Company Name: Wells Fargo
Company Ticker: WFC US
Date: 2014-01-14
Event Description: Q4 2013 Earnings Call

Market Cap: 239,675.75
Current PX: 45.59
YTD Change($): +.19
YTD Change(%): +.418

Bloomberg Estimates - EPS
Current Quarter: 0.949
Current Year: 4.015
Bloomberg Estimates - Sales
Current Quarter: 20808.444
Current Year: 84654.321

Q4 2013 Earnings Call

Company Participants

- James H. Rowe
- John G. Stumpf
- Timothy J. Sloan

Other Participants

- Matt D. O'Connor
- John Eamon McDonald
- Erika Penala Najarian
- Joseph Morford
- Paul J. Miller
- Moshe A. Orenbuch
- Mike L. Mayo
- Ken M. Usdin
- Chris M. Mutascio
- Marty Lacey Mosby
- Keith E. Murray

MANAGEMENT DISCUSSION SECTION

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. [Operator Instructions] 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.

James H. Rowe

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 discuss fourth quarter results and answer your questions.

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'd 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 G. Stumpf

Thank you, Jim. Happy New Year, and thanks, everyone, for joining us today. 2013 was an outstanding year for Wells Fargo. We generated record earnings, grew loans and profits, had significant improvement in credit quality and rewarded our shareholders by increasing our dividend and buying back more shares.

We finished the year with a record $1 in earnings per share for the fourth quarter, our 16th consecutive quarter of earnings per share growth, clearly demonstrating the benefit of our diversified business model and our success in meeting our customers' financial needs.

Let me share some of our accomplishments during this past year. We generated earnings of $21.9 billion and earnings per share of $3.89, both up 16% from a year ago. Our core loan portfolio grew by $39.8 billion almost $40 billion, up 6%. Our credit performance continued to be very strong with total net charge-offs down $4.5 billion or 50% from just a year ago.

Our outstanding deposit franchise continued to generate strong deposit growth with total deposits up $76.3 billion or 8%. By focusing on meeting our customers' financial needs, we achieved record cross-sell across the company with retail banking cross-sell growing to 6.16 products per household, wholesale banking increasing to 7.1 products and Wells Brokerage and Retirement cross-sell achieving 10.42 products.

We also had very strong returns this year by growing ROA by 10 basis points to 1.151% and return on equity by 92 basis points to 13.87%. We continue to generate strong capital growth with our estimated common equity Tier 1 ratio under Basel III increasing to 9.78%.

This was a great year for our shareholders. Our stock price increased 33%; we returned $11.4 billion in capital to our shareholders through a higher common stock dividend and more share repurchases in 2013, up 33% from 2012; and in our recent CCAR submission we requested even more capital to be returned to our shareholders.

As we start the New Year, I'm excited about the opportunities ahead for our country, for our customers and for Wells Fargo. The unemployment rate has declined, GDP growth accelerated, and consumer confidence is near a five-year high.

While we don't expect the same rate of home price appreciation we had last year, we do expect the housing market to continue to recover, which will benefit the U.S. economy. And despite the rise in home prices, and interest rates over the past year, housing is still very affordable.

During the year ahead, we will continue to build on our commitment to our customers and to our shareholders and invest in our businesses to generate growth for decades to come.

I am proud of all that our team members accomplished this past year. Our earnings power and capital strength have never been stronger. We believe we are well positioned for 2014 and we are optimistic about the many opportunities ahead for continued growth.

Tim Sloan, our Chief Financial Officer, will now provide more details on our fourth quarter and full year results. Tim?

Timothy J. Sloan

Thanks, John, and good morning, everyone. My comments will follow the presentation included in the quarterly supplement starting on page 2 and then John and I will answer your questions.

For the fourth quarter, Wells Fargo earned a record $5.6 billion and $1.00 in earnings per share both up 10% from a year ago. These strong results were broad-based with higher net interest income, fee growth across many of our businesses, lower expenses and improved credit quality. We've now achieved 16 consecutive quarters of EPS growth and 11 consecutive quarters of record earnings per share. Our ability to grow over such a long period of time reflects the benefit of our diversified model.

On slide 3, you can see the strong growth in 2013 that John just highlighted including a 16% increase in full year net income and earnings per share.

Slide 4 illustrates our revenue diversification. We do not rely on any one business to generate growth. The power of our model and the benefit of our diversification were demonstrated in our 2013 results. As interest rates rose during the year, mortgage refi volume naturally waned as expected. As a result, the revenue we earned in 2013 for mortgage originations declined $3.4 billion from 2012.

However, over the same period, we had double-digit fee growth in brokerage, investment banking, cards and mortgage servicing. This diversification enabled us to generate double-digit earnings and earnings per share growth.

Let me start by highlighting some key drivers of our fourth quarter results from a balance sheet and income statement perspective starting on page 5. Our balance sheet has never been stronger. We increased our earning assets by 5% by growing loans, purchasing securities and increasing short-term investments as deposit growth remained robust. We continued to increase our capital levels even as we returned $3 billion in capital to our shareholders including reducing common shares outstanding by 16.6 million shares in the fourth quarter. The improving economy and high quality loan originations continue to result in improved credit quality with net charge-offs declining to 47 basis points.

Turning to the income statement on page 6, revenue increased in the fourth quarter as we grew both net interest income and non-interest income. Net interest income increased while our net interest margin declined 12 basis points. Our ability to grow net interest income even as mortgage originations, excuse me, non-interest income even as mortgage origination volume declined reflects the benefit of our diversified business model.

On a linked-quarter basis, we had strong fee growth in retail brokerage, trust and investment management, investment banking, card, commercial real estate brokerage, mortgage servicing and insurance.

Our efficiency ratio improved as expected. Our expenses declined driven by lower personnel costs, which were partially offset by seasonally higher fourth quarter expenses for equipment and professional services as we continued to invest in our businesses and addressed evolving compliance and regulatory standards.

Let me now cover our business drivers in more detail. As shown on page 7, we had strong loan growth with period end loans up $26.2 billion or 3% from a year ago and up $13.5 billion from the third quarter or 7% annualized with broad-based growth across almost all of our portfolios. Our liquidating portfolio continued to decline and is now less than 10% of total loans. This is down from 22% at the time of the merger five years ago as we have reduced the size of this portfolio by $110 billion. Excluding our liquidating portfolio, our core portfolio grew by $39.8 billion or 6% from a year ago and was up $16.7 billion from the third quarter.

We have grown our loans on a year-over-year basis for 10 consecutive quarters and for the past seven quarters, year-over-year growth has been at least 3%, despite run-off from our liquidating portfolio. On slide 8, we highlight how broad-based our loan growth was in the fourth quarter. Compared with the fourth quarter of 2012, foreign loans grew $9.9 billion or 26% and included growth in trade finance and the U.K. CRE acquisition we completed in the third quarter. C&I loans were up $9.4 billion or 5% as we successfully grew loans in asset-backed finance, government banking, and corporate banking.

Real estate 1-4 family first mortgage loans grew $8.6 billion or 3% even with the run-off from our liquidating portfolio and included growth in high-quality nonconforming mortgages. Auto loans were up $4.8 billion or 10% reflecting record originations in 2013. Credit card balances were up $2.2 billion or 9% with strong new account growth.

We generated strong deposit growth throughout the year and growth actually accelerated in the fourth quarter with average deposits growing $34.8 billion or 13% annualized from the third quarter. This growth was diversified across our businesses with strong consumer and commercial growth while we continued to reduce our deposit costs, which were down five basis points from a year ago to 11 basis points. Demonstrating the strength of our deposit franchise, we've successfully grown deposits while reducing our deposit costs for 13 consecutive quarters.

We also successfully grew primary checking customers, consumer checking customers in the fourth quarter, which were up a net 4.7% from a year ago, an increase from 3.9% last quarter.

As shown on page 10, we grew tax equivalent net interest income from a year ago and from the third quarter. In fact, our NII this quarter was the highest it's been in five quarters. Average earning assets grew $58.3 billion from the third quarter, up 5%, reflecting increases in short-term investments, loans, and investment securities. Our ability to grow net interest income on both the linked-quarter and year-over-year basis while our NIM declined is why we don't manage to the net interest margin, but instead focus on growing net interest income.

Our NIM declined by 12 basis points from the third quarter to 3.26%. This decline was driven by two primary factors. First, our continued strong customer-driven deposit growth, which has little impact on net interest income but is dilutive to the NIM, reduced the margin by six basis points. The liquidity-related actions we took in the third and fourth quarter in response to increased regulatory liquidity expectations reduced the margin by six basis points. Balance sheet repricing and growth in variable income did not impact the NIM in the fourth quarter. While the factors that reduced the net interest margin in the fourth quarter were largely P&L neutral, we expect they will continue to impact the NIM in the near-term.

Non-interest income increased $132 million from the third quarter with lower mortgage origination revenue offset by stronger trust and investment fees and higher mortgage servicing revenue. While mortgage-banking revenue was down $1.5 billion from the fourth quarter of 2012, we had strong momentum across a number of our other businesses. Let me highlight some of the year-over-year increases we had in non-interest income.

Trust and investment fees were up $259 million with strong growth in brokerage asset-based fees, growth in our trust and investment business and higher investment banking fees. These businesses now account for 36% of our non-interest income, up from 28% a year ago.

Card fees were up $91 million, benefiting from strong account growth and increased usage in both our credit and debit card businesses. Insurance was up $58 million from improved results in our crop insurance business. Deposit service charges were up $33 million from a year ago benefiting from strong account growth and increased treasury management services to our commercial customers.

As expected, our mortgage origination volume declined this quarter as highlighted on page 12. We originated $50 billion of mortgages in the fourth quarter, down 38% from $80 billion in the third quarter. Refis declined to 32% of origination volume and purchases increased to 68%, a significant mix shift from a year ago when refis were 65% of volume and purchases were only 35%.

Our unclosed pipeline declined to $25 billion at the end of the quarter, down 29% from the third quarter. And while it's still early in the quarter, we currently expect origination volumes in the first quarter to decline from the fourth quarter, reflecting seasonality in the purchase market and lower refi volume but we expect the rate of decline to slow from the levels we had in the third and the fourth quarters.

Our gain on sale margin was 1.77% in the fourth quarter, up from the third quarter but lower than historical elevated levels we experienced in the second half of 2012, and the first half of 2013.

While there are a lot of factors that impact the margin, we currently expect margins in the near-term to remain in the range we saw in the second half of 2013.

Reflecting the lower origination volume, we had lower incentive compensation expenses related to mortgage production in the third quarter. We also had lower personnel expenses reflecting the reduction of 5,300 mortgage FTEs we announced in the third quarter, and additional reductions of approximately 1,100 FTEs announced in the fourth quarter.

The full quarter run-rate of these lower FTEs will be reflected in expenses in the first quarter. We have reduced our retail mortgage fulfillment FTEs by nearly 50% since our peak staffing levels in the first quarter of 2013.

Our servicing revenue was up $205 million from the third quarter and up $459 million from a year ago as prepayment speeds have slowed. We announced at the end of the quarter an agreement with Fannie Mae, which was fully covered from previously established mortgage repurchase accruals, that resolves substantially all repurchase liabilities related to loans originated prior to 2009. Reflecting our agreement with Fannie Mae, our outstanding repurchase demands were down 46% from the third quarter to $708 million.

As a reminder, we announced last quarter a similar agreement with Freddie Mac, so we have now resolved substantially all agency repurchase demands for loans originated prior to 2009. As a result, outstanding repurchase demands were down $1.2 billion from a year ago, and our repurchase reserve declined to $899 million, the lowest level since the second quarter of 2009.

Expenses were stable from the third quarter, declining $17 million as shown on page 13. Salary expense was down $99 million, reflecting lower mortgage banking staffing and severance expense. Incentive compensation expense was down $54 million, driven by lower mortgage production revenue partially offset by higher investment banking and retail brokerage activity.

A number of our expenses are typically higher in the fourth quarter, such as equipment expense, which was up $96 million due to seasonally higher annual license renewals. Our outside professional services increased $131 million, which included higher project-related spending on business investments and compliance and regulatory-related initiatives.

Our efficiency ratio improved to 58.5% in the quarter, down 62 basis points. While we have seasonally – while we will have seasonally higher personnel costs in the first quarter, we will have lower project spending and lower mortgage expenses reflecting a full quarter run-rate from reduced staffing. We expect that our efficiency ratio will remain within our target range of 55% to 59% in the first quarter.

Turning to our business segments starting on page 14, Community Banking earned $3.2 billion in the fourth quarter, up 12% from a year ago and down 4% from the third quarter. Retail banking continued to consistently grow cross-sell achieving a record 6.16 products per household, up from 6.05 products a year ago.

Our credit card business continued to have strong results benefiting from seasonality and new account growth. We grew new accounts by 29% from a year ago and household penetration increased to 37%, up from 33% in the fourth quarter of 2012. Purchase volume grew 14% from a year ago.

Our auto business had an outstanding year with record originations in 2013, up 26% from a year ago. This strong growth reflects the increase in car sales and a benefit of a partnership with GM. We remained focused on serving the needs of our small business customers as well. We extended $18.9 billion of new loan commitments to small business customers during 2013, up 18% from 2012 and grew our primary checking customers by, excuse me, our primary business checking customers by a net 4.7% in the fourth quarter compared to a year ago.

Wholesale Banking earned $2.1 billion in the fourth quarter, up 4% from a year ago and up 7% from the third quarter. These results reflected strong deposit and loan growth, both up 7% from a year ago. Loan growth was broad-based and included strong growth in asset-backed finance, commercial real estate and international.

Our Investment Banking business continued to have strong growth with 2013 market share of 5.6%, up from 5% in 2012. This growth reflects the success we've had by focusing on relationships with Investment Banking revenue from wholesale banking customers up 22% in 2013 including a 16% increase in revenue from existing commercial and corporate customers.

Treasury Management revenue was up 8% in 2013 reflecting strong sales growth and pricing increases. We continually invest in this business's products and platforms and have been expanding our team of treasury sales experts because this is an important product for building relationships with our wholesale customers.

Our Asset Management business also had an outstanding year in 2013 with total assets under management up 8%, reflecting net client inflows and increased market valuations.

Wealth, Brokerage and Retirement earned $491 million in the fourth quarter, up 40% from year ago and 9% from the third quarter. As you know, this is a business that we've been focusing on and investing in since managing more of our customers' wealth is an important part of our vision of meeting our customers' financial needs. Our results benefited from the improvement in the markets and strong net flows.

WBR client assets grew 11% to $1.6 trillion from a year ago. This growth was broad-based and included retail brokerage managed account assets of $375 billion, up 23%, and wealth management client assets of $218 billion, up 7%.

Institutional Retirement Plan assets grew 12% from a year ago. We also had strong deposit and loan growth with average core deposits up 7% and average loans up 12% from a year ago.

Turning to Credit on page 17, the significant improvement we had in credit quality throughout 2013 continued with fourth quarter net charge-offs declining to only 47 basis points of average loans. Loans in our Commercial portfolio were only 6 basis points and consumer losses declined to 82 basis points. We continue to have strong improvement in our Commercial and Residential Real Estate secured portfolios. Our Commercial Real Estate portfolios were once again in a net recovery position as they have been every quarter in 2013. Our Consumer Real Estate portfolios continue to benefit from the improvement in the housing market with losses down $918 million or 69% from a year ago.

Non-performing assets declined $1.1 billion from the third quarter and were down $4.9 billion or 20% from a year ago. Both Commercial and Consumer non-accrual loans declined while foreclosed assets increased $135 million from the third quarter, reflecting an increase in government insured foreclosed assets primarily driven by changes to loan modification programs, which slowed foreclosures in prior quarters. Reflecting the continued improvement in economic conditions, we had a $600 million reserve release, down from $900 million last quarter. Given current favorable conditions, we expect future reserve releases absent a significant deterioration in the economy.

We grew our estimated common equity Tier 1 ratio under Basel III to 9.78% in the fourth quarter, 78 basis points above our internal target of 9%. While we have been building capital, we've also been focused on returning more capital to our shareholders. We increased our dividend by 31% in 2013 and purchased 124 million shares. We remain committed to returning more capital to our shareholders and our 2014 capital plan requested an increase in our dividend and share repurchases compared with our 2013 capital plan. Of course our request is subject to Fed review and non-objection.

In summary, our results in the fourth quarter and throughout 2013 were outstanding. We grew loans and deposits, increased our capital and liquidity levels, and reduced risk as our diversified businesses generated double-digit earnings and EPS growth. In addition, we returned $11.4 billion to our shareholders through dividends and share repurchases. While the future is never certain, we start 2014 in a much better position than we started 2013. The slow and steady growth we had in 2013 positions the US economy for continued growth in 2014.

We successfully settled many outstanding issues during 2013 including pre-2009 agency repurchase demands, agency MBS securitization and the independent foreclosure review. We also have more clarity regarding Basel III capital requirements and have taken actions in response to increased regulatory liquidity expectations.

We believe that we've never been positioned better and we're excited about the opportunities ahead for our customers, our team members and our shareholders.

We'll now open up the call for questions.

Q&A

Operator

[Operator Instructions] Our first question will come from the line of Matt O'Connor with Deutsche Bank.

<Q - Matt D. O'Connor>: Good morning.

<A - Timothy J. Sloan>: Hey, Matt.

<A - John G. Stumpf>: Hi, Matt.

<Q - Matt D. O'Connor>: So circling back on the efficiency ratio, I guess specifically on the expenses here as you think about entering 2014, what's kind of a good expense base? You've got $12.1 billion roughly. There's some seasonal factors. There's some of the mortgage costs that need to come out. How should we think about that in kind of a static revenue environment?

<A - Timothy J. Sloan>: Well, I wouldn't worry about it being a static revenue environment. Our goal is to grow revenues over time and I think we've been able to do that notwithstanding some of the challenges we had. Matt, we're really focused as we think about our expenses on revenue efficiency and the efficiency ratio, how much it costs us to deliver a dollar of revenue. We were very pleased to be able to improve our efficiency to 58.5% being down 62 basis points from the third quarter and down almost 30 basis points from the fourth quarter of last year.

I think when you think about the fourth quarter efficiency and expenses, we did call out that we had some seasonal expenses that boosted the total expenses in the fourth quarter. We talked about some of the equipment expenses as well as some of the professional fees.

As you think about the first quarter, our expectation is that we will be able to operate within our range of 55% to 59% and believe that over the year we can continue to improve that from the first quarter. I do think we'll have some benefit in the first quarter from lower seasonal expenses, as we mentioned. We'll also have some benefit from a lower run rate of expenses in the mortgage business. But overall, we are very focused on the efficiency ratio and we continue to believe that we can make improvements.

<Q - Matt D. O'Connor>: As a follow up, can you remind us what needs to happen to get to the lower end of that 55% to 59%? Obviously it's a big range and you can show continued progress but that 55%, would that depend on a materially different macro environment or can you get there executing what you can control?

<A - Timothy J. Sloan>: Well, it's a fair point, Matt, because we look at the efficiency ratio it's going to be a function of expense dollars as well as revenue. I think to get to the low end of that range, we'll need to see the combination of both improved expenses and lower expenses, which we think we can do over time, but also with improved revenue. That said, if revenue takes off and our expense – the dollar amount of our expenses are up and our efficiency ratio improved, that's fine too.

<Q - Matt D. O'Connor>: To sneak in a quick one here on the equity investment book, can you just remind us how big it is and is there any impact from Volcker on that portfolio?

<A - Timothy J. Sloan>: Good question. Overall, let me answer maybe a little bit broader question and that is as we look at the final Volcker rules, there aren't any real significant or material changes that we need to make in any of our businesses to comply. Obviously there's going to be increased reporting and things like that, the only product or business line that's really impacted, which is the crux of your question, is our equity portfolio. The portion of our equity portfolio, excuse me, that's made up of limited partnership investment. That's a little bit less than $2 billion and we stopped making those investments a few years ago when the first draft of the Volcker rule came out. So that portfolio is liquidating down in the normal course. From time to time we could potentially do some sales from that portfolio but we don't believe that compliance with Volcker and the liquidation of that portfolio in the normal course will have a material impact on our financial results.

<Q - Matt D. O'Connor>: Okay. Thank you very much.

<A - Timothy J. Sloan>: You're welcome. Thank you, Matt.

Operator

Our next question will come from the line of John McDonald with Sanford Bernstein.

<Q - John Eamon McDonald>: Hi. Good morning, Tim.

<A - Timothy J. Sloan>: Good morning, John.

<Q - John Eamon McDonald>: I was wondering if you could give a little bit of color on the net interest margin, net interest income outlook and your thoughts there. I think you said you expect some ongoing pressure on the NIM. I'm just wondering if you can give us some of the puts and takes on that. How does the recent rise in the 10-year yield help you as you reinvest? And where are you on these liquidity actions? Do you still need to take more there? Obviously the rules aren't finished, but if you could give us a feel for your progress there?

<A - Timothy J. Sloan>: I will answer your question in maybe reverse order and maybe start with liquidity. So, let me step back and frame that a little bit. Because you have seen us take some liquidity actions in the third and the fourth quarter. Set the rules aside for a minute and that is that first and foremost, we've got to be able to operate this company with sufficient liquidity to be able to withstand stressed environments, both in terms of an economic downturn as well as an economic expansion. I think we've been able to demonstrate our success in doing that as we went through the last downturn.

So the short answer is that we think that the existing liquidity we have at the company is sufficient to manage the business. Having said that, there are a couple of standards that are out there. First there is the international standard, and I can comfortably tell you that we have exceeded the international LCR standards.

Unfortunately, I can't tell you where we stand as it relates to the domestic rules because they haven't been finalized yet. The NPR was issued in the fourth quarter, as you know. It is out for comment right now. I think it's fair to say that generally, the current NPR is a little bit more conservative than most of the folks in the industry thought. And so in anticipation of finalizing the domestic rules, the way that I would think about it is we changed the complexion of our liquidity, and what I mean by that is we've increased some of our longer-term deposits, you saw us do that in the third quarter and fourth quarter. And then, we issued some additional debt in the third quarter. So we've made a lot of progress in terms of complying with rules that haven't been finalized yet.

The other thing I'd mention is that there's a lot of good dialogue that's going on right now in terms of those rules and it's likely that there will be some changes. And then lastly I'd point out, that our expectation is the compliance period as it relates to those standards is going to be elongated, meaning we need to get to about 80% compliance by the end of this year beginning of next year. So a long-winded overview, but I think what we've been able to demonstrate as we've changed the complexion of our liquidity and anticipated the final rules is that we can still deliver record earnings and we can still grow net interest income.

And that's really a good segue into the first part of your question which is the net interest margin. The net interest margin was down 12 basis points and most of that was related to liquidity or deposits, as we mentioned. In fact all of it was. Half of it was we had great deposit growth. You've seen that over the last 16 quarters, we've had great deposit growth long-term; that is a terrific thing from our perspective and we'll take that impact on the NIM all day long. And then the other half was related to the full quarter impact of the liquidity actions that we took in the third quarter, plus the liquidity actions that we took in the fourth quarter. So again, a reduction to the NIM, but we've been able to grow net interest income.

So how were we able to do that with the NIM declining? Well, the good news is we had $13.5 billion of point-to-point loan growth, which is absolutely terrific. I can't promise you we'll have that every quarter, but boy, not only is it terrific, it was also very broad-based, as I mentioned.

And then also, our securities did grow and candidly we're in a much better position today than we were six months ago, or a year ago, or year and a half ago, in terms of the reinvestment yields that we can achieve today versus the roll-off in the existing portfolio. I can't tell you today because of the [ph] valley (35:46) that occurred over the last few days. Did they absolutely offset? But they're pretty close. So, over time, as we've said over the last few quarters, we believe that we can continue to grow net interest income.

<Q - John Eamon McDonald>: Okay, great. And the second question is on capital return, and John mentioned your request to do more this year than last year on capital return. When I think back to your April 2012 Investor Day, you laid out a goal for a total payout ratio of a range of 50% to 65%. I was wondering if anything has changed with you now exceeding your Basel III capital targets. Industry asset growth still seems sluggish such that you might consider reconsider at some point the upper bound of that target and at some point see yourself paying out more than 65% of total earnings?

<A - Timothy J. Sloan>: Yeah, fair question. The short answer is no, we haven't changed that range of 50% to 65%. Part of the reason is that we're not at the high end of that range yet, so we're going to take it one step at a time. Clearly, we thought the payout that we had in 2013 was pretty significant increases as we talked about on a gross basis $11.4 billion, something that we're very, very proud of. As John mentioned and as I mentioned, our capital plan submission requested an increase from that. So, we're hopeful to continue to make progress on that subject to the Fed review, and that as – but it's something, John, that we're going to continually look at. But that 50% to 65% is not etched in stone forever, it's going to change just like it's changed throughout our history. John, I don't know if you...

<A - John G. Stumpf>: Yeah, I think that's a really important point. That was, you know it was a year and a half ago we came out with that. We're still there, but those things change over time and as we continue to build liquidity and capital, we're not bound by that. And we are very shareholder-friendly here, as I think you know and our investors have known for a long time.

<A - Timothy J. Sloan>: But, John, I would add, maybe this is a bit of an advertisement for our Investor Day that's going to be in May, we might change that, so that'd be a good reason to come.

<Q - John Eamon McDonald>: Okay. And you now – you kind of inflected and you're now reducing the share count on a net basis, Tim. You're overcoming option issuance and things like that. Do you expect that to continue with a net reduction in shares?

<A - Timothy J. Sloan>: Yes, we do. Again, I can't promise you it will exactly happen every quarter, but my guess is it probably will. I think that we reached the high point in the second quarter of last year, and we have been very clear that our expectation is to continue to reduce that share count, so that's our plan, John.

<Q - John Eamon McDonald>: Okay. Thank you.

Operator

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

<Q - Erika Penala Najarian>: Good morning.

<A - Timothy J. Sloan>: Good morning, Erika.

<Q - Erika Penala Najarian>: I just wanted to take a step back. John, Wells Fargo has been able to post pretty good point-to-point loan growth even with demand in the industry for loans being humdrum. That being said, as we look out to 2014, have we hit an inflection point in terms of loan demand on more the corporate side and the consumer side?

<A - John G. Stumpf>: Inflection meaning that loan growth is...?

<Q - Erika Penala Najarian>: Loan demand in both the corporate side and the consumer side, loan demand can start picking up...

<A - John G. Stumpf>: Well...

<Q - Erika Penala Najarian>: ...for the industry generally.

<A - John G. Stumpf>: ...I think there will be some loan growth at the industry level. I'm much more confident about our ability to grow loans just based on what we've done in the past, what we've done this past quarter. But I will tell you, I'm hearing more, when I talk with customers, about their interest in building something, adding something, investing in something. So there is more activity going on. I wouldn't say, it's going to be a watershed moment but, yeah, I'm optimistic about the economy. I mean we sit here this January as an economy and frankly as a company in better shape than I've sat here in the last five or six Januarys, so yes. So I'm guardedly optimistic about the industry and optimistic about our company being able to grow loans and, over time, grow revenues.

<Q - Erika Penala Najarian>: Got it. And, Tim, in terms of the future impact of incremental liquidity actions, I know the NPR in the U.S. is still out for comment, but is it fair for us to assume that the bulk of future liquidity actions won't impact your margin as much as the six basis points this quarter?

<A - Timothy J. Sloan>: Well, I'd love to be able to tell you absolutely but since I don't know what the – we don't know what the final rules are, I want to be careful. So I can't give you a specific answer. I think the important thing is, should you have confidence in, a, our ability to move forward to try to anticipate some of those rules and not have it impact our net interest income or our earnings, the answer is yes.

<Q - Erika Penala Najarian>: Got it. And if I could sneak one last question in here, is it fair for us to look at the 12% quarter-over-quarter drop that the [ph] MBAA (41:19) is forecasting for origination volume and assume that the drop that Wells Fargo will experience next quarter be similar on a sequential basis?

<A - Timothy J. Sloan>: Well, I don't know if I would jump to that conclusion. Our mix is a little bit different or can be a little bit different on average compared to the industry in any given quarter. I think it's reasonable to assume that there will be a decline because of the impact of just the colder winter months as well as the fact that the volume is really driven much more by purchase activity now than it was by refinance. We expect a decline but to be specific in terms of the magnitude of the decline, I don't know what that's going to be.

<Q - Erika Penala Najarian>: Okay. Thanks.

Operator

Our next question comes from the line of Joe Morford with RBC Capital Markets.

<Q - Joseph Morford>: Thanks. Good morning, guys.

<A - Timothy J. Sloan>: Good morning, Joe.

<Q - Joseph Morford>: I guess first is just a quick follow-up or clarification from Erika's question. You know, the loan growth in the core portfolio strengthened quite a bit this quarter to $16.7 billion from $8.6 billion and just – I understand it's fairly broad-based but how sustainable do you think that is as we go through 2014 here?

<A - Timothy J. Sloan>: Well, Joe, it's a fair question. I think the 8 – when you say the 8.6, you're talking about the 8.6 from a year ago?

<Q - Joseph Morford>: No. The third quarter, just the sequential core – growth in the core loan portfolio.

<A - Timothy J. Sloan>: Yeah, I mean the good news is that, as you mentioned, that the growth was very broad-based and again in almost every one of our loan portfolios with the exception of home equity, where we're still originating good quality home equity loans. I don't know if I would take this quarter and say this is what we're going to do every quarter from here on out. I think they're – even last year when you ex out the impact from some of the tax changes that folks were anticipating in the fourth quarter can tend to be a pretty strong quarter.

Our expectation for 2014 is that we're going to grow loans. What rate that will be, I don't know. But certainly the fact that this quarter was so broad-based, I think, is a good indication of our ability to grow loans at a faster rate than we did in 2013.

And again I think the other point to make about loan growth in this quarter is that we didn't have any acquisitions driving that growth. This was all organic. Not that there's anything wrong with acquisitions, we love them. But that was a bigger driver in the third quarter than it was in the fourth quarter.

<Q - Joseph Morford>: Okay. That's helpful. And then the other question was just I'm wondering if you could just kind of broadly speak about key areas for investment in 2014 and along those lines, what are your plans for the branch network given the growth in mobile banking and your recent pilot of the neighborhood stores.

<A - John G. Stumpf>: Joe, we're making a lot of investments in technology as customers are interested in mobile and other ways to access us. We still believe that stores are important and we believe that because our customers tell us that. And we do have that pilot that you mentioned and we are assessing that, looking at that. We will build stores this year. I don't think there will be a significant net increase because sometimes we build a new one and we consolidate one or two into that. But most of the investments we're going to be making will be in areas of product and convenience for customers.

<Q - Joseph Morford>: Okay. Thanks so much.

<A - Timothy J. Sloan>: Thanks, Joe.

Operator

Our next question will come from the line of Paul Miller with FBR Capital Markets.

<Q - Paul J. Miller>: Thank you very much. Hey, guys. We know the mortgage market is on a downward trend and it looks like the market was down another 25%. But you guys were down more than that, I think, north of 30%. And now your market share has dropped down to 17%. I also know you guys are doing a lot or refis and a lot of that is the refi side. What do you see – I know you don't really model to market share, but do you see continued declines in that mortgage space?

And then secondly, do you think that Mel Watt could be a game changer relative to opening up the credit box and maybe some of these bigger guys going down the FICO score?

<A - Timothy J. Sloan>: Paul, good question. We've talked on a number of occasions about how our market share over the last couple of years was disproportionately high, primarily because the biggest driver for origination volume until the last couple of quarters was refinances. And the reason for that, again to remind everybody, is that we are the largest servicer and the quality of our servicing book was the highest in the industry. So we had many more opportunities than most to be able to meet the needs of our customers by refinancing existing customers by refinancing their mortgages. So it's not surprising and something that we had been indicating was going to occur as a percentage of refinance volumes declined, absolute dollars as well as the percentage of the total decline, that our market share would go down.

I think as we get to a more purchase-driven market, we actually think we've got a great opportunity to grow the business because we have the biggest retail network and sales force in the market. So we believe that we can grow over time. But again the focus is not about market share. The focus is about generating appropriate revenue, making sure that we're meeting the needs of our customers and doing that very efficiently. So again, we're very excited about the transition into a purchase-driven market because we've got the best team and the largest team that's out there.

<A - John G. Stumpf>: With respect to – Paul, with respect to Mel Watt, we are looking forward to working with him. We know him and I believe he has the same interest we all have as Americans and as our institution to make mortgage lending and money available to credit-worthy Americans so they can buy houses. He already has – he is digging in. He put the increase in the G-Fee [Guarantee Fee] just on hold so he can understand. So we're looking forward to working with him.

<Q - Paul J. Miller>: Do you think the government could make some adjustments there to get the industry to maybe open up the credit box more than it is right now?

<A - John G. Stumpf>: Well, I still believe there are some mixed messages coming out of Congress, out of Washington I should say. And if we can all get on the same page that would be helpful. I think there is some movement happening in that direction but we just continue to work on that.

<Q - Paul J. Miller>: Okay. Thanks a lot, guys.

<A - Timothy J. Sloan>: Thank you.

Operator

Our next question will come from the line of Moshe Orenbuch with Credit Suisse.

<Q - Moshe A. Orenbuch>: Great, thanks. So most of my questions have actually been asked and answered but just following up a little on the mortgage business, you've alluded to this in a couple of different iterations. But given how rapid that decline in refinance has been and is likely to continue, are there any either other steps you're taking or strategic opportunities that you see kind of in the business over the next, next couple of quarters?

<A - John G. Stumpf>: Well, we announced recently that we're going to be doing some portfolio lending for jumbos and high-end and we have an emphasis in that. And as you know, housing is a uniquely important asset class in, for Americans and uniquely important for recoveries. There's been no recovery where housing did not play a leadership role. And that's part of my optimism for the future in that housing is getting better and that we're seeing more activity on the purchase side, which is really good for America. So we will continue to make conforming loans. We're also doing more with respect to our balance sheet.

<Q - Moshe A. Orenbuch>: Anything with respect to kind of integrating it somewhat more directly with the consumer bank?

<A - John G. Stumpf>: Well, I tell you they are really all hands are on deck there. We, I don't recall the exact percentage but it might be 30% or so of whatever mortgage we do comes from referrals from our bank, from our bankers. So it's a big part. It's very integrated and actually when you have a purchase money market, that actually plays to our strengths because we are so active involved with builders, realtors, and there's a lot of referral activity that goes on to help serve those customers.

<Q - Moshe A. Orenbuch>: Great. Thank you.

Operator

Our next question comes from the line of Mike Mayo with CLSA.

<Q - Mike L. Mayo>: Good morning.

<A - John G. Stumpf>: Hey, Mike.

<A - Timothy J. Sloan>: Hi, Mike.

<Q - Mike L. Mayo>: Just first, a technical question. The changes in accretable yield on purchased credit impaired loans – so this is back around page 33, 34, 35 of the news release or in the back section of it. But the draw down there, the changes in accretable yield, I thought it would be drawn down even a little bit more in the fourth quarter. It seems like it's been drawn down a lot year-over-year but the last quarter it wasn't drawn down a lot. And just conceptually I thought the better credit quality for some of these problem loans the more you can realize and recover to earnings and it looks like it slowed in the fourth quarter. Can you give some color on that accounting and what you're seeing?

<A - Timothy J. Sloan>: Yeah, Mike, there wasn't any major changes that occurred from an accounting standpoint in the fourth quarter. As you know, we've from time-to-time we've looked at the amount of our accretable yield and non-accretable difference and made some adjustments. We did not do that in the fourth quarter. So I would just describe the fourth quarter as just a reflection of just changes within the underlying customer mix. We had more customer or customers that were paying their loans and then some that had paid off, but there was nothing major that occurred in the fourth quarter.

<Q - Mike L. Mayo>: Well, how often do you take a look at that? Because isn't it the case that with better credit quality that you would tend to realize some gains over time?

<A - Timothy J. Sloan>: Yeah, I – Mike, it's something we think about and talk about a lot, but from a process point of view, we review it on a quarterly basis to make an affirmative decision in terms of the amount of the non-accretable difference and the non-accretable yield in terms of whether or not we make any changes. But that's a quarterly update that we do.

<A - John G. Stumpf>: And, Mike, you know as we make those determinations, if it accretes over the life of the asset so it's a long event, if you will, over 12, 13, 14 years whatever the life of those assets is how that accretes in.

<A - Timothy J. Sloan>: I think the important point just to remember is that when you turn the clock back five years ago I think there was a lot of skepticism in terms of whether or not the right marks were taken at the time of the Wells Fargo and Wachovia combination. There were lots of concerns about the portfolio. You know, as you know the accretable yield has actually increased over that period of time. So we have $19.1 billion that's expected to accrete over the remaining life of the loans, so we're very excited about that.

<Q - Mike L. Mayo>: And then separate question. It goes to what you can control and what you can't control, let's go to what you can't control as easily and that's the economy and you guys have talked about that some. What's the line utilization for commercial or wholesale in the most recent quarter?

<A - Timothy J. Sloan>: You know what? It hasn't really changed a whole lot. It is still about in the mid-30s. But that wasn't a major driver for loan growth in the quarter. At some point we'll get to the point where there's a little bit more utilization, but that's been pretty stable in the mid-30s.

<Q - Mike L. Mayo>: And then separate from the market share that I know Wells would like to continue to gain, you seem more optimistic on the economy, but line utilization hasn't really changed. It sounds like fourth quarter, you had some good loan growth but maybe it won't be quite as strong, seasonally strong, so do you really feel the economy is that much stronger? John you said the best January in five to six years, are you thinking next couple quarters, next couple years, what drives you to that conclusion?

<A - John G. Stumpf>: When I was talking about the best January, that's compared to last five Januarys I sat and had this kind of conversation with you. Our merger is done, capital liquidity, credit, legal issues, deal on regulatory, all better. Deposit growth, loan growth, cross-sell, the engagement of the team. All of those things are better.

Is it, am I saying there's a full recovery and there's going to be a watershed moment this year? No, I'm not saying that. But I am saying that I'm starting to hear more things from more prospects and customers about buying a car, building a house, starting a business, adding new product lines. They're starting to see some of that, and a couple years I didn't even hear about that.

So it's not going to be a breakout year, but we will see steady improvement. And that's good for – even though as rates rise in response to that, which is a normal thing, that reduces the refinance volume. The other side of that it's improving credit, which it improves a lot of things that's good for America and good for our company over the long-term.

<Q - Mike L. Mayo>: And then lastly, what you certainly can control, I know you're proud of having 16 quarters in a row of higher EPS growth, but I don't imagine you expect this level of equity-investment gains to continue or this level of reserve releases to continue. You called out some seasonal expenses but how do you expect to continue that progression, what should be the main drivers?

<A - Timothy J. Sloan>: Mike, look, we're not going to promise you that we're going to have a 17th consecutive quarter. We hope we do. But the fact of the matter is the complexion of every quarter is different. We could've had, and I think we probably did have the same conversation about a year ago, how are we going to be able to grow? When you think about what the company has accomplished over this last year in the face of a significant backup of interest rates that had a big impact on one of our businesses, we were able to deliver record earnings. How were we able to do that? We grew our loans, we grew our investments, we grew our deposits.

If you look at non-interest income outside of mortgage origination, we went through a laundry list of five or six businesses and there are more that were up, and most of those were up double digits. We've improved our efficiency, and John has mentioned we think we can continue to make progress there. And credit continues to improve. Will we have loan loss reserve release in the first quarter of $600 million? I don't know. We do think we're going to have future loan loss reserve releases.

So the fact of the matter is that what we have been able to demonstrate in the fourth quarter, and all of 2013, is our diversified model works even in the face of headwinds, and as John mentioned, it doesn't seem like there's as many headwinds out there as there were a year ago in January so we're very excited about our ability to continue to grow earnings whether that means 17, 18 or 19 quarters, I don't know. But over time we're going to grow earnings at this company.

<Q - Mike L. Mayo>: Thank you.

<A - John G. Stumpf>: Thank you, Mike.

Operator

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

<A - John G. Stumpf>: Hi, Ken.

<Q - Ken M. Usdin>: Hi. Good morning, guys.

<A - Timothy J. Sloan>: Good morning.

<Q - Ken M. Usdin>: On the Brokerage business the business this year the trust and investment fees grew 13% nice acceleration. I'm just wondering, especially with the lag kind of built in on some of the pricing of the fee-based stuff, how confident do you feel that you can sustain that kind of low, mid-teens type of growth rate in that part of the company?

<A - Timothy J. Sloan>: Ken, good question. I don't know if I'd focus on a specific growth rate. We do think we can continue to grow and it's going to be a function of the fact that there is a little bit of a lag in terms of how the business is priced and paid for. The Wealth, Brokerage and Retirement business has done a great job in terms of increasing the percentage of their recurring fee revenue. I think it's now above 75%. And that was the goal that David Carroll set out at our Investor Day a couple of years ago.

So we do think we can continue to grow. What the growth rate will be? I don't know. But in addition, one of the other things that we talked about at Investor Day a couple years ago was the partnership between WBR and our retail bank. And that partnership continues to work very well from a referral basis. So that business is performing very, very well. Our expectation is that it will continue to grow. I hope that it continues to grow at a double-digit rate, but can't promise you that.

<Q - Ken M. Usdin>: Okay.

<A - John G. Stumpf>: Our expectations are pretty high there because we're starting from a lower base. And if you look at the size of our retail franchise versus the size of the Wealth, Brokerage and Retirement, we have lots of upside. And as Tim mentioned, the partnership especially between the Community Bank and Wealth, Brokerage and Retirement couldn't be better. And there is just tons of opportunity there. So it's a big opportunity for the company.

<Q - Ken M. Usdin>: Okay, great. And then secondly, with regard to rate sensitivity, you guys disclosed your rate disclosure is a little different than most others do. And I'm just wondering with regards to the liquidity preparation and the changes you've made that, Tim, you referred to earlier, how, if at all, does these – the new rules on the liquidity side change at all your asset sensitivities when and if someday we get the front end moving? And – maybe I'll just leave it there.

<A - Timothy J. Sloan>: Good question. Really, given the amount of liquidity build that we had in the third quarter, it didn't have a material impact on our total balance sheet. It did affect net interest margin, as we mentioned. So it really doesn't have a big impact on our interest rate sensitivity.

I mean, we've experienced the biggest impact that we could have to the company from an interest rate sensitivity standpoint when you think about the impact that we had in the third and fourth quarter from the rate rise and the impact on the mortgage business. We're very sensitive to a rise in the short rate, which I know everybody believes will never happen. But someday it will and that will be beneficial to us.

<Q - Ken M. Usdin>: Okay, great. And then last just quick question, the tax rate has been running a little lower, do you have any thoughts on just what we should be thinking about as far as a future tax rate? Thanks, guys.

<A - Timothy J. Sloan>: Yeah, the tax rate for the fourth quarter was 30.9%. That was a little bit higher than the fourth quarter of last year. Our expectation for this year is that our tax rate will be plus or minus where it's been this year, maybe just a little bit higher. But that shouldn't have a material impact on our results.

<Q - Ken M. Usdin>: Yeah.

<A - James H. Rowe>: Regina, next question.

Operator

Our next question comes from the line of Chris Mutascio with KBW.

<Q - Chris M. Mutascio>: Morning, John, Tim. How are you?

<A - Timothy J. Sloan>: Chris, how are you doing?

<Q - Chris M. Mutascio>: I'm doing well, happy New Year.

<A - Timothy J. Sloan>: Happy New Year.

<Q - Chris M. Mutascio>: Tim, I've got just two quick follow up questions. On the professional services costs that you highlighted being about $130 million or so higher on a sequential quarter basis, I think you broke that into two different kind of buckets, project spend and then also compliance and maybe regulatory-related spend. Can you break-down those two different buckets that caused the $130 million increase? And then as a follow up, how much of the compliance and regulatory-related part of that is permanent or is it not permanent?

<A - Timothy J. Sloan>: Some really good questions. One of the challenges that we have is that a lot, or some of the investment that we're making, say, for a project, impacts both just the investment in the business but also it's going to have a regulatory or compliance nature to it so I don't really – I don't have any detail handy to break that down because it's not exactly how we think about it. I will tell you that as we mentioned last quarter, that our compliance and regulatory costs are up year-over-year and we're in the process right now of making sure that we've got the best risk managed company in the industry so there will be some continued investment that we'll need to make there.

Having said that, how much of that is permanent and how much is kind of a one or two-time type investment? I don't have an answer for you. So I apologize for not being able to provide some real specifics there but again, to repeat, I do think you'll see a decline in the professional service line in the first quarter.

<Q - Chris M. Mutascio>: Okay. That's fair enough. A separate question. The net charge-off ratio was pretty stable with third quarter and I was kind of wondering, do you think we finally have hit a floor on that ratio or could there have been some year-end cleanup in fourth quarter that would lead you to believe that maybe charge-offs could go even lower in first quarter?

<A - Timothy J. Sloan>: Well, I don't know for sure. Here's the way I would think about it. And I'll give you two numbers that made up the 47 basis points. The losses that we had in our commercial portfolio were about six basis points. We think we've got a great team that's very good at making loans on the commercial side but having a loss rate of six basis points is probably not something that's going to happen forever so I think there's probably over time, not necessarily in the first quarter, some pressure there.

On the other hand, the losses in our consumer portfolio were about 82 basis points. Now when you think about the composition of the consumer portfolio, clearly there's some portion of that portfolio that's going to have higher loss rates like credit card. That's an area that we're building over time.

On the other hand, when you look at some of the other consumer businesses, we're not originating loans today that are going to generate 82 basis points of loss in the next year or two years. We're originating high-quality loans. So my guess is there's probably a little bit more pressure over time in the commercial loss rate to go up and into the consumer loss rate to go down. And again, when you look at that 82 basis points, the disproportionate share continues to come from our home equity portfolio, which among all the portfolios is really benefiting from the improvement in underlying residential real estate values.

<Q - Chris M. Mutascio>: Fair enough. Thanks for taking my questions.

<A - Timothy J. Sloan>: You're welcome.

Operator

Your next question comes from the line of Marty Mosby with Guggenheim Securities.

<A - Timothy J. Sloan>: Hey, Marty.

<Q - Marty Lacey Mosby>: Hey. I wanted to ask you two lines of questioning. First one, the share count, if you look at the repurchase volume that you've been able to do, share count's holding relatively flat. I was curious if you thought as you increased repurchase going forward, do you think the share count could start to come down? And then I wanted to ask you one more question about that.

<A - Timothy J. Sloan>: Well, Marty, in fact, the share count has been down from the high in the fourth quarter, or I'm sorry, in the second quarter of last year. And the short answer to your question is yes. The primary driver there is going to be the level of our share repurchases. We increased our share repurchases this year over last year. We have submitted a capital plan which calls for or requests more share repurchase, so the short answer, again, is yes we think we can bring that down over time.

<Q - Marty Lacey Mosby>: The impact of equity compensation, would you think the dilution that you did have that offset some of the share repurchase, would that be more from issuance or more from market price appreciation?

<A - Timothy J. Sloan>: Well, it's a complicated answer to a straightforward question and recall that we changed our options program a couple years ago so the impact – or a few years ago. So the impact of that is going to decline. On the other hand, we will continue to have a good portion of our incentive compensation around here based upon equity because we believe that that aligns our team members with our shareholders and so the fact that that is there is very important to us and hopefully you'll appreciate it's important to you. But I don't imagine that that's going to have a significant change to the share count calculation. The primary driver there is going to be our ability to repurchase more shares and again, we think we can increase that over time.

<Q - Marty Lacey Mosby>: And kind of other kind of area I wanted to delve into is asset sensitivity. Earlier questions were starting to allude to that, but as you've seen this outsized deposit growth that you've been able to attract you've been really pushing that more and more into cash. So that does make you more asset sensitive than probably your just overall measure would look. And then also as longer-term rates start to go up you can begin to be able to restructure the portfolio a little bit. You've got excess capital. There's going to be some opportunities to accelerate asset sensitivity by restructuring as well. So just thought you could think about a few of those kind of tactics or other things that might make you be more asset sensitive than you look on the cover of your reports.

<A - Timothy J. Sloan>: Well, you're absolutely correct. We're very asset sensitive that the disproportionate share of our loan portfolio is floating rate in an environment where the short end of the curve starts to increase, which at some point it will, we believe that that will be a net addition to revenues because our loans will probably reprice faster than our deposits. You've seen that before with Wells Fargo in prior cycles.

In terms of the investment portfolio, you're also correct in that given the backup in rates what we can – in the current yields that we're getting off our portfolio – we can get some much more attractive returns that are more or less about what the run-off is right now. Not exactly. But as rates continue to rise it's going to make those returns even more attractive and we'll get some benefit from a revenue standpoint there.

So we think we're positioned fairly well for the environment that we're likely to be in over the next few years which is in the short-term probably an increase in the long end of the curve – I don't know by how much – but it probably will increase and then in the next year to two years an increase in the short end.

<Q - Marty Lacey Mosby>: Then lastly, John, you've mentioned the mortgage portfolio and increasing the volume there. With the G-Fees going up here shortly, especially on the higher quality customers, those low G-Fees historically have pushed us to origination and servicing versus portfolio in mortgages, but it seems like you're really looking at that as an opportunity especially with the steeper yield curve to add some assets with value, especially as mortgage rates relatively adjust to these new G-Fees.

<A - John G. Stumpf>: That's right. My understanding is the latest increase in G-Fees, the one that was suggested, has actually been put on hold for a bit. But absent that, yes, we think there is opportunity here to serve a customer base through portfolio lending and we've done that for a long time. But it's, there's opportunities here and we sure want to serve that customer base.

<Q - Marty Lacey Mosby>: Thanks.

<A - Timothy J. Sloan>: Thanks, Marty.

Operator

Our final question will come from the line of Keith Murray with ISI.

<Q - Keith E. Murray>: Hi. Thanks for taking my call.

<A - Timothy J. Sloan>: Hey, Keith.

<A - Timothy J. Sloan>: Hi, Keith.

<Q - Keith E. Murray>: I just wanted to ask on what's your home price assumptions as you think about sizing the mortgage business and on the credit side as well? What do assume for home prices for 2014?

<A - John G. Stumpf>: We think probably a lot, where most economists are in the range of 3% to 5% increase if you look broadly. Now I think what you are seeing is some more regionalization going on in the residential real estate. So I live in San Francisco and it's been stronger here than, for example, than in the Central Valley. But, but housing is getting better generally everywhere but I think 3% to 5% is a pretty safe range.

<Q - Keith E. Murray>: Okay, then just going back to the payout ratio specifically on dividends. You were right at 30% for 2013 on dividend payout. As you think about approaching this year's CCAR, what are you comfortable with on a dividend payout ratio? I know above 30% gets you extra scrutiny. Just how do you think about the dividend payout?

<A - John G. Stumpf>: Well, I can just repeat what Tim and I have said is that, we've – the submission is in. It's our request to do more on dividends and repurchase. It's in with the Fed right now. We'll all know here in another six weeks or so, so let's just wait for that time and see where that comes out.

<Q - Keith E. Murray>: Okay. Thanks a lot.

<A - Timothy J. Sloan>: Thank you.

John G. Stumpf

I want to just thank everybody for joining us. I very much appreciate your interest in our company and the questions, and we'll see you next quarter. Thank you very much.

Operator

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