Seeking Alpha
Transcripts | **Financial**

Comerica, Inc. (CMA) CEO Curtis Farmer on Q3 2019 Results - Earnings Call Transcript

Oct. 16, 2019 12:10 PM ET | 1 Like
by: SA Transcripts

Q3: 10-16-19 Earnings Summary

Press Release *10-Q* *Slides*

EPS of $1.93 beats by $0.03 | Revenue of $842M (1.08% Y/Y) beats by $6.32M

Earning Call Audio

Subscribers Only

00:00 -52:24

Comerica, Inc. (NYSE:CMA) Q3 2019 Earnings Conference Call October 16, 2019 8:00 AM ET

Company Participants

Darlene Persons - Director, IR

Curtis Farmer - CEO, President & Director

James Herzog - Interim CFO, EVP & Treasurer

Peter Sefzik - EVP, Business Bank

Conference Call Participants

Kenneth Zerbe - Morgan Stanley

Brett Rabatin - Piper Jaffray Companies

John Pancari - Evercore ISI

Peter Winter - Wedbush Securities

Steven Alexopoulos - JPMorgan Chase & Co.

Erika Najarian - Bank of America Merrill Lynch

Jon Arfstrom - RBC Capital Markets

Gary Tenner - D.A. Davidson & Co.

Operator

Good morning, my name is Regina, and I will be your conference operator today. At this time, I would like to welcome everyone to the Comerica Third Quarter 2019 Earnings Conference Call. [Operator Instructions].

I would now like to turn the call over to Darlene Persons, Director of Investor Relations. Ma'am, you may begin.

Darlene Persons

Thank you, Regina. Good morning, and welcome to Comerica's Third Quarter 2019 Earnings Conference Call. Participating on this call will be our President and CEO, Curt Farmer; interim CFO, Jim Herzog; Chief Credit Officer, Pete Guilfoile; and Executive Director of our business bank, Peter Sefzik.

During this presentation, we will be referring to slides which provides additional detail. The presentation slides and our press release are available on the SEC's website as well as on the Investor Relations section of our website, comerica.com. This conference call contains forward-looking statements, and in that regard you should be mindful of the risks and uncertainties that can cause actual results to materially vary from expectations. Forward-looking statements speak only as of the date of this presentation, and we undertake no obligation to update any forward-looking statements. Please refer to the Safe Harbors statement in today's release and Slide 2, which I incorporate into this call as well as our SEC filings for factors that can cause actual results to differ.

Also, this conference call will reference non-GAAP measures, and in that regard, I direct you to the reconciliation of these measures within the presentation.

Now I'll turn the call over to Curt, who will begin on Slide 3.

Curtis Farmer

Good morning, everyone. Today, we reported third quarter earnings of $292 million or $1.96 per share. Our third quarter results demonstrated our ability to drive strong returns with an ROE of 16%, an ROA of 1.6% despite declines in interest rates. Relative to the second quarter, broad-based fee income growth, solid credit quality, the benefit of discrete tax items and continued active capital management were positive contributors to our performance. In addition, our careful cost control helped keep our efficiency ratio low at under 52%.

Historically, volumes in the third quarter are seasonally weak. This year, average loans were stable compared to the second quarter. Mortgage Banker benefited from robust refi activity along with the normal increase due to summer home sale activity. However, this was offset by the seasonal decline in National Dealer as our customers reduced inventory in anticipation of delivery of 2020 model as well as a difficult summer slowdown in middle market.

Overall, customer sentiment remains positive, and our pipeline is solid. We are also seeing advancement in a number of initiatives we have undertaken over the past year or so. This includes a new enterprise-wide customer relationship management tool, enhanced marketing analytics and greater efficiency resulting from our credit process redesign.

Average deposits grew over $700 million relative to the second quarter, including an $850 million increase in customer money market balance and CEs. We have a favorable deposit mix as nearly half are noninterest-bearing, and we believe we will continue to have the lowest component of noninterest-bearing deposits amongst our peers. As we have throughout the cycle, we are carefully managing deposit rates in order to attract and retain relationships. We are closely monitoring the competitive environment and expect to continue to modestly rely on competition in adjusting our rates. Our strategy is working.

The growth in relationship deposits allowed us to reduce fire wholesale funding that helped reduce our loan total funding cost to 78 basis points. Also, our loan-to-deposit ratio decreased to 91%.

As far as net interest income, over 80% of our loans are floating rate and primarily tied to 30-day LIBOR, which declined 37 basis points during the quarter. This impact, combined with the growth in interest-bearing deposits, resulted in net interest income of $586 million and a net interest margin of 3.52%.

We were able to add to $1 billion in swaps in September at relatively attractive rates. Our strategy is to build our hedging program over time, closely monitoring the market and taking advantage of market opportunities as they arise. Credit quality remains solid with net charge-offs at 33 basis points. Similar to the second quarter, charge-offs primarily consisted of valuation impairment on select energy credits as capital markets for this sector remain soft. Nonperforming assets declined and were only 44 basis points of total loans and the provision decreased to $35 million.

A broad-based increase of $6 million in fee income helped offset the more challenging rate environment. We had good growth in commercial lending, cards and fiduciary income. As expected, increases in salaries and benefits along with higher occupancy and technology costs resulted in $11 million increase in expenses. This is in line with the outlook we have provided for full-year expenses to remain flat, excluding 2018 restructuring cost. We reached our 10% CET1 target at the end of the third quarter. We returned $467 million in capital to shareholders through our dividends, which hereby provides over a 4% return and by repurchasing 5.7 million shares under our share buyback program.

Relative to the third quarter of last year, our results reflect our ability to generate solid loan growth of nearly 5%, drive fee income growth and maintained our expense discipline. Last year, very strong credit quality resulted in no provision, while this quarter, our provision was more in line with our historical norm. Through active capital management, we have reduced our share count by 13%. Altogether, earnings per share increased 5% year-over-year.

And now we'll turn the call over to Jim Herzog, who assumed the role of interim CFO last month. Our search process to identify a permanent CFO is underway. Jim has a wealth of knowledge with over 35 years' experience at Comerica and has been our Treasurer for the past 8 years. Jim?

James Herzog

Thanks, Curt, and good morning, everyone. Turning to Slide 4. As Curt indicated, average loans were stable in the third quarter with seasonal decreases in National Dealer and general Middle Market offset by an increase in Mortgage Banker, which also benefited from strong refi volumes. In addition, we had growth in Commercial Real Estate with the largest contribution coming from multifamily activity in California.

Total period end loans were also stable, essentially reflecting the same activity we saw in the average balances. On a year-over-year basis, we have grown loans $2.3 billion with increases in general Middle Market in all 3 of our markets as well as in many of our specialty areas such as Mortgage Banker, Energy, National Dealer Services, Commercial Real Estate and Environmental Services. Our loan yields were 4.83%, a decrease of 17 basis points for the second quarter. This was a result of lower interest rates, primarily 1-month LIBOR, partly offset by an increase in loan fees and a lease residual adjustment we took in the second quarter that was not repeated. Of note, our full interest recovery remains slightly elevated during the quarter, contributing $4 million.

Slide 5 provides details on deposits. Average balances increased over $700 million with growth across the majority of business lines and in all 3 of our markets. Noninterest-bearing deposits were stable, while customer interest-bearing balances increased over $800 million.

The growth in balances and mix shift to higher-yielding products drove a 5 basis point increase in our interest-bearing deposit costs. This is at the lower end of the guidance we'd previously provided. With the decline in interest rates, we've begun to take action to adjust the deposit rates, which I'll discuss further in a moment.

Now as you can see on Slide 6, our MBS portfolio is stable. The yield on the portfolio held steady. The full quarter benefit of higher-yield in securities reinvested throughout the second quarter was offset by $600 million we reinvested in the third quarter on yields that were mostly lower to portfolio average. Yields on recent purchases have been in the 240 range. The current rate environment has not had a significant impact on our duration or on unamortized premium, which remains relatively small.

Turning to Slide 7. Net interest income was $586 million and the net interest margin was 3.52%. Loans had a negative impact of $16 million or 13 basis points to the margin. The major factor was lower interest rates, which had a $26 million impact and 15 basis points on the margin. This was partially offset by 1 additional day in the quarter as well as other factors, which I previously outlined. Higher balances of the fed added $2 million but were offset by the lower yield, and combined, had a 2 basis point impact on the margin. Growth in interest-bearing deposits, particularly in higher-yielding products, increased cost by $6 million or 3 basis points of the margin.

Lower rates reduced wholesale funding costs by $5 million and added 3 basis points to the margin. In summary, the net impact for rates along with higher interest-bearing deposit balances was partially offset by 1 additional day in the quarter. Credit quality remains solid, as shown on Slide 8. Our net charge-offs were $42 million or 33 basis points, which is well within our historical norm of 20 to 40 basis points.

Excluding Energy, net charge-offs for the remainder of the portfolio were only 6 basis points. This included strong recoveries of $19 million. While total charge-offs were higher, we do not believe this is a trend. The increase in charge-offs was primarily due to the impairment of select energy loans. As we indicated last quarter, valuations of a few liquidating energy assets have been impacted by volatile oil and gas prices and weak capital markets. Nonaccrual loans remained low at $220 million or 43 basis points of our total loans. Criticized loans represent less than 4% of total loans as of quarter end. As far as energy, nonaccrual loans decreased $10 million while criticized loans increased $10 million. We increased our reserve for Energy, which remains at a very healthy level.

Our reserve ratio held steady at 1.27% and resulted in a provision of $35 million, a decline of $9 million from the second quarter. As far as our adoption of CECL in the first quarter of next year, we are running parallel tests and remain on track for a successful implementation. Given the relatively short duration of our commercially weighted portfolio and expectation of a fairly benign economic environment, we expect the change in reserves will be plus or minus 5%, and therefore, have little impact on our capital ratios.

Turning to Slide 9, noninterest income, which increased $6 million. Our continued focus on lowering card fees resulted in a $2 million increase. Commercial lending fees also increased $2 million primarily due to strong syndication income. Fiduciary income increased $1 million mainly due to tax preparation fees and higher asset values. We also had small increases in several other categories including letters of credit and foreign exchange. Derivative income declined $1 million due to the impact of lower rates on the credit valuation adjustment. Deferred comp asset returns which were offset in noninterest expenses were $3 million compared to 0 in the second quarter.

Expenses were well controlled and our efficiency ratio remained low at 52%, as shown on Slide 10. Salaries and benefits increased $8 million as a result of the increase in deferred comp that I previously mentioned as well as seasonally higher health care expense and 1 additional day in the quarter. Also, technology initiatives drove a $2 million increase in software expense. Occupancy expense increased $2 million mainly due to seasonality.

Turning to slide 11, in the third quarter, we repurchased 5.7 million shares under our share repurchase program, which is nearly 4% of our total shares. On a year-over-year basis, our share count is down 13%.

Together with dividends, we returned $467 million to shareholders in the third quarter. Our goal is to provide attractive returns to our shareholders by way of the buyback as well as a healthy dividend, which currently has a yield of over 4%.

Turning to slide 12 and the rate environment. We expect more rates in isolation to have a $35 million impact to fourth quarter net interest income. This includes the full quarter impact from lower rates in the third quarter as well as an anticipated December of fed rate high, which is consistent with our economist view. In swaps, we've added provided $1 million to $2 million benefit. Also, we're expecting interest-bearing deposit costs to decrease 3 to 5 basis points with minimal deposit mix shift.

While recent economic data has been mixed, the markets are expecting the fed to cut rates again. We've run our standard model with a 25 basis points reduction in rates and a few different deposit beta scenarios as deposit rates are a major variable and will depend on the competition and our need for funding. The estimated impact on net interest income under these scenarios ranges from $65 million to $95 million over a 12-month period. The ultimate outcome for our net interest income depends on a variety of factors, such as the pace at which LIBOR moves, balance sheet movements, and the competitive environment.

As Curt mentioned, we added $1 billion of interest rate swaps since September. Together with the $2.8 billion in swaps we put on in the first half of the year, the average remaining term of the swap book now sits at 3.3 years with an average received fixed rate of 204 basis points. We continue to closely monitor the market. As we previously shared, our strategy is to make steady progress involving our hedging program over time. Slide 13 provides our outlook for the fourth quarter. We expect average loans to remain stable on a quarter-over-quarter basis. Seasonality in the fourth quarter typically drives an increase in National Dealer Services and general Middle Market, and a decrease in Mortgage Banker. While sitting near 70% of our Mortgage Banker volume is tied to purchase activity, we expect to slow it down our refi volumes and further reducing mortgage banking loans. Otherwise, we anticipate growth in several businesses and a small decrease in Energy.

Given the strong loan performance so far this year, we anticipate reaching the upper end of our previous projection of 3% to 4% growth in full year average loans relative to 2018. We also expect deposit levels to be stable. We remain focused on attracting and retaining relationship deposits, and our strategies are working. As core relationship deposits grow, we plan to manage down brokered deposits.

As I discussed a moment ago, lower rates are expected to have about a $35 million net impact on net interest income. In addition, we believe the strong third quarter loan fees and nonaccrual interest recoveries are unlikely to repeat. As far as credit, we expect the provision to be between $25 million and $45 million, which includes some potential additional rate of migration in the Energy book. We believe we will continue to have a strong performance in the remainder of the portfolio.

Excluding deferred comp income of $3 million, which was offset in expenses, it is difficult to predict. Our noninterest income is expected to be relatively stable. We expect modest growth in a number of customer-driven categories, which will likely be more than offset by our reduction in syndication fees and fiduciary income from elevated third quarter levels. With the benefit of the strong third quarter fee income growth, we expect to exceed our previous outlook for noninterest income to grow 1% to 2% on a full year-over-year basis. Expenses are forecasted to increase modestly. We expect to see higher technology costs primarily related to investments in our retail bank, and higher outside processing expenses tied to revenue-generating activities. In addition, seasonal inflationary pressures impact certain expenses, such as occupancy, employee benefits and marketing. On a full-year basis, we expect to continue -- the year's expenses to remain stable, excluding the restructuring charges we incurred last year.

Finally, we are targeting our CET1 ratio to remain at about 10%. As we determine the pace of the share buybacks, we carefully consider our expected earnings generation, capital needs to fund future loan growth and market conditions.

Now I'll turn the call back to Curt to provide some closing remarks.

Curtis Farmer

Thank you, Jim. In our 170-year history, we have managed through many different economic, credit and interest rate cycles. The tone of recent conversations I've had and I have had with customers and colleagues across our markets is optimistic, and we continue to see slow, steady economic expansion. With this backdrop, we expect to see loan growth in line with or slightly better than GDP next year as well as modest core deposit growth and continued solid credit quality.

Yes, with much uncertainty on several fronts, the market is currently pricing in rate cuts. The impact from a profitable reduction in interest rates on our net interest income and pension expense, combined with the inflationary pressures and continued investment in technology, provides headwinds, but we believe they are manageable. In addition, our share repurchase program has allowed us to return excess capital and lower our share count, providing a meaningful benefit to our EPS.

With our efficiency ratio in the low 50s and an ROE of 15%, we are better positioned to weather changes in the economy or interest rate environment. We remain focused on controlling the things we can control and maintaining our strong performance. We plan to provide a more detailed outlook for 2020 on our next earnings call in January.

In closing, we believe our Q3 has provided a foundation to drive profitable growth and enhance long-term shareholder value. Specifically, our geographic footprint, which includes faster-growing diverse markets, combined with our relationship banking strategy, is expected to result in growth of loans, deposits and fee income over time. We continue to maintain our prudent expense discipline as we invest for the future. Also, our conservative, consistent approach to banking, including credit and capital management, has positioned us well.

Now we would be happy to take your questions.

Question-and-Answer Session

Operator

[Operator Instructions]. Our first question will come from the line of Ken Zerbe with Morgan Stanley.

Kenneth Zerbe

I guess my first question, just in terms of Slide 12, you provided a $35 million NII impact for a December rate cut. Now I just checked this morning, it looks like the future's curve is building in a 78% probability of an October rate cut. Can you just provide us the sensitivity? If we do get the October cut instead of December, what does that imply for your NII in fourth quarter?

James Herzog

Yes. Thanks, Ken, and good morning. We do feel it is highly probable we will get a rate cut before the end of the year. It is a little less certain that we will get one in October. And the path of LIBOR that would correlate that is also a little less certain. And so we'd likely to go with our economist forecast of a December rate cut. And I would point you to Slide 12 in terms of some of the sensitivities and in total, an October should be somewhat proportional to that. But at this point, we're not providing specific guidance on the October cut just due to the uncertain path of LIBOR.

Kenneth Zerbe

Got you. Okay. I understand. I guess I was just thinking because the future's curve -- like the probability of a rate cut is actually very high. It might make sense to do that, but I appreciate your answer. I guess maybe a different question just in the same slide. The interest-bearing deposit cost going down 3 to 5 basis points, can you just comment like what are you seeing in terms of deposit cost competition? I know you're going to lag peers, but is our peers -- from so far what you see in the fourth quarter, are they only down in the high single digits? Or like how far are you lagging? I'm just curious on overall deposit competition.

Curtis Farmer

Kenneth, this is Curt. I will take that question. We talked about before that on the way up, we lagged in increasing our deposit costs. And as we have said, we believe we will lag a little bit on the downside. We do believe that we probably have reached some inflection point, and that -- hence why we gave the guidance that we believe deposit costs will come slightly down some in the fourth quarter. It still remains a fairly competitive environment. We have seen some reduction in CD pricing, and we've taken actions on reductions in the CD pricing as well. And we're probably starting to see a little bit of reduction in standard pricing with where -- and we're continuing to evaluate.

Kenneth Zerbe

Okay. Great. And if I could squeeze in one last one. Just in terms of the Energy portfolio, obviously, higher charge-offs this quarter. Can you just talk about where the stress points are? I mean it sounds like your provision guidance does include the probability of additional sizable Energy charge-offs next quarter. Can you just talk about what are the stress points? What are you seeing? Is there reason to be concerned, more broadly by Energy?

James Herzog

Sure. So our provision forecast assumes that energy charge-offs remain a little bit outdated for the next quarters or 2 and that we would see some migration in the Energy portfolio. But at this point, we're not expecting any widespread migration in the Energy portfolio. There is some impact, obviously, from the weak capital markets, the credits that are in our workout area. We expect some of that to result in additional migration in other weaker credits in the portfolio. But overall, we are not expecting this to be a very significant change in credit quality.

Operator

Your next question comes from the line of Brett Rabatin with Piper Jaffray.

Brett Rabatin

I wanted to just go back to Energy for a second and just talk about the additional weakness that you're anticipating? Is that a function of redetermination season? Did the SNC review have any impact on the portfolio? And then I know some lenders are changing their reserve based lending tests, does that have a factor in what you're seeing in terms of 4Q as well?

James Herzog

Yes. Well, first of all, the SNC exam really did not have any impact there. What we're seeing is there are certain credits that are, from a liquidation standpoint, very weak part before. We -- because of that weak market, the synergy assets are showing at very tough, big discounts. We felt the need to take some additional charges to bring the book value of those assets in line with what we expect those -- the asset sales to actually realize in -- probably in early 2020. And so just like last quarter, we took some additional charges there. Again, we're not expecting to see a lot of migration here, most of our E&P portfolio are very strong credits. We have very strong balance sheets, lower average, good liquidity. And generally speaking, those credits are less reliant on the capital markets. So it's really the credits that are more dependent upon the capital markets that we're seeing migration in.

Brett Rabatin

Okay. Appreciate the color there. And then the other thing I just wanted to ask about was expenses. You're -- looking at this year versus 2020, I know you haven't given guidance for 2020, but given the rate pressures on the margin, it would seem like your expense focus would be the same or heightened possibly in 2020. Can you give us any high-level thoughts on how you're going to react to margin pressure? And does that mean expenses in 2020, if we're just thinking about operationally, you kind of keep things pretty tight and try and manage expenses flattish again? Or can you give us any additional color on an outlook there?

Curtis Farmer

Brett, you're correct in the fact that we'll not be giving a more formal guidance on expenses until we get to the end of the year and the fourth quarter earnings call in January. Thought what I did say in my prepared remarks is that there are a few headwinds that we're aware of in 2020 that primarily would be interest rate related. And so just from a pension accounting standpoint, we'll have some pressure on the pension expense side of things. And then you have sort of the normal inflationary items, mirrored occupancy, et cetera. But as I've said on prior calls, we remain very focused on the expense side of the house, and we will continue to employ the strong expense discipline that we demonstrated in the last several years. So that remains a high priority for us. And the GEAR Up the work that we did, I think, proved our focus on expenses, and I think has positioned us well even in a declining rate environment and even with maybe some normal expense pressures that we can manage well even in an environment that we might experience in 2020.

Operator

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

John Pancari

On the loan growth outlook, I know, Curt, you had indicated for 2020, the loan growth could be in line or somewhat better than GDP. So if we're -- GDP is in that 2% range, does that imply that you could -- that you're expecting some potential moderation in loan growth when you look at 2020 versus the 4% level that you're looking at for 2019?

Curtis Farmer

I'm going to turn, just at the moment, to Peter Sefzik to give some more specific core commentary, but what I would say is that we saw very strong growth in the first half of the year and in the third quarter. We alluded to the fact that Mortgage Banker Finance volume coupled with refi activity there helped towards free, stable growth in the third quarter. But at some point, we were sort of anticipating if there is going to be recession or a slowdown that, that might start translating some into loan growth overall and sort of hint the slightly more moderate forecast we're giving for 2020. We'll revise that again at the end of the year when we give a more formal outlook for 2020 where we're going to give you little sense of where we think things are headed right now. Peter, I'll let you go ahead and add to that.

Peter Sefzik

I think I would just add, you referenced GEAR Up. And I think that some of the work that we've done over the last two years on the efficiencies for our business has helped us with the loan growth you've seen over the last several quarters here. And we're encouraged that, that would continue. We feel like the pipeline is still solid across most of our lines of business, and are -- feel real good about how things are for the fourth quarter, and I think along the lines of what Curt said for 2020, we're encouraged we'll be able to continue that growth. So...

John Pancari

Okay. All right. And then separately on the expense side, I appreciate the color you gave in terms of your efforts to remain disciplined on that front in light of the revenue backdrop, can you help us in terms of how to think about either operating leverage for when you look at 2020 versus generally where you're coming in for '19, or more specifically, the efficiency ratio, how we could think about that trend through 2020 versus what you saw for '19?

Curtis Farmer

Yes. What I would say is that we haven't given any guidance around efficiency ratio or operating leverage for 2020 yet. What we did say at our last conference is that we still believe that overall, given the work that we've done that we can perform well on the relative basis to our peers both in efficiency ratio, ROE, ROA, et cetera, given the positioning we did relative to GEAR Up. But certainly, continued rate decline would have an impact on efficiency ratio and on overall returns for the company. But we do believe that we can perform well on a relative basis.

John Pancari

Okay. And then lastly, do you have the Energy loan loss reserve, where it stands?

James Herzog

Yes. We didn't disclose anything on the Energy or allocation to Energy. I can say though that we have amongst the strongest reserves in the industry and when you consider, John, that we don't really have any issues in the portfolio ex Energy. I would say that all those reserves are available to address whatever issues we have in Energy. But I could tell you that we do have a healthy amount of those reserves allocated to Energy at this time. And we probably would've seen a much larger reserve at least this quarter except to the fact we did allocate a fair amount of reserves to Energy this quarter.

Operator

Your next question comes from the line of Peter Winter with Wedbush Securities.

Peter Winter

Curt, I was looking at Slide 12, just going back to that. With the addition of $1 billion in swaps, when I look at the impact estimated net interest income, it's a little bit worse than the second quarter. So I was just wondering, can you just talk about the impact from the swaps and a little bit more details about the plans to reduce asset sensitivity?

Curtis Farmer

I might talk a little bit first about the plans to reduce asset sensitivity, and then I'm going to turn to Jim to talk more specifically about the impact of the swaps that we added in the quarter. What we have said, really on all the calls this year, is that we are working towards getting to a larger swap or hedged position over time and that we're going to take a programmatic and measured approach to get there. There is a real impact to current earnings for adding swaps at the levels or adding hedges at these levels. And so we have to be careful how we do that and try to recognize the trade-off between forecast on either rate declines or potential rate increases in future years. But our objective is to get to a larger portfolio. And so we have a couple of days there where trading was favorable, and we were able to move in a larger fraction and add $1 billion worth of swaps. But we will not necessarily add that level every quarter and will be sort of measured as we go along. But over time, we only get programmatically back to a larger position and nothing has changed there.

And Jim I'll turn to you around the quarter specifically.

James Herzog

Yes. We did add the $1 billion from swaps. That will take for a 25 bp shock. About $2 million off of that is sensitivities. As you know, we did have an increase over the second quarter reported sensitivities, and that was largely driven by the fact that we had an increase, a significant increase, in deposits for customer deposits, which does add to our asset sensitivity. So the net of those did result in a $5 million increase to that 10% deposit beta scenario that you see there.

Peter Winter

Got it. And then just separately, this quarter, you hit your target on the CET1 ratio, and I'm just wondering, any updated thoughts on maybe issuing preferred stock? And then using those proceeds to buy back stock?

Curtis Farmer

The preferred continues to be an option that we would consider, and it's certainly something that is not only our decision but is a discussion we would have with the Board. But this time, we are not issuing any preferred stock, and we continue to stay focused on the capital stack that we have. We had said all along that we were going to manage down to sort of the guidance we have given is to manage down to a 10% level. We came in slightly below that. It's hard to kind of get to the exact number at quarter end given a number of moving variables, and we'll continue to evaluate for the right capital level going forward. And we'll share targets on the fourth quarter earnings call. As we said previously, there are a number of constituents that we've taken into consideration, obviously, our shareholders, and we want to return capital in a meaningful way to our shareholders, rating agencies, regulators et cetera. But also, just making sure that we have that appropriate capital for growth in the company especially on the lending side, and we continue to be bullish on loan growth opportunities.

Operator

Your next question comes from the line of Steven Alexopoulos with JPMorgan.

Steven Alexopoulos

Kind of wanted to start so as NIM continues to drip lower, ROE and revenue are both under sustained pressure here and even once the fed rates stabilizes, it could be years before rates will be higher again, and you start to get paid on your deposit base. From a big picture view, how do you think about driving shareholder value in this prolonged environment of low rates?

Curtis Farmer

Steve, I'm not positive that we're going to have a prolonged low rate environment, and so I think we could debate sort of the forward look there. I do remain very positive on the U.S. economy overall on what we're hearing both from consumers and businesses, even though there is some caution out there. And so my sort of perspective on this may differ a little bit from yours from a longer-term perspective. But having said that, what we have said previously and I have reinforced is that we do not anticipate any change to our strategy. We've been, as I said in my comments, around for 170 years, and we've managed through a lot of different fight holes over time, both on the credit, interest rate, and economic perspective. We did some really good work with GEAR Up that I think has positioned us well and has allowed us to perform well on a relative basis to our peers. And I believe that we can continue to perform well on a relative basis to our peers. So we're focused on the things that we can control, and part of that would be continued focus on organic growth that we're in some great markets and some great lines of business.

We've been very focused on new customer acquisitions and continue to be so. To driving long growth -- deposit growth in fee income is sort of job one. And then secondly, as just -- as I said earlier, we will continue to work to manage expenses appropriately, keep our expense discipline in place. Pete talked earlier about our credit position, and we believe that we continue to have a very conservative approach to credit. And that has served us well through lots of cycles. And if we do hit a period of recession, we believe we can perform well on a relative basis and maintain strong credit discipline and credit performance. And then I think we've done a very good job in managing our capital that remains a top priority in both using a capital to fund growth, but also to return appropriately to our shareholders. But in the same we talked about earlier we continue to make progress on the hedging front, which I think which will help over time. And as you alluded to, at some point, we do believe that we're kind of on the verge of that. We'd be able to manage down our deposit costs and reach an inflection point there. So those are things that we can control, the things that we're focused on as a company.

Steven Alexopoulos

That's helpful. In terms of the CFO search now underway, it's still not clear to many of us, me included, why Muneera left the company. Is there any color you could share on this?

Curtis Farmer

Yes. I think as we shared in the filings that we did, obviously, Muneera is no longer with us. She did make up a very a lot of valuable contributions to our company, both in the CFO role. And I think you know prior to CFO, she was our Chief Accounting Officer for a number of years. I am in the process, as you would expect, as a new CEO, establishing my leadership team. We're very fortunate to have Jim Herzog, who has a lot of experience with our company in the interim CFO role, and we have launched a national search for a new CFO. And the last thing I would say on Muneera just to reemphasize what we said in our of filing that there's nothing related to Muneera's departure that was any issue, I mean no concern or disagreement with our company, nothing that you put in the financial, operational, policy violation, nothing of that nature whatsoever. And so we wish her well and remain very appreciative of her service to the bank.

Operator

Your next question comes from the line of Erika Najarian with Bank of America.

Erika Najarian

Was your CET1 now at your floor. And you noted that you want to work with your current capital stack at this time, how should we think about buyback power from here relative to what you've repurchased in the past?

Curtis Farmer

Jim?

James Herzog

Yes. We are pleased with -- that we did hit the 10% target at the end of the third quarter. And from this point forward, our share back is really going to be driven purely by function of supporting the dividend, the capital needs its support loan growth and our earnings capabilities, and if you put all those in the model, I think, you can back into what our share repurchase are going to be. We are kind of in a steady state right now in CET1, so it does make our share repurchase activity a little more predictable. But it's going to be a function of those 3 factors that I just mentioned going forward.

Erika Najarian

Got it. And as a follow-up to that, is there a way that you could give us guard rails in terms of if rates go down, what the impact is to the pension expenses? And is that the long end of the curve that we have to be more sensitive to?

James Herzog

Yes. It is the long end of the curve, and we do peg it to double-weighted rated bonds. There's a little bit of credit spread in there. And of course, at the end of the year we remeasure. So even though interest rates are the biggest factor, there are other factors that go into it, such as various actuarial assumptions, assumptions on asset returns, how the equity markets formed during the last year, but interest rates are by far and away the biggest determinant. And I think, if you look at our published financials from January and the quay, we state that there's about a $7 million impact for every 25 basis points of yield movement or discount rate movement. And if you look at the 10-year, that's a pretty good proxy. The duration of our liabilities are a little bit longer than 10 years and there's a little credit spread in there but the 10 years is a pretty good proxy for that. And you'll know we are down almost 100 bps since the last remeasurement date, last December 31. So we'll remeasure again at the end of this year, and we'll put all those factors under consideration, and we'll have our new pension expense come January 1. But until then, there's still a lot of movement that can occur with all those different variables.

Erika Najarian

I see. And just if I could flip one last one in here. Curt, I thought Steve asked the question that all your shareholders have been asking us and I'm sure you too in terms of what you're doing to offset the cyclicality. And I'm wondering if I took away the right thing. So loan growth in your vibrant market, continued efficiency gains, if you will, that have been the result of GEAR Up. And I'm wondering if that's all of what you've mentioned is enough to keep earnings stable because, obviously, part of the underperformance is that the expectation for earnings in 2020 is that earnings are going to be down mostly due to cyclicality and nothing to do with how you're running your business. And I'm wondering if there's -- the response is, is there enough in the till to offset that cyclicality in 2020?

Curtis Farmer

Okay. We'll give more formal guidance at the January fourth quarter earnings call, but I'll dare back and just reemphasize the things that we mentioned previously. This not the first time that we have managed through an interest rate cycle or even an economic slowdown. We do have to take into consideration lots of factors, including the value of our franchise, the markets that we operate in, our long-term growth perspective, balancing quarter expense reductions, coupled with investing in the franchise longer term and sort of the technology evolution that's occurring across the industry. And we also take into consideration with this long credit management and so all of the things will be things that we continue to weigh a factor in, but you know that as an institution that we are asset sensitive, and sort of late downward rate environment puts more pressure on us from a topline revenue perspective and then it's our goal to manage around the expense side, the credit side, other factors that we can control, and certainly, we remain very focused on the topline revenue growth.

Operator

Your next question comes from the line of Jon Arfstrom with RBC Capital Markets.

Jon Arfstrom

Question for you, I guess, maybe it's for Pete as well, but just to talk about the general Middle Market outlook. You talked a little bit about a slowdown in the prepared comments, and I guess overall view is has it changed at all since what you saw in the summer? Or do you feel like that's getting better? Do you still feel like it's pretty cautious environment?

Curtis Farmer

I'm actually going to let Peter answer that all of your -- Peter, if you don't mind.

Peter Sefzik

Yes. I think that it still feels pretty good. And Since it's been out there, it may be still positive, but maybe not as positive as it was 90 days ago. But our pipeline still looks really good. Our year-over-year growth for middle market is solid, and we did see in the third quarter like we typically see some seasonality, but maybe not as much as we have historically, and we're encouraged with what we see going forward. But there are a lot of macro things going on in the world that customers ask questions about. When you talk to the general Middle Market company, they're busy, and we continue to see opportunity.

Jon Arfstrom

Okay. And then, Curt, you used the phrase optimistic conversations, maybe help us understand that a little bit as well?

Curtis Farmer

Yes. I think it's really a mirror of what Peter just said that, in general, when I'm out in the market, or any of us are out in the markets with our customers, they're, as Peter said, busy. And I think business, in general, are well in many of the markets and business lines that we serve. A lot of borrowing is still to meet current working capital. We haven't seen a lot of CapEx spending, but we haven't seen a lot of CapEx spending for the last several years, so nothing really has changed there. There is more probably conversations that are occurring about sort of where things are going from a macro perspective, whether it's trade-related peer perception or just global political issues. But in terms of sort of day-to-day operating, I mentioned our customers are very busy. In fact some of them are having challenges for example right now around labor and just having enough staff to meet current demands, and not a lot has changed there but maybe a little bit more foreshadowing of the concerns about the future which part of why reflected that in my comments about 2020 growth.

Jon Arfstrom

Okay. That's helpful and then just one quick one. When you were talking about expenses, you talked, you flagged investments on the retail bank, and could you maybe talk about the magnitude of the expenses there? And some of the key areas where you're spending?

Curtis Farmer

As we have said previously, a lot of our GEAR Up initiative allowed us on the technology front to reorient and reallocate where we were spending money. And it's been less on sort of core platforms as we chat and send some of our aging technology to more all and into a new customer and colleague enablement. And we have a very strong retail banking franchise today, and we've had certainly a lot of strong digital capabilities in terms of mobile banking. We were one of the early banks to adopt the Zelle platform that is going very well. But there are some things that we're doing on the retail front that just continue to make sure that we are relevant to our customers and that we can be focused on new make sure that we are relevant to our customers and that we can be focused on new

customer acquisition. On the digital side, you'll see us roll out a new onboarding platform that will be easier for clients to sign up for capabilities of Comerica across a lot of different fronts and, so to speak, to revenue and customer onboarding, so to speak. So that's forthcoming.

We've done a lot of work around our call center and some new technology there that supports primarily our retail bank, but not exclusively. And then just within the retail center as well to continue to adopt new digital capabilities. For example, we are rolling out a tablet capability for all the bankers and the regional banks to make them more mobile and interfacing with their clients and sort of just easier interface within the banking center itself. All of these are the things that we had on the road map, and we are working hard to manage within sort of our overall current run rate on technology but some of those do create a little bit of pressure for us, but they're the right thing for us to do on a longer term to make sure we remain relevant and competitive for our customers.

Operator

Your next question comes from the line of Gary Tenner with D.A. Davidson.

Gary Tenner

Just had kind of question on your CECL disclosures on the Slide 15. I'm curious on the commercial side where you're forecasting flat down 5% on the reserve. How much volatility is there in that number from the Energy portfolio? Particularly if you were to think about the commercial portfolio ex Energy, where do you think that kind of CECL adjustment would shake out?

James Herzog

Yes. So a couple of things. First of all, from the season is very dependent upon credit quality and make up all of the portfolio as well as economic forecast. Energy is just 1 segment of that, and it's a relatively small segment of the entire loan portfolio. So it would be a factor, but overwhelmingly, it would be the remainder of the portfolio, the almost $50 billion of other loans that we have that would drive more both from an economic forecast and from a credit quality, but Energy would have some impact, obviously.

Operator

And I will now turn the call back over to Curt Farmer, President and Chief Executive Officer, for closing remarks.

Curtis Farmer

We appreciate everyone's interest in Comerica. Thank you for joining our call today. Have a great day. Thank you.

Operator

Ladies and gentlemen, this will conclude today's call. Think you all for joining. You may now disconnect.