

REFINITIV STREETEVENTS

EDITED TRANSCRIPT

CMA.N - Comerica Inc at Barclays Global Financial Services Conference

EVENT DATE/TIME: SEPTEMBER 10, 2024 / 1:00PM GMT

OVERVIEW:

Company Summary

CORPORATE PARTICIPANTS

Curtis Farmer *Comerica Inc - Chairman of the Board, President, Chief Executive Officer*

James Herzog *Comerica Inc - Chief Financial Officer, Senior Executive Vice President*

CONFERENCE CALL PARTICIPANTS

Jason Goldberg *Barclays Bank PLC, Research Division - Analyst*

PRESENTATION

Jason Goldberg - *Barclays Bank PLC, Research Division - Analyst*

Pleased to have Comerica with us on again from the Company on stage with me, we have Curt Farmer, Chairman and CEO; Jim Herzog, Chief Financial Officer. What I do is, Curt just going to give three four minutes or so of kind of opening remarks to kind of kick us off and then we'll kind of dive into more Q&A.

Curtis Farmer - *Comerica Inc - Chairman of the Board, President, Chief Executive Officer*

Great. Thank you, Jason so much and thank you all for your interest in our company. I will make just a couple of comments, as Jason mentioned before, I do that. Let me remind you that we have a Safe Harbor statement in the deck that hopefully you received a copy of, that would cover any forward-looking statements or non-GAAP financial measures that we'll discuss today or that are covered in the deck.

There's a slide early in the deck, and I'll be speaking to that may be up on the screen. We could advance one more -- maybe not, but in any event, you don't need to have it in front of you for me just to make a couple of comments.

First, I just would say that following the last 12 or 18 months, we really do feel like we are heading into an inflection point as a company. As probably does much of the industry and continue to feel like we've got a very compelling value proposition for our customers and our employees and for our investors as well. Starting to see some of the cyclical pressures that we've all been dealing with abating and feel that this really is an inflection point, that said earlier for us in a couple of ways, including some tailwinds we see coming -- starting later this year and into 2025 with the rate cuts, et cetera. I'll talk a little bit more about.

Maybe just remind you a couple of things around our company that we think positioned us well. One is just our unique business model. Unlike many of our regional peers, we have a strong commercial orientation as a bank, about 80% of what we do is commercial banking and lots of different venues, whether it's middle market, business banking, small business in a lot of different industry verticals, commercial real estate, energy, et cetera.

We've also got great retail wealth management capabilities that it really complements our commercial banking customers and believe that differentiates ourselves. A lot of really long tenured bankers and a lot of really long tenured customer relationships. I'd like to say we're the right-size for our customers that we can bring the capability to really much larger bank but deliver it much more of a community bank, feel much more relationship based still and believe that we've got the right product set and capabilities to meet the needs of those customers.

Second, I just would say we continue to feel like we've got a very strong foundation as a company. We've always had a conservative history, a history that spans 175 years as of about three weeks ago, we celebrated our 175th anniversary. I haven't been here that long but it's a long time. We've been in a very strong capital position as a company, 11.55% CET1, which at the end of the second quarter, put us really at the top of the peer group.

I think you know, we've got a history of very strong credit performance. It has really managed well through lots of different cycles, credit cycles and have a lot of history there and believe that we're well positioned with charge-offs that were at really the top performance or lowest level versus our peer group at the end of the second quarter.

I continue to feel like credit is pretty well behaved through the cycle and like the mix of businesses that we're in, which I think protect us some. We've learned a lot of lessons over time to what businesses we want to be in, what business we don't want to be in, what geographies we want to be in, et cetera. And that has proven well. And then we feel like coming out of 12 or 18 months ago, that would have good position from a liquidity and funding perspective.

And then third, I would just say we have continued to make -- even during the last 12 or 18 months, even though we slowed a little bit strategic investments in our business to position ourselves to better meet our customers' needs longer term. But also to generate more top line revenue for our Company, especially in areas of fee income. That's included in the payments area, we hired a great leader for that space a couple of years ago, Allysun Fleming, she's done some really great transformational work for us in terms of core treasury management capabilities, payment capabilities, a deposit gathering capabilities, et cetera.

We continue to invest in our wealth management business, especially our Comerica Financial Advisors platform, which is very linked to our commercial bank which as you could imagine wealth gets created of our commercial bank clients, business owners, ICOs and then as they transition that wealth to naturally tie into our wealth management business and we continue to invest heavily there.

We've always had a strong capital markets capabilities in terms of traditional syndication, hedging, FX, et cetera, but added a M&A Advisory group about 18 months ago or so. And we're starting to see some nice deal flow there. We have been investing heavily in the small business segment. Previously, we really sort of began at more of the business banking level to think about sort of \$25 million, \$50 million sales companies and we've been focusing heavier on that micro segment really tied to our retail bank. We've hired about 100 colleagues in that space. We are seeing a lot of granular deposit development. It's a unique product capability sets that we've developed for those customers.

And then lastly, I just would say I think we're well positioned, as I said earlier, for this change in the cycle here. We're all anticipating the rate decline next week, although we've had some head fakes before, but hopefully that comes to fruition. And we're in a good position in terms of some swaps and securities that are rolling off starting next year.

Again, we're one of the few banks -- we are one of the few banks that are slightly liability sensitive. So we should see a benefit as rates start to decline in terms of deposit repricing, although we've never lived through a cycle like this before, so I'd like to see how that plays out. And we think we're also well positioned even though loan growth has slowed some, across the industry we still feel really good about our pipeline and our ability to grow the balance sheet for the longer term.

So maybe just in summary, continue to feel like we've got a very resilient strategy that has proven itself out over the last period of time here in the last 12, 18 months and the turbulence the whole industry experienced. Very strong foundation, feel good about our capital, our credit position, liquidity, et cetera. We'll continue to make meaningful investments in the business that we think will help drive revenue growth for us longer term, you know, we operate some of the greatest markets in the United States, in terms of major metro markets where a lot of growth is occurring.

And we've got a lot of tailwinds that we believe are coming our way as they do sort of view this as an inflection point for the Company on a go forward basis, but hopefully at a lower rate environment from the some of the things that I mentioned earlier, that will benefit us in 2025 and beyond.

So Jason, with that, let's turn this to questions.

QUESTIONS AND ANSWERS

Jason Goldberg - *Barclays Bank PLC, Research Division - Analyst*

Perfect. Why -- I guess you only put up the first slide of your deck. There is a very long and informative appendix. I guess a few things that jumped out to me that we can start going through one of them was on certainty on loan growth. Loan growth -- loans were kind of tracking modestly lower than 0.2% quarter to date.

But from July and August, we saw a more pronounced kind of drop, I'm not sure how much seasonality played a role in that. We don't get great monthly data from the banks at least, can you just talk to kind of what you're seeing with respect to loan demand, what you're hearing from clients. And you know how you just maybe thinking about the guidance [third quarter] you're talking about up 1% at one-point full year kind of down 4% on an average basis, just kind of what hearing and what you're thinking.

Curtis Farmer - Comerica Inc - Chairman of the Board, President, Chief Executive Officer

Yeah. I may have heard a few comments and see some of the write ups from some of the other institutions that I think we're fairly aligned with probably what you're hearing from other banks, loan growth has slowed some in the third quarter for us, third quarter is often got some seasonality to it. In general tends to be a little bit slower quarter given sort of the customers that we serve manufacturing bases, et cetera.

We did have a little bit of spike up in borrowing demand at the end of the second quarter. A lot of it related to the dealer auto finance space with CDK outage that the dealerships had. And so a lot of them had a need to bury up excess inventory on the lots for a little while until they sort of worked through that system issue.

But when you look at sort of the month of August -- July and August are slower for us. But if you look at sort of more recent trends, we feel like the quarter is picking up a little bit, but no question. It is a little softer than what we saw in Q2, but we still feel really good about the pipeline overall. What we're seeing is that we're still getting a lot of requests, and a lot of activities. Commitments are still relatively flat, but customers are waiting to actually book facilities and draw down on facilities.

So we feel like we've got really good momentum, assuming that we get past some of the uncertainty that we're all experiencing right now, a lot of what we're hearing is uncertainty about the election, we are hearing a lot of uncertainty about interest rates that's starting to abate some, and so some of that clears up, we actually feel pretty optimistic about fourth quarter heading into 2025 and the pipeline overall.

Jason Goldberg - Barclays Bank PLC, Research Division - Analyst

One thing I know is that commitments after trending down for several quarters to kind of be flattening out the last couple of months, any particular kind of segments or kind of maybe where you're relatively more optimistic.

Curtis Farmer - Comerica Inc - Chairman of the Board, President, Chief Executive Officer

Yeah. It's optimistic in core middle market, we have probably seen more flat activity in tech and life sciences and equity funds. Equity funds services, we believe that will pick up some as we get into the latter half of the year and into 2025.

We are still active in real estate in terms of new opportunities in the multi-family space, major geographies, areas that we like, developers that we like, but there also are some headwinds there. We had a lot of business that has been waiting to move to a permanent market, construction financing as rates are coming down, so that will start to tail off.

But in general, I would say sort of middle market business banking, small businesses is where we're the most optimistic across lots of different sort of industry components there.

Jason Goldberg - Barclays Bank PLC, Research Division - Analyst

Got it. Maybe Jim, get you kind of involved and shift to deposits. Those overall deposit balances up according to the slides, 1% quarter to date. Still some of that kind of mix shift and non-interest-bearing down, interest bearing higher with non-interest-bearing at 38% of the nameplate has talked to kind of what's driving that mix, kind of where do you see that settling out? I know the kind of broker deposits looked like they were higher, you know the thought around that?

James Herzog - Comerica Inc - Chief Financial Officer, Senior Executive Vice President

[Jason], thanks for the question. Good morning, everyone. We're actually very encouraged in terms of how deposits are trending so far this quarter, you mentioned they were up 1%, Jason, that's a portion of broker deposits and average being up. But core deposits were up over \$200 million also on average from the second quarter to the third quarter.

I think that masks a little bit of a good news story that we're seeing here. Please keep in mind, we had core deposits trending a little bit down throughout the second quarter. So for them to be up so far this quarter means they've done a pretty good turnaround at this point. And perhaps the more telling statistic is that if you look at our June 30 balances -- and by the way, higher brokered are already reflected in the June 30 balance, they're pretty steady from June 30 through the third quarter average so far.

We're actually up \$1.2 billion from that June 30 number. So we do feel like there's been a real inflection point here in terms of deposits, we're all pleased with what we're seeing. In terms of breaking that down into non-interest-bearing deposits, up through the July earnings call, we've been seeing some slippage, as we mentioned, and that drove some of the net-interest income guidance change.

We've actually hung very close almost right on top of that June 30 number in terms of where non-interest-bearing deposits are today. So it sure feels like a real inflection point in terms of our non-interest-bearing deposits are. So pleased to see that, and through today, they continue to hang in there largely. So non-interest-bearing does feel like it's turned the corner, and we're really pleased to see that.

Interest-bearing also great performance there. We're about \$1 billion ahead of where we thought we would be. On average on-interest-bearing deposits, and I'm talking core customer deposits here. So continued to perform very well on the interest bearing also.

In terms of overall mix of non-interest bearing, I do think the 38%, the upper 30s is kind of where we're going to hang. The fact that we've grown interest bearing as much as we have, we continue to maintain that upper 30s, we're really pleased with. And I'll just say non-interest bearing deposits, we actually guided a little bit lower than where we are today in terms of the net interest income outlook. So both noninterest-bearing and interest-bearing performing better than what we had in the outlook when we talked about deposits in July.

We did have some customer deposits that were little bit inflated during the month of August. You'll notice a big step-up in terms of the August balance relative to July, we do think those balances will gravitate a little bit more towards the July level. So we're not going to maintain all that balancing you saw in August. But overall, just really great performance.

The outlook that we had provided in July assumed that we would have about \$1 billion more in broker deposits than what we're going to end up with on average for both the third quarter and the rest of the year. So with that said, even though the outlook, we may fall a little bit short of total deposits relative to the outlook we gave in July, on a core deposit basis. It looks like we're going to be ahead of that number.

So overall, just really pleased with how deposits are trending, feels like we hit an inflection point. Very comfortably ahead of where we expected to be on core customer deposits, and I feel like we have a really nice trend right now.

Jason Goldberg - Barclays Bank PLC, Research Division - Analyst

Maybe we could bring up the next or the first ARS question, I think I forgot to do that. But Jim, I guess we talked that was a good kind of overview of deposit balances. And then as we kind of talk to deposit costs within that, Fed's widely expected to cut rates next week. Just maybe your thoughts in terms of kind of how you're thinking about what you do the next day and just how you're thinking about deposit betas in the current landscape?

James Herzog - Comerica Inc - Chief Financial Officer, Senior Executive Vice President

Well that's something we're giving a lot of thought to, I know all banks are. I do feel like the industry is well positioned to move on this. I've seen some banks, including Comerica, start to experiment with reducing rates to see how the market reacts. And I do think at least for the higher tiered rates the market's expecting and will accept lower rates as the Fed begins to cut.

We've actually started already repricing some of our CDs to a lower rate. We started shortening the duration on our CDs a while back. So six-month CDs are kind of our sweet spot for promotional CDs. In terms of how fast that beta might move. There are a number of considerations. First, we are relationship banks. So we're going to stay in very close contact with our customers and be very surgical and strategic in terms of how we go about doing this.

You've heard me say in the past publicly that I think the reason for the rate cut will drive the speed of the beta. So to the extent you had a harder landing, that customers really value more safety and soundness in the rate, and you have the opportunity to maybe go a little bit faster. To the extent you have a softer landing, you probably have to be a little more prudent in terms of how you cut rates. Customers are still very interested in getting the best rate they can.

So at this point, it does look like it's going to be a little softer landing at this point. And as a result, we'll probably see the industry not move quite as fast as I would have otherwise. On the other hand, loan growth is going to be a factor and loan growth is lagging in the industry. So that may be a tailwind in the other direction. We may be able to cut rates a little faster in a vacuum just because of the overall loan demand.

And then I think for the industry in terms of how fast we go in the first three or four months. I think the level of brokered deposits that most banks have will be a factor. And it shows that Comerica, we have a pretty short brokered deposit book. On the customer side, we have about \$1.8 billion of promotional deposits. About two thirds of those will reprice by the end of the year. So we won't get the full beta on those on average in the fourth quarter.

I think we will get the full beta on those, as we move into the early 2025. And obviously, those CDs reflect a number of cuts and what the market allows for that, we'll just have to observe as we go through the fourth quarter. We also have broker deposits hanging around the same levels that you saw in June 30. We expect about 60% of those to mature also by the end of the year. And so those raises, those rollover will reflect the overall curve. So we think that there's an opportunity to really hit the ground running on brokered as we move into the beginning of the year next year.

When you put all this together, we do think that through the cycle with our current mix of customer base that we have, we do expect through the cycle to get the 60%-plus beta that we had on an accumulated basis on the way up. We do expect to get that through the cycle on the way down and I do expect to get it at some point next year. But I don't think we are going to get it right off the bat.

When I look at the first few cuts, it's probably going to be a little closer to the 48% standard beta that we have in our slide deck. But again, as brokered deposits start to get captured early next year, as rates continue to come down. And I think the market sensitive rates that are higher will be the first to come down. I think some of the mid-tier rates might not start coming down to the fourth or the fifth cut. I think we will start improving ultimately sometime next year and that 48% standard beta. But I think we'll start there for the first few.

Jason Goldberg - Barclays Bank PLC, Research Division - Analyst

You kind of gave the answer to open up the next ARS question to see what the audience thinks. I guess before we kind of get to NII just maybe sticking with kind of the deposit theme. Comerica was not selected for Direct Express contract renewal. That's, I think, \$3.3 billion in deposits, contract expires early next year. Maybe you could just provide any more kind of thoughts around the timing of that.

I think in the 10-Q kind of reference to a renew option for up to three years and your existing contract -- just how you kind of expect that to play out what the impact is and just maybe provide a bit more color.

Curtis Farmer - Comerica Inc - Chairman of the Board, President, Chief Executive Officer

Yeah. There's nothing really new to share yet, in terms of formal contract negotiations that really is in the purview of the fiscal service, the US Treasury that we will certainly cooperate with them through a transition, and we expect to hear more potentially in the fourth quarter. And as we know more, we will share that as we go along, earnings calls, conferences, et cetera.

As we've shared previously, we continue to feel like the transition will take some time. It's a complex program, 4.5 million cardholders who have heavy fundings at the beginning of each, the first couple of days and month heavy activity, as a lot of those card holders activate the card, withdrawal balances, ATM machines, et cetera.

And just the infrastructure associated with managing that program between the card vendor, our partner on it Conduent, et cetera, and ourselves. And so that has to be replicated at the new institution. So we continue to feel like the transition will occur over time and that we've got plenty of opportunities to work to offset that with growth in core deposits, whether that's the things that we're doing on the treasury management side, I'll remind you that we've got a lot of activity in state programs, we have today about \$1.5 billion at state card programs, and we continue to have growth opportunities there.

And while we lost the card program with Direct Express, we just renewed recently a program we have. We have where we're the merchant card provider for the US Treasury, and that generates mostly fee income for us, but some depository balances as well. Talked early about things we're doing in payments, treasury management also in small business, driving some granular deposits, so we continue to feel like it's a very manageable transition for us, probably can't tell you exactly what it looks like. I think it will feel more like a gradual wind-down versus an abrupt sort of pulling down of deposits just because of what transition looks like.

Jason Goldberg - Barclays Bank PLC, Research Division - Analyst

Helpful. I'll maybe put the next ARS question. Maybe for Jim, kind of tying together the kind of loan deposit stuff we've talked about your deck, you kind of reiterated the down 14% NII guide for this year, despite the fact that maybe loan growth a bit softer than expected. I think kind of previous expectation was I think NII down 2% to 3% in Q3. Q3 marks the trough and then we grow from there. I guess that's still achievable. What causes you to maybe better than that worse than that, how you're thinking about that?

James Herzog - Comerica Inc - Chief Financial Officer, Senior Executive Vice President

Yeah, we have had some changes because of the rate environment. I will just clarify that the guidance was down 2% to 3% because of the drag of the BSBY accretion, BSBY cessation, the guide was actually just down 1% once you exclude BSBY. So it's very close to breakeven at the time we gave guidance to in the second quarter in the third quarter.

Since then, we've had some puts and takes that I think are a net positive for us. Certainly one of the headwinds is loan growth. It is a little bit lower than what we'd expected. But I do expect that to be modestly more than offset by the fact that our core deposits are outperforming what we had expected. And of course, the fact that we won't have as many brokered deposits isn't really a headwind whatsoever. If anything, maybe even a slight tailwind.

So we do see slight improvement on the third quarter guide, just because of the great deposit performance. Beyond that, we do have a little bit of line-item geography change occurring in the third quarter. The swaps that we have that are currently underwater, need to be collateralized at the CME. Obviously, as the AOCI and the market value of that swap has come down. The cash collateral that we have to provide to the CME is less.

Now this is a zero-sum game. We currently recognize that hedge income and non-interest income that will switch over to net interest income as those cash balances come down to the CME and then move over to the Fed where they were earned IOER. So we do see a likely \$5 million or \$6 million of income shifting from non-interest income over to net interest income.

So if you put that together with the fact that we think the deposit performance, which is a real favorable, will more than offset any loan shortfall. It does look like, excluding BSBY cessation that we probably did see the trough in the second quarter, net interest income.

Again, some of this is accounting with the overall CME hedge income, but we do expect to be a tad higher than we were in the second quarter, in the third quarter for net interest income. We don't know that that's enough to necessarily change the overall full year outlook, which is on a much bigger base, but we'll revisit that during the third quarter earnings call.

And the next question might be what does this do of noninterest income guide? The fact that we have a little bit a lined item geography going on, we're not willing to change that at this point in time. That could be a headwind, but we'll wait and see how the quarter ends up. So overall, we feel really good about the overall net interest income output.

Jason Goldberg - Barclays Bank PLC, Research Division - Analyst

Helpful. And maybe you touched on it before in terms of just the benefit you're seeing on the liability side of balance sheet, and you are kind of out there more liability sensitive. As the Fed cuts and just how should we think about this as not so much this year. But as we start to kind of put together our 2025 models -- clearly audiences some expansion, but maybe when it gets to kind of your early rate.

James Herzog - Comerica Inc - Chief Financial Officer, Senior Executive Vice President

We're not, of course, giving any real guidance on 2025 at this point. But there are a number of tailwinds that we're pretty excited about. First off, we do have a slight liability sensitivity. As I mentioned before, the betas probably won't reflect the full cumulative beta on the way up right away in the way down. So it really is just a slight liability sensitivity position.

And I'll educate or remind people as you look at our sensitivity slide that it's not just the way the rates react, but we do expect favorable balances to move also, for instance, we expect non-interest-bearing balances to be favorably impacted as rates go down. I don't know that we're going to see again, a lot of the balance movement on the first few cuts, just like we won't get the full beta that we may ultimately get in the first few cuts.

So I'll kind of reemphasize that I do think it's a very slight liability position, but I do think we will ultimately benefit from rates going lower, it just may not be in the first few cuts in any real material way. But I do feel good about the overall position. And I'll just remind people that we were asset sensitive all the way through the end of last year, we did benefit from that. We had record levels of net interest income in 2023. We've just been liability sensitive since the beginning of this year.

And I think that's pretty good timing. I think it's put us in a really good position to benefit going forward. And no doubt because of the actions we've taken, I do think we'll get benefit over the course of the cycle and over the next year, all the way through 2025 because of the position we're in. So we feel like things are really lined up for a great 2025.

Beyond the fact that we are slightly liability sensitive, of course we are going to have a windfall of BSBY cessation income next year, that won't be permanent, but that will be significant for 2025. And then I'll remind people, regardless of liability sensitivity, we do have significant maturities on both the securities and the swap side in 2025, which will be a tailwind regardless of how the rate environment plays out. So we feel like we're just extremely well positioned from the net interest income standpoint for 2025 and a lot to look forward to.

Jason Goldberg - Barclays Bank PLC, Research Division - Analyst

And then maybe, shifting to credit, which Curt in your remarks, you acknowledge how pristine it's been, well below kind of historical averages. And it sounds like your guidance implies, it's expected to stay that way. Maybe just kind of give more color in terms of kind of what you're hearing and seeing -- maybe unemployment's kind of ticked up a higher than people thought on one hand, the other hand lower rates may help and then just kind of talk to your expectations there.

Curtis Farmer - Comerica Inc - Chairman of the Board, President, Chief Executive Officer

Yeah. I mean, it has continued to exceed expectations for us in terms of just credit behavior. Normally when you are this far into a cycle. You start to see some deterioration in credit. And we at the end of the second quarter had the lowest level of charge-offs kind of across our peer group. We continue to feel like we have very adequate and significant reserves across the portfolio not really seeing any trends that are different than what we've shared the last couple of earnings calls, in the last couple of investor conferences that we have done.

We do believe at some point that charge-offs will start to approximate in more normalized environment for us. Historically, it's been somewhere on a quarterly basis between \$20 million and \$40 million, we think we'll continue at least for the foreseeable future to perform below that level, especially on a full year basis.

Always watching the appropriate areas, continue to watch commercial real estate, again, we are mostly multifamily, industrial and for the markets that we're in, the developers we're in. We're not seeing a lot of the deterioration there. I do think there is some deterioration occurring in that space, but really not with our customer base. In some markets, we're seeing a little bit longer hold time, a little bit in terms of sort of rent concessions. And some of those things in certain markets, but really not in the markets that we operate in. Always watch leverage lending but we feel like that's very well managed for us overall.

So nothing that we can point to that we're overly concerned about right now but continue to be diligent on a go forward basis.

Jason Goldberg - Barclays Bank PLC, Research Division - Analyst

Maybe put up the next slide. I guess Curt, commercial real estate as a percentage of it seems like a big number for you guys, but there you have not seen maybe some of the other issues others have had. Leveraged lending also has a decent exposure for you. I guess, kind of what and how is kind of what you do maybe different from what others are seeing and doing even the last several quarters you have seen collateral for the same kind of idiosyncratic events in C&I with a lot of your peers and yet your charge-offs have really been non-existent.

Curtis Farmer - Comerica Inc - Chairman of the Board, President, Chief Executive Officer

Yeah, but you never know -- you never say never right. Because you'd always have a fraud or something any institution can that's in the credit business. We don't eliminate all risks. We manage risk for customers in that. Across the portfolio, again, it's been very well maintained and we've got a lot of discipline. I mean that's really sort of the underpinning of who we are, is that we are great credit underwriters and great commercial lenders, and we know how to manage our risk well and believe that again, we had adequate reserves across the portfolio. We do a lot of stress testing across the portfolio. And we do it really as sort of one credit at a time kind of up through the portfolio.

On the commercial lending side, we talked about this before in terms of commercial real estate. A lot of that for us has been the type of exposure we have, a lot of construction financing, multifamily industrial, which again, I think it held up well with a few pockets in the US, maybe seeing a little bit of stress, really not in areas that we're located in and developers that we're working with.

So we're feeling good about that portfolio and have really avoided much of this office exposure. We've got a little bit of office exposure, but even that continues to perform well for us. And on the leverage lending side, most of that is with customers. These are not transactions that we're chasing, but where they're going through a recapitalization and maybe selling a company, if you think about leverage lending, if you just sort of think about maybe on the far left, with my hand to reverse for you.

Being really highly levered, we like to play on the very low levered side of the equation and partner with sponsors where we might be providing senior debt facility like leveraged lending that we have had very modest on a relative basis in terms of risk exposure that we see.

Jason Goldberg - Barclays Bank PLC, Research Division - Analyst

And then in your remarks, you talked about now a CET1 ratio of over 11.5%. Ex-AOCI, maybe closer to 8%. But AOCI is certainly, as you alluded to in the collateral comment as obviously come down. Just how high can that number get and just how you kind of thinking about just capital in this current backdrop?

Curtis Farmer - Comerica Inc - Chairman of the Board, President, Chief Executive Officer

As I said in my opening comments, we've had historically a conservative approach to capital. We continue to want to be conservative, but we are starting to believe that 11.55% where we were at the end of the second quarter is getting a little high and we were waiting for some signals that would sort of indicate to us that it might be the right time to turn the share buyback on. And we believe we're starting to see some of those.

There's been a couple of head fakes with the forward curve, but assuming that we see a rate cut next week and that the forward curve really starts to stabilize and relate sort of based on our loan forecast for next year, which we think will be decent loan growth and probably a little bit more modest across the industry. We believe we have significant capital to sort of accommodate lending activity with our clients.

And then we will certainly like most concerned about AOCI and sort of the fully phased in Basel III Endgame, while we're not that a category four bank, we're close enough that we believe the regulators want us to be able to be sort of fully phased in over the five-year period of time and meet those requirements. So you sort of roll that together.

We do believe that we probably end up with some excess capital and whether we're able to turn the share buyback on, end of the year or sometime into next year, we are anticipating getting back into a share buyback scenario of returning capital to our shareholders.

Jason Goldberg - Barclays Bank PLC, Research Division - Analyst

And so maybe fourth quarter, if not next year?

Curtis Farmer - Comerica Inc - Chairman of the Board, President, Chief Executive Officer

Yep.

Jason Goldberg - Barclays Bank PLC, Research Division - Analyst

Sounds good. (multiple speakers)

Curtis Farmer - Comerica Inc - Chairman of the Board, President, Chief Executive Officer

We'll try to give some additional guidance if we can at the third quarter earnings call there.

Jason Goldberg - Barclays Bank PLC, Research Division - Analyst

Fair enough. And you kind of touched on it for a second, but not a category four bank, but I suspect part of your objective is to one day, be one good and bad. Just maybe any thoughts in terms of kind of when you expect to get there and what you need to do that and just kind of maybe differing views on if you're going to cross -- if you really want to cross it through a big acquisition or just kind of go through it organically?

Curtis Farmer - Comerica Inc - Chairman of the Board, President, Chief Executive Officer

Well, you know our history has been -- that said many times on this stage that we've been a very patient acquirer. Those who do not know us as well, we've really done one deal in the last, you know, 20 to 25 years of size that was Sterling Bank in 2009 -- sorry, Imperial Bank in 2001, and we did a small transaction over 10 years ago, Sterling Bank in Houston.

So we have been a very patient acquirer in mostly in growing our company to last say 25 years more organically, and we are prepared to go over that \$100 billion mark on an organic basis. We're not trying to rush to that point, but we believe just normal growth will take us there, and we believe it's the wrong thing to do for our shareholders and our customers to not continue to grow as an organization said another way, we're not going to shrink our way down lower and try to stay comfortably below the \$100 billion mark.

So we've been working really for the last 24 plus months on the path to get ready for compliance with enhanced prudential regulatory oversight and stress testing and capital planning, other things that we require would be a category four banks. I will remind you that we have some muscle memory there, so before the tailoring rule went into place in 2017, 18, S2155 as it's known. We were in that enhanced oversight category. Us and a couple of other banks that were between \$15 billion and \$100 billion with that point.

We did dismantle some of that capability that we kept selling in place as well that we've been working hard to work on technology, data infrastructure to be prepared to comply with whatever that might mean on a go forward basis. It does increase cost for us. Some of that one-time cost that there are some ongoing costs. We believe we can incorporate that into our run rate on a go forward basis, and we're working closely with our regulators to make sure that we're prepared for that day. I don't want to say if it comes, I believe it will come over the next several years.

Jason Goldberg - Barclays Bank PLC, Research Division - Analyst

Got it. And then maybe Jim to get you back into the fray. You kind of talked about the \$5 million to \$6 million headwind this quarter in fee income. I guess, any kind of thoughts or trends that you're seeing, I think originally kind of thinking down 3% to 4% more than non-customer driven stuff but wondering what your expectations there.

James Herzog - Comerica Inc - Chief Financial Officer, Senior Executive Vice President

We continue to be very focused on non-interest income, big priority of ours. As you heard Curt mention in the opening comments. We did have very strong performance, as you may recall, in the second quarter, which really had some unusual fee income in it. We had obviously the Visa B transaction, which was \$6 million. We had our annual tax preparation fees involved for \$3 million that we always have in the second quarter.

And we had a little bit higher level of FHLB for which we got dividends. So you know we probably had \$12 million or \$13 million of additional income in the second quarter that wasn't bound to repeat in the third quarter. And so if you back that out. We actually do continue to see very strong core customer income in the third quarter. We do have the collateral hedge income that I mentioned earlier, that will create an additional \$5 million to \$6 million headwind in the third quarter.

Again, just line item geography, it will move over to net interest income. But even with that said, we're not necessarily ready to change the guide there for noninterest income, even though it is ambitious, when you consider the headwind of the hedge income as well as the one-time income that we got during the second quarter. So feeling really good about core customer non-interest income still going forward.

Jason Goldberg - Barclays Bank PLC, Research Division - Analyst

About a minute and half remaining. And maybe just touch on expenses. You do have I guess some spend for the consent order you got on the trust subsidiary earlier this year. Maybe talk to kind of where you are on that process and how long those costs kind of stay in there and as you begin to put together the 2025 budget, how you're just thinking about the overall cost construct?

James Herzog - Comerica Inc - Chief Financial Officer, Senior Executive Vice President

Yeah. So far, the cost incurred for any type of regulatory improvement, whether it be addressed in the OCC situation with CDT or just overall regulatory framework bar. Really right on track, so nothing really new to report there. No change to the expense guidance at this point in time and feel really good about the progress that we're making on the risk front and , no real surprises to speak of at this point.

Jason Goldberg - Barclays Bank PLC, Research Division - Analyst

Great. On that note, please join me in thanking Curt and Jim for their time today.

DISCLAIMER

Refinitiv reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES REFINITIV OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2024, Refinitiv. All Rights Reserved.