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EDITED TRANSCRIPT

WFC - Q4 2012 Wells Fargo Earnings Conference Call

EVENT DATE/TIME: JANUARY 11, 2013 / 3:00PM GMT

OVERVIEW:

Co. reported 2012 earnings of $18.9b. 4Q12 total revenue was $21.9b, earnings were $5.1b and EPS was $0.91.

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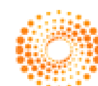

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PRESENTATION

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 Wells Fargo fourth-quarter earnings conference call.

All lines have been placed on mute to prevent any background noise. After the speakers' remarks there will be a question-and-answer session. (Operator Instructions)

I would now like to turn the call over to Jim Rowe, Director of Investor Relations. Mr. Rowe, you may begin your conference.

Jim Rowe - *Wells Fargo & Company - Director, IR*

Thank you, Regina, and good morning, everyone. Thank you for joining our call today during which our Chairman and CEO, John Stumpf, and our CFO, Tim Sloan, will review fourth-quarter and full-year results and answer your questions.

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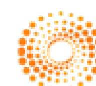

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Before we get started, I would like to remind you that our fourth-quarter earnings release and quarterly supplement are available on our website at wellsfargo.com. I would also like to caution you that we may make forward-looking statements during today's call that are subject to risks and uncertainties. Factors that may cause actual results to differ materially from expectations are detailed in our SEC filings, including the Form 8-K filed today containing our earnings release and quarterly supplement.

Information about any non-GAAP financial measures referenced, including a reconciliation of those measures to GAAP measures, can also be found in our SEC filings, in the earnings release, and in the quarterly supplement available on our website. I will now turn the call over to our Chairman and CEO, John Stumpf.

John Stumpf - *Wells Fargo & Company - Chairman, President & CEO*

Thank you, Jim. Happy New Year, everyone, and thanks for joining us today. We're excited to share our strong results for the quarter and for the year.

We just completed our 12th consecutive quarter of EPS growth with record quarterly earnings in the fourth quarter of $5.1 billion, up 24% from a year ago. These strong quarterly results are just part of an outstanding year of achievement for Wells Fargo. Let me start by highlighting all that was accomplished during 2012.

We earned a record $18.9 billion in 2012, up 19% from 2011, and we also grew earnings per share by 19%. We generated 6% revenue growth and pretax, pre-provision profit increased by 13%. We improved our efficiency ratio by 250 basis points to 58.5% for the year.

We grew total loans by $30 billion, up 4%, while reducing our liquidating portfolio by approximately $18 billion. Our liquidating portfolio is now half the size it was four years ago at the time of the Wachovia merger.

We now have over $1 trillion of deposits, up 9% from a year ago. Credit quality continued to improve with charge-offs down $2.3 billion. We achieved record Retail Banking cross-sell of over six products per household.

We grew return on assets by 16 basis points and increased return on equity by 102 basis points. We increased capital levels, growing our estimated Tier 1 common equity under Basel III to 8.18%. We increased our dividend by 83% and repurchased approximately 120 million shares of common stock.

In addition to these financial metrics, we also continued to grow organically and through acquisition, purchasing loan portfolios and several businesses which not only brought new customers to Wells Fargo, but allow us to better meet the financial needs of all of our customers. The housing market began a steady rebound during 2012. While many measures of activity and prices remained low by historical standards and a complete recovery will still take some time, there is no doubt that a corner was turned, which is a real positive for our economy and for Wells Fargo. We originated $524 billion in residential mortgages in 2012, helping over 2 million homeowners refinance or purchase a new home.

Our industry, our regulators, and our elected officials made progress this past year in helping to restore some stability to the housing market. Early in the year, we finalized an agreement with the AGs and federal agencies regarding mortgage servicing, foreclosure, and origination issues. We also reached a settlement with the Department of Justice regarding origination practices, and as we just announced, we reached a settlement associated with Independent Foreclosure Reviews which will end the large quarterly expenses associated with the consent order.

And regarding the draft of the qualified mortgage definition that was just published yesterday, we are still reviewing the details, but so far, it looks like the CFPB issued a rule that should benefit consumers across America by providing strong protection while also ensuring that credit is available. By putting these issues behind us, we can focus more of our resources on serving our customers and creating long-term franchise value.

We generated strong results in 2012, even with regulatory changes and an uncertain economic and political environment. As we start the new year, we believe we will benefit from some signs of growth that we are seeing in the economy. Jobs are being created and home prices are increasing.

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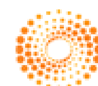

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However, there is still a lot of work that needs to be done. The last-minute agreement that averted the fiscal cliff was a good step, but it did not fix our country's long-term problems. We need to work on both sides of the equation -- spending reductions and revenue increases.

We need to increase clarity, certainty, and confidence, and we can do this if the private and public sectors work together with a unified focus on strengthening our nation's financial and economic future. Uncertainty is the enemy of business and we simply cannot afford that today.

We know our customers, especially in the small and middle market segments, need certainty and clarity. They have cash and the desire to grow. They need confidence so they can feel encouraged to invest and hire again.

With all that we accomplished last year, I believe Wells Fargo has never been better positioned and I am very optimistic about the year ahead. Wells Fargo is over 160 years old and we continue to manage our company for the long term. The vision that has guided us for decades, meeting our customers' financial needs, will continue to drive our growth in the year ahead.

Thank you again for joining us today. Now, Tim Sloan, our Chief Financial Officer, will provide more details on our financial results. Tim?

Tim Sloan - *Wells Fargo & Company - Senior EVP & CFO*

Thanks, John, and good morning, everyone. My remarks will follow the presentation including the first half of the quarterly supplement starting on page two, and then John and I will take your questions.

As John mentioned, Wells Fargo had a very strong quarter with record earnings of $5.1 billion, up 24% from a year ago. Earnings per share were a record $0.91, up 25% from the fourth quarter of last year. We have now achieved 12 consecutive quarters of earnings per share growth and the seventh consecutive quarters of record EPS.

Total revenue of $21.9 billion was up 7% from a year ago. We grew revenue on a year-over-year basis every quarter in 2012. We also generated positive operating leverage.

Pretax, pre-provision profit increased 12% from a year ago and we continued to have strong credit performance. We generated strong deposit and loan growth. Our ROA was 1.46%, up 21 basis points from a year ago, and our ROE was 13.35%, up 138 basis points from a year ago.

Our capital levels remain strong with our estimated Tier 1 common equity ratio under Basel III growing to 8.18%.

As you can see on page three, our fourth-quarter results built on the strong performance we achieved throughout the year. As John highlighted, and as the charts on this slide demonstrate, we had an outstanding year of growth across a variety of measures. Revenues grew by 6%, net income grew by 19%, we had solid growth in loans, and strong deposit growth. Our ROA was 1.41% for the year and ROE was 12.95%.

We are in a much better position today than we were a year ago and we look forward to taking advantage of all of the opportunities ahead of us.

Our continued strong quarterly and annual performance reflected the benefit of our customer-focused business model and our diversified sources of growth. The combination of our scale and our level of diversification is a significant advantage for our company.

Before I review the drivers of our results this quarter, let me spend some time discussing some noteworthy items that impacted our results as highlighted on slide five. Taken together, these items had little impact on our bottom line, but they did cause some unevenness in some of our line items.

Our gains on Equity Investments this quarter totaled $715 million. Our private equity business has been a core part of Wells Fargo for a long time, and by its very nature, results in this business can vary. The results in the fourth quarter were $393 million higher than the previous seven-quarter average, reflecting strength in our private equity business including the gain on the sale of Becker Underwood. The $393 million of above average equity gains equates to $0.05 of EPS.

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Our total operating losses this quarter reflected $644 million of incremental accrual to fully reserve for or costs associated with the Independent Foreclosure Review Settlement that was announced earlier this week and additional remediation-related costs. This accrual reduced EPS by $0.09.

We contributed $250 million to the Wells Fargo Foundation, reducing EPS by $0.03, continuing our commitment of giving back to the communities that we serve. Finally, our incoming tax expense in the quarter included a $332 million benefit associated with the realization for tax purposes of a previously written down Wachovia life insurance investment which reduced our fourth-quarter effective tax rate to 27.4%. This benefited EPS by $0.06 a share.

Let me briefly highlight the impact of the Independent Foreclosure Review Settlement. Our portion of the cash settlement was $766 million, and as I just mentioned, our operating losses this quarter reflected $644 million to fully reserve for this settlement and additional remediation-related costs. We also committed to an additional $1.2 billion for foreclosure prevention actions, which will not result in any additional charges since it is covered through our existing allowance and PCI non-accretable difference.

We are pleased to have the high cost of complying with the consent order behind us, which, when taking into account both the internal and external costs, resulted in approximately $125 million in quarterly expenses in 2012.

Let me comment on some of our key drivers this quarter which I will discuss in more detail later in my remarks. Our balance sheet growth accelerated in the fourth quarter with solid growth in loans and continued strong deposit growth. Our short-term investments in fed funds sold balances increased by $36.9 billion and we grew our AFS portfolio by $5.8 billion, including agency MBS purchases that occurred late in the quarter as rates rose and yields became more attractive. Our credit quality also continued to improve in the fourth quarter as it did throughout 2012.

Turning to the income statement on page eight, we generated robust revenue in the fourth quarter reflecting strong non-interest income growth across our businesses and stable net interest income. The increase in non-interest expense was entirely driven by the higher operating losses and the foundation contribution that I highlighted earlier.

Let me now cover our business drivers in more detail.

As shown on page nine, period-end loans were up $30 billion from the fourth quarter of 2011 and up $17 billion from the third quarter of this year. This is the largest linked-quarter increase over the past four years.

Commercial loans grew $8.7 billion in the quarter. This growth reflected strong activity in a number of businesses -- middle-market lending, Commercial Real Estate, Asset Backed Finance, and Corporate Banking. Consumer loans increased by $8.3 billion with growth in first mortgage, auto, credit card, and private student lending. This growth benefited from the retention of $9.7 billion of new conforming fixed rate production similar to last quarter.

With the recent increase in rates providing better investment opportunities, we currently do not plan to retain any -- retain additional first-quarter production. We do expect to hold an additional $2 billion to $3 billion of our fourth-quarter originations that we will fund this month. This demonstrates the flexibility of our diversified model.

Our liquidating portfolio continued to shrink, declining $17.8 billion from a year ago and down $4.1 billion in the fourth quarter. We continue to have strong deposit growth in the fourth quarter with average deposits up $64 billion from a year ago and up $29.6 billion from the third quarter with growth across our franchise.

We also continued to lower our deposit costs with average deposit costs down 16 basis points in the fourth quarter, down 2 basis points from the third quarter, and down 6 basis points from a year ago. Our ability to continue to grow deposits while reducing costs has been a real strength of our franchise.

While this strong deposit growth continued to put pressure on our margin, it is important to note that given most of this growth was in non-interest-bearing deposits, this deposit growth has been essentially neutral to our net interest income. The increased deposits provide us with

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many opportunities to meet other financial needs of our deposit customers, and if the loan demand we had in the fourth quarter continues, we can better redeploy our strong deposit growth to fund loan growth.

As shown on page 11, tax equivalent net interest income was essentially flat from the third quarter with 3% growth in average earning assets. The 10 basis point linked-quarter decline in the net interest margin was driven by three primary factors.

First, our strong deposit growth caused cash and short-term investments to increase reducing the margin by 8 basis points. Second, 5 basis points of the margin pressure was driven by the ongoing repricing of the balance sheet in the current low rate environment and the fact that we were cautious in our reinvestment activity. However, as rates rose late in the fourth quarter, we did repurchase approximately $5 billion of agency mortgage-backed securities, and as rates rose again last week, we purchased another $5 billion of agency MBS.

These declines were partially offset by the benefit of 3 basis points of higher variable income.

As you have heard me say frequently, our focus is on growing net interest income over time. The chart at the bottom of this page shows that even though the net interest margin declined 18 basis points in 2012 compared with 2011, we were able to grow net interest income by $472 million. Growing our net interest income remains our focus and we believe we can continue to generate growth even in this low rate environment.

Non-interest income increased 16% from a year ago and was up $754 million, or 7%, from the third quarter. This growth was broad based and included strong equity gains, as I highlighted earlier, but also reflected strong business momentum across the Company with deposit service charges up 3% due to product pricing changes. Trust and investment fees were up 8% primarily due to stronger Investment Banking and Retail Brokerage asset-based fees, and other fees were up 9% on higher Investment Banking advisory activity.

Mortgage banking revenue increased $261 million, or 9%, from the third quarter with higher servicing and origination fees. Net servicing income was up $53 million, reflecting higher net MSR head results which were partially offset by higher unreimbursed foreclosure costs.

Mortgage gain on sale revenue was up $208 million from the third quarter, despite approximately $340 million in foregone revenue from [retaining] (company corrected following the conference call) $9.7 billion of conforming mortgage loans which I had mentioned earlier. The revenue impact was higher this quarter than last quarter as margins widened overall and more of our retained production came from the retail channel which is a wider margin business.

Third-quarter results included a $379 million provision for mortgage repurchase losses, which was $83 million lower than the third quarter. Mortgage originations were $125 billion in the fourth quarter, down $14 billion from the third quarter, reflecting normal seasonality and the elimination of our wholesale channel which originated $8 billion of loans in the third quarter.

12% of our origination volume this quarter was from HARP. The unclosed mortgage pipeline at quarter end was $81 billion, up 13% from a year ago, and we would expect to benefit from seasonally stronger applications in the first quarter.

Turning to expenses on page 13. Fourth-quarter expenses increased $784 million from the third quarter due to the higher operating losses from the Independent Foreclosure Review Settlement and the $250 million foundation contribution that I had mentioned earlier on the call.

Even with these items, our expense efficiency ratio of 58.8% was within our targeted range of 55% to 59%. And if you adjust for our noteworthy revenue and expense items this quarter, our ratio was actually at the lower end of this range. However, we believe expenses will remain elevated in the first quarter due to seasonally higher personnel expenses as we have every year.

Our efficiency ratio in the fourth quarter was 190 basis points lower than a year ago. While we have made progress in improving our efficiency, we believe our expenses are still too high and we will continue to focus on opportunities to reduce expenses that do not impact our ability to grow revenue.

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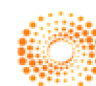

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For example, since 2008 we have reduced the size of our overall real estate occupancy portfolio by over 16 million square feet net of growth. Over 4.5 million square feet of this reduction occurred in 2012. We continue to see opportunities to reposition our real estate holdings in the next few years and we are experiencing more than 20% higher efficiency in the construction of all new office projects using improved design and build out standards.

When looking at our results it is also important to consider that some of our costs are elevated because of the current environment. We highlight some of these costs on slide 14. They totaled approximately $790 million in the fourth quarter alone.

The OCC consent order added approximately $125 million of expenses in the fourth quarter and roughly $500 million of total expenses during 2012. The settlement that was reached earlier this week with our regulators will allow us to significantly reduce both the external and internal costs in the first quarter and fully eliminate these costs by the second quarter.

In the fourth quarter, we had $221 million of foreclosed asset expense which totaled $1.1 billion for the full year. The improvement in the housing market will reduce these expenses over time.

We also have higher cost of reduced mortgage banking revenue. We added $313 million in the fourth quarter and $1.7 billion during 2012 to our repurchase reserve not related to current originations.

Servicing fees were reduced by $127 million in the fourth quarter and $677 million during 2012 to reflect higher cost of service and unreimbursed foreclosure costs as foreclosure timelines continued to extend. In addition, we had a total of $2.2 billion of operating losses in 2012, almost $1 billion higher than the amount we had in 2011 as we resolved many significant matters related to our mortgage business.

Turning to our segment results starting on page 15, Community Banking earned $2.9 billion in the fourth quarter, up 14% from a year ago and up 5% from the third quarter. Retail Banking achieved a record cross-sell of 6.05 products per household, up from 5.93 a year ago. Our credit card business continues to grow with credit card balances up 4% linked quarter to a record $24.6 billion, with a record $12.6 billion of purchased dollar volume in the fourth quarter. This growth reflects seasonal holiday spending and strong account growth. New consumer credit card accounts grew 11% from the fourth quarter of 2011 with household penetration increasing to 33%, up from 29% a year ago.

We remain focused on meeting the needs of our small business customers with business checking accounts up 3.7% from a year ago. And we extended $16 billion of net new loan commitments to small businesses across the US in 2012, up over 30% from a year ago.

Wholesale Banking earned record net income of $2 billion in the fourth quarter, up 24% from a year ago and up 2% from the third quarter. Wholesale Banking continued to have solid deposit growth, and as I mentioned earlier, they also had strong loan growth that was broadly diversified and gained momentum late in the quarter with period-end balances increasing $8 billion, or 3%, from the third quarter. Wholesale Banking has generated nine consecutive quarters of loan growth.

In addition to meeting the financing needs of our commercial customers, we continue to better serve all of their financial needs as reflected in Wholesale Banking cross-sell growing to 6.8 products, up from 6.5 products a year ago. We have seen better penetration across our diversified product line, including strong growth in investment banking with investment banking fees from commercial and corporate banking customers up 30% in 2012 versus 2011 and strong sales of our industry-leading Treasury Management products, including increasing Treasury Management revenue by 13% in the fourth quarter compared to a year ago.

Additionally, commercial credit card purchase volume increased 25% in the fourth quarter from a year ago, reflecting strong account growth and increased usage among existing customers.

Wealth, Brokerage, and Retirement earned a record $351 million, up 4% from the third quarter and up 13% from a year ago. The year-over-year growth was especially strong considering that fourth quarter 2011 included a $153 million gain on the sale of H.D. Vest.

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Earnings continue to benefit from higher asset base fees with WBR client assets up 7% from a year ago, including strong growth in average core deposits of 6% and Retail Brokerage managed account assets up $50 billion, or 20%, driven by strong net flows and market performance. In addition, WBR continued to effectively partner with Retail Banking to meet all the financial needs of our customers increasing cross-sell to 10.27 products per household, up from 10.05 a year ago.

Turning to credit quality on page 18, trends continued to show improvement with fourth-quarter net charge-offs at 1.05% of average loans. Net charge-offs were impacted by the completion of the implementation of the regulatory guidance issued by the OCC at the end of the third quarter, which increased our net charge-offs by $321 million in the fourth quarter. Excluding this impact, net charge-offs were 89 basis points of average loans, 47 basis points lower than a year ago.

Reflecting continued improved credit performance and also incorporating estimated losses attributable to Hurricane Sandy, we released $250 million in loan loss reserves in the fourth quarter. Absent a significant deterioration in the economy, we continue to expect further reserve releases in 2013 but at a lower level than in 2012.

Non-performing assets decreased $744 million from the third quarter and were down $1.5 billion from a year ago. Loans 90 days or more past due decreased $57 million from the third quarter and were down $613 million from a year ago. Early stage consumer loan delinquency balances and rates also declined from third quarter a year ago.

Our servicing portfolio continued to perform better than the industry with our delinquency and foreclosure rate over 400 basis points lower than the industry average, excluding Wells Fargo, based on the most recent publicly available data. Our total delinquency and foreclosure rate was 7.04% in the fourth quarter, down from 7.96% a year ago.

We added $379 million to our repurchase reserve this quarter, down $83 million from the third quarter. Our repurchase reserve balance increased to $2.2 billion, up 9% from the third quarter. Our repurchase reserve incorporates current demand levels, considers all vintages, and anticipates probable future expected demands.

The unpaid principal balance of outstanding repurchase demands were down 3% from the third quarter, reflecting a lower level of new demands from both the GSEs and private investors.

As shown on page 21, our capital levels continued to increase with our Tier 1 common equity ratio growing to 10.12%, up 66 basis points from a year ago and up 20 basis points from the third quarter. Our estimated Tier 1 common equity ratio under Basel III capital proposals increased to 8.18% in the fourth quarter.

We purchased 42 million shares in the fourth quarter and entered into a forward repurchase transaction for an estimated 5.9 million shares that is expected to settle in the first quarter. During 2012, we purchased a total of approximately 120 million shares at an average price of $32.35.

We remain committed to returning more capital to our shareholders. Our 2013 capital plan that we submitted to our regulators last week requests an increase in capital distribution to shareholders as compared to our 2012 plan. But, remember, our request is subject to Fed review and non-objection.

As I have highlighted, 2012 was an outstanding year for Wells Fargo. We generated growth throughout our businesses, we reduced risk, including lower credit losses, and we increased our returns. However, we are even more optimistic about all the opportunities that we have in 2013 to continue to benefit from our business momentum and slowly improving economy.

We remain focused on reducing expenses and we believe we have further opportunities to improve our efficiency ratio and we should benefit from reduced environmental costs in 2013. We are optimistic that loan growth can continue in 2013 and we believe we will be able to grow net interest income even if rates remain low. We have opportunities throughout our consumer and commercial businesses to continue to grow market share and increase cross-sell.

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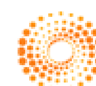

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And now I will open up the call for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) John McDonald, Sanford Bernstein.

John McDonald - *Sanford Bernstein - Analyst*

Hi, good morning. Tim, was wondering on the share count, in 2012 the share count was flat despite about $4 billion in share repurchases. Just kind of wondering, what is the strategy with regard to share count? Is it to just offset -- use buybacks to offset employee issuance or to really steadily reduce the net shares outstanding?

Tim Sloan - *Wells Fargo & Company - Senior EVP & CFO*

Well, you're absolutely right, John. This last year in terms of our total purchases that is what we were able to accomplish, to keep shares about flat. We are hopeful that over time as we continue to return more capital to shareholders that we will have the ability to increase the amount of shares that we can repurchase, but that is subject to the capital plan that we just submitted.

John McDonald - *Sanford Bernstein - Analyst*

Sure, sure.

Tim Sloan - *Wells Fargo & Company - Senior EVP & CFO*

So over the long term we would like to do better than what we did this year.

John McDonald - *Sanford Bernstein - Analyst*

Okay. In terms of the gross issuance, was there anything unusually high about your issuance this year, or was 2012 kind of a normal year for employee issuance?

Tim Sloan - *Wells Fargo & Company - Senior EVP & CFO*

Oh, I would say it was a relatively normal year. As you know, having our team members receive some of their compensation based upon the shares is really important to make sure that the team members and shareholders are very aligned in terms of the long-term growth of the Company.

John McDonald - *Sanford Bernstein - Analyst*

Okay. Then on expenses, should the look-back expenses start to come out immediately? Beginning in the first quarter those are gone?

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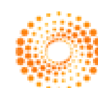

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Tim Sloan - *Wells Fargo & Company - Senior EVP & CFO*

I wouldn't assume that they would be completely gone in the first quarter. There is going to be some clean up this month and maybe trailing into next. They will clearly come down materially. I don't know what the exact number is going to be. They will be completely out of the run rate in the second quarter.

John McDonald - *Sanford Bernstein - Analyst*

Okay. And on the mortgage side, as originations come down, if that happens in 2013, how quickly can the mortgage expenses come out?

Tim Sloan - *Wells Fargo & Company - Senior EVP & CFO*

Well, we've got some good track record in doing that. Our mortgage folks have seen cycles before. You saw what we were able to accomplish in 2011 in the second quarter and then also in 2010. There is a bit of a lag, so I would say there is about a 60- to 90-day lag, so call it a one-quarter lag, but we can move pretty quickly.

John McDonald - *Sanford Bernstein - Analyst*

Okay. Then one thing on the margin. On the 5 basis point of pressure that you attributed to rates and spreads coming down, should we assume that that pace continues for that piece? There is obviously lots of moving parts in the net interest margin, but for that piece of it does that hold at kind of 5 basis point pressure?

Tim Sloan - *Wells Fargo & Company - Senior EVP & CFO*

Boy, John, I wish I could give you a guarantee of what specifically the impact will be. It does seem to have moderated a bit, but it is really a function of the mix of loan growth and also of securities purchases. But it seems like it is moderating a bit.

John Stumpf - *Wells Fargo & Company - Chairman, President & CEO*

Remember, John, we have been pretty thoughtful about reinvesting, but we saw some opportunities late in the year that are still settling and we also saw great loan growth in the fourth quarter. So all those things have an impact.

John McDonald - *Sanford Bernstein - Analyst*

Okay. And those MBS balances you mentioned making towards the end of the fourth and into the first quarter, Tim, those are funded with the cash balances, right, that are only earning about 25 basis points a year increasing yield there, right?

Tim Sloan - *Wells Fargo & Company - Senior EVP & CFO*

That's correct, but it was 16.

John McDonald - *Sanford Bernstein - Analyst*

Okay, 16 that you have done so far.

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Tim Sloan - *Wells Fargo & Company - Senior EVP & CFO*

Yes -- no, no, no. I am talking about 16 basis points.

John McDonald - *Sanford Bernstein - Analyst*

On the yield? Okay.

Tim Sloan - *Wells Fargo & Company - Senior EVP & CFO*

In terms of deposit costs.

John Stumpf - *Wells Fargo & Company - Chairman, President & CEO*

Yes.

John McDonald - *Sanford Bernstein - Analyst*

Got it. Okay, great. Thanks very much.

Operator

Erika Penala, Bank of America Merrill Lynch.

Erika Penala - *BofA Merrill Lynch - Analyst*

Good morning. My first question is on the excess liquidity. I guess the first part of it is of the $27 million in average growth, ex escrow that you saw this quarter, how much of that do you think is sticky? And if you think most of that is sticky, I appreciate the commentary that you made about if loan growth continues at this pace you can absorb some of that liquidity, but that still leaves you with some excess.

Could you give us a sense of what your deployment strategy is going to be for the next year?

Tim Sloan - *Wells Fargo & Company - Senior EVP & CFO*

Well, Erika, you raised a really good point and that is we did see very outsized deposit growth and the fact of the matter is that a good portion of that deposit growth came toward the end of the quarter. Whenever that happens we want to be careful to watch that deposit growth over time to make sure that we do think it is sticky.

What's interesting is that, notwithstanding that we've had periods like this over the last couple years, one in point would be the third quarter of 2011, that that deposit growth has been maintained here. So we are optimistic that we can maintain a good portion of that deposit growth. My guess is probably it may be difficult to maintain all of it.

And so it creates a real opportunity for us, because the way that we think about deposit growth is not just to fund our loan growth or fund investments. It is broadening the relationships and bringing new relationships into the Company. And so that gives us an opportunity not only to invest and increase spread income over time, but to be able to broaden those relationships so that we can grow fee income, which is really what you saw this quarter.

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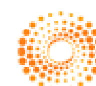

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We saw broad-based fee growth and the way that we think about that fee growth this quarter is that it is reflective of all the deposit growth that we have had over the last couple of years, which has been pretty exciting.

John Stumpf - *Wells Fargo & Company - Chairman, President & CEO*

Let me add to that, Erika. First of all, we feel no urgency to have to put something to work that might not be economic for us. You know, we had excess liquidity last summer and today MBS's are 30, 40, 50 basis points richer or higher yield and, as Tim mentioned, virtually all of these deposits are part of relationships.

We are here to serve customers and these deposits -- I think we're moving share today. This is going to benefit this company for years and years and years to come and a lot of that revenue does show up in the non-interest income side.

If you think back four years ago, we had about $650 billion of non-CD deposits in this company. Today we have $950 billion. So, yes, there has been periods of faster growth and slower growth, but we are moving share and I couldn't be happier about this.

Erika Penala - *BofA Merrill Lynch - Analyst*

Understood. My second question, if I could, is a follow up to John's. Again, we appreciate the comments on the first quarter with regards to the seasonality in pay as well as some of the $125 million is still going to linger in the run rate.

But as we think about the second quarter, and I take the $12.9 billion that you posted, take out the IFR settlement of $644 million, the charitable contribution of $250 million, and take out the $125 million. Is $11.88 billion a good sort of run rate base for the second quarter?

Obviously, there are moving parts. You mentioned the mortgage production related expenses and investment in the franchise. But is $11.88 billion a good starting point for the second quarter?

Tim Sloan - *Wells Fargo & Company - Senior EVP & CFO*

Erika, the math that you just did is reasonable, however, I don't know what our expense run rate is going to be in the second quarter. What I do know is that we are going to continue to focus on reducing expenses and improving our expense efficiency ratio.

If revenues are up I would expect expenses to be a little bit higher. And that is a good thing as long as we are delivering those revenues at a reasonable return and seeing an improvement in the expense efficiency ratio.

But, again, we have been very clear. We still believe that our expenses are too high, but we are focused on improving the expense efficiency ratio as opposed to providing a target in terms of a hard dollar cost in any quarter.

John Stumpf - *Wells Fargo & Company - Chairman, President & CEO*

Tim is absolutely right. We are not going to be slavish to any absolute number, but as Tim mentioned, take away two things. Expenses are still too high, we are focused on that, and I would love to see expenses go up if it is appended to increase revenues.

Erika Penala - *BofA Merrill Lynch - Analyst*

Got it. Thanks for taking my questions.

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Operator

Moshe Orenbuch, Credit Suisse.

Moshe Orenbuch - *Credit Suisse - Analyst*

Great, thanks. On the servicing side of the house, people are generally somewhat concerned about volatility in the origination income. But I noticed that your annual kind of servicing fees for kind of clipping the coupons are close to $1 billion and yet your net income, your net revenue that you report is about $250 million. It was $200 million last quarter or so. And all the market value and hedging costs kind of are that number in between.

Could you talk a little about what might get that so that you could report kind of a cleaner number there? What has to happen in terms of is it a level of refis; is it a change in rates? Because you've had a backup in rates in the last few weeks, so could you talk about that a little bit?

Tim Sloan - *Wells Fargo & Company - Senior EVP & CFO*

Sure, Moshe, that's a good question. I think when you look at the results in 2012, you saw a number of things that occurred in terms of the servicing income. I think one which we have called out is just the higher level of unreimbursed expenses related to lengthening of foreclosure timelines and foreclosure costs.

As we've talked about, we really view those as being environmental, which is why we call them out. I can't promise you how quickly they will come down, but our guess is they will come down and they will be less. Over time they will be less of an impact on the value of servicing.

The other phenomenon that you saw, and it occurred to a greater extent in the first quarter and then to a lesser extent this quarter, was just our assumptions around the discount rate. We had a discount rate change in the first quarter. We had a small discount rate change as it related to access servicing in the fourth quarter that impacted the number by about $53 million. Again, we are hopeful that we don't see those kinds of discount changes over time.

Moshe Orenbuch - *Credit Suisse - Analyst*

Okay, and just on an unrelated topic. You mentioned the big growth deposits and you are seeing it in service charges. Have there been any kind of pricing, either from you or competitors, pricing changes in the service charge area that are worth noting?

Tim Sloan - *Wells Fargo & Company - Senior EVP & CFO*

Well, one of the initiatives that we have had over the last year is to simplify our checking accounts and also to make sure that we were being paid appropriately for the services that we provide. So we have repriced the checking account base this year in the Company and that has been an initiative in our Retail Banking group. Notwithstanding that they have been able to grow deposits and over the year grow accounts.

John Stumpf - *Wells Fargo & Company - Chairman, President & CEO*

There is not that much change, though, in the competitive landscape.

Moshe Orenbuch - *Credit Suisse - Analyst*

Got it. Thanks very much.

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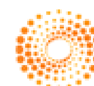

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Operator

Ed Najarian, ISI Group.

Ed Najarian - *ISI Group - Analyst*

Good morning, guys. So, I guess my margin questions were sort of asked already, but one more quick question.

You outlined that you have $11.9 billion of unrealized gains in the securities portfolio. Now that we are in a Basel III world and that is counting as capital on a BIII basis, is there any desire or anything being done to try to protect that against a rising rate environment? How do you think about that in terms of capital and the desire to protect it?

Tim Sloan - *Wells Fargo & Company - Senior EVP & CFO*

Well, two ways to think about it and it's a good question. Of course, you know how much we enjoy talking about the NIM, so any additional questions are terrific.

But the way that we think about it is that we look at the underlying risk return for any security, and we do that every day for our entire portfolio. And so you really need to start looking at that on a security-by-security basis.

There are certainly days when we look at some of our investments and we decide that it makes sense to go ahead and sell. But, remember, we think about that portfolio, the AFS portfolio, as a longer-term investment portfolio so you don't really see a lot of sales. It tends to be a little bit of an exception, because, again, we have invested those for the long term.

I think in terms of the potential capital impact, you are absolutely right. It does take -- it is going to be a potential impact. And that is one of the reasons why we think it is prudent to have a cushion in addition to the minimum 8% Tier 1 common equity under Basel III estimates that we have talked about now since investor day.

We are making a lot of progress in terms of growing our Tier 1 common equity at 8.18%, so we're going to be at 9% hopefully in the next year or so. But, again, that is another reason to have a cushion. But I wouldn't look to us trying to monetize that $11.9 billion because we think we are getting a good risk return on the spread income for those investments.

Ed Najarian - *ISI Group - Analyst*

And you wouldn't do anything necessarily from a hedging standpoint above and beyond what you have historically done to try to protect that?

Tim Sloan - *Wells Fargo & Company - Senior EVP & CFO*

No, I don't think that that would make sense, because then what you would have is you would have an asset that is generating income that is not marked to market versus a hedge that is potentially marked. And that creates a mismatch. In the industry that has created problems and that is just not how we think about it.

John Stumpf - *Wells Fargo & Company - Chairman, President & CEO*

The other thing, Ed, is if rates do back up there is a whole bunch of other great things that happen with the Company. I mean actually earnings increase with your margin.

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So it might not be quarter to quarter. That is why Tim talked about it, that is why we are going to have an extra buffer, but if rates back up that would be a good thing for us. We would love that.

Ed Najarian - *ISI Group - Analyst*

Right, right.

John Stumpf - *Wells Fargo & Company - Chairman, President & CEO*

For the right reason, because the economy is getting better and so forth.

Ed Najarian - *ISI Group - Analyst*

Okay. Then just one quick follow-up. I take it from your answers to John and Erika's questions that you are not feeling any special urgency to get the excess liquidity here reinvested.

It sounds like -- you talked about some additional securities purchases in the beginning of this quarter, but it sounds like you are going to take your time and sort of judge the rate environment and invest that excess liquidity more over time than right away. Is that the way to think about it?

Tim Sloan - *Wells Fargo & Company - Senior EVP & CFO*

Absolutely right. It gives us great flexibility in terms running the Company, so you are spot on.

John Stumpf - *Wells Fargo & Company - Chairman, President & CEO*

That is dry powder. We think that is a real benefit to the Company.

Ed Najarian - *ISI Group - Analyst*

Okay. All right, great. Thanks, guys. Appreciate it.

Operator

Joe Morford, RBC Capital Markets.

Joe Morford - *RBC Capital Markets - Analyst*

Thanks. Good morning, guys. The C&I growth was much stronger in the fourth quarter, so it looks like the fiscal cliff concerns really didn't dampen customer demand much. What were some of the key drivers to the increased volumes this quarter? Was there any increased line utilization? Just how do you feel about the outlook for C&I growth in the year ahead?

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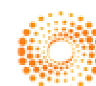

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Tim Sloan - *Wells Fargo & Company - Senior EVP & CFO*

Yes. Joe, just a quick answer on line utilization; it was up slightly, but it wasn't a primary driver. Actually it was kind of interesting, because the fiscal cliff negotiations and the potential for increases and changes in tax rates actually had a slightly positive effect on loan growth in the fourth quarter, particularly toward -- on the commercial side and particularly toward the end of the quarter.

So there was some amount of growth related to some of our customers taking actions and so on and so forth. But when you look at the growth within Wholesale Banking, it was pretty broad-based. Our middle-market lending business grew. Our Commercial Real Estate business grew, Corporate Banking grew, Asset Backed Finance grew.

So we were very pleased with the performance, and again it just creates an opportunity to broaden relationships, particularly with new customers. But it was very broad-based, and I would say the fiscal cliff was a net positive to loan growth.

Joe Morford - *RBC Capital Markets - Analyst*

Okay, so it sounds like you feel pretty good about the sustainability of this momentum going forward there.

Tim Sloan - *Wells Fargo & Company - Senior EVP & CFO*

Well, there is going -- there is always some seasonality. I should have mentioned that, and I apologize. There is some seasonality. There could be -- we could see a bit of that fall off in the first quarter if it was primarily related to the fiscal cliff, but we feel confident that we can continue to grow our loans in Wholesale.

As we mentioned, we have been able to do that for a number of quarters, and we have been able to do that for a number of quarters in many of the Wholesale businesses.

Joe Morford - *RBC Capital Markets - Analyst*

Okay, and then my other question was just if you could just talk a little bit more about your reaction to the new qualified mortgage rules announced yesterday by the CFPB. How might that affect your origination volumes going forward?

John Stumpf - *Wells Fargo & Company - Chairman, President & CEO*

Joe, as I mentioned in my comments, I think that the CFPB found the right balance. They listened to a variety of constituencies or people who provided input. And I think regarding the QM, it is going to provide -- it's broad. It provides clarity and I think it's going to help more Americans get more credit, and that is good for housing, good for America.

But let's step back a second. That is not the only issue that needs to be solved for. We still have the GSEs out there. We have FHAs having their issues. We have the QRM that needs to be yet decided. You have issues around -- states have their own things. New servicing, there's a whole bunch of other things going on here, but this is a positive move.

Joe Morford - *RBC Capital Markets - Analyst*

Okay. Thanks so much.

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Operator

Betsy Graseck, Morgan Stanley.

Betsy Graseck - *Morgan Stanley - Analyst*

Hi, good morning. Couple questions, one on the repurchase reserves and one on just general reserves.

So on the repurchase reserves, I know you indicated that you are making the reserve for all vintages and we hear from other institutions that they are just making the reserve for vintages that have been requested by the agencies. So, I am wondering if you have been requested by more vintages than you are hearing your peers are or if you are just taking current requests and applying it to everything that you have got.

Tim Sloan - *Wells Fargo & Company - Senior EVP & CFO*

Good question, particularly with a lot of noise in the market. Our reserving process is the same as it has always been. There is really nothing new this quarter relative to any other quarter and that is we reserve for all probable and current and future demands from all vintages, all vintages.

It is based on the conversations we have, all the documents we receive, so it really hasn't changed. We take into consideration any of the conversations we've had with the agencies and we feel very good about the reserve that we have today.

Betsy Graseck - *Morgan Stanley - Analyst*

And you are making some increase to the reserve even today, so conversations obviously change over time and you just take those conversations and reflect against all your vintages. Is that fair?

Tim Sloan - *Wells Fargo & Company - Senior EVP & CFO*

That's correct, Betsy. That's absolutely right.

Betsy Graseck - *Morgan Stanley - Analyst*

Then, secondly, on just the loan loss reserves. We have had some commentary from FASB about a proposal for moving to life of loan reserving. And I guess I am interested in understanding your first take on that, how you think that would impact your reserve process in levels. And if you could tie it into your comment that you think the reserving -- the reserve release is likely to slow in 2013 versus 2012.

Tim Sloan - *Wells Fargo & Company - Senior EVP & CFO*

So let me take the last part of your question first. The primary driver in terms of why we think the reserve release will probably slow this year is that we are seeing -- while we continue to see improvement and a reduction in loan losses, it is improving at a slower rate than it that was, say, a year ago or two years ago. Still seeing improvement and that's great. In addition, we are seeing a growth in the loan portfolio.

So, again, we think we are going to see reserve releases, but the expectation is it will be a little bit less than what we saw -- or it will be less than what we saw in 2013.

In terms of the FASB discussions, again that is a real work in progress right now. It's something that is probably going to take a few years to determine. It will probably increase our reserving level. It will probably be more of a one-time increase and then you will see reserve, on a current basis, probably come down.

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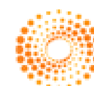

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But, again, I don't want to speculate too much on that because it is still a work in process, but I think it would be likely to be kind of a one-time reset for the industry. Then the new world could potentially be lower reserves on a current basis.

Betsy Graseck - *Morgan Stanley - Analyst*

Are there any loan categories today that you are doing a form of life-of-loan reserving or would all your loan categories need to be --?

Tim Sloan - *Wells Fargo & Company - Senior EVP & CFO*

No, no. For us, it would impact all of the loan categories.

Betsy Graseck - *Morgan Stanley - Analyst*

Okay. All right, thanks.

Operator

Paul Miller, FBR.

Paul Miller - *FBR Capital Markets - Analyst*

Yes, thank you very much. Did I hear you correctly when you were going through the balance sheet growth that you are not going to grow your residential portfolio anymore? Did I hear that correctly?

Tim Sloan - *Wells Fargo & Company - Senior EVP & CFO*

Yes and no. Let me clarify, Paul. We have been very clear to call out the amount of first conforming, first mortgage production that we otherwise would sell in a quarter. We did $9.8 billion of that in the third quarter and then we had $9.7 billion of that in the fourth quarter. And then there will be another $2 billion to $3 billion from fourth-quarter production that will close in January.

That is conforming first mortgage production. But what we will continue to do is we will continue to hold all of our non-conforming, or jumbo, mortgage production on balance sheet. I think our growth in the fourth quarter was about $4 billion and we like that business. That's a great business for us.

Paul Miller - *FBR Capital Markets - Analyst*

And of the $125 billion, just to clarify, that you produced in the quarter, does that $9.7 billion come out of that $125 billion and you sold roughly $115 billion. Is that correct?

Tim Sloan - *Wells Fargo & Company - Senior EVP & CFO*

No, the $125 billion is what we sold.

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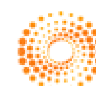

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Paul Miller - *FBR Capital Markets - Analyst*

Okay. So, you produce close to $135 billion, $140 billion?

Tim Sloan - *Wells Fargo & Company - Senior EVP & CFO*

No, no, I'm sorry. Paul, I misspoke, I apologize. The $125 billion includes the $9.7 billion.

Paul Miller - *FBR Capital Markets - Analyst*

So if we are trying to create -- okay, so when we try to create, when we are trying to back into a gain on sale margin we should back out that $9.7 billion?

Tim Sloan - *Wells Fargo & Company - Senior EVP & CFO*

That's correct.

Paul Miller - *FBR Capital Markets - Analyst*

Okay, okay. Then, you talked about that about $9 billion, that the decline in the pipeline was from exiting the brokerage channel. Have you made any other -- didn't you make -- did you tighten up the correspondent channel at all? I know you said you are not going to expand the channel anymore. Have you tightened it up?

Tim Sloan - *Wells Fargo & Company - Senior EVP & CFO*

No, and again it was $8 billion of production that we had in the wholesale channel in the third quarter that we didn't have in the fourth quarter because we exited that channel by the end of the third quarter. But the correspondent channel is still a very important part of our origination and we did not tighten up underwriting standards for the correspondent channel.

Paul Miller - *FBR Capital Markets - Analyst*

Okay. And the pipeline channel was down roughly 20%. Was that also due to the exit of the brokerage channel?

Tim Sloan - *Wells Fargo & Company - Senior EVP & CFO*

By a small amount, yes. I would just describe the decline in the pipeline as much seasonal as anything else. It is still -- we ended the quarter with one of the strongest pipelines that we have ever had in our history, so we are very excited in terms of how we are entering the first quarter.

Paul Miller - *FBR Capital Markets - Analyst*

Then just to clarify another comment; you did say that you expect production in the first quarter would be greater better than the fourth quarter for mortgage production?

Tim Sloan - *Wells Fargo & Company - Senior EVP & CFO*

No, not necessarily.

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Paul Miller - *FBR Capital Markets - Analyst*

Okay, I misunderstood you then.

Tim Sloan - *Wells Fargo & Company - Senior EVP & CFO*

No, no, not necessarily. Just we start the quarter with a higher pipeline than we did a year ago.

Paul Miller - *FBR Capital Markets - Analyst*

Okay, okay. I'm misunderstood you.

John Stumpf - *Wells Fargo & Company - Chairman, President & CEO*

But, Paul, we are still excited about the mortgage being -- we still think there is lots of opportunity there.

Paul Miller - *FBR Capital Markets - Analyst*

And then, I don't know if you guys -- can you guys make any comments about the gain on sale margins? Are they -- is the profitability in mortgage banking holding up despite the fact that we have seen rates go up 20 -- 10, 20 basis point in the last week or so, two weeks ago?

Tim Sloan - *Wells Fargo & Company - Senior EVP & CFO*

Yes, it has. In fact, our gain on sale in the fourth quarter was 2.56% versus 2.21% in the third quarter. So they were up in the quarter.

Again, these are very high levels. We are very pleased to have these gains, but they -- and so because they are high the likelihood is they could come down a bit. But it is a very, very good business right now.

Paul Miller - *FBR Capital Markets - Analyst*

No, I was wondering, so far -- as of today -- we got two weeks under our belt and we have seen -- because of the fiscal cliff agreement that came out that the 10-year is backed up about 20 basis points. But I am hearing profitability in these mortgages are still very -- haven't really backed off at all for the first couple weeks of the year.

Tim Sloan - *Wells Fargo & Company - Senior EVP & CFO*

Yes, fair question. I haven't looked over the last couple weeks in terms of what the profitability or last week what the profitability in terms of loans we brought in in the last week, but it is profitable right now.

Paul Miller - *FBR Capital Markets - Analyst*

Okay. Hey, guys. Thank you very -- go ahead. Thank you.

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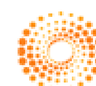

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John Stumpf - *Wells Fargo & Company - Chairman, President & CEO*

Remember. We are going into the -- the spring season typically the better sales season so purchase money. There is still a lot of activity in the mortgage business.

Paul Miller - *FBR Capital Markets - Analyst*

Okay. Hey, guys, thank you very much.

Operator

Matt O'Connor, Deutsche Bank.

Matt O'Connor - *Deutsche Bank - Analyst*

Good morning. Two unrelated questions. First, when we look at your wholesale borrowings -- so just conceptually I am thinking about short-term borrowings, long-term debt, foreign deposits, things like that -- I realize some are a little bit longer term than others. And I am curious why we haven't seen those buckets come down when you have had all the strong deposit growth.

Tim Sloan - *Wells Fargo & Company - Senior EVP & CFO*

Well, remember the strong deposit growth that we had in the fourth quarter was just in the fourth quarter. In fact, in the fourth quarter you saw our long-term debt decline a bit. The way that we think about our long-term debt levels today is that they are about where they need to be, and so much of what you will see us -- what you saw us do last year is just replacement.

We still think it's appropriate to have a certain level of long-term debt, that is very important in terms of our long-term debt ratings. So it is unlikely you are going to see a big decline in that this year.

John Stumpf - *Wells Fargo & Company - Chairman, President & CEO*

But, Matt, if you go back four years ago and look at our numbers, I think we had something over $400 billion of short and long-term debt. Now it is down to a combined $180 billion or something like that. So over time it has come down as we have grown deposits, but as Tim mentioned, we think some debt, to maintain our ratings and support the balance sheet, is important.

Matt O'Connor - *Deutsche Bank - Analyst*

Then as we think about the other buckets, so outside of long-term debt -- short-term borrowings, foreign deposits -- are those at appropriate levels? Like I guess I thought that instead of growing the liquidity you would just bring that down. So I realize it is just optics, but the NIM wouldn't be under so much pressure from adding some of the Fed funds?

Tim Sloan - *Wells Fargo & Company - Senior EVP & CFO*

Well, the foreign deposits we have are from customers, so, candidly, I hope those deposits are going to grow over time. In terms of short-term borrowings, you could see a slight decline in our short-term borrowings because of the increase in deposits.

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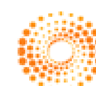

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Matt O'Connor - *Deutsche Bank - Analyst*

Okay, but I guess the overall message is, as we think about the liability side of things, there is not a lot of leverage to pull from a mix point of view. You have done a lot of what you can do on the whole --

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Tim Sloan - *Wells Fargo & Company - Senior EVP & CFO*

Well, yes, I guess I would say the following. First, we still have about $2 billion, $2.5 billion of TruPS that will likely come off the balance sheet this quarter, early second quarter. Then, I do think that if you look at the costs of our long-term debt, even as it is staying -- coming down a little bit but staying the same, you are seeing us make progress in terms of reducing the long-term debt costs. Just because when you look at a rate environment today versus when we originated some of our long-term debt it is just lower today.

Matt O'Connor - *Deutsche Bank - Analyst*

Okay. Then just separate topic. As we think about the progression of legacy mortgage issues, just very big picture, like first you were dealing -- the industry was dealing with some reserve build and the actual charge-offs and there has been a lot of various servicing related agreements with the state attorney general or the OCC, with the Fed.

Are we -- it feels like we are pretty -- and then all of course all the putbacks and the servicing. It feels like we are pretty far along on the servicing side. Is there another round or two outside of servicing that we should be aware of? Or, when we wrap up some of these remaining servicing issues, do you think a lot of the legacy mortgage costs go away?

John Stumpf - *Wells Fargo & Company - Chairman, President & CEO*

Matt, here is what I think about that. We have been through this country, especially with housing, been through a really difficult period. You would expect that your litigation costs, all those sort of things would be elevated during that period.

You're right; we have put a lot of that stuff behind us. Some of that is inherent to the business. As the business gets better I would expect less of that, but I am pleased with how much we have gotten through. We have put a lot of it behind us.

Matt O'Connor - *Deutsche Bank - Analyst*

Okay, but I guess somebody who is not as involved in this as a lot of folks on the call will call in and say, oh, I thought the banks settled on this last year. Obviously, it is different people or different constituencies coming in on the servicing side, whether it is the actual investors or I guess the politicians or the regulators.

Are they are just other avenues that any of those folks could take? Like maybe it is on the origination side or just kind of other skeletons in the closet that we might be seeing?

John Stumpf - *Wells Fargo & Company - Chairman, President & CEO*

Well, you know, I mentioned in my comments that we have now settled origination and servicing and we settled the look-back. We settled a variety of things, so I mean I can't predict what is all going to come up. But I can tell you I am pleased that we are this far through the process and we have gotten a lot of big things behind us. Industry and as a company.

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Tim Sloan - *Wells Fargo & Company - Senior EVP & CFO*

Matt, I would just note that even as we have had to be a part of these settlements and they have clearly had a financial cost to the Company, throughout that entire period we have generated record earnings.

John Stumpf - *Wells Fargo & Company - Chairman, President & CEO*

12 quarters in a row through a very difficult period of time. That just talks about the diversity and earnings power of this company.

Matt O'Connor - *Deutsche Bank - Analyst*

No, absolutely. Fair points. Obviously a lot of your expenses relate to these issues has been lower than some.

John Stumpf - *Wells Fargo & Company - Chairman, President & CEO*

And also, look at the performance of our portfolio. I mean 400 basis points better than the average for the industry and that is ultimately the arbiter and decider in these things in many cases.

Matt O'Connor - *Deutsche Bank - Analyst*

Okay. Thank you very much.

Operator

Fred Cannon, KBW.

Fred Cannon - *KBW - Analyst*

Good morning, thanks so much. Most of my questions have been answered. I just had a couple of follow-ups. One on the qualified mortgage, John.

You were generally positive about the direction. There has been some concern about the jumbo market and some of the press reports have said that the qualified mortgage, about 20% or more of jumbo loans currently being made might not be able to be made as qualified mortgages. I wonder if you could comment a little more specifically about the jumbo market.

John Stumpf - *Wells Fargo & Company - Chairman, President & CEO*

I think it's early yet to comment because I have not read in detail, nor have our people had enough time to really understand everything that is the CFPB's QM. But let me just say this about the jumbo market. We love that business.

We've been in it for a long time. In many cases these are our best customers and we do a lot of other things with them. So I doubt, at least I would be surprised if what ever happened there are would have a big negative impact on the jumbo market.

Fred Cannon - *KBW - Analyst*

Well, and it is 804 pages so that's understandable not to get through it yet.

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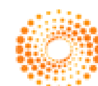

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John Stumpf - *Wells Fargo & Company - Chairman, President & CEO*

Yes, I've only been through 600.

Fred Cannon - *KBW - Analyst*

One other, John, on the expenses and I know you guys are doing -- focused on operating leverage. Within your expense controls I wonder if you could comment about your thoughts about your branch network at this point in time in terms of both within kind of thinking about managing expenses about both the numbers of branches, but also the configuration of kind of the footprint of your current branches, especially given where technology is today.

John Stumpf - *Wells Fargo & Company - Chairman, President & CEO*

Sure. Couple things there. First of all, I think we have the best team on the planet running our distribution and I couldn't be happier about the 6,000 or so stores that we have. And stores still today remain incredibly important in the overall distribution community. Even though online, especially tablet, the so-called lean back technology, is changing the industry.

Most customers choose their first financial services provider based on proximity to where they live and we have a store within two miles of half the American population. It is a huge advantage.

But we used to build 5,000 square-foot stores with a 10-penny sign. Now we are building 10-penny stores with a 5,000 square foot sign. It is more important, because if customers come there and then use other technologies they want to be able to go down the Street and say that is where my money is, that is where I can go if there is an issue, that is where I go if I have a big transaction to do. So stores still remain an incredibly important part of the ecosystem of delivery.

That might change over time, and the tablet or the smartphone is changing the way customers do business with us. They are on with us much more, they are learning more, and we are doing -- have all kinds of experiments and tests going on. Paperless stores and more self-service.

And change is not new to us. We have been -- we had at one time in this Company one service model. It was a stagecoach. That went away after a few years and we had to try something else, so this is -- I find this exciting.

Fred Cannon - *KBW - Analyst*

All right. So it would be fair to say, John, that the numbers of branches could even drift up from here but the square footage will probably be coming down?

John Stumpf - *Wells Fargo & Company - Chairman, President & CEO*

Yes, that could be. Actually, the most important thing, and you probably know this, in distribution is distribution density. People want distribution where they live, work, recreate, travel, and so forth. That is -- and we are gaining retail share faster today than we have in my 35 years or 30 years with the Company.

So it's a distribution -- physical distribution remains a critical part of it. But size is -- the way you staff it, the number of people, and all that, sure, that needs to evolve and it is evolving. But we are not in the camp that you can shrink your way to greatness.

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Fred Cannon - *KBW - Analyst*

All right. Thanks, John.

Operator

Ken Usdin, Jefferies.

Ken Usdin - *Jefferies & Co. - Analyst*

Hi, guys. I think I'm just going to have a couple of quick cleanup ones for you.

One further (technical difficulty) on the environmental expenses. So we understand where the consent order, the $125 [million], should be out of the run rate by the second. And, Tim, to your point about there being $800 million now still on the quarterly run rate, I was just wondering if you could kind of give us just a general understanding of the rest of that, the $675 [million] that you are still carrying. What is the tail off of that as we go ahead? And the biggest one being are we close to the end of the putback reserve build?

Tim Sloan - *Wells Fargo & Company - Senior EVP & CFO*

Well, you know, I wish I knew the answer to -- a specific answer to the question, Ken, because it is a real good one and it is one that we think about a lot around here. Maybe just to give you a sense of some of the magnitude.

If you look back in the fourth quarter of 2011, our foreclosed asset expenses were $390 million. They were $221 million this quarter. That was down from the third quarter, down from the second quarter. So, you are seeing those costs, for example, come down quarter by quarter. Not necessarily by a lot, but -- and they will never go down to zero, but certainly we can continue to make progress on that.

As it relates to repurchase reserve build, I think that the biggest mistake anybody in this industry can make is predict when that is going to end because we just don't know. We have been fortunate over the last -- that we peaked in the second quarter and that we have seen a decline in the third quarter and in the fourth quarter.

Can't promise you whether that's going to continue, but at some point we will be through all the vintages, we will have all the conversations, and we will be done. But, I don't know the pace at which that can continue.

So, I would love to give you a specific number but I just don't know. We just do believe that they are going to be coming down over time and that is what you have been seeing over the last few quarters.

Ken Usdin - *Jefferies & Co. - Analyst*

All right, and then my second one is the gain on sale question again just on the mix. It being up 30 basis points or so, how much of that was the market versus how much of that was the channel mix you had because of the lack of the Wholesale product in the mix of origination?

Tim Sloan - *Wells Fargo & Company - Senior EVP & CFO*

Clearly some of it was related to channel mix because you think -- at the margin, we didn't have any Wholesale origination versus having more retail. I don't know what the exact impact that was on the margin. I apologize. We can follow-up with that. But the margin was up over 30 basis points quarter-to-quarter. So, it was a combination of both.

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Ken Usdin - *Jefferies & Co. - Analyst*

Okay. The important thing is that with retail generally comes with it a higher-margin, right, so we shouldn't necessarily look at that as inappropriate, right?

Tim Sloan - *Wells Fargo & Company - Senior EVP & CFO*

No, I don't think it's inappropriate at all. Also, that is the gain on sale margin. There is also higher costs and expenses associated with it, too, but it is a very, very good thing from our perspective.

Ken Usdin - *Jefferies & Co. - Analyst*

Fair point. My last one is just on the non-controlling interest, it didn't change on the balance sheet, but it was double the amount that it normally is. That is actually $0.02 extra that you paid out this quarter. Any color you can provide us on that?

Tim Sloan - *Wells Fargo & Company - Senior EVP & CFO*

That was directly attributable to the gains that we had in the private equity business that we mentioned, so in our equity gains. And so that is really an offset to that. We didn't necessarily feel like we had -- needed to offset that when we called out that impact, but you're right, that is actually a deduct to the net impact.

Ken Usdin - *Jefferies & Co. - Analyst*

So that is incremental to the number you showed us in the press release? From a --?

Tim Sloan - *Wells Fargo & Company - Senior EVP & CFO*

Yes, yes, that's correct.

Ken Usdin - *Jefferies & Co. - Analyst*

But the bottom line is that it shouldn't be at that level going forward because it was specific to the sale of the business?

Tim Sloan - *Wells Fargo & Company - Senior EVP & CFO*

Correct.

John Stumpf - *Wells Fargo & Company - Chairman, President & CEO*

Unless we have another --

Tim Sloan - *Wells Fargo & Company - Senior EVP & CFO*

Unless we have another gain. So if we have more gains --.

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John Stumpf - *Wells Fargo & Company - Chairman, President & CEO*

It's not a bad thing.

Tim Sloan - *Wells Fargo & Company - Senior EVP & CFO*

You know that the gains are a good thing, but --.

Ken Usdin - *Jefferies & Co. - Analyst*

Of course.

Tim Sloan - *Wells Fargo & Company - Senior EVP & CFO*

But that is what we would -- that's correct, it is a deduct to it.

Ken Usdin - *Jefferies & Co. - Analyst*

Okay, and then my last tiny one is just on -- sorry, on the put back question, the reserve addition or the provision was $379 million. Can you tell us what the actual losses were this quarter?

Tim Sloan - *Wells Fargo & Company - Senior EVP & CFO*

Hold on, I will get that number. Just a second. It is in the --

Ken Usdin - *Jefferies & Co. - Analyst*

I might have just missed it in the --

Tim Sloan - *Wells Fargo & Company - Senior EVP & CFO*

Hold on one second, $206 million.

Ken Usdin - *Jefferies & Co. - Analyst*

$206 million. Okay, great. Thanks very much, guys. Appreciate it.

Operator

Chris Kotowski, Oppenheimer.

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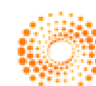

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Chris Kotowski - *Oppenheimer & Co. - Analyst*

Good morning. Given the Becker Underwood gain, this is a good quarter to ask you about a business you don't get to talk about that often, which is the venture capital business. I know it has been a magnificent contributor since the Norwest days.

But looking at your disclosures, at year-end it looked like you had about $1.4 billion invested in VC funds of various types and at September about $1.3 billion. And you had $1.5 billion of gains there this year.

I am wondering are you still able to invest in that fund, in the venture capital business? Are you still making new investments or does the Volcker Rule kind of put this into liquidation mode?

Tim Sloan - *Wells Fargo & Company - Senior EVP & CFO*

That's a really good question. When you think -- our best guess of the impact that we are going to see from the Volcker Rule -- and again, I want to be careful because the Volcker Rule has not been finalized yet -- is that it would eliminate or end our ability to invest in a private equity fund or a real estate opportunity fund as a limited partner. That seems pretty clear that that business would get eliminated or that activity would get eliminated as part of Volcker.

However, we believe that we will continue to be able to invest, and we continue to invest today, in Norwest Venture Partners and Norwest Equity Partners, which we believe will be allowed under the Volcker Rule.

Chris Kotowski - *Oppenheimer & Co. - Analyst*

Okay. And those are -- your investments in those funds are what we see in page -- in your 10-Q, the $854 million and the $83 million?

Tim Sloan - *Wells Fargo & Company - Senior EVP & CFO*

Well, yes, but there is also still a legacy amount of equity investments that are going to -- that are related to limited partnership investments that we've made over time or previously. And those are going to come down over time. But, again, we will continue -- we believe we will continue to be able to invest in NVP and NEP.

Chris Kotowski - *Oppenheimer & Co. - Analyst*

Okay, excellent. Then, lastly, I guess not the NIM question, but a net interest income dollars question and that is that it seems like since the first quarter of 2011 net interest income has been $10.8 billion, plus or minus. You have been holding it steady.

And loan growth has been -- like this quarter was 1.3%. So you have had to run just to keep still and yet you said you would think -- expect net interest income dollars to start going up. I guess what gives you the confidence that the treadmill -- that you are going to be able to run faster than the treadmill in the year ahead?

Tim Sloan - *Wells Fargo & Company - Senior EVP & CFO*

Well, I think that is a good analogy. It certainly has been a treadmill because our folks have been working very hard. But I think what gives us confidence is that is what we did when you compare 2012 to 2011. We grew net interest income dollars in this environment.

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John Stumpf - *Wells Fargo & Company - Chairman, President & CEO*

Almost $0.5 billion.

Tim Sloan - *Wells Fargo & Company - Senior EVP & CFO*

Right. And so would we like it to be higher? You bet, we would. But I think we have been able to accomplish that, not necessarily on a sequential quarter basis each quarter, but year over year we have been able to accomplish that with the headwinds that we all know we have experienced in the net interest margin.

So I guess we just look at it and say we hope history repeats itself, because we think we can do that.

John Stumpf - *Wells Fargo & Company - Chairman, President & CEO*

The other thing is our liquidating portfolio; we are getting closer and closer to the end of that. Because when I wake up in the morning the first day of the quarter we know historically $5 billion or $6 billion would shrink on that side. Well, it was $4.1 billion this last quarter so we are going to work through that.

But the investments we are making, some of the on balance sheet, some of the loan growth all of that helps. Also, we have reduced liability costs 2 basis points across the board last year. That's important.

Chris Kotowski - *Oppenheimer & Co. - Analyst*

All right. That's it for me, thank you.

Operator

Mike Mayo, CLSA.

Mike Mayo - *CLSA - Analyst*

Good morning. I have questions on the good, the bad, and the ugly.

John Stumpf - *Wells Fargo & Company - Chairman, President & CEO*

That's what you had last time.

Tim Sloan - *Wells Fargo & Company - Senior EVP & CFO*

I think that's -- yes, you want to start with the ugly first?

Mike Mayo - *CLSA - Analyst*

Okay, I thought it was -- okay, I don't want to repeat myself too much. Let's start with the good.

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How about page 26 of the supplement, the non-accretable difference? I think the good news is, as you said, housing is doing a little bit better. So why do you still have $7 billion of non-accretable difference, or 23% of the unpaid balance? What constrains you from recognizing more of that back to accretable yield?

Tim Sloan - *Wells Fargo & Company - Senior EVP & CFO*

Well, the analysis that we do is done on a quarterly basis where we look at our expectation related to future loss. We look at default rates, redefault rates, and the like and we make adjustments over time.

You can see in the pages from the supplement that we have made adjustments over time. In fact, in the third quarter we increased -- we moved I think about $400 million, say $400 million or $500 million, from non-accretable to accretable.

Our expectation is over time that if we believe that housing prices are -- if you believe that housing prices are going to continue to increase, and we do, that that won't be the last time that we would move non-accretable to accretable. It just didn't happen based upon our models in the fourth quarter.

Mike Mayo - *CLSA - Analyst*

Also in the good category, just a general question. How much longer -- and this is a question I did ask last time. How much longer do you think these gain on sale margins will hold? How much longer will we have the mortgage refi boom?

Based on your own website, a 30-year conforming is now at 3.6% and it was under 3.5% for most of last quarter. Again, you need to have some expectations; you guys have to plan on that. Do we have one more quarter, two more quarters, two more years? What is your best guess?

Tim Sloan - *Wells Fargo & Company - Senior EVP & CFO*

I don't know for sure, but in the fourth quarter we provided some detail in terms of our servicing portfolio. We cut the portfolio -- you can get this on the website -- you can cut the portfolio based on note rate. Then we also segmented it by loan-to-value and we also segmented it by FICO score.

What you see there is there are hundreds of billions of dollars of opportunities, and I am not promising you that we get every one of those refinancing opportunities, but there is hundreds of billions of dollars of refinancing opportunities that are just in our existing portfolio of loans. So it doesn't feel like this is -- absent of a big increase in rates, that this is going to be the last quarter that we are going to see good volume originations from refinance activity.

So could it last a couple more quarters? Sure, it could. Could it last through the end of the year? Your guess is as good as mine, but there is a lot of opportunity out there. We start the quarter with a very strong pipeline, one of the strongest pipelines in our history. So we feel confident and we are optimistic about continued originations in the mortgage business.

John Stumpf - *Wells Fargo & Company - Chairman, President & CEO*

Mike, think about this, the average rate in the portfolio, the servicing portfolio, is 4.77% and the Street rate is 3.25% to 3.5%. I don't exactly where it is from day to day. So, on average, there is at least 100 basis point opportunity there.

Customers typically -- or it's usually in the money if you do it at 50 basis points. Now it's going to be a little bit more difficult to get.

Is marketing and retail more important? Absolutely. That plays to us. We have the largest retail sales force. We have thousands of team members in our stores who are talking to customers every day and finding leads. So this is what we do.

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Again, I don't know how many quarters it's going to be. I don't know all that, but I am optimistic.

Mike Mayo - *CLSA - Analyst*

Then under the -- that's helpful. Under the bad category, the loan utilization has not improved a whole lot. I guess you are saying it's good because you are moving market share, but why isn't loan utilization going up? Why isn't there more demand from the customers?

John Stumpf - *Wells Fargo & Company - Chairman, President & CEO*

You know, most of our commercial customers their balance sheets are the strongest I've seen in years and years. They are sitting with tons of liquidity and cash in our faults, so it is kind of logical that they would use their cash first before they would borrow.

But the good part of that whole story is we are growing in spite of that. The day will come when they will start to use those lines again. We have already had all the embedded costs; just think of what happens then. So I view this as kind of a good, not a bad.

Mike Mayo - *CLSA - Analyst*

And then the ugly. I know you don't call this the ugly, the last margin question.

You brought up that NII last year grew despite the margin and all that, but linked quarter it didn't look as good. Look, if your core deposit pricing goes down by 2 basis points and your loan repricing goes down by 5 and your securities pricing goes down by 11, that's not a good formula. So when do you think that margin decline subdues, goes away?

Tim Sloan - *Wells Fargo & Company - Senior EVP & CFO*

If you tell me where rates are going to be in any scenario, then I can give you a better idea. I don't know where rates are going to go, Mike. I think it's a very fair question, but the important thing when you think about Wells Fargo is not to be overly focused on the net interest margin.

We get half, about half of our income through spread income. We get about half of our income through fee income. You saw a diversified growth on the spread income side in terms of loans, the best that we've had in a long time. More important -- as important, you saw diversified growth in fees.

And so sure, we are on -- the net interest margin is under pressure. But even in a quarter where the net interest margin was down 10 basis points, again mostly because of deposits which we think long term is a great thing in terms of growing that deposit growth, our net interest income was about flat. I view that as pretty strong performance in this environment.

John Stumpf - *Wells Fargo & Company - Chairman, President & CEO*

I would also suggest a lot of companies would kill for our margin. Feel pretty good.

I mean, yes, it has come down, but for all the reasons that Tim has said, why would we turn around away deposits from our customers? You know, we are not -- surely we look at the margin, surely we think about that, but we don't run our business according to it.

And I know we've had this discussion many times, but for a company that can grow revenue 6%, 6% to 7% without any help really, much help from half of your revenue side that is a very strong company.

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Mike Mayo - *CLSA - Analyst*

All right, thank you.

Operator

Marty Mosby, Guggenheim.

Marty Mosby - *Guggenheim Securities - Analyst*

Good morning. I wanted to follow up on one of the questions. In your answer to Mike on the refinance activity you brought up that the average rate is 4.75%, the Street rate is around 3.50%. So half of your customers are still in a position where they should refinance.

What are the two main reasons that are holding them up? With all the HARP out there and all the other programs and initiatives, what helps to get those customers back in front of you and able to do the refinancings that at this point they really should be able to do?

Tim Sloan - *Wells Fargo & Company - Senior EVP & CFO*

Marty, I don't know, or wouldn't necessarily agree that it is half of the servicing customers. It is certainly a large portion. So if you think our servicing portfolio is about $1.9 trillion, I think when you look at how we cut the servicing portfolio and some of the work that we did last quarter that we provided, I think the number is probably a quarter to maybe a third of the $1.9 trillion.

What keeps some people is they are toward the end of the maturity of their loan and they look at it and say, you know what, it doesn't make sense. Or they have got other things to do or their LTV might be high. They might be -- they could have -- excuse me, they could have applied for the HARP program and it takes a while to do that.

So there is a lot of reasons why folks do it. It is not because our team is not out there working very hard to try to help them refinance their loans.

John Stumpf - *Wells Fargo & Company - Chairman, President & CEO*

Yes, I would also say that there has been so much volume coming that it has taken 90 days or it has been a long process.

Now that we have built up our team we are looking more at -- we can shorten that period of time in which it takes to refinance to 60 days. So I think that is an advantage. But the real advantage is we have got this retail distribution working together, all our personal bankers and commercial bankers who look for these opportunities refer to our mortgage company. That's really one of our strengths and how we are going to harvest this and serve these customers.

Marty Mosby - *Guggenheim Securities - Analyst*

Staying in mortgage for a second, if you look at the hedging value at 67 basis points, we actually saw an uptick a couple basis points this quarter. As you are looking at rates now moving really in an upward direction at some pace in the future, what are you doing with your hedging such that you lightened up the bit of the hedging negatives as rates go up and allow the value or the increased value in servicing as the extension of the life, bringing some of that to the bottom line to help offset whatever downdraft you might see on the origination side?

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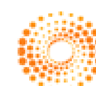

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Tim Sloan - *Wells Fargo & Company - Senior EVP & CFO*

We're not going to fundamentally change our hedging strategy. We don't want to think about the MSR as a way to speculate on interest rates. That is just not -- none of us around here are smart enough to know where interest rates are going to go.

But we are pretty good at doing and what our mortgage team is very good at doing, and that is putting a hedge in place that keeps the appropriate level of risk so that we can look at our servicing asset and generate the income based upon the fundamentals of the business as opposed to the direction of the rates.

Marty Mosby - *Guggenheim Securities - Analyst*

I guess instead of really betting on interest rates it's almost like we are paying for insurance that you don't really need to have, because further drops in interest rates are not as feasible as they would be as before when rates were higher.

Tim Sloan - *Wells Fargo & Company - Senior EVP & CFO*

You know what, Marty, I think that's a fair point. Except, you know what, if we were sitting here a year ago we might have said the same thing. Then we would have been wrong and we would have had a big loss in the MSR which had been unhedged. And you could have said the same thing two years ago.

So at some point you're going to be absolutely right. I am just not and we are not smart enough to know exactly when that inflection point is going to be. And we are just not going to use the MSR to speculate on rates.

John Stumpf - *Wells Fargo & Company - Chairman, President & CEO*

This is a really good business. We don't need to speculate on that. It just doesn't make any sense for us.

Marty Mosby - *Guggenheim Securities - Analyst*

Understood. When you look at the asset quality and the net charge-offs dropping down to -- if you take the OCC impact of around 18-odd basis points, so we have gone from 130 in the fourth quarter last year to a little less than 90 basis points. That trend, you would think, as the underwriting and the lack of demand and the cleanup in the portfolio and run off of some of the more troubled portfolios or ones that have a little bit more pressure could really in a good time end up less than 75 basis points.

Do you kind of see that migration over the next couple years?

Tim Sloan - *Wells Fargo & Company - Senior EVP & CFO*

Well, I hope you are correct. I think we have got to be a little bit careful because in some of our businesses we are already experiencing much less than typical loan losses. For example, in the wholesale business. It is about as good as it's going to get. Now we could see a little bit of improvement, but to that part of the business we have already seen a decline.

The disproportionate share of our losses -- loan losses continue to come from the home equity portfolio. That portfolio continues to reduce in terms of overall size, so we are hopeful that the loan-loss rate that we experienced net or gross of the OCC guidance will continue to go down. Whether or not we can get to 75 basis points only time is going to tell, but we are clearly going in the right direction.

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Marty Mosby - *Guggenheim Securities - Analyst*

Then last question, and thanks for spending so much time, is you talked about as the yield curve steepened at the end of the year that you started to go and hit some of those higher yields. What kind of critical level are you looking at in a sense that the yield curve can steepen as we saw much quicker than the Fed ever starts to tighten interest rates? As you start thinking about deploying liquidity, what are some of the levels that you are guidelines or thought process brings you to be a little more aggressive on the liquidity side?

Tim Sloan - *Wells Fargo & Company - Senior EVP & CFO*

Well, Marty, if you look back at where rates rose to right toward the end of the year, so when you think about the two inflection points that we saw there were a few day to a week period as the fiscal cliff negotiations seemed to be going fairly well that rates backed up pretty significantly. And that was a good indication of some of the inflection points that we were looking at.

Then, likewise, when the Fed minutes were released last week and there was a little bit of surprise in terms of the dissension, or healthy conversations, maybe that is a better way to describe it, among the various Fed governors, voters and not, that rates rose again. We took that opportunity to buy.

So it is that those levels that we feel are pretty attractive over a long-term basis.

John Stumpf - *Wells Fargo & Company - Chairman, President & CEO*

You know, Marty, we don't have any set number that we say this is the number at which we will buy for the next 30 or 60 days or whatever. It's a very dynamic iterative process. We are looking, we are reading, we are thinking.

So that is kind of how we go about this. With a bias towards conservatism and making sure that we understand the whole asset liability mix and so forth.

Marty Mosby - *Guggenheim Securities - Analyst*

Thank you. I appreciate your time.

Operator

Nancy Bush, NAB Research LLC.

Nancy Bush - *NAB Research LLC - Analyst*

Good morning, guys. How are you?

John Stumpf - *Wells Fargo & Company - Chairman, President & CEO*

Good morning, Nancy. We're great.

Nancy Bush - *NAB Research LLC - Analyst*

One sort of universal question; it's applicable to you and I think it's applicable to the industry as well. Your ROE has improved to about 13%, which is one of the better ROEs in the industry, but I guess my question is how we look at normalized ROE, not only for you but for the rest of the industry?

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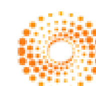

I mean a 13% is good. It is below your historical levels. Is it desirable or is it possible to get back to those historical levels?

Tim Sloan - *Wells Fargo & Company - Senior EVP & CFO*

That's a really good question. I think that fundamental to the question is just that when you look at the level of equity that the industry is going to have to hold in the next few years or beyond that, it is just higher than it was pre-crisis. So I think it is unlikely when you compare precrisis return on equity to post crisis, what we are experiencing now, that we are going to get back to that high teens, even in some quarters low 20%s, returns on equity.

Now, having said that, at our investor day we provided a range of return on equity between 12% and 15%. The reason we provided that range is that the level of economic activity and interest rates, as we know, can drive our returns.

So our best guess is that in the current environment -- relatively slow growing economy, though we are obviously making the best of it, and lower rates -- we think we will be in the middle to the lower end of that range. If rates tick up and the economy starts to pick up a bit, we think we can be at the higher end of that range and hopefully get up to the mid-teens. Hopefully that helps.

Nancy Bush - *NAB Research LLC - Analyst*

Okay. A question for you, John. The QM -- I don't know how it's come out relative to what the industry expected, but it's clearly going to keep some people out of the mortgage market who have got into the mortgage market before.

Do you expect that now that we have the QM and you are going to be getting, I think, a higher quality customer as a result that the consumer groups are now going to start screaming about people being kept out of the mortgage market who were getting mortgage loans before?

John Stumpf - *Wells Fargo & Company - Chairman, President & CEO*

It's hard to speculate or comment with any confidence on what others might see in it. I guess I would just go back to a couple things. First of all, I don't know everything that's in the 800-some pages, but what I do know about it it solved a couple of issues that I think are really important.

It created a broad standard, or we got as many loans as possible into the QM definition. And number two, there is good clarity around legal protections and risks and so forth. There is also a debt to income or consumer debt or mortgage debt vis-a-vis income, so there are some bright lines.

Hopefully, that will encourage more participants in the industry, more borrowers, and I think that is all good. Now, whether that -- but I don't think that alone will open up the floodgates of credit, because there is all these other things going on that I had mentioned that are still unresolved. But I think this is a step in the right direction, I really do.

Nancy Bush - *NAB Research LLC - Analyst*

And, thirdly, I would just ask you a question that has sort of been hanging around. The Atlantic article which highlighted your accounting issues; this is not new, it is bringing up a lot of the issues that have been brought up before. Can you just give me your reaction to that?

Is there anything you or anybody else in the industry can do to make some of these things, like VIEs, more transparent?

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John Stumpf - *Wells Fargo & Company - Chairman, President & CEO*

You know, first of all, let's talk about transparency. We want -- in fact, this team is available to any one of you; call us. We are not hearing these things from our investors.

When I became CEO we reinstituted or started the live call. We had the credit supplement. The Company is a pretty plain vanilla in the way we operate the Company. Yes, there are -- there is level one, twos, and three assets in this, but that doesn't make them less credible. It is just that sometimes there is not market prices we can do, so we have to go through cash flows and establish values that way.

I have never seen us be more transparent. So if there is other things we can do I am all ears for, but I am not hearing that from investors and, frankly, I am not hearing that kind of commentary from most of the people, including analysts, that I talk to. But people can write what they want to write and they can make their own choices about where they invest their money.

Nancy Bush - *NAB Research LLC - Analyst*

Thank you.

Operator

Chris Mutascio, Stifel Nicolaus.

Chris Mutascio - *Stifel Nicolaus - Analyst*

Good morning, John and Tim. Happy New Year to you.

John Stumpf - *Wells Fargo & Company - Chairman, President & CEO*

Happy New Year, Chris.

Chris Mutascio - *Stifel Nicolaus - Analyst*

Tim, I had a real quick question for you, a follow up on the reserves. You mentioned that reserve releases will be lower in 2013 than 2012 but they could still continue to some degree.

If I back out the charge-offs from the OCC guidance related charge-offs in both third quarter and this quarter, because I think you guys have mentioned they were already reserved for, it looks like that you did under provide last quarter. Provision was $200 million lower than net charge-offs. But this quarter if I backed them out your provision would be $70 million higher. So, in essence, have the reserve releases already ended?

Tim Sloan - *Wells Fargo & Company - Senior EVP & CFO*

No, no, not at all. There are so many puts and takes that go into our reserve release or reserving methodology that ultimately then produces a reserve release or, if you look back a few years, a reserve build. I wouldn't just focus on the impact of the OCC guidance as the primary driver for that. There's just a lot of puts and takes. And if we thought that the reserve releases had ended we would say so.

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Chris Mutascio - *Stifel Nicolaus - Analyst*

Okay. Is there any thought -- they may have asked this before and I know it's a difficult question to answer, but with FASB and with the environment we are from a regulatory perspective and where reserves were heading into the crisis, any thought of where reserve to loans in a range and up post re-regulation versus the financial crisis?

If we were at 1-to-1 in a quarter pre-crisis are we up to 1.50 to 1.75 when all is said and done on a reserve to loan basis? Or is that still too difficult to ascertain?

Tim Sloan - *Wells Fargo & Company - Senior EVP & CFO*

You know, that's a really fair question and I wish we had a great answer for you, but there has been a lot of discussion and a lot of commentary, some jawboning from the regulators on this topic, so I would describe it as a work in process. We think that we are appropriately reserved. And we are hopeful that over time our reserves can come down as long as our portfolio -- credit losses and the portfolio continues to improve, which is what we have been seeing.

Chris Mutascio - *Stifel Nicolaus - Analyst*

All right. Well, thank you for the answer and good luck to you the rest of the year.

Operator

Andrew Marquardt, Evercore Partners.

Andrew Marquardt - *Evercore Partners - Analyst*

Morning, guys. How are you?

John Stumpf - *Wells Fargo & Company - Chairman, President & CEO*

Good.

Andrew Marquardt - *Evercore Partners - Analyst*

A couple [ticky-tack] questions for you. First, on the margin. This last quarter you went through a couple items in terms of the cash build -- burden in terms of the NIM impact and repricing. But then also there was the variable sources benefit of 3 basis points. What was that or what is that, and how we think about that? Is it seasonal one time or how do we think about that?

Tim Sloan - *Wells Fargo & Company - Senior EVP & CFO*

No, I think that -- as we've described variable, it is a broad definition. The primary drivers this quarter for the variable income was higher fee income. So what that means is that when we have a loan and we charge a fee on a loan that fee generally accrues over the life of the loan.

When that loan is paid off early then we go ahead and recognize any of the unamortized portion of the loan fee. So that was a primary driver this quarter. I wouldn't call it seasonal or one time. We see that from time to time within the business. Some quarters it's higher, sometimes it's lower.

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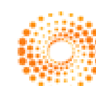

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Andrew Marquardt - *Evercore Partners - Analyst*

Got it. Was it about the same last quarter or was this quarter a little higher?

Tim Sloan - *Wells Fargo & Company - Senior EVP & CFO*

I will go back and look. I think it was a little bit higher this quarter. Again, that is not a typical for what you can -- in terms of -- but the amount of the variation is not atypical to what we have seen on a quarterly basis, but it was a little bit higher.

Andrew Marquardt - *Evercore Partners - Analyst*

Okay, thanks. Then on asset quality and the reserve question that Chris I think just mentioned, wanted to ask more granularly on Hurricane Sandy implications. You had mentioned it on earlier comments and in the release.

How much of an impact was it really this quarter? Was it in charge-offs, less reserve release? How do we think about it?

Tim Sloan - *Wells Fargo & Company - Senior EVP & CFO*

It really wasn't in the absolute charge-off number, because it was -- when you think about the timing of Hurricane Sandy. So it was primarily in the reserve and the methodology that we used.

We assume that we are going to have some additional losses in the future from Hurricane Sandy, so we wanted to make sure that we were appropriately reserved, which we believe we are based upon our best estimates right now. But as you can appreciate, we are very early into our true analysis or finalizing the analysis. It is going to take a while to see what the ultimate impact is, but we think that we are appropriately reserved based upon some conservative assumptions right now.

Andrew Marquardt - *Evercore Partners - Analyst*

Can you quantify how much the impact was this quarter?

Tim Sloan - *Wells Fargo & Company - Senior EVP & CFO*

I would rather not. It was -- the reason I don't want to go into the specific details is because when you think about the reserving methodology, again, there's lots of puts and takes. Some things go up, some things go down. But just rest assured that we think we are are appropriately reserved.

Andrew Marquardt - *Evercore Partners - Analyst*

Okay, that's helpful. Then just lastly, on the tax rate, even adjusting for the settlement this quarter, it looks like the tax rate looks a little bit low, 31% on an adjusted basis. How do we think of -- is that lower than what it has been recently? Is that a new kind of run rate or should we think about it going back to kind of the 33%, 34% rate?

Tim Sloan - *Wells Fargo & Company - Senior EVP & CFO*

Yes, what I would do -- that's a fair question. What I would do is go along the direction that you are and that is I would back out the impact that we had in the fourth quarter, which is why we called it out, because we don't think 27% is sustainable. Then you get to the number that you were

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talking about, 31%, 32%. I think that 31%, 32%, 33% is a reasonable number, but it is more likely to go up a bit in 2013 than what we have seen in 2012.

Andrew Marquardt - *Evercore Partners - Analyst*

Got it, great. Thanks, guys.

John Stumpf - *Wells Fargo & Company - Chairman, President & CEO*

Okay. Thanks much, everybody. We had a full set of discussions and we really appreciate your interest in Wells Fargo. Happy New Year again and we will see you at the end of the first quarter. Thank you, again.

Operator

Ladies and gentlemen, this does conclude today's conference. Thank you all for participating and you may now disconnect.

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