

Regions Financial Corporation NYSE:RF

FQ2 2024 Earnings Call Transcripts

Friday, July 19, 2024 2:00 PM GMT
S&P Global Market Intelligence Estimates

	-FQ1 2024-			-FQ2 2024-	-FY 2024-	-FY 2025-
	CONSENSUS	ACTUAL	SURPRISE	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	0.46	NA	NA	0.49	1.97	NA
Revenue (mm)	1757.79	NA	NA	1768.03	7136.33	NA

Currency: USD
Consensus as of Jul-10-2024 5:17 AM GMT

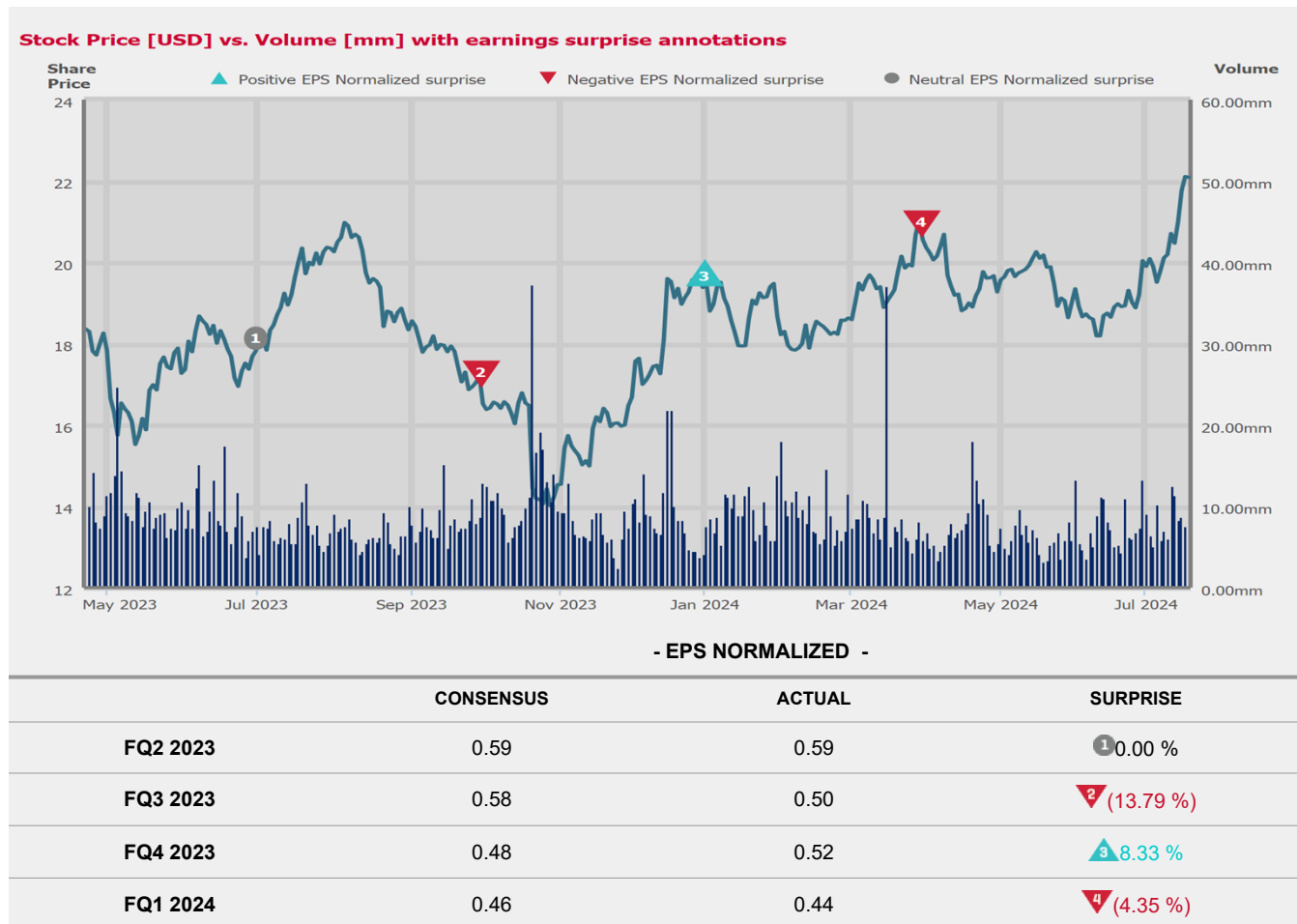


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Call Participants

EXECUTIVES

Dana Nolan
EVP & Head of Investor Relations

David Jackson Turner
Senior EVP & CFO

John M. Turner
President, CEO & Chairman

ANALYSTS

Betsy Lynn Graseck
Morgan Stanley, Research Division

Christopher James Spahr
Wells Fargo Securities, LLC, Research Division

Robert Scott Siefers
Piper Sandler & Co., Research Division

Ebrahim Huseini Poonawala
BoFA Securities, Research Division

Ryan Matthew Nash
Goldman Sachs Group, Inc., Research Division

Erika Najarian
UBS Investment Bank, Research Division

Gerard Sean Cassidy
RBC Capital Markets, Research Division

John G. Pancari
Evercore ISI Institutional Equities, Research Division

Kenneth Michael Usdin
Jefferies LLC, Research Division

Matthew Derek O'Connor
Deutsche Bank AG, Research Division

Presentation

Operator

Good morning, and welcome to the Regions Financial Corporation's quarterly earnings call. My name is Christine, and I will be your operator for today's call. [Operator Instructions] I will now turn the call over to Dana Nolan to begin.

Dana Nolan

EVP & Head of Investor Relations

Thank you, Christine. Welcome to Regions' Second Quarter 2024 Earnings Call. John and David will provide high-level commentary regarding our results.

Earnings documents, which include our forward-looking statements disclaimer and non-GAAP information, are available in the Investor Relations section of our website. These disclosures cover our presentation materials, prepared comments and Q&A.

I will now turn the call over to John.

John M. Turner

President, CEO & Chairman

Thank you, Dana, and good morning, everyone. We appreciate you joining our call today. .

This morning, we reported strong second quarter earnings of \$477 million, resulting in earnings per share of \$0.52. For the second quarter, total revenue remained relatively stable at \$1.7 billion on a reported basis and \$1.8 billion on an adjusted basis as net interest income remained resilient and fee revenue declined modestly compared to the first quarter. As expected, adjusted noninterest expenses declined quarter-over-quarter and are expected to remain at this approximate level for the remainder of the year.

Average and ending loans remained relatively stable quarter-over-quarter, reflecting modest customer demand, continued focus on client selectivity and paydowns in the portfolio. Average deposits also remained relatively stable while ending deposits declined modestly during the quarter, consistent with seasonal tax-related patterns. We experienced broad-based improvement in overall asset quality this quarter. Nonperforming and business services criticized loans as well as net charge-offs improved sequentially.

In summary, we're proud of our second quarter results, driven by the successful execution of our strategic plan. We have a great plan, and the investments we're making in talent, technology and in products and services are positioning us to benefit as macroeconomic conditions improve. Our footprint continues to provide us with significant opportunities. And while we are experiencing more competition in our markets, our long-standing presence, commitment to communities and the favorable brand we've built over many years positions us well. As long as we remain focused on execution, I have no doubt that we can continue generating top quartile results.

Now David will provide some highlights regarding the quarter.

David Jackson Turner

Senior EVP & CFO

Thank you, John. Let's start with the balance sheet. Average and ending loans remained relatively stable on a sequential quarter basis. Within the business portfolio, while average loans remained relatively stable, ending loans increased 1%. Despite near-term macroeconomic and political uncertainty, pipelines are beginning to rebuild. Average consumer loans also remained stable as modest growth in residential mortgage and consumer credit card were offset by declines in home equity and other miscellaneous consumer loans. We continue to expect 2024 average loans to be stable to down modestly compared to 2023.

From a deposit standpoint, deposits remained relatively stable on an average basis while ending balances declined 2%. These declines in the second quarter reflect anticipated tax seasonality. Having largely returned to prepandemic patterns, we expect relative stability in deposits, which is typical for summer and early fall. As expected, deposit remixing has slowed. Competitive pricing and customer demand for promotional products has stabilized. Over the second quarter, the proportion of noninterest-bearing deposits relative to total deposits has remained steady in the low 30% range.

Now let's shift to net interest income. Net interest income increased modestly during the quarter, outperforming our expectations. The increase reflects stabilizing deposit trends and asset yield expansion. Also exceeding expectations, the net interest margin declined

only 4 basis points, resulting primarily from higher average cash levels. As expected, deposit remixing and cost increases slowed meaningfully in the quarter. The full cycle interest-bearing deposit beta remained stable at 43%, and we continue to expect a mid-40% deposit beta will be the peak this cycle.

Asset yields benefited from the maturity and replacement of fixed rate loans and securities at current higher rate levels. This includes the repositioning of approximately \$1 billion of securities late in the quarter with an estimated payback period of 2.6 years relative to the \$50 million pretax loss recorded this quarter. Following our successful \$750 million debt issuance in June, we used the proceeds to purchase a like amount of securities with a similar duration in order to maintain a relatively neutral balance sheet position and bolster liquidity.

We believe net interest income has reached an inflection point and is expected to grow over the second half of the year as deposit trends continue to improve and the benefits of fixed rate asset turnover persists. As we move further into 2024, a stabilizing deposit and funding environment, along with securities repositioning and favorable debt issuance levels, have pushed our expectation for net interest income towards the upper end of our \$4.7 billion to \$4.8 billion range. This narrow range portrays a well-protected profile under a wide array of possible economic outcomes.

Now let's take a look at fee revenue performance this quarter. Adjusted noninterest income declined 3%, driven primarily by lower capital markets and mortgage income. If you recall, capital markets experienced seasonally elevated activity in the first quarter as several deals were pushed from the fourth quarter of 2023. Over time and in a more favorable interest rate environment, we expect our capital markets business can consistently generate quarterly revenue of approximately \$100 million. But in the near term, we expect it will run around \$70 million to \$80 million per quarter.

The decline in mortgage income was primarily driven by a positive \$6 million adjustment to the company's mortgage pipeline valuation in the first quarter that did not repeat. While modestly lower versus the seasonally high first quarter, treasury management continues to perform exceptionally well. Versus the second quarter of last year, treasury management's client base has increased 6% while total revenue was up 8%. Helping to offset this quarter's fee income declines, wealth management increased 3% to a new quarterly record, reflecting increased sales activity and stronger markets. Based on a strong first half of the year, we now expect full year 2024 adjusted noninterest income to be at the top end of our \$2.3 billion to \$2.4 billion range.

Let's move on to noninterest expense. Adjusted noninterest expense decreased 6% compared to the prior quarter, driven primarily by lower salaries and benefits, occupancy and professional fees. The improvement in salaries and benefits was attributable primarily to lower base salaries and seasonally higher HR-related expenses in the first quarter. Operational losses also decreased during the quarter and current activity continues to normalize within expected levels. We continue to expect full year 2024 operational losses to be approximately \$100 million.

We remain committed to prudently managing expenses to fund investments in our business. We will continue focusing on our largest expense categories, which include salaries and benefits, occupancy and vendor spend. Based on results through the first half of the year, including outperformance in revenue and our expectation to be towards the top end of our previously provided full year revenue ranges, we now expect full year 2024 adjusted noninterest expenses to be between \$4.15 billion and \$4.2 billion.

Regarding asset quality, as John indicated, overall credit performance improved during the quarter. Provision expense was essentially equal to net charge-offs at \$102 million, and the resulting allowance for credit loss ratio remained relatively stable at 1.78%. We expect full year 2024 net charge-offs to be towards the upper end of our 40 to 50 basis point range, attributable to a few large credits within our higher-risk portfolios. However, those losses are fully reserved for. Assuming stable loan balances and a relatively stable economic outlook, we expect our ACL ratio to remain flat to declining over the second half of the year.

Let's turn to capital and liquidity. We ended the quarter with an estimated common equity Tier 1 ratio of 10.4% while executing \$87 million in share repurchases and \$220 million in common dividends during the quarter. Earlier this week, the Board of Directors declared a quarterly common stock dividend of \$0.25 per share, a 4% increase over the second quarter. This increase is in addition to the 20% increase last year, representing 3 consecutive years of robust dividend growth, well supported by underlying financial performance.

Additionally, we received notification of our supervisory capital stress test results, including the preliminary stress capital buffer, which will remain at 2.5% for the fourth quarter of 2024 through the third quarter of 2025. We expect to maintain our common equity Tier 1 ratio consistent with current levels over the near term. This level will provide sufficient flexibility to meet proposed regulatory changes along the implementation time line while supporting strategic growth objectives and allowing us to continue to increase the dividend and repurchase shares commensurate with earnings.

With that, we'll move to the Q&A portion of the call.

Question and Answer

Operator

[Operator Instructions] Our first question comes from the line of Ryan Nash with Goldman Sachs.

Ryan Matthew Nash

Goldman Sachs Group, Inc., Research Division

Maybe just walk through some of the key drivers of the updated NII guidance. You're expecting some nice growth in the second half. And given that the fed cuts won't be a material driver, maybe just talk a little bit about the magnitude of the growth that you're expecting. And can you maintain that pace beyond the second half? And what does all this mean for where you think the margin can head over the medium term?

David Jackson Turner

Senior EVP & CFO

Yes. So as we had mentioned last quarter, we're neutral to short-term rates. And so the benefit that we see for this quarter and then going forward is how we control our deposit costs. So our interest-bearing costs were up 3 basis points. So the front book/back book benefit that we're getting is when you add securities and loans, about, call the -- 175 basis points, is now overwhelming the change in deposit costs. And we expect that to continue for the rest of the year. So we don't really need any cuts to help that. We're -- if we get, we get them. But we're neutral to that.

So we think the driver really going forward, in addition to what I just mentioned, will be balance sheet growth. And so we think that can help us continue to grow NII. And when you look at all that, we felt comfortable saying we'd be at the upper end of our range. We also did a repositioning trade and that'll help us march towards the upper end as well. So we think we're in pretty good shape. We get a little bit of loan growth in the back half of the year. It sets us up nicely for 2025.

Ryan Matthew Nash

Goldman Sachs Group, Inc., Research Division

Got it. Maybe as a follow-up on the expenses. The increase in expenses seemed somewhat commensurate with the increase in revenue. So can you maybe just parse out how much of the increase in expenses was driven by better revenues? And is there maybe a pull forward of some expenses from next year in order to position you for improved positive operating leverage?

David Jackson Turner

Senior EVP & CFO

Yes. Really, the -- it's -- the increase is attributable to the expected increase in revenue. Both NII and NIR that you mentioned, our expectations for that for the year being at the upper end of our ranges, that's the primary driver. Also impacting the full year, we have about \$20 million in expenses associated with market value adjustments on HR assets. And so that is what it is. We'll see if that reverses or not.

And to a lesser extent, we experienced some modest incremental increases in the first half of the year, and the opportunities to offset that aren't likely. So it's important when you consider all this, our revenue and expense, that we are firmly committed to generating positive operating leverage over the back half of 2024.

Operator

Our next question comes from the line of Scott Siefers with Piper Sandler.

Robert Scott Siefers

Piper Sandler & Co., Research Division

I was hoping maybe on a top level, you could please speak to the kind of the competitive backdrop for commercial lending. I mean, it seems like it's tough everywhere, but it seems like everyone appropriately wants to be in the southeast, so maybe just the overall competitive landscape. And then maybe if you could also please highlight just sort of, in your own words or thoughts, what it would take to generate better commercial loan demand at this point.

John M. Turner

President, CEO & Chairman

Yes. So it is competitive. You're right. We're in great markets. We talk about that a lot. And as a result of that, we're seeing more and more competition. We think we're competing well. We believe our business is largely about the quality of our people, the execution of our plan, providing unique ideas and solutions to customers. Those things differentiate us. And fundamentally in our business -- and we think it is about talent. We continue to recruit across our markets and are having some good success doing that. As a result, we're seeing nice growth in our commercial middle market business, offset by declines in some of our specialized industries groups and in investor real estate, as you might imagine, as those portfolios pay down.

But all in all, activity is still somewhat muted. Customers remain cautious, given some concern about inflation cost, the political environment, just general uncertainty. But activity is improving. Pipelines are stronger than they were a year ago, certainly stronger than they were 2 quarters ago. And so while we're not projecting much loan growth for this year, we do believe that there is, and we would expect, in 2025, I think, to likely see economic activity pick up, reflected by the increase in activity in our pipeline.

So yes, it's competitive. We think we're competing effectively, largely because of the quality of the teams that we continue to build and the long-term relationships that we enjoy. And we'll continue to focus on that.

Robert Scott Siefers

Piper Sandler & Co., Research Division

Okay, perfect. And then, David, just a quick one for you. You've done a couple of these incremental balance sheet repositionings, which has been great, especially as it helps to sort of push up the NII expectations through the year. I think you're speaking the deck to opportunities for further ones. Maybe if you could just sort of help put a frame of reference. Would we look at similar sort of iterative ones like this? What would be the size of the opportunities, et cetera?

David Jackson Turner

Senior EVP & CFO

Yes. I think -- so we continue to look for opportunities like this. That's a good use of capital. We've got our capital ratio kind of where we need it to be. So to the extent we can use our capital accretion through earnings for something like this, it would be good to do. And this is about the size. This is probably the biggest you would see from us. It's in that 10% range of earnings.

So we like to take opportunities to do this when our payback period is fairly tight. We like 3 years. And in this one, the first one was 2.1-year payback period. This one was 2.6. And so if we could get an opportunity to do something in that 3 and in, we might do that. We may take advantage of that. The curve continues to steep, and that really gives us an opportunity to take advantage of it as well.

Operator

Our next question comes from the line of Ken Usdin with Jefferies.

Kenneth Michael Usdin

Jefferies LLC, Research Division

Question on the deposit side. Just -- I think the plus 3 basis points on the interest-bearing cost was probably a lot better, a lot lower than people thought. Just wondering if you can kind of talk us through what you're seeing underneath there in terms of where you're continuing to see some back book catch-up and where you're starting to see the ability to kind of change price and how you kind of build that into that forward expectation.

David Jackson Turner

Senior EVP & CFO

Yes. So our cumulative beta is 43%. We've said we'd be in the middle 40%, so call it 43% to 45%. We feel confident in that because we know -- we understand our customer base. There still was some remixing going on. But because the industry didn't have a lot of loan growth, the demand or the aggressive competition for deposits just has not been there. And we have to be competitive with our deposit rates, and we think we are. We've been very short on things like CDs to take advantage of when we think rates may actually go the other way.

So we have a lot of confidence, though, that it may tick up -- the deposit costs may tick up depending on how the mix shift happens. Continuing to grow core checking accounts and operating accounts, those are really important to us. And as a result, I don't think you're going to see a major change in our deposit cost. And therefore, our cumulative beta in that 45% range, I think, is important.

Kenneth Michael Usdin
Jefferies LLC, Research Division

Yes. Okay, cool. Great. And then just a follow-up on just credit. Great to see the NPAs come down and also understanding your point that the [Q] couple credits are fully reserved for. Can you just flesh out your -- just general points on just how asset quality feels? What you're just seeing in underlying migration? And any things that you're still just kind of watching out underneath the surface for the most?

John M. Turner
President, CEO & Chairman

Sure, yes. So we've indicated, I guess, for a couple of quarters that we thought our credit metrics would likely peak in the second quarter, and I think that's proven to be true. We've highlighted a couple of industries that we've been concerned about now for, again, a couple of quarters. That's obviously our asset classes, office, senior housing, transportation, manufacturing of commercial nondurables, information are areas that we are following.

The particular portfolios where we think there's been some systemic impact, specifically office, transportation, senior housing. Senior housing seems to be improving. Transportation, still in a recession, particularly for those smaller transportation companies that are operating in the spot market, but that may be improving modestly as well. Office, we're still working through, really credit by credit. And we talked about office. We have 101 credits, and about 40% of those are -- they are single tenant. So we're really working on about 60 to 70 relationships that are multi-tenant. We think we have a good handle on that exposure and are continuing to work through it.

With respect to our guidance, our nonperforming loans are centered in 20 credits that represent about 72% of our total nonperforming loans. Five of those are office-related. And in every case, we're working with the customer. In some instances, we're adding additional collateral to support the credit. We may be getting some additional tenant improvement money. We've got, I think, a pretty good approach to resolving the credits. We know -- we believe we are well reserved.

Just as a point, we've been asked about our allowance. Allowance against our multi-tenant book is about 9.6%. Total allowance against our office book, 6.4%. So we feel like we're adequately reserved against the portfolio, and we just have to continue to work through them. So our guide is charge-offs toward the upper end of a 40 to 50 basis point range. That reflects the fact that we do have some large exposures.

The issue is we can't predict the timing, and so -- and we'll expect these things will get resolved over the next 2 quarters. They may or they may not, but we continue to work on it. Otherwise, the level of downgrades and upgrades is sort of coming into equilibrium, which indicates again that we think we've reached a point of some stabilization. And our credit metrics should potentially see them go a little higher, go a little lower. They will ebb and flow, but we think we've reached a point of stability.

Operator

Does that complete your question?

Kenneth Michael Usdin
Jefferies LLC, Research Division

It does.

Operator

Our next question comes from the line of Erika Najarian with UBS.

Erika Najarian
UBS Investment Bank, Research Division

Following up on Ken's questions on deposits. You're telling us and you've always had a good view of and know your consumer [deposits] very well. I'm wondering as we contemplate these rate cuts, how we should expect sort of deposit balances to behave and then what the betas could look like? And David, if you could sort of break it down in terms of how you expect the betas in the commercial versus betas for consumer and also the peak could be helpful as well.

David Jackson Turner
Senior EVP & CFO

Erika, you broke up a little there, but I think it's kind of what do we think betas will look like as rates come down. So we do have a schedule in our investor deck. It's a good one for everybody to look at. It's on Page 18.

And so we really have 3 buckets of deposits, if you will, with different beta assumptions in all 3 of these buckets. So in general, we expect a mid-30% down rate beta. And so if you think about -- about 35% of those accounts repriced with the market. So they're tied to an index or they're short-term CDs. So we kept our tenors fairly short, call it, 5 months. So that as rates came down, we would have a chance to reprice that. And then the beta for those is somewhere between 80% and 100%. If you go to the other end of the spectrum, we had about 46% of our deposit base. It was low beta, low cost, never moved up, probably not going to move down. And so that base is going to be very low because it never actually increased. And we have about 19% is kind of in the middle that we think is, call it, 20% to 30% beta.

And so we structured our deposit book to really take advantage of rates as they come down. And -- but we're only factoring in -- even though on the up rates, we had 45% beta, as I mentioned earlier, we've only factored in our guidance to have 30% in down rate. It could be better than that. But the 30% comes from that math that I just walked you through, which again is on Page 18 of our investor deck.

Erika Najarian

UBS Investment Bank, Research Division

Got it. And it's been a while since we've had sort of had a level where we stopped that, when there has been an easing cycle that's above 0. And historically, as we -- and I'm sure everybody is thinking about this as [indiscernible] through 2025 net interest income. Historically, where do you price relative to fed funds? Do you price it -- if fed funds ends up being at 3.50%, 3.75%, where you're usually 50% of that in terms of where your deposit costs settle out, is it better? Is it worse? Just trying to think about -- obviously, there's a lot of uncertainty as to what the ultimate rate path is going to be. But obviously, we need help because we haven't had an easing cycle that didn't end at 0 for some time.

David Jackson Turner

Senior EVP & CFO

Yes. I think you have to think of it little more globally in terms of kind of fed funds and where do you think terminal fed funds are going to be. 2.5% to 3% is kind of our best guess. When we get there, who knows. And in that, with a normal yield curve where fed funds are 2.5% to 3%, we're -- our balance sheet structure to have a margin that's going to be in the 3.75% range, maybe 3.80%, and so that's our expectation.

We think as rates start to get cut from here and we have a normalizing or less inverted yield curve, that our margin can pick up. We said we'd exit at 3.50%, and we should start to climb as our net interest margin should start to increase a bit as we go through 2025 and beyond. But kind of the steady state for us would be 3.75% to 3.80% with the fed funds that's 2.5% to 3%.

Operator

Our next question comes from the line of Ebrahim Poonawala with Bank of America.

Ebrahim Huseini Poonawala

BofA Securities, Research Division

I guess maybe, David, just looking at the Slide 18 with the historical sort of net charge-offs. Is it safe to conclude that absent a recession, 50 basis points of charge-offs should be sort of the high end in a non-recessionary environment? I understand any given quarter can move around. But generally, is there any reason why charge-offs could be elevated even in a non-recession going forward than what we've seen, I guess, over the last 10, 11 years?

John M. Turner

President, CEO & Chairman

Yes. I mean, we don't believe so, Ebrahim. We have had a little change in the composition of our loan portfolio since the pre-COVID time frame. We acquired Ascentium Capital. We've acquired EnerBank. We believe we have a good handle on what those relative charge-offs and the contribution to charge-offs will be. But we're observing that, obviously, as we operate those companies.

We have grown our presence in the corporate banking space. So as we've talked about before, we are taking some larger exposures. That's intentional, helps us as we think about growing our capital markets business being more important to customers. And so from time to time, as you acknowledged, we could have a large charge-off that would impact the numbers. But generally, we believe, based on all our observations, that the 40 to 50 basis point range is historically appropriate and where we should operate over time.

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Similarly, nonperforming loans, somewhere between 80 and 100 basis points is a reasonable range. We may be a little higher -- a little lower, I'm sorry, from time to time. I wouldn't expect us, frankly, to be much higher. But that's kind of our view of what our credit metrics will look like, given the composition of the portfolios that we currently have.

Ebrahim Huseini Poonawala
BofA Securities, Research Division

That's good color, John. And I guess, I think I heard you say in your prepared remarks that pipelines -- lending pipelines are beginning to pick up. Give us a sense, like do we need rate cuts to -- for the pipelines to begin to translate? Or do we need to get through the elections in order to get things going? Like what would be the driver to get customers off the sidelines, start borrowing?

And also give us a sense of, just from a [often] standpoint, where is the bank hiring? Obviously, there's a lot going on across your markets competitively. What -- yes, where are we investing in terms of branches or hiring of bankers, et cetera? That would be helpful.

John M. Turner
President, CEO & Chairman

So maybe I'll work backwards. We're investing in markets like Atlanta, Nashville, Houston, Dallas, Orlando, Tampa, where we either have had a significant presence over time and see an opportunity to grow or have made investment, like in Houston. So the first 3 or 4 markets, we've been there for some time. We have a strong presence. We're continuing to build on that. Markets like Houston and Dallas, we're making investments to grow and see real opportunity there.

With respect to your question about pipelines, I think -- I'm trying to remember the question now. Let's see, somebody help me.

Ebrahim Huseini Poonawala
BofA Securities, Research Division

Yes. What would be the catalyst for like -- when you talk -- speak to your customers, pipelines are building. Is it rate cuts? Is it...

John M. Turner
President, CEO & Chairman

Thank you. Yes, Thank you. I'm sorry. So I think eliminating uncertainty -- but cost is the bigger issue. I've spent some time this week talking to one of our customers who's a large supplier of construction materials, and he indicated that they're getting a lot of requests for bids. They're completing a lot of bids, but they're not seeing a lot of work awarded. And I think that's consistent with the fact that costs are still high, whether it be interest cost, labor cost, cost of materials. And it is costs that make things somewhat uneconomic or create more risk than customers are comfortable with.

And so I think we need -- just continue to see adjustments in pricing. At the same time, I expect that our customers will continue to adjust their operations to accommodate changes in pricing. I think that's the bigger factor. The election probably has some impact on just uncertainty overall as do the broader geopolitical events that are occurring. But I believe it's probably more likely interest rates and costs will be the catalysts, as those things come down, for more economic activity.

Operator

Our next question comes from the line of Matt O'Connor with Deutsche Bank.

Matthew Derek O'Connor
Deutsche Bank AG, Research Division

Just on the expenses. The guidance, kind of towards the upper end of the range, is that just because the fees are coming in higher? Or anything else in terms of like increased investment spend to top that off as well?

David Jackson Turner
Senior EVP & CFO

As I mentioned earlier, the increase is largely attributable to the expected increase in revenue, both from a net interest income and noninterest revenue standpoint. And we also had \$20 million in expenses associated with the market value adjustments on HR-related assets. That was a piece. And to a lesser extent, we've experienced some modest incremental increases in the first half of the year, and opportunities to offset that just aren't likely. However, as I mentioned earlier, we are committed to generating positive operating leverage in the second half of this year.

Matthew Derek O'Connor*Deutsche Bank AG, Research Division*

Okay. And then as -- that's helpful. And then as you look out a little bit longer term, like I'm not trying to pin you down '25, but just call it like the medium term, the next couple of years, like what do you think is a good underlying expense growth as we think about some of the positives you mentioned before, like loan growth picking up, maybe the higher capital markets run rate? What would you think is a reasonable level?

David Jackson Turner*Senior EVP & CFO*

You didn't want to pin us down to '25 but you added '26 on there. Every year, we go through a challenging discussion as to what we think expenses ought to be for our budget and going forward. If you look, we do have a slide in our investor deck that shows that our compound annual growth rate, since about 2016, is a little over 3%. We try to keep it to 2.5% if we can. We've had some labor inflation, as everybody has, over the last couple of years. And obviously, technology costs continue to go up. So I would expect us to be somewhere, Matt, in that 2.5% to 3% range and not committing to that just yet. We'll give you the guidance for '25 in January, but that should give you at least a start.

Operator

Our next question comes from the line of Chris Spahr with Wells Fargo.

Christopher James Spahr*Wells Fargo Securities, LLC, Research Division*

So this is just a follow-up, I think, to Ebrahim's question. So you've had -- you're on pace to have a good mid-single digit or 7% growth, I think, in core fees this year. What do you think Regions can achieve over the next 2 to 3 years with all the tactical hires you've kind of made and when they start monetizing? And if fees are about 33% of revenues, what do you think that could be in 3 to 5 years?

David Jackson Turner*Senior EVP & CFO*

Well, we continue to look for ways to generate fees by offering products and services that our customers value and need. And so you've seen us do several acquisitions to that end.

Our -- we're trying to stay committed to generating positive operating leverage between growth in NII and NIR and controlling our expense base. And I think we'll continue to do that and expect to generate positive operating leverage in '25. We'll give you a finer point on that again in January. But if we could have a little higher percentage of our fees, we've always said we would like to have revenue 50-50 between NII and NIR. We've been saying that for a long time and haven't been able to get there. But if we're going to increase that, call it, 40% of our revenue in fees, that would be great.

We've overcome an awful lot of consumer fee declines, whether it be interchange through Durbin, OD fees and the like. And we've made investments in other products and services that have helped us, including treasury management investments that we've made, where we've been up, call it, 7% to 10% 3 years running now. So wealth management continues to grow. They had great quarter this quarter, hit a record as a matter of fact.

So we're going to continue to look for ways to generate fee growth and offset some -- we have some potential impacts if Durbin gets updated. We've given you that information. So it's -- I think it's incumbent upon us to continue to look for ways to continue to grow.

Christopher James Spahr*Wells Fargo Securities, LLC, Research Division*

And then regarding capital on Slide 10. Just do you have any kind of target or aspirational target that you have for CET1 all-in, if it's at 8.2% at quarter end?

David Jackson Turner*Senior EVP & CFO*

Yes. So we have a capital range of -- operating range of 9.25% to 9.75% on CET1. We've increased that to, this quarter, 10.4%. The reason for that was partly uncertainty with the economy and then uncertainty with regards to Basel III and what that was going to

mean to us. We have seen the draft of B3, as has everybody. And we think we're within striking distance of whatever the ultimate Basel III is going to be. And so we don't need to let our capital continue to accrete higher from here.

And as a result, if we generate income, we'll continue to pay a fair dividend. We'll continue to look for ways to reposition our securities portfolio, if that makes sense. And if all else don't work, then we'll buy our stock back. And we've done all 3 of those things this past. And of course, we use that to grow loans as well. And you should look for us to continue that. And so the capital of CET1 of 10.3%, 10.4% is about where you should expect it to be going forward until we ultimately get Basel III.

Christopher James Spahr
Wells Fargo Securities, LLC, Research Division

Okay. But -- so that implies -- you were kind of -- it was a decline in your buybacks in the second quarter. So we should expect a meaningful increase in the third and fourth quarter.

David Jackson Turner
Senior EVP & CFO

Well, commensurate with earnings. And if we -- the reason that we had it changed, we used a bit of that capital for the \$50 million pretax loss we took on the securities repositioning. So it's all predicated on how big, if any, of our capital generation will we use for that. The buyback is nothing more than what it takes to solve for getting us to 10.3% to 10.4% common equity Tier 1.

Operator

Our next question comes from the line of Gerard Cassidy with RBC.

Gerard Sean Cassidy
RBC Capital Markets, Research Division

John, you and I have talked in the past about pipelines, and you emphasized that they are stronger today than they have been recently. And I know it's hard to quantify this, but can you give us any kind of subjective opinion that these pipelines, the pull-through could be even better than in the past? Or any color there?

John M. Turner
President, CEO & Chairman

I don't know that having an opinion, Gerard, it would be different than our historical experience. I do think that we are seeing, as I said, pipelines build. We have seen some softness in some of our specialized businesses. And those pipelines, in particular, are beginning to improve, particularly in areas like energy, as an example, financial services, where we also include our subscription lines and our -- that would be comprised of our insurance book, of some of the businesses where we're lending to customers who actually lend to others. We've got some strong relationships in consumer finance that have been really good over time. But I can't tell you that I believe necessarily that we're going to see any change in pull-through rates.

Gerard Sean Cassidy
RBC Capital Markets, Research Division

Very good. And I know, David, you've given us very good detail on the CET1 and uses of capital for buybacks or the securities repositioning. Possibly, John or David or both of you, can you give us your views on acquisitions? I know you, over the recent past, have done nondepository acquisitions, of course. But when you look out over the next 2 or 3 years, there's likely to be more banking consolidation. How do you kind of look at that outlook for Regions?

John M. Turner
President, CEO & Chairman

Yes. Gerard, thank you. We have said historically that we've not been interested in depository acquisition. We've obviously made a number of nonbank acquisitions that have added to our capabilities, helped us grow and diversify our revenue, and we continue to look for those. We believe that we have a really solid plan if we execute our plan, that we can generate top quartile returns for our shareholders without doing any bank M&A. It's disruptive. It's challenging.

We certainly have, over time, through our performance, improved our positioning. Our currency is much stronger than it was 6, 7 years, 10 years ago. But we still don't think that bank acquisition necessarily is in our future. It's not part of our strategy today. As I said, it's disruptive. It's complicated. And frankly, if we just execute our plan, we think we can deliver great results for our

shareholders. That's not to say we won't follow what's going on. We'll pay attention, and we will continue to observe the market. But today, we're focused on executing our plans.

Operator

Our next question comes from the line of John Pancari with Evercore.

John G. Pancari

Evercore ISI Institutional Equities, Research Division

Back to credit, your ACL ratio came down slightly this quarter by about 1 bp. And just given what you're seeing on the credit front, given your commentary that your trends are peaking around this quarter on certain fronts, where do you see the reserve ratio going from here? Can you kind of walk through the expectations if you could see incremental release on that front?

David Jackson Turner

Senior EVP & CFO

Yes, John. So as we stated, if you look at our credit metrics, they're improving. We said our charge-offs would be at the upper end of our range, and so those are reserved for. So the expectation would be absent loan growth or changes in economic conditions, as those charge-offs coming -- come through, you wouldn't expect -- you would expect the ACL to come down.

Where it comes down ultimately, which is what I think your question is, it's hard to tell. We have to look at it every quarter and take all the information that's available to come up with the reserve. Something that you can look at just as a guide is if you were to go to prepandemic or pre-CECL, which was the fourth quarter of '19, and in that scenario, credit was kind of looking pretty good. But there was a little bit of a forecasted downturn in the economy at that time, and our absolute CECL reserve was 1.71%.

If you take the losses though at that time by portfolio and apply it to our current portfolio, that would equate to a reserve level of 1.61%. I think we put that on the bottom of one of our charts. And so you would expect, over time, to bleed back down towards something more normal like that. How fast that gets there, when it can get there, it's -- that's impossible for us to tell. But generally speaking, what we know today is that if we have charge-offs coming through in the short term, you should see the ACL come down.

John G. Pancari

Evercore ISI Institutional Equities, Research Division

I know you expect it to flat to down, but helping frame it like that is definitely helpful.

The -- and then secondly, on the expense front as a follow-up to Matt's question. I know you're confident in the positive operating leverage in the back half of this year, and it sounds like you're focusing on positive operating leverage for next year as well. Your long-term expense growth rate that you alluded to in your response of 2.5% to 3%, that's a bit above where it looks like consensus is running right now, around 2% for next year. I guess where are you investing in areas that could put you in that 2.5% to 3% range versus anywhere lower? And maybe if you could talk about what that would mean for a longer-term efficiency ratio that you should be running at.

David Jackson Turner

Senior EVP & CFO

Yes. So we're going to give you more pointed guidance for 2025 later. So we're not trying to get ahead of ourselves. Generally speaking, inflation that's baked into our book is going to be closer to that 2.5%. Our largest category of expense are salaries and benefits, and so we have to adequately pay our people. And we are also investing in technology, cyber, consumer compliance. All those things take a lot of money to continue to invest in, to improve in all those areas. We have to find ways to pay for that. And that's what gets harder as we've -- the low-hanging fruit's not there. We've done a really good job of controlling our expense base. We have one of the lowest efficiency ratios in the peer group.

We were hoping to get to the lower 50s over time. We think we can do that. But we're going to have to leverage technology better over time than we do today, and I think that's going to be true for anybody in the industry. And so by doing that, you have less reliance on labor. And so you can let natural attrition take care of labor as you implement technology solutions. So we're spending, call it, 9% to 11% of our revenue on technology. We have some big technology projects in the works with a new deposit system, a new commercial loan system, new general ledger. Those take money. We got to figure out how to pay for that and keep our expense run rate as low as we can. So our goal is to try to continue to move our efficiency ratio down from where we are today to get to that lower 50s.

John G. Pancari

Evercore ISI Institutional Equities, Research Division

Got it. No, that's helpful. And since you mentioned the deposit system, is that still running on plan?

David Jackson Turner

Senior EVP & CFO

It's a big project, and it's moving according to how we have it laid out. But we've got a long way to go. So we're not there yet.

John M. Turner

President, CEO & Chairman

Yes. It's running on plan, John.

Operator

Our next question comes from the line of Betsy Graseck with Morgan Stanley.

Betsy Lynn Graseck

Morgan Stanley, Research Division

I just want to make sure I heard you right on the NIM, normalized NIM in normalized rate environment. So if I heard you correctly, it was normalized rate environment starts with the fed funds that's somewhat similar on inflation, right, like 2.5%, 3%. And you have a steep curve from there or a steep normal curve, noninverted. And in that environment, on a full year basis, you're saying that your normalized NIM should be somewhere in the 3.75% to 3.80% range. Is that right?

David Jackson Turner

Senior EVP & CFO

That's right. You got it.

Betsy Lynn Graseck

Morgan Stanley, Research Division

Okay. And then based on the forward curve, that would be again some time in '25 or '26.

David Jackson Turner

Senior EVP & CFO

Yes. That's right.

Betsy Lynn Graseck

Morgan Stanley, Research Division

Okay. And then obviously, that's higher than your NIM that you had this quarter. Could you just walk -- and I know you spent a lot of time on the NII and the NIM at the beginning part of the call. I just want to make sure I understand the key drivers that take you from where your NIM is today to that normalized.

David Jackson Turner

Senior EVP & CFO

Yes. Well, I think as rates continue to come down, our funding costs, our input costs will come down as well. And the power of our front book/back book will continue to benefit us for a couple of years. So with the curve steepening and a repricing of the balance sheet, that's what drives you up from where you are in the 3.50s to that 3.75% range that we just talked about. It's just about what period of time we think we have our beta down. I mean, down rate beta in the mid-30s, we think, is appropriate, perhaps conservative.

And so it's an important driver to get the input cost down and to continue to grow the balance sheet and to grow -- we have some high-yielding assets that have kind of higher losses, but they have nice returns, nice net interest margins. Continue to grow checking accounts of a consumer and operating accounts of a business are huge drivers to lowering the input cost on deposits. And so that's why it's so important for us to continue to make investments in the markets that John mentioned earlier for both of those reasons, in the consumer side and business side, to get those checking accounts and operating accounts.

Betsy Lynn Graseck

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Morgan Stanley, Research Division

Yes. So should I -- do I read it as you are liability sensitive or do I read it as you are neutral with these changes that drive the NIM higher or you're asset sensitive but decliningly so as rates fall?

David Jackson Turner
Senior EVP & CFO

We're neutral to the short rates. And so to the extent we start seeing rate cuts, then you're going to see our deposit costs continuing to come down. And we still have fixed-rate assets that will continue to help benefit NII and the margin, and what will happen is the curve will steepen. Obviously, you keep -- if you stay anchored on long end and the short rate comes down, and we'll benefit from that as well.

Operator

I would now like to turn the call back over to John Turner for closing comments.

John M. Turner
President, CEO & Chairman

Okay. Well, thank you all very much. We're, again, proud of our quarter, proud of the team who's executing our plans well. We appreciate your interest in our company. Have a great weekend.

Operator

This concludes today's teleconference. You may disconnect your lines at this time.

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