being said, we need to figure how we can execute that strategy as efficiently as possible, which means we're going to put bankers in there that are – what we call universal bankers, that is – they will be able to do any transaction that you want. And instead of having seven people, we'll have fewer.

They'll cost us more proportion but the total dollars will come out. So I think we can shrink the footprint of the branch. I think we can shrink the number of branches. We will make investments and some new ones. But I think branches are here for the – for some period of time. There will at some point be a time where mobile and online is the predominant channel, but it will take time to move in that direction.

Q

Bill, from your perspective – am I on? Are we live? Okay. Why are your utilization rates staying low and you mentioned people hitting the capital markets instead of joining that online? Is it just conservatism on the part of CFOs? They want to keep their lines? That they can hit the bond markets and issue at a fixed rate. They like the low fixed rate. What is it that's keeping this line utilization so low from your perspective? Thank you.

William E. Horton
Senior Executive Vice President & Head of Commercial Banking, Regions Financial Corp. A

Well, I think this is just an effort on the part of many companies just to delever, and they recognize that there's optimism in the marketplace. It's just they're going to be slow to take advantage of that. And they don't want to give up that line. And so I think they're just planning for the future and waiting for some economic event to occur that's going to stimulate growth.

David J. Turner
Chief Financial Officer & Senior Executive VP, Regions Financial Corp. A

I think, to your point, we do think uncertainty exists, in particular with smaller businesses, whether it's healthcare, whether it's tax policy, whether it's regulatory policy, just as there is this euphoria. Everybody kind of thought we were about to catch a wave earlier in the year, it didn't happen. And so we think there's a lot of liquidity out there, and businesses are just choosing, because they can't get any money and put it on deposits. So they just pay down the line and wait for a little more clarity and certainty with regards to investment opportunities.

Jason M. Goldberg
Analyst, Barclays Capital, Inc. Q

We'll take one more.

Q

Yeah. You talked about consumer loan growth picking up for you guys. The industry as a whole, it seems like loan growth has been contracted, or I shouldn't say contracted, but decelerated from about 9% in the summer of 2016 to now it's like at 4%. Is there something different about your footprint that you're showing growth, or have you opened up the credit box a little bit more? Can you kind of touch on that?

David J. Turner
Chief Financial Officer & Senior Executive VP, Regions Financial Corp. A

No. I wouldn't say we've opened up the credit box. From an auto standpoint, we've told you that that's down, too, because of our decision not to renew a third-party contract. We think the consumers are deleveraging because they have more liquidity, spending less running at the gas pump than before. But we're seeing growth in credit card, and a big part of that growth is we got back into our credit card in about 2010 and those were for our deposit customers.

Today, we penetrate about 18% of those customers with a Regions branded credit card. We're trying to get that to the mid-20% and we've seen nice growth in the double-digit growth in credit cards because it's a good credit card, and we do a good job of looking for those opportunities. We are not a subprime lender in any asset category and don't intend to be. So, we just had nice growth because we see the opportunities and the need for our customers.

Mortgage has been growing because we have the right mortgage loan originators in the right locations where primarily a purchase shop and that shows in our mortgage performance. So, and then, the indirect lending, not auto, but indirect lending through our relationship with GreenSky. That's a point of sell lender and we're learning. We're learning how consumers want to behave. They want that loan at the point of sale more so today. So, we're trying to figure out how we can be a bigger player in that loan category. I wish our consumer loan book was even bigger than it is. We get nice risk-adjusted returns in that portfolio and we should see consumer continuing on the path that you've seen thus far.

Q

But one really last question. Can you talk a little bit about more about the efficiency ratio? How you're going to get it down below 60%, and is that an interim target and how low do you think you can ultimately drive it?

David J. Turner

Chief Financial Officer & Senior Executive VP, Regions Financial Corp.

A

Yeah. So we're at 63% with the goal to get to 62% by the end of the year, and then 60% after that to your point. That was driven in part by rates helping us from the revenue side and the growth in the balance sheet, as well as expense management. Clearly, there is more pressure on both growth and rates, which makes getting to 60% more challenging. But at the end of the day, if our revenue is not growing, whether it be NII or NIR, we have to go revisit our expense base.

And we are – we'll come with another plan. We'll talk about that in December when we give you guidance as to what 2018. At the end of the day, we have to leverage our technology better than we have, I think, in expense management, where we can get – where we can leverage artificial intelligence and robotics to get us a better answer in some cases in some areas much more efficiently.

I think the initiative we talked about on branches where we are going to take people in the branch and have them as a universal banker also will be a cost reduction. So, it's just continue to pull every lever we can to continue to get as efficient as we can that will help us get to that 60%. That is an interim step. I do think our industry will get lower than that over time if we get a normal – whatever normal means anymore, normal rate environment.

Jason M. Goldberg

Analyst, Barclays Capital, Inc.

Please join me in thanking David, Bill, and Dana for their time today.

David J. Turner

Chief Financial Officer & Senior Executive VP, Regions Financial Corp.

Good job.

Jason M. Goldberg

Analyst, Barclays Capital, Inc.

That concludes the formal presentations for day one. Day two starts tomorrow with breakfast with Goldman Sachs, starts 7:30 sharp. I suggest getting here...

[Abrupt End]